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. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretation are effective for the first time for the current year's consolidated financial statements:

• SSAP 9 (Revised)	Events after the balance sheet date
• SSAP 14 (Revised)	Leases
• SSAP 17 (Revised)	Property, plant and equipment
• SSAP 26	Segment reporting
• SSAP 28	Provisions, contingent liabilities and contingent assets
• SSAP 29	Intangible assets
• SSAP 30	Business combinations
• SSAP 31	Impairment of assets
• SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries
• Interpretation 13	Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

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

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This SSAP has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 28 and 35 to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

SSAP 17 (Revised) requires that impairment losses on fixed assets are aggregated with accumulated depreciation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on amounts previously reported in prior year financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of additional segment reporting disclosures which are included in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement basis to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on amounts previously reported in prior year financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised in the consolidated profit and loss account over its estimated useful life. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 32 to the financial statements. The required new additional disclosures are included in note 32 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no major impact on the preparation of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the 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 2002. 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 whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon it dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture companies *(continued)*

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

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, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

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 treated as long term assets and are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

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

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 5 to 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

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$^1/_3$%
Furniture, fittings and office equipment	20%-33$^1/_3$%
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.

Intangible assets

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the estimated commercial lives of the underlying products not exceeding two years, commencing from the date when the products are put into commercial production.

Other assets

Other assets held on a long term basis are stated at cost less any impairment losses, on an individual asset basis.

3. 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.

Long term investments

Long term investments are investments in unlisted equity securities intended to be held for an identified long term purpose. Unlisted equity securities are stated at cost less any impairment losses, on an individual investment basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. Where the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairments previously charged is credited to the profit and loss account to the extent of the amount previously charged.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Revenue recognition

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

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

(b) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the 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 becoming 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.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This PRC subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme.

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.

4. SEGMENT INFORMATION *(continued)*

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

a. the marketing and distribution segment engages in the sale and distribution of semiconductors and electronic components; and

b. the design and manufacture segment engages in the design, manufacture and original equipment manufacture of electronic products and Internet appliances.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION *(continued)*

Business segments

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

Group

	Marketing and distribution		Design and manufacture		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue								
Sales to external customers	**880,897**	941,086	**313,568**	158,994	**–**	–	**1,194,465**	1,100,080
Intersegment sales	**63,562**	29,853	**192**	77	**(63,754)**	(29,930)	**–**	–
Other revenue	**11**	638	**570**	154	**–**	–	**581**	792
Total	**944,470**	971,577	**314,330**	159,225	**(63,754)**	(29,930)	**1,195,046**	1,100,872
Segment results	**8,404**	37,115	**(16,644)**	808	**–**	–	**(8,240)**	37,923
Interest income							**1,065**	1,505
Unrealised holding gain on short term investment							**468**	–
Loss on deemed disposal of interest in an associate							**(948)**	(1,310)
Loss on disposal of partial interest in an associate							**–**	(1,010)
Impairment of fixed assets							**(8,315)**	–
Impairment of goodwill							**(20,307)**	–
Unallocated expenses							**(2,505)**	(4,944)
Profit/(loss) from operating activities							**(38,782)**	32,164
Finance costs							**(13,881)**	(16,269)
Share of profit less loss of associates							**718**	5,267
Profit/(loss) before tax							**(51,945)**	21,162
Tax							**(395)**	(5,035)
Net profit/(loss) from ordinary activities attributable to shareholders							**(52,340)**	16,127

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group

	Marketing and distribution		Design and manufacture		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**308,194**	327,893	**116,269**	103,968	**–**	–	**424,463**	431,861
Interests in associates	**–**	–	**–**	44,066	**–**	–	**1,538**	44,788
Unallocated assets							**61,114**	23,859
Total assets	**308,194**	327,893	**116,269**	148,034	**–**	–	**487,115**	500,508
Segment liabilities	**(59,384)**	(48,663)	**(29,156)**	(14,832)	**–**	–	**(88,540)**	(63,495)
Unallocated liabilities							**(226,808)**	(252,185)
Total liabilities	**(59,384)**	(48,663)	**(29,156)**	(14,832)	**–**	–	**(315,348)**	(315,680)
Other segment information:								
Depreciation	**2,308**	2,333	**9,360**	6,940	**–**	–	**11,668**	9,273
Unallocated depreciation							**326**	320
							11,994	9,593
Impairment of fixed assets	**–**	–	**–**	–	**–**	–	**8,315**	–
Impairment of goodwill	**–**	–	**–**	–	**–**	–	**20,307**	–
Provision for bad and doubtful debts	**6,609**	–	**3,347**	–	**–**	–	**9,956**	–
Capital expenditure	**574**	4,805	**7,963**	23,562	**–**	–	**8,537**	28,367

