

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 new and revised SSAPs are effective for the first time for the current year’s consolidated financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 34: “Employee benefits”

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

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on pages 17 to 19 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserve note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of these changes are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

Notes to Financial Statements

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

SSAP 15 prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash and cash equivalents for the purpose of the cash flow statement has been revised. Further details of these changes that have resulted from them are included in the accounting policies for “Cash and cash equivalents” in note 3 and in note 34(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group’s employees as at the balance sheet date. The recognition of this accrual has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in note 3 and in note 26 to the financial statements. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 32 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

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 2003. 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.

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

Subsidiaries *(continued)*

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. 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 its 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.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, 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, directly or indirectly 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 the consolidated reserves, is included as part of the Group's interests in associates.

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

Associates *(continued)*

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.

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 five to twenty years. 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.

SSAP 30 "Business Combinations" was adopted as at 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisition subsequent to 1 April 2001 is treated according to the SSAP 30 goodwill 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.

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.

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

Impairment of assets *(continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

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

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.

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.

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

Intangible assets

Research and development costs

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 ranging from two to five 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.

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.

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

Long term investments

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

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Short term investments

Short term investments are investments in equity securities not held for an identified long term purpose and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The unrealised gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Allowance is made for any obsolete or slow-moving items. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Deferred tax

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

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Notes to Financial Statements

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

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 and the revised SSAP 15 has had no material effect on the financial statements.

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;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholder's right to receive payment has been established.

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

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.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has resulted in a prior year adjustment due to the initial recognition of the accrual, further details of which are included in note 26 to the financial statements.

Employment ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension Scheme

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

The employees of the Group's subsidiary which operates in Mainland China 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. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

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

Employee benefits *(continued)*

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 34(a) to the financial statements.

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

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- 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 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.

Notes to Financial Statements

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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	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment revenue								
Sales to external customers	1,332,546	880,897	356,750	313,568	-	-	1,689,296	1,194,465
Intersegment sales	33,402	63,562	7,207	192	(40,609)	(63,754)	-	-
Other revenue	503	11	601	570	-	-	1,104	581
Total	1,366,451	944,470	364,558	314,330	(40,609)	(63,754)	1,690,400	1,195,046
Segment results	37,433	8,151	(5,144)	(16,644)	-	-	32,289	(8,493)
Interest income							492	1,065
Dividend income							657	-
Unrealised holding gain/(loss) on short term investment							(495)	468
Loss on deemed disposal of interest in an associate							-	(948)
Impairment of fixed assets							(553)	(8,315)
Impairment of goodwill							(958)	(20,307)
Unallocated expenses							(2,565)	(2,505)
Profit/(loss) from operating activities							28,867	(39,035)
Finance costs							(10,125)	(13,881)
Share of profits less losses of associates							(1,204)	718
Amortisation of goodwill on acquisition of an associate							(240)	-
Profit/(loss) before tax							17,298	(52,198)
Tax							(4,732)	(395)
Net profit/(loss) from ordinary activities attributable to shareholders							12,566	(52,593)

Notes to Financial Statements

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4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Group

	Marketing and distribution		Design and manufacture		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)		(Restated)		(Restated)
Segment assets	375,775	308,194	147,953	116,269	-	-	523,728	424,463
Interests in associates	-	-	-	-	-	-	-	1,538
Unallocated assets							45,645	61,114
Total assets	375,775	308,194	147,953	116,269	-	-	569,373	487,115
Segment liabilities	(64,287)	(60,409)	(55,171)	(29,156)	-	-	(119,458)	(89,565)
Unallocated liabilities							(238,427)	(226,808)
Total liabilities	(64,287)	(60,409)	(55,171)	(29,156)	-	-	(357,885)	(316,373)
Other segment information:								
Depreciation	1,909	2,308	9,756	9,360	-	-	11,665	11,668
Unallocated depreciation							203	326
							11,868	11,994
Amortisation of intangible assets	-	-	310	-	-	-	310	-
Other non-cash expenses	-	-	-	-	-	-	1,802	-
Impairment of fixed assets	553	-	-	-	-	-	553	8,315
Impairment of goodwill	-	-	-	-	-	-	958	20,307
Provision for bad and doubtful debts	1,760	6,609	-	3,347	-	-	1,760	9,956
Capital expenditure	2,408	574	5,581	7,963	-	-	7,989	8,537

