

1 Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of land and buildings.

In the current year, the Group adopted Statement of Standard Accounting Practice 12 (revised) "Income taxes" ("SSAP 12") issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policies upon the adoption of SSAP 12 are set out in note 2(j).

2 Principal accounting policies

(a) Consolidation

- (i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 March. Subsidiaries are those entities which the Company, directly or indirectly controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/jointly controlled entity/associated company and is recognised as an asset and amortised using the straight-line method over its estimated useful economic life of not more than 15 years.

- (ii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

2 *Principal accounting policies (cont'd)*

(b) *Fixed assets*

(i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation, being open market value for existing use at the date of revaluation, less accumulated amortisation or depreciation. Independent valuations are performed periodically. In the intervening years, the directors review the carrying value of the leasehold land and buildings and adjustment is made where there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and thereafter are debited to the operating loss. Any subsequent increases are credited to the operating loss up to the amount previously debited.

Leasehold land is depreciated over the periods of the leases on a straight-line basis.

Leasehold buildings are depreciated on the straight-line basis over the unexpired periods of the leases or their expected useful lives to the Group, whichever is shorter. The principal annual rate used for this purpose is 2% per annum.

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost represents the purchase price of the asset and other cost incurred to bring the asset into its existing use. Other tangible fixed assets are depreciated to write off the cost less accumulated impairment losses over their expected useful lives on the straight-line basis. The principal annual rates used for this purpose are:

Leasehold improvements	20%
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	20%

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in leasehold land and buildings and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(c) *Assets under leases*

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term or short-term liabilities, as appropriate. The finance charges are charged to the profit and loss account over the lease periods.

2 Principal accounting policies (cont'd)

(c) Assets under leases (cont'd)

(i) Finance leases (cont'd)

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) Inventories

Inventories represent trading stocks and are stated at the lower of cost and net realisable value. Cost represents purchase price and is determined on a weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(e) Accounts receivable

Provision is made against accounts receivable to the extent which they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(g) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(h) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to a defined contribution scheme which is available to all relevant employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries and are subject to a cap of monthly earnings of HK\$20,000 and thereafter contributions are voluntary. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

The assets of the scheme are held separately from those of the Company in an independently administered fund.

2 Principal accounting policies (cont'd)

(i) *Contingent liabilities and contingent assets*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(j) *Deferred taxation*

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in note 19 to the accounts, opening retained earnings at 1 April 2002 and 2003 have been increased by HK\$708,000 and HK\$2,557,000, respectively, which represent the unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31 March 2003 by HK\$2,160,000 and HK\$1,195,000, respectively. The loss and amount charged to equity for the year ended 31 March 2003 have been reduced by HK\$1,849,000 and increased by HK\$1,592,000, respectively.

(k) *Revenue recognition*

(i) Revenue from the sale of goods is recognised on the transfer of ownership, which generally coincides with the time of cash receipt for retail sales or the time when the goods are delivered to customers and the title has passed for credit sales, net of returns and discounts given.

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(l) *Borrowing costs*

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

NOTES TO THE ACCOUNTS (CONT'D)

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2 Principal accounting policies (cont'd)

(m) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of fixed assets, inventories and receivables and mainly exclude operating cash. Segment liabilities comprise operating liabilities and exclude certain corporate borrowings. Capital expenditure comprises additions to fixed assets (note 11), including additions resulting from acquisitions through purchases of subsidiaries (note 12 and 20(c)).

3 Revenues and turnover

The Group is principally engaged in the importing and sale of architectural builders hardware and bathroom collections. Revenues recognised during the year are as follows:–

	Group	
	2004	2003
	HK\$'000	HK\$'000
Turnover – sales of goods	153,897	125,186
Other revenue		
Interest income	264	474
Total revenues	<u>154,161</u>	<u>125,660</u>

Primary reporting format – business segments

The Group is organised in Hong Kong into two main business segments:

- Wholesale – importing and wholesale of architectural builders hardware and bathroom collections to dealers, traditional hardware stores, contractors and property developers.
- Retail – sale of architectural builders hardware and bathroom collections through the Group's retail outlets.

