

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability on 20 August 1992 and its shares are listed on The Stock Exchange of Hong Kong Limited.

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

- provision of a multi-discipline of building services in electrical engineering, water pumping and fire services, air-conditioning installation, plumbing and drainage, environmental engineering, extra low voltage system engineering;
- project management;
- trading of electrical and mechanical engineering materials and equipment;
- provision of broadband connectivity services (discontinued operations – note 6); and
- provision of design, installation and maintenance services of karaoke-on-demand systems (discontinued operations – note 6).

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

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

- SSAP 9 (Revised) : “Events after the balance sheet date”
- SSAP 14 (Revised) : “Leases”
- SSAP 18 (Revised) : “Revenue”
- 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 12 : “Business combinations – subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13 : “Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

2002
SHUN CHEONG HOLDINGS LIMITED**2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Continued)**

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 those SSAPs and Interpretations which have had a significant effect on the financial statements, are summarised as follows:

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 revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustments have been required. 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 26 and 34 to the 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 the SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the 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 arising 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 to 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 resulted in a prior year adjustment, further details of which are included in note 15 to the financial statements.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

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.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10 : "Accounting for investments in associates"
- SSAP 17 : "Property, plant and equipment"

There are no significant effects of these revisions on the 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 issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of other 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.

2002
SHUN CHEONG HOLDINGS LIMITED**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Subsidiaries**

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

The Company's interests in subsidiaries are stated at cost less any impairment losses.

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 non-current assets and are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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 the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life which will not exceed 20 years from initial recognition. In the case of associates, 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 when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

2002
SHUN CHEONG HOLDINGS LIMITED**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, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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 and properties held under	
medium term leases	2%
Machinery and equipment	20-30%
Furniture and office equipment	20%
Motor vehicles	20%
Leasehold improvements	3 years or over the terms of the leases, whichever is shorter

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

Long term investments

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis, and are stated at cost less any impairment losses, on an individual investment basis.

Where impairments in values have occurred, the carrying amounts of the investment 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. When 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 amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amount previously charged.

2002
SHUN CHEONG HOLDINGS LIMITED**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Other investments**

Investments other than long term investments or held-to-maturity securities are classified as other investments and are stated at fair value in the balance sheet, on an individual investment basis.

The gains or losses arising from changes in the fair value of an investment are credited or charged to the profit and loss account in the period in which they arise.

Installation and maintenance contracts and contracts in progress

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed installation and maintenance overheads.

Revenue from fixed price installation and maintenance contracts is recognised on the percentage of completion method, measured by reference to the percentage of certified work performed to date to estimated total contract sum of the relevant contracts. When the outcome of the contracts cannot be estimated reliably, revenue is recognised only to the extent of certified work performed that is probable to be recoverable.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

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

Foreign currencies

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

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.

2002
SHUN CHEONG HOLDINGS LIMITED**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****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.

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 payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

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

Retirement benefits scheme

The Group operates defined contribution retirement benefits schemes, including an Occupational Retirement Schemes Ordinance retirement benefits scheme (the “ORSO Scheme”) and a Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees (including directors).

The ORSO Scheme is managed by an independent trustee. The Group makes monthly contributions to the scheme at 5% to 15% of the employees’ basic salaries while the employees are not required to make any contributions. The employees are entitled to receive 100% of the contributions made by the Group together with the accrued earnings thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service. Forfeited contributions and related earnings are used to reduce the contributions payable by the Group.

The MPF Scheme has been introduced pursuant to the Mandatory Provident Fund Schemes Ordinance since 1 December 2000, and thereafter, the Group has arranged for its newly hired employees in Hong Kong to join the MPF Scheme. Members of the ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, the Group and each of the employees make monthly contributions to the scheme at 5% of the employees’ earnings as defined under the Mandatory Provident Fund Schemes Ordinance. Both the employer’s and the employees’ contributions are subject to a cap of monthly earnings of HK\$20,000. For those employees with monthly earnings of less than HK\$4,000, only the Group is required to make any contributions.

SHUN CHEONG HOLDINGS LIMITED

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from installation and maintenance contracts, on the percentage of completion basis, as further explained in the accounting policy for “Installation and maintenance contracts and contracts in progress” above;
- (c) from design, installation and maintenance services of karaoke-on-demand system, when the services are rendered;
- (d) service income of broadband connectivity, on an accrual basis over the life of the service agreement;
- (e) project management income, when project management services are rendered;
- (f) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (g) dividend income, when the shareholders’ right to receive payment has been established.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

4. SEGMENT INFORMATION

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) building services contracting business includes the provision of a multi-discipline of building services in electrical engineering, water pumping and fire services, air conditioning installation, plumbing and drainage, environmental engineering, and extra low voltage system engineering;
- (b) project management;
- (c) the trading of electrical and mechanical engineering materials and equipment;
- (d) the provision of broadband connectivity services (discontinued during the year – note 6); and
- (e) the provision of design, installation and maintenance services of karaoke-on-demand systems (discontinued during the year – note 6).