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4. SEGMENT INFORMATION *(continued)*

Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		Singapore		Korea		Other locations		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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 revenue:														
Sales to														
external customers	1,204,097	829,941	-	-	144,021	108,145	327,455	252,350	13,723	4,029	-	-	1,689,296	1,194,465
Other information:														
Segment assets	337,041	224,903	139,237	110,104	47,450	89,456	-	-	-	-	-	-	523,728	424,463
Capital expenditure	1,829	2,859	4,490	5,594	1,670	84	-	-	-	-	-	-	7,989	8,537

5. RELATED PARTY TRANSACTIONS

During the year, the Group did not have any material related party transactions. In the prior year, the Group had the following material transactions with related parties:

	Notes	2002 HK\$'000
Interest income received from an associate	(a)	341
Sales of finished goods to an associate	(b)	99,040
Purchases of raw materials from an associate	(c)	61,097
Technical service fee paid to an associate	(d)	715

Notes to Financial Statements

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5. RELATED PARTY TRANSACTIONS (*continued*)

Notes:

- (a) The interest income was charged at a rate of HIBOR plus 2.5% per annum on the loan advanced to the associate.
- (b) The directors considered 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 considered 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 was charged by an associate pursuant to a technical service agreement. The directors considered 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.

6. 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.

	Group	
	2003	2002
	HK\$'000	HK\$'000
Marketing and distribution of electronic components	1,332,546	880,897
Design, manufacture and original equipment manufacture of electronic products and Internet appliances	356,750	313,568
	<u>1,689,296</u>	<u>1,194,465</u>

Notes to Financial Statements

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7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Depreciation	15	11,868	11,994
Amortisation of intangible assets	16	310	–
Provision for bad and doubtful debts**		1,760	9,956
Minimum lease payments under operating leases			
in respect of land and buildings		2,837	2,886
Auditors' remuneration		988	983
Loss on deemed disposal of interest in an associate**		–	948
Impairment of interest in an associate**	18	386	–
Impairment of a long term investment**	19	975	–
Impairment of other assets**	20	441	–
Staff costs (including directors' remuneration – note 9):			
Wages and salaries		40,789	35,974
Pension scheme contributions		1,170	1,166
Less: Forfeited contributions*		(193)	(26)
		<hr/>	<hr/>
Net pension contributions		977	1,140
		<hr/>	<hr/>
		41,766	37,114
		<hr/>	<hr/>
(Gain)/loss on disposal of fixed assets		(578)	125
Exchange losses, net		530	1,498
Unrealised holding (gain)/loss on short term investment**		495	(468)
Dividend income from a long term investment		(657)	–
Interest income		(492)	(1,065)
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* The amounts of forfeited contributions available to the Group to reduce contributions in future years are not material.

** All these items are included in "Other operating expenses" on the face of the consolidated profit and loss account.

Notes to Financial Statements

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8. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	9,820	13,388
Interest on finance leases	305	493
	10,125	13,881

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	
	2003	2002
	HK\$'000	HK\$'000
Fees	100	100
Other emoluments:		
Basic salaries, housing, other allowances and benefits in kind	9,081	6,495
Pension scheme contributions	352	251
	9,433	6,746
	9,533	6,846

Fees of HK\$100,000 (2002: 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 (2002: Nil).

Notes to Financial Statements

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9. DIRECTORS' REMUNERATION (*continued*)

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

	2003 Number of directors	2002 Number of directors
Nil – HK\$1,000,000	5	5
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
HK\$4,500,001 – HK\$5,000,000	1	–
	<u>8</u>	<u>7</u>

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

During the year, 1,500,000 share options were granted to a director in respect of his services to the Group, further details of which (including the adjusted effect of rights issue on these share options) are set out in note 32 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 (2002: three) directors, details of whose remuneration are set out in note 9 above. The details of the remuneration of the remaining two (2002: two) non-director, highest paid employees are as follows:

