

Notes to the Financial Statements

For the year ended 31st March, 2003

1. General

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's ultimate holding company is Chevalier International Holdings Limited ("CIHL"), a limited liability company incorporated in Bermuda and its shares are listed on the Stock Exchange.

The principal activity of the Company is investment holding and investment in securities. Details of the principal activities of the subsidiaries are set out in page 51 and 52. During the year, the Group had ceased trading of general merchandise and is now in the process of discontinuing its retailing of telecommunication equipment and provision of telecommunication agency services.

2. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The adoption of these standards has led to a number of changes in the Group's accounting policies as mentioned below but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Presentation of financial statements

The adoption of SSAP 1 (Revised) "Presentation of financial statements" replaces the statement of recognised gains and losses with a statement of changes in equity.

Foreign currencies

The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas subsidiaries and associates at the closing rate for the year, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

Cash flow statements

Under SSAP 15 (Revised) "Cash flow statements", cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividend received, interest paid and dividend paid, which were previously presented under a separate heading, are classified as investing, operating and financing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

Discontinuing operations

Under SSAP 33 "Discontinuing operations", amounts relating to the discontinuing operation are disclosed separately from the point at which either a binding sale agreement is entered into or a detailed plan for the discontinuance is announced. The adoption of SSAP 33 has resulted in the identification of the Group's retailing of telecommunication equipment and provision of telecommunication agency services and trading of general merchandise as discontinuing operations in the current period, details of which are disclosed at note 6.

Employee benefits

SSAP 34 "Employee benefits" introduces measurement rules for employee benefits, including retirement benefit plans. As the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements. Other changes in measuring employment benefits have not had any material effect on the results for the current or prior accounting periods.

Notes to the Financial Statements

For the year ended 31st March, 2003

3. Principal Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year and also incorporate the Group's interests in associates on the basis set out in (d) below.

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

(b) Goodwill/negative goodwill on consolidation

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

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised on a straight-line basis over its estimated useful life. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on acquisition of subsidiaries is presented separately in the balance sheet.

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

Negative goodwill arising on acquisitions after 1st April, 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of the associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

(c) Subsidiaries

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

(d) Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

Notes to the Financial Statements

For the year ended 31st March, 2003

3. Principal Accounting Policies (continued)

(e) Investment properties

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

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

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

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

(f) Property, plant and equipment

(i) Properties

Properties held for own use are stated at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that would be determined using fair values at the balance sheet date. Any revaluation increase arising on revaluation of such properties is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on the revaluation of a property is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that property. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus is transferred to retained profits.

No depreciation is provided on freehold land. Depreciation is provided on leasehold land over the remaining terms of the respective leases. Depreciation is provided on the cost of the buildings on a straight-line basis over their estimated useful lives of 20 to 50 years or the remaining terms of the respective leases, whichever is the shorter.

(ii) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and 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.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives after taking into account their estimated residual value, on the reducing balance basis, at the following rates per annum:

	Initial charge upon purchase	Annual charge
Computer equipment	20%	40%
Others	20%	20%

Assets held for leasing are depreciated over the shorter of the term of the leases or at an annual rate of 20% on the cost of the assets.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Notes to the Financial Statements

For the year ended 31st March, 2003

3. Principal Accounting Policies (continued)

(g) Properties for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of acquisition of properties and other direct costs. Net realisable value is estimated by management based on prevailing market conditions or when a binding sales agreement is executed, by reference to the agreed selling prices.

(h) Inventories

Inventories represent general merchandise and consumable stores. General merchandise are stated at the lower of cost and net realisable value whereas consumable stores are stated at cost less allowance. Cost is calculated using weighted average method.

(i) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Other investments which are not held for an identified long-term strategic purpose are measured at fair value, with unrealised gains and losses included in income statement for the period.

(j) Installation contracts

When the outcome of an installation contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of an installation contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contracts in progress are recorded in the balance sheet at the contract costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "amounts due from customers for contract work" (as an asset) or "amounts due to customers for contract work" (as a liability), where applicable. Amounts received before the related work is performed are included in the balance sheet as a liability. Amounts billed for work performed on a contract but not yet paid by the customers are included in the balance sheet under "debtors, deposits and prepayments".

(k) Revenue recognition

Income from sale of goods is recognised when goods are delivered and title of the goods has passed to the customer. Revenue is arrived at after deduction of any sales returns and discounts.

Income from rendering of services is recognised at the time when services are rendered. Receipts in advance of provision of services are accounted for as deferred service income.

When the outcome of an installation contract can be estimated reliably, revenue is recognised using the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

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

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

Income from the sale of securities is recognised on a trade-date basis.

Rental income and other earnings under operating leases are recognised on a straight-line basis over the term of the respective lease.

Notes to the Financial Statements

For the year ended 31st March, 2003

3. Principal Accounting Policies (continued)

(l) Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessors are accounted for as operating leases. Payments on assets leased by the Group and income on property, plant and equipment of the Group leased to third parties are dealt with in the income statement on a straight-line basis over the terms of the relevant lease.

(m) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

(n) Retirement benefit scheme

The retirement benefit costs charged in the income statement represent the contributions paid and payable in respect of the current year to the Group's defined contribution schemes.