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.

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

SHUN CHEONG HOLDINGS LIMITED

4. SEGMENT INFORMATION (Continued)

(a) Business segments

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

Group

	Building services contracting business		Project management		Trading of electrical and mechanical engineering materials and equipment		(Discontinued) Provision of broadband connectivity services		(Discontinued) Provision of design, installation and maintenance services of karaoke-on-demand systems		Eliminations		Consolidated	
	2002	2001	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	HK\$'000	HK\$'000
	(Restated)													
Segment revenue:														
Sales to external customers	604,357	705,698	6,660	4,248	52,685	80,457	14,188	11,335	20,542	31,044	-	-	698,432	832,782
Inter segment sales	-	4,634	-	-	29,069	49,404	-	71	-	-	(29,069)	(54,109)	-	-
Total revenue	<u>604,357</u>	<u>710,332</u>	<u>6,660</u>	<u>4,248</u>	<u>81,754</u>	<u>129,861</u>	<u>14,188</u>	<u>11,406</u>	<u>20,542</u>	<u>31,044</u>	<u>(29,069)</u>	<u>(54,109)</u>	<u>698,432</u>	<u>832,782</u>
Segment results	<u>17,743</u>	<u>33,613</u>	<u>6,660</u>	<u>4,248</u>	<u>(3,007)</u>	<u>5,195</u>	<u>(6,389)</u>	<u>(28,091)</u>	<u>(9,646)</u>	<u>718</u>	<u>-</u>	<u>-</u>	<u>5,361</u>	<u>15,683</u>
Interest income and unallocated gains													2,451	5,845
Legal expenses													(7,907)	-
Realised loss on disposal of other investments													-	(13,202)
Provision for impairment:														
- long term investments													-	(38,298)
- goodwill													(12,680)	(23,726)
Unrealised holding losses on other investments													(6,567)	-
Loss on disposal of subsidiaries, net													(341)	-
Finance costs													(3,194)	(4,645)
Share of losses of associates													(3,605)	(19)
Loss before tax													(26,482)	(58,362)
Tax													(5,209)	(7,601)
Loss before minority interests													(31,691)	(65,963)
Minority interests													(3,631)	6,818
Net loss from ordinary activities attributable to shareholders													<u>(35,322)</u>	<u>(59,145)</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Group

	Building services contracting business		Project management		Trading of electrical and mechanical engineering materials and equipment		(Discontinued) Provision of broadband connectivity services		(Discontinued) Provision of design, installation and maintenance services of karaoke-on-demand systems		Eliminations		Consolidated	
	2002	2001	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	HK\$'000	HK\$'000
Segment assets	272,335	345,173	–	–	37,568	48,756	1,383	1,909	–	25,256	–	–	311,286	421,094
Unallocated assets													19,915	26,768
Total assets													331,201	447,862
Segment liabilities	168,423	268,692	–	–	32,015	33,319	11,605	10,556	–	12,445	–	–	212,043	325,012
Other segment information:														
Depreciation	2,949	2,025	–	–	219	104	255	803	3,192	1,085	–	–	6,615	4,017
Capital expenditure	3,211	1,989	–	–	144	40	977	9,422	2,806	8,946	–	–	7,138	20,397
Other non-cash expenses	1,080	–	–	–	–	–	–	–	–	–	–	–	1,080	–
Impairment losses of														
- fixed assets	–	–	–	–	–	–	826	7,972	–	–	–	–	826	7,972
- investment securities	–	–	–	–	–	–	–	–	–	–	–	–	–	38,298
- goodwill	–	–	–	–	–	–	–	–	–	–	–	–	12,680	23,726

(b) By geographical segments

The Group's turnover was all derived from its operations and customers in Hong Kong and all segment assets are located in Hong Kong. Accordingly, no analysis for geographical segments has been disclosed.

2002

SHUN CHEONG HOLDINGS LIMITED

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of services rendered and goods sold, after allowances for returns and trade discounts and an appropriate proportion of contract revenue of long term installation and maintenance contracts during the year.

An analysis of turnover and other revenue is as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Continuing operations:		
Building services contracting business	604,357	705,698
Project management income	6,660	4,248
Trading of electrical and mechanical engineering materials and equipment	52,685	80,457
	<u>663,702</u>	<u>790,403</u>
Discontinued operations:		
Provision of broadband connectivity services	14,188	11,335
Provision of design, installation and maintenance services of karaoke-on-demand systems	20,542	31,044
	<u>698,432</u>	<u>832,782</u>
Other revenue		
Interest income	1,407	5,551
Others	1,044	294
	<u>2,451</u>	<u>5,845</u>

NOTES TO FINANCIAL STATEMENTS *(Continued)*

6. DISCONTINUED OPERATIONS

In view of a strategic plan by the Group to concentrate on its core activities, the Group ceased its broadband connectivity services business during the year. In addition, as set out in note 18 to the financial statements, the Group disposed of certain of its interests in a subsidiary which was principally involved in the provision of design, installation and maintenance services of karaoke-on-demand systems.