	Group 2003 HK\$'000	2002 HK\$'000
Salaries and benefits in kind	2,104	1,652
Pension scheme contributions	91	74
	<u>2,195</u>	<u>1,726</u>

Notes to Financial Statements

31 March 2003

10. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

	2003 Number of employees	2002 Number of employees
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	2	1
	<u>2</u>	<u>2</u>

During the year, 1,500,000 share options were granted to a non-director, highest paid employee in respect of his service to the Group, further details of which (including the adjusted effect of rights issue on these share options) are set out in note 32 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 is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2002: 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 2003 HK\$'000	2002 HK\$'000
Provision for the year:		
Hong Kong	4,732	1,315
Deferred – note 30	–	(89)
Prior year overprovision	–	(1,151)
	<u>4,732</u>	<u>75</u>
Share of tax attributable to associates	–	320
	<u>–</u>	<u>320</u>
Tax charge for the year	<u>4,732</u>	<u>395</u>

Notes to Financial Statements

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

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2003 dealt with in the financial statements of the Company is HK\$1,248,000 (2002: net loss of HK\$16,355,000).

13. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim – HK1 cent (2002: Nil) per ordinary share	3,615	–
Proposed final – HK1 cent (2002: Nil) per ordinary share	3,615	–
	<u>7,230</u>	<u>–</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of HK\$12,566,000 (2002: net loss of HK\$52,593,000 as restated) and the weighted average of 353,672,244 (2002: 247,286,936) ordinary shares in issue during the year, as adjusted to reflect the rights issue completed during the year.

Diluted earnings/(loss) per share for the years ended 31 March 2003 and 2002 have not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

Notes to Financial Statements

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15. FIXED ASSETS

Group

	Land and buildings (Hong Kong) <i>HK\$'000</i>	Land and buildings (Overseas) <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fittings and office equipment <i>HK\$'000</i>	Plant, machinery and tools <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:							
At beginning of year	20,970	8,260	15,605	8,611	53,456	6,314	113,216
Additions	–	–	622	1,071	3,451	1,754	6,898
Disposals	–	–	–	(124)	(218)	(1,934)	(2,276)
Exchange realignments	–	501	–	96	–	122	719
At 31 March 2003	<u>20,970</u>	<u>8,761</u>	<u>16,227</u>	<u>9,654</u>	<u>56,689</u>	<u>6,256</u>	<u>118,557</u>
Accumulated depreciation and impairment:							
At beginning of year	11,351	1,504	6,592	6,352	20,005	3,189	48,993
Provided during the year	288	250	3,182	1,005	5,933	1,210	11,868
Impairment during the year recognised in the profit and loss account	–	553	–	–	–	–	553
Disposals	–	–	–	(102)	(218)	(1,660)	(1,980)
Exchange realignments	–	60	–	87	–	70	217
At 31 March 2003	<u>11,639</u>	<u>2,367</u>	<u>9,774</u>	<u>7,342</u>	<u>25,720</u>	<u>2,809</u>	<u>59,651</u>
Net book value:							
At 31 March 2003	<u>9,331</u>	<u>6,394</u>	<u>6,453</u>	<u>2,312</u>	<u>30,969</u>	<u>3,447</u>	<u>58,906</u>
At 31 March 2002	<u>9,619</u>	<u>6,756</u>	<u>9,013</u>	<u>2,259</u>	<u>33,451</u>	<u>3,125</u>	<u>64,223</u>

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

	Hong Kong <i>HK\$'000</i>	Overseas <i>HK\$'000</i>	Total <i>HK\$'000</i>
Freehold	–	8,761	8,761
Medium term leases	<u>20,970</u>	<u>–</u>	<u>20,970</u>
	<u>20,970</u>	<u>8,761</u>	<u>29,731</u>

Included in accumulated depreciation and impairment of land and buildings situated in Hong Kong was an impairment loss of HK\$8,315,000, which was charged to the consolidated profit and loss account in the prior year.