(o) Foreign currency translation

The accounting records of the Group, other than those subsidiaries not operating in Hong Kong, are maintained in Hong Kong dollars. Transactions denominated in foreign currencies during the year are translated into Hong Kong dollars at the rates of exchange ruling on the dates of transactions or on the contracted settlement date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated into Hong Kong dollars at the rates of exchange ruling on that date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the subsidiaries and associates operating outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to exchange fluctuation reserve. Such translation differences are recognised as income or as expenses in the year in which the subsidiary or associate is disposed of.

(p) Taxation

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

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

For the year ended 31st March, 2003

4. Turnover

An analysis of the Group's turnover is as follows:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Continuing operations:		
Sale of computer and business machines	420,674	419,264
Sale of telecommunication systems	40,192	53,917
IT and network solution services	87,326	60,261
Technical and maintenance services	38,670	40,107
Investments in securities and others	12,989	1,936
	599,851	575,485
Discontinuing operations:		
Retailing of telecommunication equipment and provision of telecommunication agency services	73,893	161,019
Trading of general merchandise	14,159	34,034
Paging services	-	4,826
	687,903	775,364

5. Other Operating Income

Included in other operating income are:

	2003 HK\$'000	2002 <i>HK\$'000</i>
Interest income from bank and other deposits	4,838	5,962
Interest income from debt securities	1,161	1,644
Dividend income from listed securities	-	7

6. Discontinuing Operations

The loss arising from discontinuance of the Group's operations in trading of general merchandise and retailing of telecommunication equipment and provision of telecommunication agency services during the year are as follows:

	2003 HK\$'000
Lease payments under non-cancellable operating leases and outgoings	1,927
Staff redundancy	3,264
Loss on disposal of property, plant and equipment	5,425
Impairment loss on property, plant and equipment	1,218
Stock provision	259
	12,093

Notes to the Financial Statements

For the year ended 31st March, 2003

6. Discontinuing Operations (continued)

Details of the Group's discontinuing operations are as follows:

- (a) In December, 2002, the Group had ceased trading of general merchandise in Hong Kong by closing down all its retail outlets. Loss arising from the discontinuance of the operation amounted to HK\$3,115,000 (2002: HK\$ nil).

The results of the operations for the period from April, 2002 to December, 2002 and the carrying amounts of the assets and liabilities not yet disposed of as at 31st March, 2003 together with the results for the preceding year and the assets and liabilities as at 31st March, 2002 of the trading of general merchandise business included in the consolidated financial statements, are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	14,159	34,034
Other operating income	1,690	4,124
Operating costs	(20,901)	(45,572)
Loss from operations	(5,052)	(7,414)
Total assets	1,287	7,720
Total liabilities	(3,995)	(4,025)

During the year, the trading of general merchandise used HK\$2,195,000 (2002: HK\$7,610,000) of the Group's net operating cash flows, contributed HK\$23,000 (2002: used HK\$868,000) in respect of investing activities and contributed HK\$1,765,000 (2002: HK\$8,745,000) in respect of financing activities.

- (b) In September 2002, the board of directors of the Group determined to cease its retailing of telecommunication equipment and provision of telecommunication agency services which were operated in Hong Kong. The operations had been ceased in May 2003. Loss arising from the discontinuance of the operation amounted to HK\$8,978,000 (2002: HK\$ nil).

The results of the operations for the current year and the carrying amounts of the assets and liabilities of the retailing of telecommunication equipment and provision of telecommunication agency services business which have been included in the consolidated financial statements, are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	73,893	161,019
Other operating income	8,394	8,167
Operating costs	(90,861)	(182,007)
Loss from operations	(8,574)	(12,821)
Total assets	11,395	31,021
Total liabilities	(9,855)	(17,620)

During the year, the retailing of telecommunication equipment and provision of telecommunication agency services business used HK\$5,840,000 (2002: contributed HK\$7,779,000) of the Group's net operating cash flows, used HK\$1,112,000 (2002: HK\$4,169,000) in respect of investing activities and contributed HK\$7,040,000 (2002: paid HK\$6,046,000) in respect of financing activities.

- (c) In May 2001, the Group disposed of its paging business which was operated in Hong Kong. Gain on disposal of discontinued operations amounted to HK\$260,000.

The paging business has contributed HK\$4,826,000 in respect of turnover and incurred a loss of HK\$881,000 for the period from 1st April, 2001 to the date of discontinuance.

Notes to the Financial Statements

For the year ended 31st March, 2003

7. Loss Before Taxation

	2003 HK\$'000	2002 HK\$'000
Loss before taxation is arrived at after charging:		
Auditors' remuneration	1,253	1,401
Depreciation on property, plant and equipment	4,844	7,310
Loss on disposal of property, plant and equipment	6,091	4,855
Impairment loss on property, plant and equipment	1,218	–
Operating lease payments in respect of renting of premises	28,754	38,735
Staff costs (note)	104,221	134,475
Net realised and unrealised holding loss on investments in securities	1,431	–
Interest on bank overdrafts repayable within five years	68	228
Deficit on revaluation of properties:		
Investment properties	–	270
Properties for own use	198	309
	<u> </u>	<u> </u>
and crediting:		
Gross rental income from properties of HK\$657,000 (2002: HK\$638,000) less outgoings	488	556
Gross earnings from leasing of assets other than properties of HK\$1,999,000 (2002: HK\$867,000) less outgoings	1,260	715
Net realised and unrealised holding gain on investments in securities	–	15,479
Exchange gain	2,572	1,440
Surplus on revaluation of investment properties	120	–
	<u> </u>	<u> </u>

Note: Details of directors emoluments included in staff costs are disclosed in note 25.