Accordingly, a provision for impairment of approximately HK\$826,000 was made against the fixed assets relating to the broadband connectivity services and a loss of approximately HK\$1,122,000 arose on the disposal of certain interests in the karaoke-on-demand systems business. Further details about these segments are included in note 4 to the financial statements.

SHUN CHEONG HOLDINGS LIMITED

7. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	43,744	65,142
Depreciation		
– owned fixed assets	6,144	3,726
– fixed assets held under finance lease	471	291
Minimum lease payments under operating leases in respect of land and buildings	3,655	2,684
Auditors' remuneration	750	821
Staff costs (including directors' remuneration (note 9)):		
Wages and salaries	85,289	63,961
Pension scheme contributions	3,447	2,442
Less: Forfeited contributions	(297)	(429)
Net pension contributions*	3,150	2,013
	88,439	65,974
Provision for bad debts	1,346	261
Loss on disposal of fixed assets	2,037	–
Interest income	(1,407)	(5,551)

* At 31 March 2002, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2001: HK\$2,000).

NOTES TO FINANCIAL STATEMENTS (Continued)

8. FINANCE COSTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest on overdrafts and short term loans	2,407	3,280
Bank charges	593	1,283
Interest on finance leases	194	82
	<u>3,194</u>	<u>4,645</u>

9. DIRECTORS' REMUNERATION

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	241	240
	<u>241</u>	<u>240</u>
Other emoluments for executive directors:		
Salaries, allowances and benefits in kind	3,683	3,032
Performance related bonuses	3,300	-
Pension scheme contributions	231	217
	<u>7,214</u>	<u>3,249</u>
	<u>7,455</u>	<u>3,489</u>

SHUN CHEONG HOLDINGS LIMITED

9. DIRECTORS' REMUNERATION (Continued)

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

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	10	6
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$2,000,001 to HK\$2,500,000	—	1
HK\$5,000,001 to HK\$5,500,000	1	—
	<u>13</u>	<u>8</u>

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

NOTES TO FINANCIAL STATEMENTS (Continued)

10. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	2,205	3,170
Pension scheme contributions	85	72
	<u>2,290</u>	<u>3,242</u>

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2002	2001
Nil to HK\$1,000,000	—	1
HK\$1,000,001 to HK\$1,500,000	2	2
	<u>2</u>	<u>3</u>

SHUN CHEONG HOLDINGS LIMITED

11. TAX

The Company is exempted from taxation in Bermuda until 2016. 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 legislation, interpretations and practices in respect thereof.

	2002 HK\$'000	2001 HK\$'000
Group:		
Hong Kong	6,722	7,710
Underprovision in prior years	153	222
Deferred (note 27)	(1,666)	(331)
	<u>5,209</u>	<u>7,601</u>
Share of tax attributable to associates	<u>—</u>	<u>—</u>
Tax charge for the year	<u><u>5,209</u></u>	<u><u>7,601</u></u>

12. NET 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 approximately HK\$31,066,000 (2001: HK\$40,096,000).

NOTES TO FINANCIAL STATEMENTS (Continued)

13. LOSS PER SHARE

The calculation of basic and diluted loss per share are based on:

	Group	
	2002	2001
	HK\$'000	HK\$'000
		<i>(Restated)</i>
Loss		
Net loss attributable to shareholders, used in the basic and diluted loss per share calculations	<u>(35,322)</u>	<u>(59,145)</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in basic loss per share calculation	422,025,767	387,357,016
Assumed issued at no consideration on deemed exercise of all share options outstanding during the year	<u>2,159</u>	<u>85,264</u>
Weighted average number of ordinary shares used in diluted loss per share calculation	<u>422,027,926</u>	<u>387,442,280</u>

Diluted loss per share for the years ended 31 March 2002 and 2001 have not been shown as the share options outstanding during the years had an anti-dilutive effect on the basic loss per share for both two years.