3 Revenues and turnover (cont'd)

Primary reporting format – business segments (cont'd)

	Group	
	2004	2003
	HK\$'000	HK\$'000
		As restated
Segment results		
Turnover		
Wholesale	136,491	112,184
Retail	41,356	34,990
Inter-segment elimination	(23,950)	(21,988)
Total turnover	153,897	125,186
Cost of goods sold		
Wholesale	102,431	77,161
Retail	26,449	23,146
Inter-segment elimination	(23,950)	(21,988)
Total cost of goods sold	104,930	78,319
Gross profit		
Wholesale	34,060	35,023
Retail	14,907	11,844
Total gross profit	48,967	46,867
Other costs, net of other revenues and other income		
Wholesale	(43,767)	(48,288)
Retail	(19,897)	(21,026)
Total other costs, net of other revenues and other income	(63,664)	(69,314)
Segment operating loss		
Wholesale	(9,707)	(13,265)
Retail	(4,990)	(9,182)
Total operating loss	(14,697)	(22,447)
Finance costs	(56)	(46)
Total operating loss after finance cost	(14,753)	(22,493)
Taxation		
Wholesale	(298)	(250)
Retail	1,172	1,597
Total profit taxes	874	1,347
Loss for the year	(13,879)	(21,146)

NOTES TO THE ACCOUNTS (CONT'D)

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3 Revenues and turnover (cont'd)

Primary reporting format – business segments (cont'd)

	Group	
	2004 HK\$'000	2003 HK\$'000 As restated
Capital expenditure		
Wholesale	354	2,597
Retail	2,475	3,217
Total capital expenditure	2,829	5,814
Depreciation charged to profit and loss account		
Wholesale	1,904	1,689
Retail	2,828	2,424
Total depreciation charged to the profit and loss account	4,732	4,113
Segment assets		
Wholesale	146,592	144,189
Retail	52,679	44,602
Unallocated	32,932	40,618
Inter-segment elimination	(87,608)	(76,178)
Total assets	144,595	153,231
Segment liabilities		
Wholesale	61,036	48,508
Retail	48,456	44,389
Unallocated	–	–
Inter-segment elimination	(87,608)	(76,178)
Total liabilities	21,884	16,719
	122,711	136,512

Secondary reporting format – geographical segments

No geographical analysis of turnover and operating profit is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results of the Group are attributable to markets outside Hong Kong.

4 Operating loss

Operating loss is stated after charging/(crediting) the following:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Auditors' remuneration		
– current year	600	590
– under provision in last year	32	–
Depreciation of owned fixed assets	4,483	3,864
Depreciation of fixed assets held under finance leases	249	249
Legal and professional fees	1,348	3,329
Loss on disposal of fixed assets	722	4
Net exchange gains	(837)	(493)
Payments under operating leases for leasehold land and buildings	15,626	13,795
Provision for doubtful debts	1,047	1,843
Write-back of provision for doubtful debts	(466)	–
Provision/(write-back of provision) for slow-moving inventories, included in cost of sales	6,190	(3,913)
Staff costs, including directors' emoluments (<i>note 9</i>)	27,055	29,844
	<u>27,055</u>	<u>29,844</u>

5 Finance costs

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank borrowings	21	14
Interest element of finance leases	35	32
	<u>56</u>	<u>46</u>

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6 Taxation

- (a) Hong Kong profits tax is calculated at the rate of 17.5% (2003: 16%) on the estimated assessable profits for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

	Group	
	2004	2003
	HK\$'000	HK\$'000
		As restated
Hong Kong profits tax		
– current year	–	461
– under provision in previous year	19	–
Deferred taxation (<i>note 6(c)</i>)	(893)	(1,808)
Taxation credit	(874)	(1,347)

- (b) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of 17.5% (2003: 16%) as follows:

	2004	2003
	HK\$'000	HK\$'000
Loss before taxation	(14,753)	(22,493)
Calculated at a taxation rate of 17.5% (2003:16%)	(2,582)	(3,599)
Under provision in prior years	19	–
Income not subject to taxation	(46)	(75)
Expenses not deductible for taxation purposes	10	2
Utilisation of prior years unrecognised tax losses	–	(36)
Unrecognised tax losses	1,809	2,280
Differential tax rate on the (loss)/profit of a PRC* subsidiary	(25)	81
Increase in opening net deferred tax assets resulting from an increase in tax rate	(59)	–
Taxation credit	(874)	(1,347)

* People's Republic of China ("PRC")

6 Taxation (cont'd)

(c) The movements in the deferred tax liabilities/(assets) account are as follows:

	Group					
Deferred tax assets	Tax losses		Others		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of the year	1,695	222	465	173	2,160	395
Credited to profit and loss account	704	1,473	320	292	1,024	1,765
At the end of the year	2,399	1,695	785	465	3,184	2,160
		</				

Deferred tax assets of approximately HK\$5,091,000 (2003: HK\$3,059,000) in respect of tax losses carried forward have not been recognised as it is not probable that future taxable profit will be available against which the tax losses can be utilised.

7 Loss for the year

Included in the loss for the year is profit of HK\$184,000 (2003 as restated: loss of HK\$1,704,000) which is dealt with in the accounts of the Company.

8 Loss per share

The calculation of basic loss per share is based on the Group's loss for the year of HK\$13,879,000 (2003 as restated: loss of HK\$21,146,000) and on the outstanding number of 200,000,000 shares in issue (2003: 200,000,000 shares) during the year.

Diluted earnings per share was not disclosed as there were no dilutive potential ordinary shares.

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9 Staff costs

	Group	
	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	25,894	28,571
Pension costs – defined contribution plans	1,161	1,273
	<u>27,055</u>	<u>29,844</u>

10 Directors' and senior management's emoluments

(a) Directors' remuneration

Emoluments of the directors of the Company during the year are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees (i)	240	240
Other emoluments		
– Basic salaries and allowances	6,616	8,772
– Retirement scheme contributions	82	96
	<u>6,938</u>	<u>9,108</u>

(i) The fees were paid to the two independent non-executive directors during the year.

The emoluments of the directors fell within the following bands:

		Number of directors	
Emolument bands		2004	2003
HK\$Nil	– HK\$1,000,000	6**	3**
HK\$1,000,001	– HK\$1,500,000	0	5
HK\$1,500,001	– HK\$2,000,000	3	1

** Include the two independent non-executive directors.

Mr. LEE Chi Wah, Rhodes, resigned as a director of the Company on 17 July 2003. Mr. LEE entered into an agreement with the Company to terminate the service contract between him and the Company and waive the respective parties' rights as set out in the service contract.

Except for the above, no director waived or agreed to waive their emoluments in respect of the years ended 31 March 2004 and 2003.

10 Directors' and senior management's emoluments (cont'd)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: one) individuals during the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Basic salaries and allowances	2,880	2,700
Retirement scheme contributions	24	96
	<u>2,904</u>	<u>2,796</u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2004	2003
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>1</u>

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11 Fixed assets

	Group					
	Land and buildings under long leases in Hong Kong	Land and buildings under long leases in the PRC (Note (b))	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation						
At 1 April 2003	14,000	1,773	19,607	14,505	2,713	52,598
Additions	–	–	2,404	225	200	2,829
Disposals	–	–	(1,499)	–	–	(1,499)
At 31 March 2004	<u>14,000</u>	<u>1,773</u>	<u>20,512</u>	<u>14,730</u>	<u>2,913</u>	<u>53,928</u>
Accumulated depreciation						
At 1 April 2003	586	13	10,973	9,805	1,458	22,835
Charge for the year	196	35	2,755	1,339	407	4,732
Disposals	–	–	(777)	–	–	(777)
At 31 March 2004	<u>782</u>	<u>48</u>	<u>12,951</u>	<u>11,144</u>	<u>1,865</u>	<u>26,790</u>
Net book value						
At 31 March 2004	<u>13,218</u>	<u>1,725</u>	<u>7,561</u>	<u>3,586</u>	<u>1,048</u>	<u>27,138</u>
At 31 March 2003	<u>13,414</u>	<u>1,760</u>	<u>8,634</u>	<u>4,700</u>	<u>1,255</u>	<u>29,763</u>
The analysis of the cost or valuation of the above assets at 31 March 2004 is as follows:						
At cost	–	1,773	20,512	14,730	2,913	39,928
At 2004 professional valuation (note a)	<u>14,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>14,000</u>
	<u>14,000</u>	<u>1,773</u>	<u>20,512</u>	<u>14,730</u>	<u>2,913</u>	<u>53,928</u>