Staff costs include an amount of HK\$3,796,000 (2002: HK\$2,288,000) in respect of staff redundancy payments.

8. Taxation

	2003 HK\$'000	2002 HK\$'000
Current taxation		
Company and subsidiaries		
Hong Kong	1,142	1,445
Overseas	2,842	2,963
Associates		
Hong Kong	350	747
Overseas	–	11
	<u> </u>	<u> </u>
	<u>4,334</u>	<u>5,166</u>

Provision for Hong Kong profits tax is calculated at the rate of 16% (2002: 16%) on the estimated assessable profits less available tax relief for losses brought forward of each individual company comprising the Group.

Provision for overseas taxation is calculated based on the rates applicable to the relevant local legislation on the estimated assessable profits.

Details of the potential deferred tax credit (charge) not accounted for in the year are set out in note 23.

Notes to the Financial Statements

For the year ended 31st March, 2003

9. Dividend

	2003 HK\$'000	2002 <i>HK\$'000</i>
Interim dividend paid HK\$ nil (2002: HK\$0.01) per share on 856,779,352 shares	—	8,568

10. Loss Per Share

Basic loss per share is calculated based on the loss for the year of HK\$22,797,000 (2002: HK\$9,429,000) and on the weighted average number of ordinary shares issued of 171,355,870 (2002: 171,355,870), which have been adjusted for the consolidation of the Company's ordinary shares subsequent to the balance sheet date as described in note 20.

No diluted loss per share is presented for the two years as the exercise of the Company's outstanding share options would result in a decrease in net loss per share.

11. Investment Properties

	THE GROUP <i>HK\$'000</i>
AT VALUATION	
At 1st April, 2002	5,040
Surplus on revaluation	120
At 31st March, 2003	5,160

Investment properties, which are situated in the Mainland and are held under medium-term leases, were revalued on an open market value existing use basis on 31st March, 2003 by independent professional valuers, DTZ Debenham Tie Leung Limited.

Gross rental income derived from renting of investment properties under operating leases during the year amounted to HK\$468,000 (2002: HK\$453,000).

Notes to the Financial Statements

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12. Property, Plant and Equipment

	Properties for own use			The Mainland		Transmitters and tele- communications equipment	Machinery tools and equipment	Furniture, fixtures, office equipment and motor vehicles		Total
	Hong Kong	Overseas		under long- term lease	under medium- term lease			for own use	for lease	
	under medium- term lease HK\$'000	freehold HK\$'000	under short- term lease HK\$'000	HK\$'000	HK\$'000			HK\$'000	HK\$'000	
THE GROUP										
AT COST OR VALUATION										
At 1st April, 2002	5,260	6,940	297	1,560	1,670	302	16,805	31,836	2,138	66,808
Exchange adjustments	-	81	3	-	-	-	94	128	14	320
Additions	-	-	-	-	-	-	1,389	2,185	3,021	6,595
Disposals	-	(254)	-	-	-	-	(3,731)	(14,569)	(273)	(18,827)
Surplus (deficit) on revaluation	(810)	218	(5)	130	40	-	-	-	-	(427)
At 31st March, 2003	4,450	6,985	295	1,690	1,710	302	14,557	19,580	4,900	54,469
ACCUMULATED DEPRECIATION AND IMPAIRMENT										
At 1st April, 2002	-	-	-	-	-	185	12,860	20,934	384	34,363
Exchange adjustments	-	-	-	-	-	-	79	108	2	189
Charge for the year	116	250	109	26	124	37	1,651	1,794	737	4,844
Impairment loss	-	-	-	-	-	-	129	1,089	-	1,218
Eliminated on disposals	-	(4)	-	-	-	-	(3,209)	(8,487)	(79)	(11,779)
Eliminated on revaluation	(116)	(246)	(109)	(26)	(124)	-	-	-	-	(621)
At 31st March, 2003	-	-	-	-	-	222	11,510	15,438	1,044	28,214
NET BOOK VALUES										
At 31st March, 2003	4,450	6,985	295	1,690	1,710	80	3,047	4,142	3,856	26,255
At 31st March, 2002	5,260	6,940	297	1,560	1,670	117	3,945	10,902	1,754	32,445
An analysis of cost or valuation of the property, plant and equipment is as follows:										
At cost	-	-	-	-	-	302	14,557	19,580	4,900	39,339
At 2003 professional valuation	4,450	6,985	295	1,690	1,710	-	-	-	-	15,130
	4,450	6,985	295	1,690	1,710	302	14,557	19,580	4,900	54,469

Properties were revalued on an open market value basis on 31st March, 2003 based on existing use by independent professional valuers. Properties in Hong Kong were revalued by Messrs. Knight Frank. Overseas properties were revalued by Insignia Brooke (Thailand) Limited. Properties in the Mainland China were revalued by DTZ Debenham Tie Leung Limited.

Had these properties been carried at cost less accumulated depreciation, the carrying amount at 31st March, 2003 would have been HK\$23,026,000 (2002: HK\$23,766,000).

Impairment loss is recognised on certain fully impaired assets included in machinery, tools and equipment and furniture, fixtures, office equipment and motor vehicles due to the discontinuance of the Group's certain operations as disclosed in note 6.