4. SEGMENT INFORMATION *(continued)*

Geographical segments

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

Group

	Hong Kong		Elsewhere in the PRC		Singapore		Korea		Other locations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**829,941**	745,483	**–**	–	**108,145**	233,497	**252,350**	36,381	**4,029**	84,719	**1,194,465**	1,100,080
Segment results	**4,795**	31,713	**–**	–	**(4,814)**	7,270	**(8,092)**	799	**(129)**	(1,859)	**(8,240)**	37,923
Other information:												
Segment assets	**224,903**	225,441	**110,104**	98,119	**89,456**	108,301	**–**	–	**–**	–	**424,463**	431,861
Capital expenditure	**2,859**	4,193	**5,594**	22,241	**84**	1,933	**–**	–	**–**	–	**8,537**	28,367

5. 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	
	2002	2001
	HK$'000	*HK$'000*
Marketing and distribution of electronic components	**880,897**	941,086
Design, manufacture and original equipment manufacture of electronic products and Internet appliances	**313,568**	158,994
	1,194,465	1,100,080

6. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties:

		Group	
		2002	2001
	Notes	***HK$'000***	*HK$'000*
Interest income received from an associate	*(a)*	**341**	777
Sales of finished goods to an associate	*(b)*	**99,040**	21,153
Purchases of raw materials from an associate	*(c)*	**61,097**	53,879
Technical service fee paid to an associate	*(d)*	**715**	728

Notes:

(a) The interest income is charged at a rate of HIBOR plus 2.5% per annum on the loan advanced to the associate, the details of which are set out in note 17 to the financial statements.

(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.

(d) Technical service fee is charged by an associate pursuant to a technical service agreement. The directors consider that the terms and conditions of the technical service agreement were determined with reference to the prevailing market conditions at the time of the parties entering into the agreement.

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Profit/(loss) from operating activities is arrived at after charging:		
Depreciation	**11,994**	9,593
Provision for bad and doubtful debts	**9,956**	–
Minimum lease payments under operating leases in respect of land and buildings	**2,886**	2,252
Auditors' remuneration	**983**	941
Loss on deemed disposal of interest in an associate	**948**	1,310
Loss on disposal of partial interest in an associate	**–**	1,010
Staff costs (including directors' remuneration – note 9):		
Wages and salaries	**35,974**	31,087
Pension contributions	**1,166**	1,130
Less: Forfeited contributions*	**(26)**	(97)
Net pension contributions	**1,140**	1,033
	37,114	32,120
Loss on disposal of fixed assets	**125**	–
Exchange losses, net	**1,498**	1,991
and after crediting:		
Gain on disposal of fixed assets	**–**	524
Unrealised holding gain on short term investment	**468**	–
Interest income	**1,065**	1,505

* At 31 March 2002, there were forfeited contributions of HK$6,000 (2001: HK$79,000) available to the Group to reduce its employer voluntary contributions to the Mandatory Provident Fund retirement benefits scheme in future years.

8. FINANCE COSTS

	Group 2002 HK$'000	Group 2001 HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**13,388**	16,010
Interest on finance leases	**493**	259
	13,881	16,269

9. DIRECTORS' REMUNERATION

Details of the directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance are as follows:

	Group 2002 HK$'000	Group 2001 HK$'000
Fees	**100**	100
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	**6,495**	6,362
Pension scheme contributions	**251**	258
	6,746	6,620
	6,846	6,720

Fees of HK$100,000 (2001: HK$100,000) were payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors for the year (2001: Nil).

9. DIRECTORS' REMUNERATION *(continued)*

The number of directors whose remuneration fell within the following bands is set out below:

	2002 Number of directors	2001 Number of directors
Nil – HK$1,000,000	**5**	4
HK$1,000,001 – HK$1,500,000	**1**	1
HK$1,500,001 – HK$2,000,000	**–**	1
HK$3,000,001 – HK$3,500,000	**1**	1
	7	7

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

During the year, 2,000,000 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 12 to 14. The number of shares under option were further adjusted after taking into account the effect of the rights issue completed on 3 June 2002 and the details of which are further set out in note 31 to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account or included in the remuneration disclosed above.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: three) directors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining two (2001: two) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Salaries and benefits in kind	**1,652**	2,312
Pension scheme contributions	**74**	95
	1,726	2,407

The number of non-director, highest paid employees whose remuneration fell within the following bands is set out below:

	2002	2001
	Number of employees	Number of employees
Nil – HK$1,000,000	**1**	–
HK$1,000,001 – HK$1,500,000	**1**	2
	2	2

In prior year, one of the non-director, highest paid employees was appointed as a director of the Company. The relevant portion of the directors' emoluments of that employee has been included in note 9 above.