- (a) The leasehold land and buildings were revalued by Vigers Hong Kong Limited, an independent firm of professional valuers, at 31 January 2000 on the basis of open market value. The revaluation surplus net of applicable deferred income taxes was credited to fair value and revaluation reserve in shareholders' equity (note 19). The directors have engaged A.G. Wilkinson & Associates to review the carrying value of leasehold land and buildings as at 31 March 2004 on the basis of open market value and is of the opinion that there is no material change in the carrying value of the assets since the date of the previous valuation. The carrying amount of the property would have been approximately HK\$3,717,000 (2003: HK\$3,801,000) had they been stated at cost less accumulated depreciation.
- (b) The directors have reviewed the carrying value of the properties in the PRC as at 31 March 2004 and are of the opinion that there was no material difference between the cost of the property acquired by the Group and the carrying value of the asset as at 31 March 2004.
- (c) At 31 March 2004, the cost less accumulated depreciation of fixed assets held by the Group under finance leases amounted to approximately HK\$747,000 (2003: HK\$996,000).

12 Investment in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares/ investments, at cost	90,917	90,917

Particulars of the subsidiaries as at 31 March 2004 are as follows:

Name	Country/place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Principal activities and place of operation	Equity interest held
Interest held directly:—				
E. Bon (BVI) Holdings Limited	British Virgin Islands	50,000 ordinary shares of US\$1 each	Investment holding in Hong Kong	100%
Interests held indirectly:—				
Asia Bon Company Limited	Hong Kong	100,000 ordinary shares of HK\$1 each	Property holding in Hong Kong	100%
E. Bon Building Materials Company Limited	Hong Kong	6,000 ordinary shares of HK\$1,000 each	Importing and sale of architectural builders hardware and bathroom collections in Hong Kong	100%
Right Century Limited	Hong Kong	1,000 ordinary shares of HK\$1 each	Retail of bathroom accessories and decoration materials in Hong Kong	100%
Sunny Building and Decoration Materials Company Limited	Hong Kong	6,000 ordinary shares of HK\$1,000 each	Retail of architectural builders hardware and bathroom collections in Hong Kong	100%
Shanghai Tech Pro International Trading Co., Ltd. (limited liability company)	People's Republic of China	US\$300,000	Importing and sale of architectural builders hardware and bathroom collections in mainland China	100%
Twinwood Venture Limited	British Virgin Islands	1 ordinary share of US\$1 each	Investment holding in Hong Kong	100%

NOTES TO THE ACCOUNTS (CONT'D)

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12 Investment in subsidiaries (cont'd)

Name	Country/place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Principal activities and place of operation	Equity interest held
Interests held indirectly:- (cont'd)				
H2O (Pro) Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of bathroom collections in Hong Kong	100%
Massford Holdings Limited	British Virgin Islands	1 ordinary share of US\$1 each	Investment holding in Hong Kong	100%
Techpro Trading Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of architectural builders hardware in Hong Kong	100%
Massford (Hong Kong) Limited	Hong Kong	2 ordinary shares of HK\$1 each	Supplying architectural builders hardware and bathroom collections for property development in Hong Kong	100%
Bonco Ironmongery Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of architectural builders hardware in Hong Kong	100%
Kitchen Pro Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of kitchen fittings in Hong Kong	100%
D.I.Y. Limited	Hong Kong	2 ordinary shares of HK\$100 each	Handling of the human resources planning and development activities of the Group	100%
Sanfield Properties Limited	Hong Kong	2 ordinary shares of HK\$1 each	Property holding in mainland China	100%
Tech Pro (China) Limited	Hong Kong	2 ordinary shares of HK\$1 each	Importing and sale of architectural builders hardware in mainland China	100%
Bonlex Properties Limited (Acquired on 18 March 2003)	Hong Kong	9,998 ordinary shares of HK\$1 each	Property holding in mainland China	98%

13 Amounts due from/(to) subsidiaries and a related company

The amounts are unsecured, interest-free and repayable on demand.