Notes to the Financial Statements

For the year ended 31st March, 2003

12. Property, Plant and Equipment (continued)

THE COMPANY

	Motor Vehicle
	<i>HK\$'000</i>
AT COST	
At 1st April, 2002 and 31st March, 2003	348
ACCUMULATED DEPRECIATION	
At 1st April, 2002	111
Charge for the year	48
At 31st March, 2003	159
NET BOOK VALUES	
At 31st March, 2003	<u>189</u>
At 31st March, 2002	<u>237</u>

13. Interests in Subsidiaries

THE COMPANY

	2003 HK\$'000	2002 <i>HK\$'000</i>
Unlisted shares, at cost less impairment loss	57,409	58,801
Amounts due from subsidiaries, less allowances	39,320	52,525
	<u>96,729</u>	<u>111,326</u>

Particulars regarding the principal subsidiaries as at 31st March, 2003 of the Company are set out on pages 51 and 52.

The Directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore, the subsidiaries as set out are those that principally affect the results or assets of the Group.

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

14. Interests in Associates

THE GROUP

	2003 HK\$'000	2002 <i>HK\$'000</i>
Share of net assets	7,072	15,881
Amount due from an associate	2,546	2,765
	<u>9,618</u>	<u>18,646</u>

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14. Interests in Associates (continued)

Particulars of the associates held by the Group as at 31st March, 2003 are as follows:

Name of associate	Place or country of incorporation or registration/operation	Class of shares held	Form of business structure	Effective % of issued capital/registered capital held by the Group	Principal activities
United O.A. Limited	Hong Kong	Ordinary	Corporate	41%	Trading of office equipment and ceased business in October, 2002
Guangzhou Chevalier iTech Limited	The Mainland	Not applicable	Corporate	24%	Trading of office equipment and provision of maintenance service

15. Investments in Securities

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Held to maturity securities:				
Debt securities, unlisted	17,800	72,322	17,800	72,322
Other investments:				
Equity securities, listed overseas	–	16,405	–	–
Equity securities, unlisted	995	–	–	–
Debt Securities, unlisted	53,015	–	40,166	–
Mutual fund, unlisted	32,048	–	32,048	–
	103,858	88,727	90,014	72,322
Market value of listed equity securities	–	16,405	–	–
Carrying value analysed for reporting purposes are:				
Non-current	17,800	72,322	17,800	72,322
Current	86,058	16,405	72,214	–
	103,858	88,727	90,014	72,322

16. Inventories

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Inventories held for resale	53,000	64,332
Consumable stores	3,946	6,741
	56,946	71,073

Included in the above are inventories held for resale of HK\$7,611,000 (2002: HK\$10,300,000) carried at net realisable value.

The cost of inventories recognised as an expense during the year was HK\$499,233,000 (2002: HK\$550,051,000).

Notes to the Financial Statements

For the year ended 31st March, 2003

17. Debtors, Deposits and Prepayments

Included in debtors, deposits and prepayments are trade debtors of HK\$72,201,000 (2002: HK\$60,557,000). An aged analysis of trade debtors as at 31st March, 2003 is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	63,469	45,030
61 – 90 days	3,389	5,110
Over 90 days	5,343	10,417
	<u>72,201</u>	<u>60,557</u>
Total	<u>72,201</u>	<u>60,557</u>

The Group has established different credit policies for customers in each of its core businesses. The average credit period granted for trade debtors was 60 days.

18. Amounts due from (to) Customers for Contract Work

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred	39,538	12,950
Recognised profits less losses	(7,052)	(6,493)
	<u>32,486</u>	<u>6,457</u>
Progress billings	(35,772)	(9,341)
	<u>(3,286)</u>	<u>(2,884)</u>
Represented by:		
Amounts due from customers included in current assets	1,244	1,568
Amounts due to customers included in current liabilities	(4,530)	(4,452)
	<u>(3,286)</u>	<u>(2,884)</u>

At 31st March, 2003, retentions held by customers for contract work amounted to HK\$3,637,000 (2002: HK\$1,067,000). No advance payments were received from customers for contract work.

19. Creditors, Deposits and Accruals

Included in creditors, deposits and accruals are trade creditors of HK\$21,053,000 (2002: HK\$43,794,000). An aged analysis of the trade creditors as at 31st March, 2003 is as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	15,289	32,358
61 – 90 days	969	56
Over 90 days	4,795	11,380
	<u>21,053</u>	<u>43,794</u>
Total	<u>21,053</u>	<u>43,794</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

20. Share Capital

	Number of ordinary shares of HK\$0.1 each	Nominal value
		<i>HK\$'000</i>
Authorised:	<u>1,200,000,000</u>	<u>120,000</u>
Issued and fully paid	<u>856,779,352</u>	<u>85,678</u>

There was no change in the authorised and issued share capital during the two years ended 31st March, 2003.

Pursuant to a special resolution passed at a special general meeting of the shareholders of the Company on 5th June, 2003, every five issued and unissued ordinary shares of HK\$0.10 each are consolidated into one ordinary share of HK\$0.50 each.

Details of the share option scheme of the Company and the ultimate holding company are set out in note 29. No options under the share option scheme of the Company were exercised during the two years ended 31st March, 2003.