SHUN CHEONG HOLDINGS LIMITED

14. FIXED ASSETS

Group

	Leasehold land and properties HK\$'000	Machinery and equipment HK\$'000	Furniture and office equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
Cost:						
At beginning of year	22,378	12,266	13,984	4,369	1,853	54,850
Additions	—	951	5,124	1,374	769	8,218
Disposals	—	(86)	(1,934)	(540)	(18)	(2,578)
Disposal of subsidiaries	—	(6,931)	(3,315)	—	(496)	(10,742)
At 31 March 2002	22,378	6,200	13,859	5,203	2,108	49,748
Accumulated depreciation and impairment:						
At beginning of year	2,423	6,157	9,197	2,240	1,073	21,090
Depreciation provided during the year	448	2,756	1,952	934	525	6,615
Disposals	—	(86)	(201)	(236)	(18)	(541)
Disposal of subsidiaries	—	(3,458)	(1,235)	—	(234)	(4,927)
Impairment during the year recognised in the profit and loss account	—	826	—	—	—	826
At 31 March 2002	2,871	6,195	9,713	2,938	1,346	23,063
Net book value						
At 31 March 2002	19,507	5	4,146	2,265	762	26,685
At 31 March 2001	19,955	6,109	4,787	2,129	780	33,760

The Group's leasehold land and properties are located in Hong Kong and held under medium-term leases.

The net book value of the Group's fixed assets held under finance leases included in the total amount of motor vehicles at 31 March 2002 amounted to approximately HK\$1,531,000 (2001: HK\$922,000).

NOTES TO FINANCIAL STATEMENTS (Continued)

15. GOODWILL

As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisition which occurred prior to the financial year commencing on 1 April 2001, to remain eliminated against the consolidated retained profits.

Due to the adoption of SSAP 31, the Group has adopted a policy to assess goodwill eliminated against consolidated reserves for impairment. As a result, impairment of goodwill of HK\$23,726,000 was quantified and recognised retrospectively in the prior year and impairment of goodwill of HK\$12,680,000 was recognised during the year as detailed in the table below.

	Group HK\$'000
Cost:	
At beginning and end of the year	36,406
Accumulated impairment:	
At beginning of year	
As previously reported	—
Prior year adjustment	23,726
	<hr/> 23,726
As restated	<hr/> 23,726
Impairment during the year recognised in the profit and loss account	<hr/> 12,680
At 31 March 2002	<hr/> 36,406
Net amount:	
At 31 March 2002	<hr/> <hr/> —
At 31 March 2001 (<i>as restated</i>)	<hr/> <hr/> 12,680

2002

SHUN CHEONG HOLDINGS LIMITED

16. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	33,116	33,116
Due from subsidiaries	141,849	157,547
	<u>174,965</u>	<u>190,663</u>
Provision for impairment	(73,187)	(73,187)
	<u>101,778</u>	<u>117,476</u>

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shun Cheong Electrical Engineering Company Limited	Hong Kong	HK\$4,000,100	—	100	Design, installation, repairs and maintenance of electrical and mechanical systems
Shun Cheong Automation Systems Limited	Hong Kong	HK\$2,000,000	—	85	Design and installation of computer control systems and building automation projects
Shun Cheong Management Limited	Hong Kong	HK\$2	—	100	Provision of management services
Tinhawk Company Limited	Hong Kong	HK\$2,000,000	—	90	Installation and maintenance of water pumps and fire prevention and fighting systems

SHUN CHEONG HOLDINGS LIMITED

16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows: (Continued)

Name	Place of incorporation/ registration and operations	Issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ecotech Engineering Limited	Hong Kong	HK\$650,001	—	89.99	Design, installation and maintenance of waste-water treatment systems
Shun Cheong M&E Limited	Hong Kong	HK\$663,000	—	100	Trading of electrical generators and uPVC conduits and trunking systems
Shun Cheong Electrical Supplies Company Limited	Hong Kong	HK\$100,000	—	100	General trading of materials and equipment for electrical installation
Shun Cheong Real Estates Limited	Hong Kong	HK\$10,000	—	100	Property holding
Westco Airconditioning Limited	Hong Kong	HK\$2,200,000	—	100	Design, installation and maintenance of heating ventilation and air-conditioning systems

NOTES TO FINANCIAL STATEMENTS *(Continued)*

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows: *(Continued)*

Name	Place of incorporation/ registration and operations	Issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shun Cheong KME Company Limited	Hong Kong	HK\$2,000,000	—	70	Design, installation and maintenance of communication network
Speedlink Limited	Hong Kong	HK\$10,000,000	—	72	Provision of broadband connectivity services
Shun Wing Construction & Engineering Co., Ltd.	Hong Kong	HK\$1,000	—	50.1	Provision of building and electrical maintenance services
Ever Billion Engineering Limited	Hong Kong	HK\$100	—	100	Provision of building and electrical maintenance services

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

SHUN CHEONG HOLDINGS LIMITED

17. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets of associates	<u>—</u>	<u>9,307</u>

An investment previously recorded as an interest in an associate and stated at approximately HK\$9,305,000, representing its initial cost of approximately HK\$33,031,000 net of goodwill of approximately HK\$23,726,000, was reclassified at 31 March 2002 to other investments after accounting for the Group's share of loss for the current year of approximately HK\$3,548,000 as further detailed in note 18 to the financial statements.