Notes to Financial Statements

31 March 2003

15. FIXED ASSETS (*continued*)

Certain land and buildings with a carrying value of HK\$8,442,000 (2002: HK\$8,638,000) 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 2003 included motor vehicles of HK\$1,981,000 (2002: HK\$1,249,000) and plant, machinery and tools of HK\$10,180,000 (2002: HK\$9,787,000). The depreciation charge for the year in respect of such assets amounted to HK\$1,883,000 (2002: HK\$1,744,000).

16. INTANGIBLE ASSETS

Group

Deferred development costs HK\$'000

Cost:

At beginning of year	2,250
Additions	1,091
	<hr/>
At 31 March 2003	3,341
	<hr/>

Accumulated amortisation

Provided during the year and at 31 March 2003	310
	<hr/>

Net book value:

At 31 March 2003	3,031
	<hr/> <hr/>
At 31 March 2002	2,250
	<hr/> <hr/>

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

Notes to Financial Statements

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	55,015	55,015
Due from subsidiaries	139,009	111,637
Due to subsidiaries	(15,676)	(15,676)
	<u>178,348</u>	<u>150,976</u>
Provision for impairment	(16,344)	(16,344)
	<u><u>162,004</u></u>	<u><u>134,632</u></u>

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/ registration and operations	Nominal value of issued ordinary/ registered share capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
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\$10,000,000	—	100%	Manufacture and trading of electronic products and Internet appliances

Notes to Financial Statements

31 March 2003

17. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Equity interest attributable to the Company		Principal activities
			Direct	Indirect	
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	–	100%	Trading of electronic components
		HK\$1,000,000 [@]	–	100%	
AVC Technology Limited	Hong Kong	HK\$9,900,000	–	100%	Trading of electronic products and Internet appliances
		HK\$100,000 [@]	–	100%	
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/ Mainland 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.

Notes to Financial Statements

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18. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	386	937
Goodwill on acquisition	958	601
	1,344	1,538
Provision for impairment	(1,344)	–
	–	1,538

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Equity interest attributable to the Group		Principal activities
			2003	2002	
Easyband Broadband Holdings Limited (“Easyband”)* (Note (a))	Corporate	British Virgin Islands	36%	39.8%	Investment holding
Easyband Technology (Guangzhou) Co., Limited (“GZ Easyband”)* (Note (a)) #	Corporate	People’s Republic of China/ Mainland China	36%	–	Trading of hardware and software products and the provision of broadband and related technical support services
Guangzhou Thinker E-Commerce Co., Ltd. (“Thinker”)* (Note (b))	Corporate**	People’s Republic of China/ Mainland China	35%	35%	Provision of system integration and re-commerce related services

GZ Easyband was incorporated and registered in Mainland China on 15 May 2002.

* 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.

Each of the above associates has a financial year end of 31 December. The consolidated financial statements have been adjusted for material transactions between these 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.

18. INTERESTS IN ASSOCIATES *(continued)*

Notes:

- (a) During the year, the Group completed the remaining part of the share subscription agreement dated 14 January 2002 to obtain a total of 40% (2002: 39.8%) equity interest in Easyband at a consideration of HK\$1,000,000.

On 11 February 2003, the Group entered into a supplemental agreement to subscribe for an additional 50 ordinary shares in Easyband at a consideration of HK\$250,000. On the same date, Easyband also issued and allotted 200 new ordinary shares to a new shareholder. Following the completion of share subscription under the supplemental agreement, the Group's equity interest in Easyband was diluted and reduced from 40% to 36%. As at 31 March 2003, goodwill arising from such acquisition amounting to HK\$1,198,000 was capitalised. During the current financial year, GZ Easyband commenced its operation in May. As a result, amortisation on goodwill arising on acquisition of Easyband was charged to the consolidated profit and loss account over its estimated useful life of five years amounting to HK\$240,000.

As at 31 March 2003, an impairment loss of HK\$1,344,000 (including the Group's share of net assets in Easyband of HK\$386,000 plus its unamortised goodwill of HK\$958,000) has been estimated by the directors based on the recoverable amount of Easyband which is determined by discounting the future cash flows arising from GZ Easyband. In the opinion of the directors, such an impairment loss has arisen from the intense competition in the high technology sector which has led to dissatisfactory operating result of GZ Easyband during the year and subsequent to the balance sheet date.