21. Reserves

	Share premium	Capital reserve	Capital redemption reserve	Properties for own use revaluation reserve	Exchange fluctuation reserve	Dividend reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP								
At 1st April, 2001	223,434	18,231	14	991	(550)	8,568	73,787	324,475
2001 final dividend paid	-	-	-	-	-	(8,568)	-	(8,568)
Surplus on revaluation of properties	-	-	-	143	-	-	-	143
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	-	1,137	-	-	1,137
Net loss for the year	-	-	-	-	-	-	(9,429)	(9,429)
2002 interim dividend paid	-	-	-	-	-	-	(8,568)	(8,568)
At 31st March, 2002	<u>223,434</u>	<u>18,231</u>	<u>14</u>	<u>1,134</u>	<u>587</u>	<u>-</u>	<u>55,790</u>	<u>299,190</u>
Surplus on revaluation of properties	-	-	-	392	-	-	-	392
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	-	1,771	-	-	1,771
Net loss for the year	-	-	-	-	-	-	(22,797)	(22,797)
At 31st March, 2003	<u>223,434</u>	<u>18,231</u>	<u>14</u>	<u>1,526</u>	<u>2,358</u>	<u>-</u>	<u>32,993</u>	<u>278,556</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

21. Reserves (continued)

Notes:

- (i) Reserves of the Group at the balance sheet date includes the Group's share of the post-acquisition profits retained in the associates amounting to HK\$816,000 (2002: HK\$9,625,000).
- (ii) The capital reserve included HK\$27,000 (2002: HK\$27,000) goodwill and HK\$198,000 (2002: 198,000) negative goodwill on consolidation.

	Share premium	Contributed surplus	Capital redemption reserve	Dividend reserve	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE COMPANY						
At 1st April, 2001	223,434	6,226	14	8,568	15,927	254,169
2001 final dividend paid	–	–	–	(8,568)	–	(8,568)
Net profit for the year	–	–	–	–	13,929	13,929
2002 interim dividend paid	–	–	–	–	(8,568)	(8,568)
At 31st March, 2002	223,434	6,226	14	–	21,288	250,962
Net loss for the year	–	–	–	–	(7,432)	(7,432)
At 31st March, 2003	<u>223,434</u>	<u>6,226</u>	<u>14</u>	<u>–</u>	<u>13,856</u>	<u>243,530</u>

Contributed surplus represents the difference between the value of total net assets of subsidiaries acquired and the nominal amount of the Company's shares issued for the re-organisation in 1989, less dividends paid out of the contributed surplus subsequently. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders.

As at 31st March, 2003, the Company's reserves available for distribution to shareholders amounted to HK\$20,082,000 (2002: HK\$27,514,000).

22. Disposal of a Subsidiary

During the year ended 31st March, 2002, the Group disposed of a subsidiary and the net assets disposed of are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	5,741
Debtors, deposits and prepayments	3,959
Cash and bank balances	18
Creditors, deposits and accruals	(218)
Deferred service income	(8,200)
Provision for taxation	(502)
	<u>798</u>
Gain on disposal	260
Total consideration receivable	<u>1,058</u>
Cash outflow arising on disposal:	
Cash and bank balance disposed of	<u>18</u>

The consideration of HK\$1,058,000 was subsequently received during the year ended 31st March, 2003.

Notes to the Financial Statements

For the year ended 31st March, 2003

23. Deferred Taxation

At the balance sheet date, the major components of potential deferred tax assets not accounted for in the consolidated financial statements are as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences because of:		
Excess of depreciation over tax allowances	2,292	2,403
Unutilised tax losses	86,678	75,420
	<u>88,970</u>	<u>77,823</u>

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Tax effect of timing differences because of:		
(Shortfall) excess of depreciation over tax allowances	(111)	520
Tax losses arising	11,258	6,429
	<u>11,147</u>	<u>6,949</u>

A deferred tax asset has not been recognised in the financial statements as it is not certain that the tax asset will be crystallised in the foreseeable future.

Deferred taxation has not been accounted for on the surplus or deficit arising on the revaluation of properties in Hong Kong and Thailand as profit or loss arising on the disposal of Hong Kong and Thailand properties would not be subject to taxation. Accordingly, the surplus or deficit does not constitute a timing difference for deferred taxation purposes.

Deferred taxation has not been accounted for on the deficit arising on revaluation of the Group's properties in the Mainland as loss on disposal of these properties would not be allowable as a deduction from other profit. Accordingly, the deficit would not constitute a timing difference for deferred tax purposes.

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

24. Segment Information

Business segments

For management purposes, the Group is currently organised into four operating divisions. These divisions are the basis on which the Group reports its primary segment information. For reporting purpose, the Group redefines the operating divisions and the comparative segment information for corresponding period has been reclassified to conform with the current year's presentation.

During the year ended 31st March, 2003, the Group is in the process of discontinuing its retailing of telecommunication equipment and provision of telecommunication agency services business and has discontinued its trading of general merchandise business as disclosed in note 6. The Group also discontinued the provision of paging services as from May 2001.

Notes to the Financial Statements

For the year ended 31st March, 2003

24. Segment Information (continued)

Business segments (continued)

Segment information about these businesses is presented below.