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Luckfaith Far East Ltd.*	Corporate	Hong Kong	50	Inactive
MIT Shun Cheong Co. Ltd.	Corporate	Hong Kong	50	Inactive
Marshall Tufflex (Hong Kong) Limited* (Under members' voluntary liquidation)	Corporate	Hong Kong	50	Inactive

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

NOTES TO FINANCIAL STATEMENTS (Continued)

18. LONG TERM INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Investment securities:		
Unlisted investments	—	15,678
Other investments:		
Listed equity investments in Hong Kong, at market value	1,410	1,783
Unlisted investments, at fair value	18,505	—
	19,915	1,783
Total investments	19,915	17,461

As explained in note 17 above, an investment previously recorded as an interest in an associate was reclassified to other investments during the year.

Two equity investments with interests of 8.91% and 7.7% previously stated at HK\$3,987,000 and HK\$11,691,000 respectively (representing the original investment costs of HK\$19,460,000 and HK\$34,516,000 net of the respective provision for impairment of approximately HK\$15,473,000 and HK\$22,825,000 respectively), were reclassified from investment securities to other investments during the year.

On 26 March 2002, the Group entered into a reorganisation agreement ("Reorganisation") with existing partners in relation to the operation of Binary KOD Limited ("Binary KOD"), an indirectly owned subsidiary of the Company. Further details of the Reorganisation are set out in the Company's public announcement dated 28 March 2002.

2002

SHUN CHEONG HOLDINGS LIMITED

18. LONG TERM INVESTMENTS (Continued)

Following the completion of the Reorganisation, the Group's interests in Binary KOD and its subsidiaries (collectively known as the "Binary KOD Group") were decreased from approximately 45.76% (being an effective interest held by the Group) to approximately 32%. The Group's interest in Binary KOD Group was further diluted to approximately 22% following a private placement carried out by Binary KOD on 31 March 2002. After the Reorganisation of Binary KOD Group, the directors of the Company are of the opinion that the Group is unable to exercise any significant influence in Binary KOD Group. Accordingly, the investment was treated as other investments for the year ended 31 March 2002.

19. GROSS AMOUNT DUE FROM/(TO) CONTRACT CUSTOMERS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Gross amount due from contract customers	52,741	76,575
Gross amount due to contract customers	(45,825)	(79,799)
	<u>6,916</u>	<u>(3,224)</u>
Contract costs incurred plus recognised profits less recognised losses and foreseeable losses to date	1,905,871	1,516,575
Less: Progress billings	(1,898,955)	(1,519,799)
	<u>6,916</u>	<u>(3,224)</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

20. INVENTORIES

Inventories comprise electrical cables, conduits, wiring accessories, light fittings, switch gear and computer equipment.

	Group	
	2002	2001
	HK\$'000	HK\$'000
Merchandise for sale	6,967	9,498
Less: Provision for obsolescence	(2,440)	(2,922)
	<u>4,527</u>	<u>6,576</u>

21. TRADE RECEIVABLES

The Group grants its trade customers credit periods normally ranging from cash on delivery to 60 days. A longer credit period is granted to a few customers with long business relationship and strong financial position.

An ageing analysis for trade receivables (after netting off provision for bad debts) is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0 – 30 days	58,855	126,533
31 – 60 days	12,220	13,337
61 – 90 days	18,012	11,151
Over 90 days	51,791	34,621
	<u>140,878</u>	<u>185,642</u>

2002

SHUN CHEONG HOLDINGS LIMITED

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group	
	2002 HK\$'000	2001 HK\$'000
Cash and bank balances	10,316	25,623
Time deposits	42,510	52,483
	52,826	78,106
Less: Pledged time deposits	(26,800)	(26,800)
Cash and cash equivalents	26,026	51,306

23. TRADE PAYABLES

The ageing analysis for trade payables is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0 - 30 days	10,490	48,370
31 - 60 days	15,515	20,496
Over 60 days	13,639	3,719
	39,644	72,585

NOTES TO FINANCIAL STATEMENTS (Continued)

24. BANK OVERDRAFTS AND SHORT TERM LOANS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Bank overdrafts:		
Secured	21,048	29,221
Bank loans:		
Unsecured	921	55,506
	<u>21,969</u>	<u>84,727</u>
Bank overdrafts repayable within one year or on demand	21,048	29,221
Trust receipt loans repayable within three months from date of advance	921	55,506
	<u>21,969</u>	<u>84,727</u>
Portion classified as current liabilities	<u>21,969</u>	<u>84,727</u>

The Group's banking facilities, including overdrafts, letter of credit and bank guarantees of approximately HK\$116,500,000 (2001: HK\$152,000,000) are secured by bank deposits of approximately HK\$26.8 million (2001: HK\$26.8 million).

In addition, letters of guarantee of approximately HK\$91 million (2001: HK\$136 million) was given by the Company.