- (b) In the prior year, the Group recorded an impairment loss on goodwill arising on acquisition of Thinker amounted to HK\$20,307,000, which was charged to the consolidated profit and loss account.

Notes to Financial Statements

31 March 2003

19. LONG TERM INVESTMENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity investments, at cost	34,812	34,812	31,480	31,480
Provision for impairment – note 7	(975)	–	–	–
	<u>33,837</u>	<u>34,812</u>	<u>31,480</u>	<u>31,480</u>

Long term investments represent a 19.4% equity interest in Reigncom Limited (“Reigncom”) and an investment in preference shares of Digital 5 Inc., (“Digital 5”). In the opinion of the directors, the Group is not in a position to exercise significant influence over Reigncom and Digital 5 and accordingly, they are treated as long term investments.

During the year, the directors recorded an impairment provision of HK\$975,000 on Digital 5. Such impairment loss is estimated by the directors based on the recoverable amount. The recoverable amount is the net selling price determined by reference to the discounted price of the preference shares held by the Group.

20. OTHER ASSETS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Other assets, at cost	2,768	2,435
Provision for impairment – note 7	(441)	–
	<u>2,327</u>	<u>2,435</u>

21. LOAN TO AN INVESTEE COMPANY

In the prior year, the loan to Reigncom of HK\$12,000,000 included in the current assets of the Group was unsecured, bore interest at a rate of HIBOR plus 2.5% per annum and was repayable within twelve months. During the year, the loan to an investee company was repaid in full to the Group.

Notes to Financial Statements

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22. SHORT TERM INVESTMENT

	Group	
	2003	2002
	HK\$'000	HK\$'000
Listed equity investment in Hong Kong, at market value	1,379	1,874

The market value of the Group's short term investment at the date of approval of these financial statements is approximately HK\$1,232,000 (2002: HK\$1,459,000).

23. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	47,070	29,458
Work in progress	8,506	8,365
Finished goods	150,835	104,553
	206,411	142,376

The carrying amount of inventories included in the above that are carried at net realisable value is approximately HK\$39,480,000 (2002: HK\$23,750,000).

24. ACCOUNTS RECEIVABLES

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.

Notes to Financial Statements

31 March 2003

24. ACCOUNTS RECEIVABLES *(continued)*

The aged analysis of the accounts receivables as at 31 March 2003, based on invoice due date and stated net of provision for doubtful debts, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Accounts receivables:		
Current	111,215	121,097
Less than 30 days	43,583	32,826
31 – 60 days	15,576	12,512
Over 60 days	13,410	10,851
	183,784	177,286

Included in the Group's accounts receivables balance is an amount due from Reigncom of HK\$15,318,000 (2002: HK\$20,201,000), which is repayable on credit terms similar to those offered to other customers of the Group.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	64,103	28,626	126	103
Time deposits	–	2,046	–	–
	64,103	30,672	126	103

Notes to Financial Statements

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26. ACCOUNTS PAYABLES AND ACCRUED EXPENSES

The aged analysis of accounts payables as at 31 March 2003, based on invoice due date, is as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		
Accounts payables:				
Current	55,671	58,466	–	–
Less than 30 days	50,072	19,085	–	–
31 – 60 days	2,270	2,776	–	–
Over 60 days	1,707	577	–	–
	<u>109,720</u>	<u>80,904</u>	<u>–</u>	<u>–</u>
Accrued expenses	10,224	9,101	407	380
	<u>119,944</u>	<u>90,005</u>	<u>407</u>	<u>380</u>

Included in the Group's accounts payables balance is an amount due to Reigncom of HK\$34,268,000 (2002: HK\$22,444,000), which is repayable on credit terms similar to those offered by Reigncom to its customers.

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid annual leave earned during the year by employees, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

This change in accounting policy has resulted in HK\$1,173,000 and HK\$1,025,000 being included in the balance of the Group's accruals in respect of paid annual leave carried forward as at 31 March 2003 and 2002, respectively. As a consequence, the consolidated net profit/(loss) attributable to shareholders for the years ended 31 March 2003 and 2002 have been decreased by HK\$148,000 and increased by HK\$253,000, respectively, and consolidated retained profits at 1 April 2002 and 2001 have been reduced by HK\$1,025,000 and HK\$772,000, respectively, as detailed in the consolidated statement of changes in equity.