TURNOVER AND RESULTS

Year ended 31st March, 2003

	Continuing operations				Discontinuing operations		Total HK\$'000
	Computer and business machines HK\$'000	IT & network solution and tele- communication systems HK\$'000	Technical and maintenance services HK\$'000	Investments in securities and others HK\$'000	General merchandise trading HK\$'000	Tele- communication services and retailing HK\$'000	
TURNOVER							
Total sales	477,771	138,816	44,214	12,989	14,443	79,826	768,059
Inter-segment sales	(57,097)	(11,298)	(5,544)	-	(284)	(5,933)	(80,156)
External sales	<u>420,674</u>	<u>127,518</u>	<u>38,670</u>	<u>12,989</u>	<u>14,159</u>	<u>73,893</u>	<u>687,903</u>

Inter-segment sales are charged at prices determined by management with reference to market prices.

RESULT

Segment result	<u>3,121</u>	<u>(2,856)</u>	<u>1,989</u>	<u>(2,458)</u>	<u>(5,053)</u>	<u>(8,612)</u>	(13,869)
Interest income							5,999
Unallocated corporate expenses							(359)
Loss from operations							(8,229)
Finance costs							(68)
Share of results of associates	1,927	-	-	-	-	-	1,927
Loss on discontinuing operations	-	-	-	-	(3,115)	(8,978)	(12,093)
Loss before taxation							(18,463)
Taxation							(4,334)
Net loss for the year							<u>(22,797)</u>

BALANCE SHEET

As at 31st March, 2003

	Continuing operations				Discontinuing operations		Total HK\$'000
	Computer and business machines HK\$'000	IT & network solution and tele- communication systems HK\$'000	Technical and maintenance services HK\$'000	Investments in securities and others HK\$'000	General merchandise trading HK\$'000	Tele- communication services and retailing HK\$'000	
ASSETS							
Segment assets	114,338	53,730	11,555	103,858	1,287	11,395	296,163
Interests in associates	9,618						9,618
Unallocated corporate assets							159,804
Consolidated total assets							<u>465,585</u>
LIABILITIES							
Segment liabilities	17,954	34,913	16,756	13	3,995	9,855	83,486
Unallocated corporate liabilities							17,679
Consolidated total liabilities							<u>101,165</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

24. Segment Information (continued)

Business segments (continued)

OTHER INFORMATION

Year ended 31st March, 2003

	Continuing operations				Discontinuing operations		Total HK\$'000
	Computer and business machines HK\$'000	IT & network solution and tele- communication systems HK\$'000	Technical and maintenance services HK\$'000	Investments in securities and others HK\$'000	General merchandise trading HK\$'000	Tele- communication services and retailing HK\$'000	
Capital additions	1,977	1,465	22	2,951	6	174	6,595
Depreciation	1,584	1,210	906	632	-	512	4,844
Impairment loss on property, plant and equipment	-	-	-	-	-	1,218	1,218
Deficit on revaluation of properties	-	-	-	78	-	-	78

TURNOVER AND RESULTS

Year ended 31st March, 2002

	Continuing operations				Discontinuing operations			Total HK\$'000
	Computer and business machines HK\$'000	IT & network solution and tele- communication systems HK\$'000	Technical and maintenance services HK\$'000	Investments in securities and others HK\$'000	General merchandise trading HK\$'000	Tele- communication services and retailing HK\$'000	Paging Services HK\$'000	
TURNOVER								
Total sales	498,483	128,887	45,316	1,936	35,753	169,473	4,826	884,674
Inter-segment sales	(79,219)	(14,709)	(5,209)	-	(1,719)	(8,454)	-	(109,310)
External sales	<u>419,264</u>	<u>114,178</u>	<u>40,107</u>	<u>1,936</u>	<u>34,034</u>	<u>161,019</u>	<u>4,826</u>	<u>775,364</u>

Inter-segment sales are charged at prices determined by management with reference to market prices.

RESULT

Segment result	<u>354</u>	<u>(15,528)</u>	<u>7,204</u>	<u>15,357</u>	<u>(7,416)</u>	<u>(12,888)</u>	<u>(881)</u>	(13,798)
Interest and dividend income								7,613
Unallocated corporate expenses								(3,245)
Loss from operations								(9,430)
Finance costs								(228)
Share of results of associates	5,135	-	-	-	-	-	-	5,135
Gain on disposal of discontinuing operations	-	-	-	-	-	-	260	260
Loss before taxation								(4,263)
Taxation								(5,166)
Net loss for the year								<u>(9,429)</u>

Notes to the Financial Statements

For the year ended 31st March, 2003

24. Segment Information (continued)

Business segments (continued)

BALANCE SHEET

As at 31st March, 2002

	Continuing operations				Discontinuing operations			Total HK\$'000
	Computer and business machines HK\$'000	IT & network solution and tele- communication systems HK\$'000	Technical and maintenance services HK\$'000	Investments in securities and others HK\$'000	General merchandise trading HK\$'000	Tele- communication services and retailing HK\$'000	Paging Services HK\$'000	
ASSETS								
Segment assets	85,225	57,175	13,917	104,660	7,720	31,021	-	299,718
Interests in associates	18,646							18,646
Unallocated corporate assets								182,627
Consolidated total assets								<u>500,991</u>
LIABILITIES								
Segment liabilities	22,655	27,904	18,022	10,014	4,025	17,620	-	100,240
Unallocated corporate liabilities								15,699
Consolidated total liabilities								<u>115,939</u>