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 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	
	2002	2001
	HK$'000	*HK$'000*
Provision for profits tax for the year:		
Hong Kong	**1,315**	2,972
Overseas	**–**	1,453
Deferred *(note 30)*	**(89)**	–
Prior year overprovision	**(1,151)**	–
	75	4,425
Share of tax attributable to associates	**320**	610
Tax charge for the year	**395**	5,035

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2002 dealt with in the financial statements of the Company is HK$16,355,000 (2001: net profit of HK$219,000).

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders of HK$52,340,000 (2001: net profit of HK$16,127,000) and the weighted average of 247,286,936 (2001: 240,795,873) ordinary shares in issue during the year.

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

13. EARNINGS/(LOSS) PER SHARE *(continued)*

The calculation of diluted earnings per share for the year ended 31 March 2001 was based on the net profit from ordinary activities attributable to shareholders of HK$16,127,000. The weighted average number of ordinary shares used in the calculation was the weighted average of 240,795,873 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 433,248 ordinary shares assumed to have been issued at no consideration on the deemed exercise of certain share options during that year.

The weighted average number of ordinary shares in issue for both years used in the calculation of basic earnings/(loss) per share and diluted earnings per share have been adjusted to reflect the effect of the rights issue completed on 3 June 2002 and the details of which are set out in note 37 to the financial statements.

14. FIXED ASSETS

Group

	Land and buildings (Hong Kong)	Land and buildings (Overseas)	Leasehold improvements	Furniture, fittings and office equipment	Plant, machinery and tools	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost:							
At beginning of year	20,970	8,463	16,810	13,723	48,962	7,236	116,164
Additions	–	–	451	1,023	4,603	210	6,287
Disposals	–	–	(1,656)	(6,079)	(109)	(1,040)	(8,884)
Exchange realignments	–	(203)	–	(56)	–	(92)	(351)
At 31 March 2002	20,970	8,260	15,605	8,611	53,456	6,314	113,216
Accumulated depreciation and impairment:							
At beginning of year	2,617	1,293	5,194	11,102	14,394	2,424	37,024
Provided during the year	419	240	3,054	1,331	5,706	1,244	11,994
Impairment during the year	8,315	–	–	–	–	–	8,315
Disposals	–	–	(1,656)	(6,032)	(95)	(448)	(8,231)
Exchange realignments	–	(29)	–	(49)	–	(31)	(109)
At 31 March 2002	11,351	1,504	6,592	6,352	20,005	3,189	48,993
Net book value:							
At 31 March 2002	9,619	6,756	9,013	2,259	33,451	3,125	64,223
At 31 March 2001	18,353	7,170	11,616	2,621	34,568	4,812	79,140

14. FIXED ASSETS *(continued)*

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

	Hong Kong	**Overseas**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Freehold	–	8,260	8,260
Medium term leases	20,970	–	20,970
	20,970	8,260	29,230

Certain land and buildings with a carrying value of HK$8,638,000 (2001: HK$17,270,000) held by the Group were pledged to banks to secure certain bank borrowings and banking facilities granted to the Group (note 27).

The net carrying value of fixed assets held under finance leases as at 31 March 2002 included motor vehicles of HK$1,249,000 (2001: HK$2,573,000) and plant, machinery and tools of HK$9,787,000 (2001: HK$8,663,000). The depreciation charge for the year in respect of such assets amounted to HK$1,744,000 (2001: HK$997,000).

During the year, an impairment on land and buildings of HK$8,315,000 (2001: Nil) was made as the recoverable amount of land and buildings situated in Hong Kong has declined below the carrying amount. In the opinion of the directors, such impairment losses arose from the prevailing unfavourable environment in the property market.

15. INTANGIBLE ASSETS

Group

	Deferred development costs
	HK$'000
Cost:	
Additions during the year and at 31 March 2002	2,250

No amortisation charge for deferred development costs has been made as the production of the related products has yet to commence.

In the opinion of the directors, there have been no impairments in the values of these deferred development costs.

16. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**55,015**	55,015
Due from subsidiaries	**111,637**	109,545
Due to subsidiaries	**(15,676)**	(15,676)
	150,976	148,884
Provision for impairment	**(16,344)**	–
	134,632	148,884

The amounts due from/to subsidiaries included in the Company's balance sheet are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary/ registered share capital	Equity interest attributable to the Company Direct	Indirect	Principal activities
AV Electronics Group Limited	British Virgin Islands/ Hong Kong	US$40,000	100%	–	Investment holding
AVT Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	Investment holding
AV Cassette Limited	Hong Kong	HK$100	–	100%	Dormant
AV Chaseway Limited	Hong Kong	HK$2,500,000	–	100%	Manufacture and trading of electronic products and Internet appliances

16. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation or registration/ operations	Nominal value of issued ordinary/ registered share capital	Equity interest attributable to the Company Direct	Indirect	Principal activities
AV Concept (China) Industrial Co., Limited	Hong Kong	HK$10,000	–	100%	Investment holding
AV Concept Electronics Limited	British Virgin Islands	US$2	–	100%	Dormant
AV Concept Limited	Hong Kong	HK$2 HK$1,000,000[@]	– –	100% 100%	Trading of electronic components
AVC Technology Limited	Hong Kong	HK$2 HK$100,000[@]	– –	100% 100%	Trading of electronic products and Internet appliances
Bostex Electronics Pte Ltd[#] ("Bostex")	Singapore	S$2,000,000	–	100%	Trading of electronic components
深圳市先思行電子有限公司*†	People's Republic of China	RMB100,000	–	100%	Provision of technical advisory services

@ Represents deferred shares issued by AV Concept Limited and AVC Technology Limited.

Audited by Ernst & Young International member firms.

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

† This subsidiary has a financial year end of 31 December. The consolidated financial statements have been adjusted for material transactions of this subsidiary for the period from 1 January to 31 March.

17. INTERESTS IN ASSOCIATES

	Group 2002 HK$'000	Group 2001 HK$'000	Company 2002 HK$'000	Company 2001 HK$'000
Unlisted shares, at cost	**–**	–	**–**	31,480
Share of net assets	**937**	14,022	**–**	–
Goodwill on acquisition – *Note (a)*	**601**	–	**–**	–
	1,538	14,022	**–**	31,480
Loan to an associate	**–**	15,000	**–**	–
Due from an associate	**–**	15,766	**–**	2,109
	1,538	44,788	**–**	33,589

In the prior year, the loan to an associate was unsecured, bore interest at a rate of HIBOR plus 2.5% per annum and had no fixed terms of repayment.

The amount due from an associate in the prior year was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation or registration/ operations	Equity interest attributable to the Group 2002	Equity interest attributable to the Group 2001	Principal activities
Easyband Broadband Holdings Limited ("Easyband") **(Note (a))**	Corporate	British Virgin Islands	**39.8%**	–	Investment holding
Guangzhou Thinker E-Commerce Co., Ltd. ("Thinker")* **(Note (b))**	Corporate**	People's Republic of China	**35%**	35%	Provision of system integration and e-commerce related services
Reigncom Limited ("Reigncom Korea")* **(Note (c))**	Corporate	Republic of Korea	**–**	20%	Design and trading of electronic products and investment holding

17. INTERESTS IN ASSOCIATES *(continued)*

* 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 agreement.

Notes:

(a) During the year, the Group contributed a total of HK$1,000,000 as capital injection to obtain a 39.8% equity interest in Easyband. The principal asset of Easyband is a 100% equity interest in Easyband Technology (Guangzhou) Co., Limited, a foreign invested enterprise to be established and registered in the People's Republic of China which will engage in the selling of hardware and software products and the provision of broadband and related technical support services.

In the opinion of the directors, the operation of Easyband is minimal during the year and the goodwill arising on acquisition of Easyband amounted to HK$601,000 will be amortised to match against the economic benefits associated with the acquisition of Easyband in the future. As a result no amortisation on goodwill arising on acquisition of Easyband was charged to the consolidated profit and loss account in the current year.

As at 31 March 2002, there is an outstanding capital commitment of HK$1,000,000 in relation to an additional capital injection in Easyband and the details of which are set out in note 36 to the financial statements.

(b) The 35% equity interest in Thinker was acquired by the Group during the prior financial year and goodwill arising on the acquisition of Thinker amounting to HK$20,307,000 was written off against share premium account of the Group (note 32). As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill on acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. In view of the prevailing unfavourable economic environment in the Internet and high-end technological business sector, an impairment loss on goodwill of HK$20,307,000 was charged to the consolidated profit and loss account in the current year and the details of which are set out in note 32 to the financial statements.

(c) Following the issue of new shares by Reigncom Korea to its employee's association on 31 August 2001, the Group's equity interest in Reigncom Korea was reduced from 20% to 19.4%. After the dilution of interest in Reigncom Korea, in the opinion of the directors, the Group is no longer in a position to exercise significance influence over Reigncom Korea, and accordingly, such investment is treated as a long term investment and not as an associate. The Group's share of net assets in Reigncom Korea, together with the attributable goodwill on acquisition, was then treated as the carrying value of Reigncom Korea, the long term investment after that date and the details of which are set out in note 18 to the financial statements.