25. LOANS FROM MINORITY SHAREHOLDERS OF SUBSIDIARIES

Loans from minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

SHUN CHEONG HOLDINGS LIMITED

26. FINANCE LEASE PAYABLES

The Group leases motor vehicles for its building services contracting business. These leases are classified as finance leases and have remaining lease terms ranging from one to three 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	402	481	337	400
In the second year	322	81	270	67
In the third to fifth years, inclusive	214	—	180	—
Total minimum finance lease payments	938	562	787	467
Future finance charges	(151)	(95)		
Total net finance lease payables	787	467		
Portion classified as current liabilities	(337)	(400)		
Long term portion	450	67		

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

27. DEFERRED TAX

	Group	
	2002	2001
	HK\$'000	HK\$'000
Balance at beginning of year	2,226	2,557
Credit for the year (<i>note 11</i>)	(1,666)	(331)
At 31 March	<u>560</u>	<u>2,226</u>

Deferred tax mainly represents the taxation effect of the cumulative differences in profit relating to incomplete long term installation and maintenance contracts.

As at 31 March 2002, the Group had no unrecognised potential deferred tax assets in respect of unutilised tax losses (*2001: Nil*).

The Group and the Company had no other significant unprovided deferred tax for the year or as at the balance sheet date.

28. SHARE CAPITAL

	2002	2001
	HK\$'000	HK\$'000
<i>Authorised:</i>		
800,000,000 (<i>2001: 800,000,000</i>) ordinary shares of HK\$0.1 each	<u>80,000</u>	<u>80,000</u>
<i>Issued and fully paid:</i>		
463,721,600 (<i>2001: 387,021,600</i>) ordinary shares of HK\$0.1 each	<u>46,372</u>	<u>38,702</u>

2002

SHUN CHEONG HOLDINGS LIMITED

28. SHARE CAPITAL (Continued)

During the year, the following movements in share capital were recorded:

- (a) The subscription rights attaching to 150,000 share options were exercised at the subscription price of HK\$0.1785 per share, resulting in the issue of 150,000 shares of HK\$0.1785 each for a total cash consideration, before expenses, of HK\$26,775.
- (b) In April 2001, the Company repurchased 450,000 shares of HK\$0.1 each on The Stock Exchange of Hong Kong Limited. These shares were cancelled upon repurchase and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares.

The repurchase of the Company's shares during the year was effected by the directors, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Company.

- (c) On 26 October 2001, the Company issued 77,000,000 new shares of HK\$0.1 each at HK\$0.2 per share for a total cash consideration, before expenses, of HK\$15,400,000.

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

	Number of shares in issue	Issued share capital HK\$'000
At 1 April 2001	387,021,600	38,702
Share options exercised (a)	150,000	15
Shares repurchased (b)	(450,000)	(45)
Share placement (c)	77,000,000	7,700
	<hr/>	<hr/>
At 31 March 2002	463,721,600	46,372

NOTES TO FINANCIAL STATEMENTS *(Continued)*

28. SHARE CAPITAL *(Continued)*

Share options

The Company operates a share option scheme (the “Scheme”), further details of which are set out under the heading “Share option scheme” in the Report of the Directors on pages 19 to 21.

At the beginning of the year, there were 150,000 share options outstanding under the Scheme. The 150,000 share options were exercised during the year at an exercise price of HK\$0.1785 per share.

During the year ended 31 March 2002, no options to subscribe for shares in the Company were granted pursuant to the Scheme and at the balance sheet date, there were no share options outstanding under the Scheme.

SHUN CHEONG HOLDINGS LIMITED

29. RESERVES

Group

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2000	102,972	—	52,623	155,595
Repurchase of shares	(52)	—	—	(52)
Transfer of reserves on repurchase of shares	—	87	(87)	—
Written off goodwill arising from acquisition of subsidiary	—	—	(12,680)	(12,680)
Loss for the year (as restated)	—	—	(59,145)	(59,145)
At 31 March 2001 and 1 April 2001	102,920	87	(19,289)	83,718
Issue of shares	7,712	—	—	7,712
Repurchase of shares	—	45	(108)	(63)
Impairment of goodwill remaining eliminated against retained profits	—	—	12,680	12,680
Loss for the year	—	—	(35,322)	(35,322)
At 31 March 2002	110,632	132	(42,039)	68,725
Reserves retained by:				
Company and subsidiaries	110,632	132	(39,812)	70,952
Associates	—	—	(2,227)	(2,227)
31 March 2002	110,632	132	(42,039)	68,725
Company and subsidiaries	102,920	87	(17,119)	85,888
Associates	—	—	(2,170)	(2,170)
31 March 2001	102,920	87	(19,289)	83,718

NOTES TO FINANCIAL STATEMENTS (Continued)