OTHER INFORMATION

Year ended 31st March, 2002

	Continuing operations				Discontinuing operations			Total HK\$'000
	Computer and business machines HK\$'000	IT & network solution and tele- communication systems HK\$'000	Technical and maintenance services HK\$'000	Investments in securities and others HK\$'000	General merchandise trading HK\$'000	Tele- communication services and retailing HK\$'000	Paging Services HK\$'000	
Capital additions	1,371	807	238	2,334	874	4,355	1	9,980
Depreciation	1,309	1,060	933	690	856	2,260	202	7,310
Deficit on revaluation of properties	-	-	-	579	-	-	-	579

Notes to the Financial Statements

For the year ended 31st March, 2003

24. Segment Information (continued)

Geographical segments

The Group's operations in sales of computer and business machines and telecommunication systems, provision of technical and maintenance services and IT and network solution services are carried out in Hong Kong, the Mainland and Thailand. The operations in retailing of telecommunication equipment and provision of telecommunication agency services, trading of general merchandise and paging services are carried out in Hong Kong. The following table provides an analysis of the Group's turnover by geographical market:

	Turnover by geographical market	
	2003 HK\$'000	2002 HK\$'000
Hong Kong	511,653	535,390
The Mainland	44,181	119,108
Thailand	123,699	111,520
Others	8,370	9,346
	687,903	775,364

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

	Carrying amounts of segment assets		Additions to property, plant and equipment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	380,733	406,721	3,215	7,531
The Mainland	14,595	22,318	29	436
Thailand	66,483	66,995	3,245	1,873
Others	3,774	4,957	106	140
	465,585	500,991	6,595	9,980

25. Emoluments of Directors and Senior Management

Details of the emoluments paid to the Directors of the Group are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	238	240
Salaries, allowances and benefits in kind	505	1,514
Retirement benefits scheme contributions	25	61
	768	1,815

Except for the directors' fees of HK\$238,000 (2002: HK\$240,000) paid to the Independent Non-executive Directors, no other emoluments were paid or are payable to the Independent Non-executive Directors and Non-executive Directors during the two years ended 31st March, 2003.

Notes to the Financial Statements

For the year ended 31st March, 2003

25. Emoluments of Directors and Senior Management (continued)

The emoluments of the Directors fall within the following bands:

Bands	Number of directors	
	2003	2002
Nil – HK\$1,000,000	8	9
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>8</u>	<u>10</u>

In addition to the directors' emoluments disclosed above, four (2002: five) directors received remuneration totalling HK\$16,173,000 (2002: HK\$17,632,000) from the Company's ultimate holding company in respect of their services to the ultimate holding company and its subsidiaries including the Group.

The amounts paid by the ultimate holding company have not been allocated between the services of the directors as directors of the Company and its subsidiaries, and their services to the ultimate holding company and its other subsidiaries.

The five highest paid individuals included one director for the year ended 31st March, 2002 whose emoluments are disclosed above.

The emoluments of the five (2002: four) highest paid individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries, allowances and benefits in kind	3,943	3,311
Retirement benefits scheme contributions	200	167
	<u>4,143</u>	<u>3,478</u>

The emoluments of these five (2002: four) highest paid individuals fall within the following bands:

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

26. Charge of Assets

At 31st March, 2003, freehold properties with an aggregate carrying value of HK\$6,603,000 (2002: HK\$6,383,000) were mortgaged to secure general banking facilities granted to an overseas subsidiary.

27. Contingent Liabilities

At 31st March, 2003, the Company had contingent liabilities in respect of:

- (i) guarantees issued for banking facilities extended to its subsidiaries amounting to HK\$5,421,000 (2002: HK\$4,750,000).
- (ii) guarantees issued for performance under contracts and rendering of services of certain subsidiaries amounting to HK\$1,405,000 (2002: HK\$2,670,000).

Notes to the Financial Statements

For the year ended 31st March, 2003

28. Operating Lease

(a) The Group as lessee

At 31st March, 2003, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of renting of premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	6,287	22,936	123	3,823
In the second to fifth year inclusive	3,231	4,587	92	–
	9,518	27,523	215	3,823

Leases are negotiated and rentals are fixed for an average term of 2 years.

(b) The Group as lessor

All the investment properties were leased out for periods of 2 years and the leases did not have any renewal options given to the lessees. The future minimum lease payments receivable by the Group under non-cancellable operating leases for each of the following periods are:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	406	450
In the second to fifth year inclusive	–	33
	406	483

29. Share Option Schemes

(a) Option of the Company

The share option scheme of the Company (the "Old Scheme") was adopted on 30th September, 1991 for the primary purpose of providing incentives to directors and eligible employees of the Company and its subsidiaries. Under the Old Scheme, the Board of Directors of the Company might grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Options are exercisable at any time during the thirty six months commencing on the expiry of six months after the date of acceptance of the share options. The exercise price was determined by the directors of the Company, and was not less than the higher of the nominal value of the Company's share and 80% of the average closing price of the Company's share on the Stock Exchange for the five trading days immediately preceding the date of grant and is subject to adjustment.

The Old Scheme expired on 29th September, 2001 but its term remain in full force and effect in respect of the outstanding options previously granted.