17. INTERESTS IN ASSOCIATES *(continued)*

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 for the period from 1 January to 31 March.

The interests in Easyband and Thinker are held through a wholly-owned subsidiary of the Group.

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

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

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

18. LONG TERM INVESTMENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted equity investments, at cost	**34,812**	–	**31,480**	–

Long term investments represent a 19.4% equity interest in Reigncom Korea and an investment in preference shares of a company which engages in the development of embedded digital signal software and systems (the "New Investment"). In the opinion of the directors, the Group is not in a position to exercise significant influence over Reigcom Korea and the New Investment and accordingly, such investments are treated as long term investments.

As at 31 March 2002, the cost of the long term investments of the Group included the carrying amount of Reigncom Korea since 31 August 2001 plus the remaining unamortised goodwill of Reigncom Korea previously eliminated against the share premium account of the Group and the cost of the New Investment.

19. LONG TERM RECEIVABLE

	Group	
	2002	2001
	HK$'000	*HK$'000*
Long term receivable	**–**	2,347

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

The prior year balance was fully provided for and charged to consolidated profit and loss account in the current year.

20. OTHER ASSETS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Other assets, at cost	**2,435**	2,472

21. LOAN TO AN INVESTEE COMPANY

The loan to an investee company of HK$12,000,000 (2001: Nil) included in the current assets of the Group as at 31 March 2002 is unsecured, bears interest at a rate of HIBOR plus 2.5% per annum and is repayable within twelve months.

22. SHORT TERM INVESTMENT

	Group	
	2002	2001
	HK$'000	*HK$'000*
Listed equity investment in Hong Kong, at market value	**1,874**	1,406

The market value of the Group's short term investment at the date of approval of these financial statements is approximately HK$1,459,000 (2001: HK$1,406,000).

23. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**29,458**	24,330
Work in progress	**8,365**	6,620
Finished goods	**104,553**	155,754
	142,376	186,704

The carrying amount of inventories included in the above that are carried at net realisable value is approximately HK$23,750,000 (2001: HK$25,474,000).

24. 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 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 2002, based on invoice due date and stated net of provision for doubtful debts, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Accounts receivable:		
Current	**121,097**	76,253
Less than 30 days	**32,826**	36,641
31 – 60 days	**12,512**	10,450
over 60 days	**10,851**	21,551
	177,286	144,895

Included in the Group's accounts receivable balance is an amount due from an investee company of the Group of HK$20,201,000 (2001: Nil), which is repayable on credit terms similar to those offered to other customers of the Group.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**28,626**	23,809	**103**	53
Time deposits	**2,046**	–	**–**	–
	30,672	23,809	**103**	53

26. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The aged analysis of accounts payable as at 31 March 2002, based on invoice due date, is as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accounts payable				
Current	**58,466**	38,934	**–**	–
Less than 30 days	**19,085**	13,798	**–**	–
31 – 60 days	**2,776**	2,067	**–**	–
over 60 days	**577**	2,464	**–**	–
	80,904	57,263	**–**	–
Accrued expenses	**8,076**	6,727	**380**	380
	88,980	63,990	**380**	380

Included in the Group's accounts payable balance is an amount due to an investee company of HK$22,444,000 (2001: Nil), which is repayable on credit terms similar to those offered by the investee company to its customers.

27. INTEREST-BEARING BANK BORROWINGS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Amounts repayable within one year or on demand:		
Revolving bank loans under trade facilities:		
Secured	**2,000**	4,000
Unsecured	**–**	4,286
	2,000	8,286
Import and trust receipt loans	**217,004**	231,470
	219,004	239,756

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, which had an aggregate net book value at the balance sheet date of approximately HK$8,638,000 (2001: HK$17,270,000) (note 14).

Included in bank borrowings are revolving bank loans of HK$2,000,000 (2001: HK$8,286,000) and import and trust receipt loans of HK$180,197,000 (2001: HK$194,655,000) which have maturity within three months from the date of advance.

28. FINANCE LEASE PAYABLES

The Group leases certain of its motor vehicles and plant and machinery for its marketing and distribution business and design and manufacturing business, respectively. These leases are classified as finance leases and have remaining lease terms ranging from two to six years.