Notes to Financial Statements

31 March 2003

27. INTEREST-BEARING BANK BORROWINGS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Amounts repayable within one year or on demand:		
Revolving bank loans under trade facilities, secured	4,000	2,000
Import and trust receipt loans	225,009	217,004
	229,009	219,004

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\$8,442,000 (2002: HK\$8,638,000) (note 15).

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 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments 2003 HK\$'000	Minimum lease payments 2002 HK\$'000	Present value of minimum lease payments 2003 HK\$'000	Present value of minimum lease payments 2002 HK\$'000
Amounts payable:				
Within one year	2,759	3,556	2,638	3,319
In the second year	828	2,405	771	2,330
In the third to fifth years, inclusive	819	713	716	628
After five years	285	56	241	47
Total minimum finance lease payments	4,691	6,730	4,366	6,324
Future finance charges	(325)	(406)		
Total net finance lease payables	4,366	6,324		
Portion classified as current liabilities	(2,638)	(3,319)		
Long term portion of finance lease payables	1,728	3,005		

Notes to Financial Statements

31 March 2003

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	
	2003	2002
	HK\$'000	HK\$'000
At beginning of year	301	392
Prior year overprovision – <i>note 11</i>	–	(89)
Exchange realignments	–	(2)
	<u> </u>	<u> </u>
At end of year	301	301
	<u> </u>	<u> </u>

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	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated capital allowances	301	301	3,785	3,357
Tax losses available for future relief	–	–	(7,571)	(6,579)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	301	301	(3,786)	(3,222)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Company had no unprovided deferred tax as at the balance sheet date (2002: Nil).

31. SHARE CAPITAL

Shares

	2003	2002
	HK\$'000	HK\$'000
Authorised:		
800,000,000 ordinary shares of HK\$0.10 each	80,000	80,000
	<u> </u>	<u> </u>
Issued and fully paid:		
361,532,419 (2002: 236,321,613)		
ordinary shares of HK\$0.10 each	36,153	23,632
	<u> </u>	<u> </u>

Notes to Financial Statements

31 March 2003

31. SHARE CAPITAL (*continued*)

Shares (*continued*)

During the year, the movements in the Company's share capital were as follows:

- (a) A rights issue of one rights share for every two existing shares held by members on the register of members on 13 May 2002 was made, at a subscription price of HK\$0.26 per rights share, resulting in the issue of 119,510,806 shares of HK\$0.10 each for a total net cash consideration of HK\$29,124,000 (the "Rights Issue"). The details of the effect of Rights Issue on the outstanding number of share options are set out in note 32 to the financial statements.
- (b) The subscription rights attached to 2,700,000 share options were exercised by a director and certain employees of the Group on 2 May 2002 at the subscription price of HK\$0.265 per share (note 32), resulting in the issue of 2,700,000 shares of HK\$0.10 each for total cash consideration of HK\$716,000.
- (c) On 12 June 2002, the subscription rights attached to 3,000,000 share options were exercised by a director of the Company at the subscription price of HK\$0.18 per share (note 32), resulting in the issue of 3,000,000 shares of HK\$0.10 each for a total cash consideration of HK\$540,000.

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

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2001, 31 March 2002 and 1 April 2002	236,321,613	23,632	121,507	145,139
Rights issue (a)	119,510,806	11,951	19,121	31,072
Share options exercised (b) and (c)	5,700,000	570	686	1,256
	<u>361,532,419</u>	<u>36,153</u>	<u>141,314</u>	<u>177,467</u>
Share issue expenses	—	—	(1,948)	(1,948)
At 31 March 2003	<u><u>361,532,419</u></u>	<u><u>36,153</u></u>	<u><u>139,366</u></u>	<u><u>175,519</u></u>

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 32 to the financial statements.

32. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company’s share option schemes are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

On 1 April 1996, the Company adopted a share option scheme (the “Old Scheme”) under which the directors may, at their discretion, grant options to the executive directors of the Company and employees of the Group to subscribe for ordinary shares in the Company. In order to comply with the new requirements of Chapter 17 of the Listing Rules, a new share option scheme was approved at the extraordinary general meeting held on 13 May 2002 (the “New Scheme”). All share options granted prior to such amendment shall continue to be valid and exercisable in accordance with the Old Scheme. The Company operates the New Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the New Scheme include the Company’s directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company’s subsidiaries. The New Scheme became effective on 13 May 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the New Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time, subject to the terms and conditions of the New Scheme. At 31 March 2003, the number of shares issuable under share options granted under the New Scheme was 27,000,000, which represented approximately 7.5% of the Company’s shares in issue as at that date. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

Notes to Financial Statements

31 March 2003

32. SHARE OPTION SCHEMES *(continued)*

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and ends on a date which is not later than the expiry date of the New Scheme.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

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

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32. SHARE OPTION SCHEMES (continued)

The following share options were outstanding under the New Scheme and the Old Scheme during the year:

Name or category of participant	Number of share options						Date of grant of share options	Exercise period of share options (both dates inclusive)	Company's share price	
	At 1 April 2002	Granted during the year	Adjustment due to the rights issue	Exercised during the year	Lapsed during the year	At 31 March 2003			Exercise price of share options	At grant date of options
			(Note 2)	(Note 4)			(Note 1)		(Note 2) HK\$	(Note 3) HK\$
Directors										
Lee Jeong Kwan	2,000,000	–	1,000,000	(3,000,000)	–	–	2 November 2001	2 May 2002 – 1 May 2005	0.18	0.24
Lai Yun Wing	2,000,000	–	–	(2,000,000)	–	–	2 November 2001	2 May 2002 – 1 May 2005	0.265	0.24
Lai Yat Hung, Edmund	2,750,000	–	1,375,000	–	–	4,125,000@	28 December 1999	28 June 2000 – 27 June 2003	0.72	1.72
Lai Yat Hung, Edmund	1,500,000	–	750,000	–	–	2,250,000@	20 October 2000	20 April 2001 – 19 April 2003	0.31	0.53
	<u>4,250,000</u>	<u>–</u>	<u>2,125,000</u>	<u>–</u>	<u>–</u>	<u>6,375,000</u>				
So Wai Yin	–	1,000,000	500,000	–	(1,500,000)	–	22 May 2002	23 May 2002 – 12 May 2012	0.304	0.31
Sub-total	<u>8,250,000</u>	<u>1,000,000</u>	<u>3,625,000</u>	<u>(5,000,000)</u>	<u>(1,500,000)</u>	<u>6,375,000</u>				
Other employees										
In aggregate	2,750,000	–	1,375,000	–	–	4,125,000@	28 December 1999	28 June 2000 – 27 June 2003	0.72	1.72
	2,000,000	–	1,000,000	–	–	3,000,000@	20 October 2000	20 April 2001 – 19 April 2003	0.31	0.53
	700,000	–	–	(700,000)	–	–	2 November 2001	2 May 2002 – 1 May 2005	0.265	0.24
	–	19,000,000	9,500,000	–	(1,500,000)	27,000,000#	22 May 2002	23 May 2002 – 12 May 2012	0.304	0.31
Sub-total	<u>5,450,000</u>	<u>19,000,000</u>	<u>11,875,000</u>	<u>(700,000)</u>	<u>(1,500,000)</u>	<u>34,125,000</u>				
Total	<u>13,700,000</u>	<u>20,000,000</u>	<u>15,500,000</u>	<u>(5,700,000)</u>	<u>(3,000,000)</u>	<u>40,500,000</u>				

The number of outstanding share options granted during the year under the New Scheme.

@ The number of outstanding share options under the Old Scheme.

Notes to Financial Statements

31 March 2003

32. SHARE OPTION SCHEMES (*continued*)

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The exercise price and the number of outstanding share options under the New Scheme and the Old Scheme were adjusted to take into account the effect of the Rights Issue. The details of the Rights Issue are set out in note 31 to the financial statements.
3. The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.
4. On 5 May 2002, Lai Yun Wing and certain employees had exercised a total of 2,700,000 share options, of which the weighted average of the Stock Exchange closing prices immediately before the date on which this lot of options were exercised was HK\$0.45 per share.