29. RESERVES (Continued)

Company

	Share premium account HK\$'000	Contributed surplus* HK\$'000	Capital redemption reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2000	102,972	14,009	—	1,953	118,934
Repurchase of shares	(52)	—	—	—	(52)
Transfer of reserves on repurchase of shares	—	—	87	(87)	—
Loss for the year	—	—	—	(40,096)	(40,096)
At 31 March 2001 and 1 April 2001	102,920	14,009	87	(38,230)	78,786
Repurchase of shares	—	—	45	(108)	(63)
Issue of shares	7,712	—	—	—	7,712
Loss for the year	—	—	—	(31,066)	(31,066)
At 31 March 2002	110,632	14,009	132	(69,404)	55,369

* Contributed surplus represents the difference between the aggregate net asset value of subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition of the subsidiaries under a Group reorganisation in 1992. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances.

SHUN CHEONG HOLDINGS LIMITED

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 HK\$'000	2001 HK\$'000 (Restated)
Loss from operating activities	(19,683)	(53,698)
Interest income	(1,407)	(5,551)
Bank charges	(593)	(1,283)
Loss on disposal of fixed assets	2,037	—
Depreciation	6,615	4,017
Unrealised holding losses on other investments	6,567	—
Realised loss on disposal of other investments	—	13,202
Loss on disposal of subsidiaries, net	341	—
Provision for impairment of goodwill	12,680	23,726
Provision for impairment in value of long term investments	—	38,298
Provision for impairment of fixed assets	826	7,972
Decrease/(increase) in gross amount due from contract customers	23,834	(13,079)
Decrease/(increase) in inventories	(164)	442
Decrease/(increase) in trade receivables	28,007	(55,583)
Decrease in retention money receivable	2,953	11,013
Decrease/(increase) in prepayments, deposits and other assets	400	(3,953)
Decrease in gross amount due to contract customers	(33,974)	(3,651)
Decrease in trade payables	(19,369)	(7,039)
Increase in other payables and accruals	32,114	—
Decrease in retention money payable	(5,919)	(6,100)
Decrease in bills payable	(4,658)	(4,705)
Net cash inflow/(outflow) from operating activities	<u>30,607</u>	<u>(55,972)</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Issued capital and share premium <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Finance lease obligations <i>HK\$'000</i>	Loans from minority shareholders of subsidiaries <i>HK\$'000</i>
At 1 April 2000	141,709	2,830	867	—
Shares repurchased	(87)	—	—	—
Minority interests arising from acquisition of subsidiaries	—	4,018	—	—
Share of loss by minority shareholders	—	(6,818)	—	—
Capital contributions by minority shareholders in subsidiaries	—	400	—	—
Repayment of capital element of finance lease obligations	—	—	(400)	—
Loans from minority shareholders of subsidiaries	—	—	—	11,601
At 31 March 2001 and 1 April 2001	141,622	430	467	11,601
Shares repurchased	(45)	—	—	—
Shares issued	15,427	—	—	—
Repayment of minority shareholders' loans	—	—	—	(761)
Disposal of subsidiaries	—	—	—	(5,240)
Share of profit by minority shareholders	—	3,631	—	—
Inception of finance lease contracts	—	—	1,080	—
Repayment of capital element of finance lease obligations	—	—	(760)	—
Loans from minority shareholders of subsidiaries	—	—	—	6,900
At 31 March 2002	<u>157,004</u>	<u>4,061</u>	<u>787</u>	<u>12,500</u>

(c) Major non-cash transaction

During the year, the Group entered into a finance lease contract arrangement in respect of motor vehicles with a total capital value at the inception of the lease of HK\$1,080,000.

2002

SHUN CHEONG HOLDINGS LIMITED

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired:		
Fixed assets	—	317
Gross amount due from contract customers	—	790
Inventories	—	719
Trade receivables	—	1,654
Prepayments, deposits and other assets	—	309
Cash and bank balances	—	20,472
Trade payables and accruals	—	(6,286)
Tax payable	—	(832)
Bank overdrafts	—	(55)
Minority interests	—	(4,018)
	<hr/>	<hr/>
Net assets	—	13,070
Goodwill on acquisition	—	12,680
	<hr/>	<hr/>
Satisfied by:		
Cash	—	25,750
	<hr/>	<hr/>
An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:		
Cash consideration	—	(25,750)
Bank overdrafts acquired	—	(55)
Cash and bank balances acquired	—	20,472
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	—	(5,333)
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS (Continued)

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	5,815	—
Cash and bank balances	460	—
Trade receivables	16,757	—
Prepaid tax	324	—
Inventories	2,213	—
Prepayments, deposits and other assets	3,403	—
Trade payables	(13,628)	—
Other payables and accruals	(6,500)	—
Minority shareholders' loans	(5,240)	—
	3,604	—
Loss on disposal of subsidiaries, net	(341)	—
	<u>3,263</u>	<u>—</u>
Satisfied by:		
Reclassification to other investments	<u>3,263</u>	<u>—</u>

SHUN CHEONG HOLDINGS LIMITED

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Disposal of subsidiaries (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	—	—
Cash and bank balances disposed of	(460)	—
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(460)	—

In respect of the cash flows for the year ended 31 March 2002, the subsidiaries disposed of during the year contributed a net cash outflow of approximately HK\$5.6 million to the Group's net operating cash flows, but had no significant impact in respect of the cash flows for investing activities, financing activities, net returns on investments and servicing of finance and tax.