As at 31 March 2002, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2002 *HK$'000*	Minimum lease payments 2001 *HK$'000*	**Present value of minimum lease payments 2002** *HK$'000*	Present value of minimum lease payments 2001 *HK$'000*
Amounts payable:				
Within one year	**3,556**	2,851	**3,319**	2,380
In the second year	**2,405**	2,851	**2,330**	2,552
In the third to fifth years, inclusive	**713**	2,719	**628**	2,524
After five years	**56**	322	**47**	271
Total minimum finance lease payments	**6,730**	8,743	**6,324**	7,727
Future finance charges	**(406)**	(1,016)		
Total net finance lease payables	**6,324**	7,727		
Portion classified as current liabilities	**(3,319)**	(2,380)		
Long term portion of finance lease payables	**3,005**	5,347		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

29. 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.

30. DEFERRED TAX

	Group	
	2002	2001
	HK$'000	*HK$'000*
At beginning of year	**392**	395
Prior year overprovision *(note 11)*	**(89)**	–
Exchange realignments	**(2)**	(3)
At end of year	**301**	392

The principal components of the Group's provision for deferred tax and the net deferred tax assets not recognised in the financial statements are as follows:

	Provided		Not provided	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Accelerated capital allowances	**301**	392	**3,357**	2,060
Tax losses available for future relief	**–**	–	**(6,579)**	(3,861)
	301	392	**(3,222)**	(1,801)

The Company had no unprovided deferred tax as at the balance sheet date (2001: Nil).

31. SHARE CAPITAL

Shares

	2002	2001
	HK$'000	*HK$'000*
Authorised:		
800,000,000 ordinary shares of HK$0.10 each	**80,000**	80,000
Issued and fully paid:		
236,321,613 ordinary shares of HK$0.10 each	**23,632**	23,632

There were no changes to the carrying amount or the number of ordinary shares in issue during the year ended 31 March 2002.

Share options

The Company operates a share option scheme (the "Scheme"), which was approved and adopted on 1 April 1996 and further details of which are also set out under the heading "Share option scheme" in the Report of the Directors on pages 12 to 14.

(i) *Share options expiring on 27 June 2003*

At the beginning of the year, there were 8,799,560 outstanding share options granted to a director and certain employees of the Group. The options are exercisable during the period from 28 June 2001 to 27 June 2003 at a subscription price of HK$1.08 per share.

A total of 3,299,560 share options lapsed and none of these share options was exercised during the year.

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

Following the completion of the rights issue on 3 June 2002 as further detailed in note 37 to the financial statements, the total number of shares under options expiring on 27 June 2003 was adjusted from 5,500,000 to 8,250,000 and the exercise price was adjusted from HK$1.08 to HK$0.72 per share.

(ii) *Share options expiring on 19 April 2003*

At the beginning of the year, there were 5,500,000 share options granted to a director and certain employees of the Group. 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.

A total of 2,000,000 share options were lapsed and none of these share options was exercised during the year.

The exercise in full of these share options would, under the capital structure of the Company as at the balance sheet date, result in the issue of 3,500,000 additional ordinary shares of HK$0.10 each.

Following the completion of the rights issue on 3 June 2002 as further detailed in note 37 to the financial statements, the total number of shares under options expiring on 19 April 2003 was adjusted from 3,500,000 to 5,250,000 and the exercise price was adjusted from HK$0.47 to HK$0.31 per share.

31. SHARE CAPITAL *(continued)*

Share options *(continued)*

(iii) Share options expiring on 1 May 2005

During the year, on 2 November 2001, there were a total of 4,700,000 share options granted to a director and certain employees of the Group. The options are exercisable during the period from 2 May 2002 to 1 May 2005 at a subscription price of HK$0.265 per share.

None of these share options was exercised or lapsed during the year.

The exercise in full of these share options would, under the capital structure of the Company as at the balance sheet date, result in the issue of 4,700,000 additional ordinary shares of HK$0.10 each.

Subsequent to the balance sheet date, a total of 2,700,000 share options were exercised by certain employees of the Group at an exercise price of HK$0.265 per share.

Following the completion of the rights issue on 3 June 2002 as further detailed in note 37 to the financial statements, the total number of shares under options expiring on 1 May 2005 was adjusted from 2,000,000 to 3,000,000 and the exercise price was adjusted from HK$0.265 to HK$0.18 per share.

In order to comply with the amendments to Chapter 17 of the Listing Rules, subsequent to the balance sheet date, on 13 May 2002, the Company terminated the Scheme and adopted a new share option scheme (the "New Scheme"), further details of which are set out in note 37 to the financial statements.

Upon termination of the Scheme, no further share options will be granted under the Scheme, but the provisions of the Scheme will remain in force and all share options granted prior to such termination shall continue to be valid and exercisable in accordance with the Scheme.

Subsequent to the adoption of the New Scheme, on 22 May 2002, there were a total of 20,000,000 share options granted to an executive director of the Company, certain directors of the Group's subsidiaries and certain employees of the Group. The options are exercisable during the period from 23 May 2002 to 12 May 2012 at a subscription price of HK$0.346 per share.