14 Inventories

	Group	
	2004	2003
	HK\$'000	HK\$'000
Inventories	67,773	68,584
Less: Provision for slow-moving inventories	(31,596)	(25,406)
	<u>36,177</u>	<u>43,178</u>

At 31 March 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$5,620,000 (2003: HK\$7,069,000).

15 Trade receivables, other receivables, deposits and prepayments

Included in the balance are trade receivables and their ageing analysis is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	11,293	6,181
31-60 days	6,821	3,346
61-90 days	3,142	3,982
Over 90 days	26,001	25,924
	<u>47,257</u>	<u>39,433</u>
Provision for doubtful debts	(12,332)	(11,751)
	<u>34,925</u>	<u>27,682</u>

The majority of the Group's sales are with credit terms of 30 to 90 days. The remaining amounts are on letter of credit or document against payment.

16 Trade payables, accruals and deposits received

Included in the balance are trade payables and their ageing analysis is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	6,289	4,541
31-60 days	3,294	877
61-90 days	866	584
Over 90 days	355	422
	<u>10,804</u>	<u>6,424</u>

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17 Share capital

	Company	
	2004 HK\$'000	2003 HK\$'000
<i>Authorised</i>		
1,000,000,000 ordinary shares at HK\$0.1	100,000	100,000
<i>Issued and fully paid</i>		
200,000,000 ordinary share at HK\$0.1	20,000	20,000

18 Non-current liabilities

	Group	
	2004 HK\$'000	2003 HK\$'000 As restated
Obligations under finance leases	634	880
Less: amounts payable within one year shown under current liabilities	246	246
	388	634
Deferred tax liabilities (note 6(c))	1,658	1,527
	2,046	2,161

19 Reserves

(a) Group

	Share premium HK\$'000	Revaluation reserve HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2002							
As previously reported	41,261	9,947	6,979	2,896	(44)	77,495	138,534
Effect of adopting SSAP 12	-	(1,592)	-	-	-	708	(884)
As restated	41,261	8,355	6,979	2,896	(44)	78,203	137,650
Exchange difference	-	-	-	-	8	-	8
Loss for the year	-	-	-	-	-	(21,146)	(21,146)
At 31 March 2003	41,261	8,355	6,979	2,896	(36)	57,057	116,512
At 1 April 2003							
As previously reported	41,261	9,947	6,979	2,896	(36)	54,500	115,547
Effect of adopting SSAP 12	-	(1,592)	-	-	-	2,557	965
As restated	41,261	8,355	6,979	2,896	(36)	57,057	116,512
Exchange difference	-	-	-	-	78	-	78
Loss for the year	-	-	-	-	-	(13,879)	(13,879)
At 31 March 2004	41,261	8,355	6,979	2,896	42	43,178	102,711

19 Reserves (cont'd)

(b) Company

	Share premium HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2002			
As previously reported	130,078	3,890	133,968
Effect of adopting SSAP 12	—	30	30
As restated	130,078	3,920	133,998
Loss for the year	—	(1,704)	(1,704)
At 31 March 2003	130,078	2,216	132,294
At 1 April 2003			
As previously reported	130,078	2,070	132,148
Effect of adopting SSAP 12	—	146	146
As restated	130,078	2,216	132,294
Loss for the year	—	184	184
At 31 March 2004	130,078	2,400	132,478