Notes to the Financial Statements

For the year ended 31st March, 2003

29. Share Option Schemes (continued)

(a) Option of the Company (continued)

The movements in the outstanding options previously granted under the Old Scheme during the two years ended 31st March 2003 are as follows:

Granted to	Option	At 1/4/2001	Cancelled/Lapsed	At 31/3/2003
Directors	A	28,600,000	28,600,000	–
	B	28,550,000	–	28,550,000
Employees	C	57,150,000	28,600,000	28,550,000
		976,000	976,000	–
		<u>58,126,000</u>	<u>29,576,000</u>	<u>28,550,000</u>

Details of the share options are as follows:

Option	Date of grant	Vesting period		Exercise period		Exercise price
		From	To	From	To	
A	4/2/1998	4/2/1998	2/9/1998	3/9/1998	2/9/2001	0.3376
B	17/12/1999	17/12/1999	29/6/2000	30/6/2000	29/6/2003	0.4640
C	9/3/1998	9/3/1998	6/10/1998	7/10/1998	6/10/2001	0.3920

As a result of consolidation of the Company's ordinary shares as disclosed in note 20, the remaining options will entitle the holders thereof to subscribe for 5,710,000 new shares of the Company at an adjusted price of HK\$2.32 per share.

The Company's new share option scheme (the "New Scheme") was adopted by the shareholders pursuant to a resolution passed on 20th September, 2002 for the primary purpose of providing the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The New Scheme will expire on 19th September, 2012.

The total number of shares in respect of which options may be granted under the New Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the New Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's and CIHL's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors of the Company and CIHL. Where any grant of options to a substantial shareholder or any independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the Company's and CIHL's shareholders.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1 for each lot of options granted. An option may be exercised in accordance with the terms of the New Scheme at any time during the effective period of the New Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's share on the date of grant, the average closing price of the share on the Stock Exchange for the five business days immediately preceding the date of grant, and the nominal value.

During the year ended 31st March, 2003, no options were granted under the New Scheme.

Notes to the Financial Statements

For the year ended 31st March, 2003

29. Share Option Schemes (continued)

(b) Option of the ultimate holding company

Under the share option scheme which was adopted by CIHL on 30th September, 1991 (the "CIHL Scheme"), the Board of Directors of CIHL has granted certain options to eligible employees, including directors of the Company, to subscribe for shares in CIHL. The movements of the outstanding options granted under the CIHL Scheme during the two years ended 31st March 2003 are as follows:

Granted to	Option	At 1/4/2001	Cancelled/ Lapsed	At 31/3/2002 and 31/3/2003
Directors	A	40,400,000	40,400,000	–
	B	24,150,000	–	24,150,000
		<u>64,550,000</u>	<u>40,400,000</u>	<u>24,150,000</u>

Details of the share options are as follows:

Option	Date of grant	Vesting period		Exercise period		Exercise price
		From	To	From	To	
A	4/2/1998	4/2/1998	2/9/1998	3/9/1998	2/9/2001	0.5376
B	17/12/1999	17/12/1999	29/6/2000	30/6/2000	29/6/2003	0.4880

30. Retirement Benefits

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") for the benefits of the Hong Kong employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 7.5% of the employee's basic salary, depending on the length of service with the Group.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. The amount of forfeited contributions utilised in this manner during the year was HK\$1,169,000 (2002: HK\$1,968,000).

The total cost charged to income statement of HK\$4,087,000 (2002: HK\$4,304,000) represents contributions pay and payable to these schemes by the Group in respect of the current accounting period net of forfeited contributions. As at 31 March 2003, contributions of HK\$285,000 (2002: HK\$368,000) due in respect of the reporting period had not been paid over to the schemes.

Notes to the Financial Statements

For the year ended 31st March, 2003

31. Related Party Transactions

The Company's ultimate holding company, CIHL and its subsidiaries, associates and jointly controlled entities are regarded as related parties for the purpose of SSAP 20. Details of the material transactions with these companies are as follows:

- (a) On 28th March, 2002, the Company renewed the management agreement with Chevalier (HK) Limited ("CHKL"), a wholly-owned subsidiary of CIHL, for the provision of company secretarial, accounting, electronic data processing, personnel and property management services by CHKL to the Group in respect of the year ended 31st March, 2003 at a management fee calculated at the rate of 0.5% of the annual turnover of the Group excluding those of its overseas subsidiaries. Management fees paid to CHKL during the year under this agreement amounted to HK\$3,055,000 (2002: HK\$4,044,000). The management agreement expired on 28th March, 2003 and has been renewed for a further term of one year.
- (b) During the year, the Group sold computer equipment and business machines to and provide maintenance service to wholly-owned subsidiaries of CIHL totalling HK\$4,409,000 (2002: HK\$3,913,000). The price is determined with reference to market rates.
- (c) During the year, the Group paid rentals determined with reference to market rates amounting to HK\$5,042,000 (2002: HK\$5,909,000) to wholly-owned subsidiaries of CIHL, for the use of their premises by the Group.
- (d) During the year, the Group paid storage and delivery charges amounting to HK\$4,295,000 (2002: HK\$4,999,000) and HK\$2,470,000 (2002: HK\$2,515,000) respectively to a wholly-owned subsidiary of CIHL to cover its cost for services provided to the Group.

At the balance sheet date, the outstanding balance due to the ultimate holding company at 31st March, 2003 and 2002 arising from the above transactions and payment of recurrent expenses paid on behalf of the Group is HK\$6,290,000 (2002: HK\$1,456,000).

Apart from the above, the Group made advances to and obtained repayment from an associate during the year. The amount outstanding at 31st March, 2003 is HK\$2,546,000 (2002: HK\$2,765,000).

The amounts due to the ultimate holding company and from the associate are unsecured and interest-free.