The results of the subsidiaries disposed of in the year ended 31 March 2002 had no significant impact on the Group's consolidated turnover or profit after tax for that year.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

31. RELATED PARTY TRANSACTIONS

Save as disclosed in note 25 to the financial statements, the Group had the following material transactions with related companies during the year:

	Notes	2002 HK\$'000	2001 HK\$'000
Purchases of merchandise from Shun Cheong Electrical Products Factory Limited	(i)	637	1,766
Billing of building maintenance works and building services installation works to Chinney Construction Company Limited	(ii)	169,629	—
Payment to Diyixian.com Limited ("Diyixian") of rental for server co-location at Diyixian's data centres and for access to the Internet together with related set-up charges	(iii)	1,453	1,576
Provision of services to Diyixian in respect of installation and maintenance of electrical, mechanical, ventilation and air conditioning systems in Diyixian's data centres	(iii)	—	5,140
Purchase of merchandise from Chinney Alliance Engineering Limited	(iv)	<u>2,033</u>	<u>—</u>

2002
SHUN CHEONG HOLDINGS LIMITED**31. RELATED PARTY TRANSACTIONS (Continued)**

Notes:

- (i) Shun Cheong Electrical Products Factory Limited is a company in which Mr. Kwok Shun On and Ms. Kwok Lai Sheung, Melissa, directors of the Company, have indirect beneficial interests. Mr. Kwok Shun On and Ms. Kwok Lai Sheung, Melissa ceased to be directors of the Company on 16 July 2001 and 29 October 2001 respectively.
- (ii) Chinney Construction Company Limited is a company in which Mr. Wong Sai Wing, James and Mr. Chan Yuen Keung, Zuric, directors of the Company, have indirect beneficial interest.
- (iii) Diyixian is a wholly-owned subsidiary of Dyxnet Holdings Limited, which is an associate of the Group as at 31 March 2001 and the Group's investment therein was reclassified to other investments as at 31 March 2002. Mr. Kwok Shun On, director of the Company, is also the director of Diyixian and Dyxnet Holdings Limited. Mr. Kwok Shun On ceased to be a director of the Company on 16 July 2001.
- (iv) Chinney Alliance Engineering Limited is a wholly-owned subsidiary of Chinney Alliance Group Limited, a company listed on The Stock Exchange of Hong Kong Limited, which is a substantial shareholder of the Company. Mr. Wong Sai Wing, James and Mr. Yu Sek Kee, Stephen, directors of the Company, are also the directors of Chinney Alliance Group Limited.

In the opinion of the directors, the above transactions were conducted at mutually agreed rates in the normal course of the Group's business.

On 26 March 2002, the Group entered into a reorganisation agreement with existing partners in relation to the operation of Binary KOD Limited, an indirectly owned subsidiary of the Company. Further details of the reorganisation are set out in the Company's public announcement dated 28 March 2002.

NOTES TO FINANCIAL STATEMENTS

(Continued)

32. CONTINGENT LIABILITIES

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

	Company	
	2002 HK\$'000	2001 HK\$'000
Guarantees given to banks in connection with banking facilities granted to subsidiaries	<u>91,000</u>	<u>136,000</u>

As at 31 March 2002, the Company had provided guarantees of HK\$91,000,000 (2001: HK\$136,000,000) in total in respect of banking facilities granted to its subsidiaries, of which approximately HK\$53,600,000 (2001: HK\$133,000,000) were utilised as at the balance sheet date.

33. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts which are secured by assets of the Group are included in note 24, to the financial statements.

SHUN CHEONG HOLDINGS LIMITED

34. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i> <i>(Restated)</i>
Within one year	3,808	3,187
In the second to fifth years, inclusive	1,566	2,316
After five years	—	—
	<u>5,374</u>	<u>5,503</u>

SSAP 14 (Revised), which was adopted during the year, 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 above have been restated to accord with the current year's presentation.

35. COMMITMENTS

At the balance sheet date, neither the Group, nor the Company had any significant commitments.

NOTES TO FINANCIAL STATEMENTS *(Continued)*

36. COMPARATIVE AMOUNTS

Bank trust receipt loans of HK\$55,506,000 has been reclassified from bills payable to bank overdrafts and short term loans for the 2001 comparative amounts to conform with the presentation adopted for the current year. Furthermore, as 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 prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 July 2002.