20 Notes to cash flow statement

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Operating loss	(14,697)	(22,447)
Interest income	(264)	(474)
Depreciation of owned fixed assets	4,483	3,864
Depreciation of fixed assets held under finance leases	249	249
Loss on disposal of fixed assets	722	4
Operating loss before working capital changes	(9,507)	(18,804)
Decrease in inventories	7,001	2,045
(Increase)/decrease in trade receivables, other receivables, deposits and prepayments	(7,652)	28,984
Increase in trade payables, accruals and deposits received and bills payable	5,396	1,067
Effect on foreign exchange rate changes, net	78	8
Net cash (outflow)/inflow from operating activities	(4,684)	13,300

NOTES TO THE ACCOUNTS (CONT'D)

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20 Notes to cash flow statement (cont'd)

(b) Analysis of changes in financing during the year

	Obligations under finance leases	
	2004 HK\$'000	2003 HK\$'000
Balance brought forward	880	–
Repayment of capital element of finance leases	(246)	(365)
Inception of finance leases	–	1,245
	<u> </u>	<u> </u>
Balance carried forward	<u>634</u>	<u>880</u>

(c) Purchase of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	<u>–</u>	<u>960</u>
	<u>–</u>	<u>960</u>
	<u> </u>	<u> </u>
Satisfied by		
Cash	<u>–</u>	<u>960</u>
	<u>–</u>	<u>960</u>
	<u> </u>	<u> </u>

The subsidiaries acquired in last year did not contribute to the Group's net operating cash flows, did not make payment in respect of the net returns on investments, servicing of finance, taxation and investing activities.

(d) Analysis of the net outflow in respect of the purchase of subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	<u>–</u>	<u>960</u>
Net cash outflow in respect of the purchase of subsidiaries	<u>–</u>	<u>960</u>

(e) Major non-cash transactions

In last year, the Group entered into finance lease arrangements in respect of fixed assets with total capital value at the inception of the leases of HK\$1,245,000. No finance leases were entered into by the Group during the year.

21 *Contingent liabilities*

- (a) In August 2001, a subsidiary of the Company ("the Subsidiary") sued one of its customers ("the Defendant") for recovery of an amount of approximately HK\$5,333,000 in respect of goods sold and delivered to the Defendant. In September 2001, the Defendant filed a counter-claim in a sum of approximately HK\$6,148,000 against the Subsidiary for the alleged losses and damages as a result of the alleged breach of the supply agreement entered into between the Defendant and the Subsidiary. The proceedings are still in the pleadings stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Subsidiary has a good arguable case against the Defendant for the counter-claim and accordingly no provision in respect of the amount of the counter-claim has been made in the accounts of the Group.
- (b) As at 31 March 2004, the Group had indemnities in respect of performance bonds amounting to approximately HK\$29,000 (2003: HK\$322,000) given to a customer in respect of commitments for the supply of goods to such customer.
- (c) As at 31 March 2004, the Company had guarantees given to certain banks for banking facilities utilised by certain subsidiaries to the extent of approximately HK\$17,000,000.

Apart from the above, the Group and the Company had no material litigation or contingent liabilities as at 31 March 2004 and up to the date of the approval of these accounts.

22 *Commitments*

Commitments under operating leases

As at 31 March 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Not later than one year	15,240	13,730
Later than one year and not later than five years	11,142	20,428
	<u>26,382</u>	<u>34,158</u>

The Company did not have any capital or operating lease commitments at 31 March 2004 (2003: Nil).

23 *Related party transactions*

During the year, the Group undertook the following material transactions with Negotiator Consultants Limited ("NCL"), a company in which Mr. TSE Sun Fat, Henry, Mr. TSE Sun Po, Tony, Mr. TSE Sun Lung, Alan, Mr. WONG Tin Cheung, Ricky and a former director namely, Mr. LEE Chi Wah, Rhodes, have beneficial interests, in the normal course of business at terms mutually agreed between the Group and NCL:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Rental expense paid to NCL	<u>2,500</u>	<u>2,729</u>

24 *Ultimate holding company*

The directors regard Bache Hill Group Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

25 *Approval of accounts*

The accounts were approved by the board of directors on 13 July 2004.