On 12 June 2002, Lee Jeong Kwan had exercised a total of 3,000,000 share options, of which the weighted average of the Stock Exchange closing prices immediately before the date on which this lot of options were exercised was HK\$0.275 per share.

The 5,700,000 share options exercised during the year resulted in the issue of 5,700,000 ordinary shares of the Company and new share capital of HK\$570,000 and share premium of HK\$686,000 (before issue expenses), as detailed in note 31 to the financial statements.

At the balance sheet date, the Company had 40,500,000 share options outstanding under the New and Old Schemes. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 40,500,000 additional ordinary shares of the Company and additional share capital of HK\$4,050,000 and share premium of HK\$11,725,000 (before issue expenses).

Notes to Financial Statements

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33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 17 to 19 of the financial statements.

As explained in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 April 2001 to remain eliminated against consolidated reserves.

The amounts of goodwill remaining in the consolidated retained profits as at 31 March 2003 arising from the acquisitions of certain subsidiaries prior to 1 April 2001 amounting to HK\$12,470,000. During the year under review, in the opinion of the directors, there have been no impairments in values of the goodwill.

(b) Company

		Share premium account	Capital redemption reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2001		121,507	12,491	24,642	158,640
Net loss for the year		—	—	(16,355)	(16,355)
At 31 March 2002 and 1 April 2002		121,507	12,491	8,287	142,285
Issue of shares	31	19,807	—	—	19,807
Share issue expenses	31	(1,948)	—	—	(1,948)
Interim dividend	13	—	—	(3,615)	(3,615)
Proposed final dividend	13	—	—	(3,615)	(3,615)
Net profit for the year		—	—	1,248	1,248
At 31 March 2003		139,366	12,491	2,305	154,162

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

Notes to Financial Statements

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34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Change in layout

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the cash flow statement. The cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest received are now included in cash flows from investing activities, and interest and dividend paid are now included in cash flows from financing activities. The presentation of the 2002 comparative cash flow statement has been changed to accord with the new layout.

Also, the definition of “Cash and cash equivalents” under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading “Cash and cash equivalents” in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash and cash equivalents in the consolidated cash flow statement at 31 March 2002 has been adjusted to remove import and trust receipt loans and revolving bank loans amounting to HK\$180,197,000 and HK\$2,000,000, respectively, previously included at that date. The year’s movement in import and trust receipt loans and revolving bank loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

(b) Major non-cash transactions

- (i) 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\$3,171,000 (2002: HK\$2,198,000).
- (ii) Following the issue of new shares by Reigncom to its employees’ association on 31 August 2001, the Group’s equity interest in Reigncom was reduced from 20% to 19.4% and the Group’s interest in Reigncom was reclassified from an interest in an associate to a long term investment after the dilution of interest in Reigncom. The transaction did not result in any cash flows to the Group in the prior year.
- (iii) In the prior 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.

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35. CONTINGENT LIABILITIES

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

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Standby documentary credits	–	20,600*	–	–
Guarantees given in respect of facilities granted to:				
– subsidiaries**	–	–	440,809	476,884
– a supplier	3,900	11,700	–	–
	3,900	32,300	440,809	476,884

* Amount in the prior year represented standby documentary credits provided by the Group to Reigncom in favour of Reigncom's bankers. During the year, the Group cancelled the grant of standby documentary credits to Reigncom.

** At the balance sheet date, an amount of HK\$270,536,000 (2002: HK\$337,044,000) had been utilised.

36. 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 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	2,752	2,913
In the second to fifth years, inclusive	9,195	9,168
After five years	2,663	4,915
	14,610	16,996

At the balance sheet date, the Company had no operating lease arrangements (2002: Nil).

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37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group and the Company had the following commitments at the balance sheet date:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Capital commitments on the acquisition of fixed assets, contracted for	3,233	226
Other commitments, contracted for	–	1,000

At the balance sheet date, the Company had no significant commitments (2002: Nil).

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 and restated 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 25 July 2003.