32. RESERVES

Group

	Share premium account HK$'000	Capital reserve* HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 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 and 1 April 2001	81,751	13,655	(8,228)	74,018	161,196
Deemed disposal of interest in an associate:					
Goodwill written back	545	–	–	–	545
Goodwill released upon transfer of an associate to a long term investment	18,904	–	–	–	18,904
Reserves released and transfer to capital reserve	–	217	982	(1,199)	–
Transfer to the profit and loss account for impairment of goodwill on acquisition of an associate	20,307	–	–	–	20,307
Exchange realignments	–	–	(477)	–	(477)
Net loss for the year	–	–	–	(52,340)	(52,340)
At 31 March 2002	121,507	13,872	(7,723)	20,479	148,135

32. 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	121,507	13,872	(7,759)	20,896	148,516
Associates	–	–	36	(417)	(381)
At 31 March 2002	121,507	13,872	(7,723)	20,479	148,135
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

* Included in the balance of the capital reserve as at 31 March 2002 is a capital redemption reserve balance amounting to approximately HK$12,491,000 (2001: HK$12,491,000).

Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 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 and 1 April 2001	121,507	12,491	24,642	158,640
Net loss for the year	–	–	(16,355)	(16,355)
At 31 March 2002	121,507	12,491	8,287	142,285

32. RESERVES *(continued)*

In accordance with the Companies Law (2002 Revision) of the Cayman Islands, the share premium account is distributable in certain circumstances.

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. As explained in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permit goodwill in respect of acquisitions which occurred prior to 1 April 2001 to remain eliminated against consolidated reserves. Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. The amounts of goodwill remaining in consolidated reserves of the Group at 31 March 2001 amounted to HK$12,470,000 and HK$39,756,000, respectively, representing goodwill arising from the acquisitions of certain subsidiaries eliminated against retained profits and certain associates eliminated against share premium account prior to 1 April 2001.

Included in goodwill eliminated against retained profits is an amount of HK$12,470,000 representing goodwill arising from the acquisitions of certain subsidiaries. In the opinion of the directors, there have been no impairments in values of the goodwill.

Included in goodwill eliminated against the share premium account is an impairment loss of HK$20,307,000 on goodwill arising from the acquisition of an associate, Thinker, which is charged to the consolidated profit and loss account and the details of which are set out in note 17 to the financial statements. The remaining balance of HK$19,449,000 represents goodwill arising from the acquisition of Reigncom Korea. HK$545,000 was charged to the consolidated profit and loss account as a result of deemed disposal and amount of HK$18,904,000 was added to part of the cost of the long term investments, the details of which are set out in note 18 to the financial statements.

32. RESERVES *(continued)*

Details of movements in the Group's goodwill eliminated against share premium account and retained profits are set out as follows:

	Goodwill eliminated against share premium account *HK$'000*	**Goodwill eliminated against retained profits** *HK$'000*	**Total** *HK$'000*
Cost:			
At beginning of year	39,756	12,470	52,226
Goodwill written back on deemed disposal of interest in an associate	(545)	–	(545)
Goodwill released upon transfer of an associate to a long term investment	(18,904)	–	(18,904)
At 31 March 2002	20,307	12,470	32,777
Accumulated impairment:			
Impairment provided during the year and at 31 March 2002	20,307	–	20,307
Net book value:			
At 31 March 2002	–	12,470	12,470
At 31 March 2001	39,756	12,470	52,226

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) from operating activities to net cash inflow/(outflow) from operating activities

	2002	2001
	HK$'000	*HK$'000*
Profit/(loss) from operating activities	**(38,782)**	32,164
Interest income	**(1,065)**	(1,505)
Unrealised holding gain on short term investment	**(468)**	–
(Gain)/loss on disposal of fixed assets	**125**	(524)
Depreciation	**11,994**	9,593
Impairment of fixed assets	**8,315**	–
Impairment of goodwill	**20,307**	–
Provision for bad and doubtful debts	**9,956**	–
Loss on deemed disposal of interest in an associate	**948**	1,310
Loss on disposal of partial interest in an associate	**–**	1,010
Decrease in long term receivable	**–**	1,040
Decrease/(increase) in inventories	**43,034**	(77,182)
Decrease/(increase) in accounts receivable	**(40,673)**	8,721
Decrease/(increase) in prepayments, deposits and other receivables	**(1,628)**	8,320
Increase/(decrease) in accounts payable and accrued expenses	**25,155**	(2,635)
Increase in import and trust receipt loans	**1,199**	14,634
Decrease in other long term payable	**(34)**	(35)
Net cash inflow/(outflow) from operating activities	**38,383**	(5,089)

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) *HK$'000*	Bank loans and finance lease payables *HK$'000*
Balance at 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)
Balance at 31 March 2001 and 1 April 2001	105,383	7,727
Net cash outflow from financing	–	(3,551)
Goodwill written back on deemed disposal of interest in an associate	545	–
Goodwill released upon transfer of an associate to a long term investment	18,904	–
Impairment of goodwill	20,307	–
Exchange realignments	–	(50)
Inception of finance lease contracts	–	2,198
Balance at 31 March 2002	145,139	6,324

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Major non-cash transactions

(i) As detailed in note 17 to the financial statements, following the issue of new shares by Reigncom Korea to its employees' association on 31 August 2001, the Group's equity interest in Reigncom Korea was reduced from 20% to 19.4% and the Group's interest in Reigncom Korea is reclassified from an interest in an associate to a long term investment after the dilution of interest in Reigncom Korea. The transaction did not result in any cash flows to the Group during the year.

(ii) During the year, the Group recorded a loss on the deemed disposal of interest in an associate of HK$948,000 and did not result in any cash flows to the Group.

(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$2,198,000.

34. CONTINGENT LIABILITIES

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

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Standby documentary credits*	**20,600**	20,600	**–**	–
Guarantees given in respect of facilities granted to:				
– subsidiaries**	**–**	–	**476,884**	424,805
– a supplier	**11,700**	3,900	**–**	–
	32,300	24,500	**476,884**	424,805

* Pursuant to the shareholders' agreement of Reigncom Korea entered into in the prior year, the Group provided standby documentary credits in favour of the bankers of the Reigncom Group for the amount of HK$20,600,000 (2001: HK$20,600,000). The Group will be liable for such amounts up to HK$20,600,000 due by the Reigncom Group to its bankers in the event of default by the Reigncom Group. Subject to re-negotiations, the last expiry date of such documentary credits is 15 December 2002 (2001: 15 December 2001).

** At the balance sheet date, an amount of HK$337,044,000 (2001: HK$276,994,000) had been utilised.

35. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its factory buildings and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to nine years.

As at 31 March 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)
Within one year	**2,913**	2,596	**–**	–
In the second to fifth years, inclusive	**9,168**	8,616	**–**	–
After five years	**4,915**	6,135	**–**	–
	16,996	17,347	**–**	–

SSAP 14 (Revised) requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee have been restated to accord with the current year's presentation.

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Capital commitments on the acquisition of fixed assets, contracted for	**226**	284	**–**	–
Other commitments, contracted for*	**1,000**	2,000	**–**	–

* The prior year's other commitments represented part of the capital contribution to be injected into Thinker pursuant to the terms of shareholders' agreement entered into between AVT Holdings Limited ("AVT"), a wholly-owned subsidiary of the Group, and the remaining shareholders of Thinker on 16 August 2000. During the year, the capital contribution of HK$2,000,000 into Thinker was cancelled pursuant to a supplemental shareholders' agreement entered into between all parties on 12 December 2001.

On 14 January 2002, AVT entered into a subscription and shareholders' agreement to subscribe for shares in Easyband. Pursuant to the subscription and shareholders' agreement, the Group's commitment as at 31 March 2002 in respect of the subscription of shares in Easyband amounted to HK$1,000,000.

37. POST BALANCE SHEET EVENTS

(a) On 3 June 2002, the Company completed the issue of 119,510,806 rights shares of HK$0.10 each (the “Rights Shares”), for cash at a price of HK$0.26 per Rights Share, on the basis of one Rights Share for every two existing shares held by members on the register of members on 13 May 2002 (the “Rights Issue”). The net proceeds from the Rights Issue of approximately HK$29.4 million were received by the Group and were used as general working capital of the Group and for capital expenditures of the Group’s iMP business.

(b) Pursuant to an ordinary resolution passed in an extraordinary general meeting held on 13 May 2002 regarding the Company’s share option scheme, the Company terminated the Scheme and adopted the New Scheme. The New Scheme is valid and effective for a period of 10 years commencing after 13 May 2002.

Under the New Scheme, the directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the Company. The total number of the shares which may be allotted and issued upon exercise of all options to be granted under the New Scheme shall not in aggregate exceed 10% of the number of shares in issue as at the date of approval of the New Scheme (the “Scheme Mandate Limit”) provided that, inter alia, the Company may seek approval of the shareholders at a general meeting to refresh the Scheme Mandate Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme may not exceed 30% of the share capital of the Company in issue from time to time.

38. COMPARATIVE AMOUNTS

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

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 July 2002.