

I N T E R I M R E P O R T 2 0 0 2

Sun Tzu's thirteen chapter titles

- | | |
|-----------------------------|-------------------------------------|
| 1. Situation Appraisal | 8. The Nine Variations |
| 2. Waging War | 9. Marches |
| 3. Strategic Attacks | 10. Terrain |
| 4. Dispositions of the Army | 11. The Nine Types of Battlegrounds |
| 5. Forces | 12. Attacking with Fire |
| 6. Opportunism | 13. Espionage |
| 7. Maneuvers | |



E. BON
怡邦行





The directors of E. Bon Holdings Limited (the “Company”) present the interim report and unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2002 are as follows:

Interim Dividend

As a result of losses sustained for the six months ended 30 September 2002, the directors do not recommend any interim dividend be paid to shareholders for this period.

Review of Operations

For the past six months ended 30 September 2002, the Group’s unaudited accounts show that consolidated turnover was HK\$67.23 million (six months ended 30 September 2001: HK\$78.93 million) and consolidated loss after taxation was HK\$5.03 million (six months ended 30 September 2001: Loss HK\$12.93 million) respectively. It represents a lowering of turnover by 14% as compared with the same period last year. However the loss incurred during this period was substantially lower by 61% as compared with the same period last year. The suspension of sales of Home Ownership Scheme flats has now been made on an indefinite term as addressed by the Secretary for Housing, Planning and Lands in October this year. As stated in our 2002 annual report, much efforts have now been made in replacing the loss of project sales in the public sector by private sector projects and in expanding in retail sales of high end products such as bathroom accessories.

The allegation made against 4 directors of the Company and 2 directors and 3 employees of one of its subsidiaries by the Independent Commission Against Corruption (“ICAC”) was concluded in October this year. 3 employees were acquitted in the middle of trial and the directors alleged to be involved in this case were acquitted with the costs order in favour of the said directors. The Board of Director (“the Board”) is pleased with the Court decision, which simply confirms our earlier announcements related to this case.

During the period, about 38% (six months ended 30 September 2001: 53%) of the Group's turnover was generated from the sale of goods for property development projects. Despite the unnecessary adverse publicity attracted as the result of allegation made public by the ICAC, the Group has been able to obtain various development contracts including the Liberté and Private Sector Housing Estate in Sham Mong Road in West Kowloon. Prestigious projects include 117 Repulse Bay Road and the renovation of the Landmark in Central. This simply lends support that our past good record and commitment to quality products and maintenance works have gained confidence and loyalty among the developers, main contractors and subcontractors. We deal with every project and business transaction with both the skill and heart. No doubt, our customers are one of the key factors to our business success.

At 30 September 2002, the Group employed about 130 devoted employees who continue to improve their working efficiency during the period. Facing with the lowering of turnover due to the continuous worsening and difficult operating environment, the Group has managed to operate effectively, while keeping in line of the prevailing market trend, with the lowering of overheads by some 22% without any recourse to redundancy. To this end, we would like to thank our staff for their efforts and support during this period of the unprecedented challenge.

Financial Position

Notwithstanding the losses incurred during this interim period, we are pleased to report that the Group remains strong financially, with cash generated from wholesale and retail sales via the outlets. The Group has managed to reduce further its reliance on bank borrowings with cash in hand at 30 September amounted to HK\$31.14 million. The Group has no bank borrowings as at 30 September 2002 (31 March 2002 – Nil) and the current ratio, which is calculated based on current assets over current liabilities of the Group, at 30 September 2002 was 12 (31 March 2002: 11.5). The Group has no significant exposure to foreign currency fluctuations. No asset of the Group was held under charge and there was no material capital commitment as at 30 September 2002. During the period the Board had proposed that certain proceeds (approximately HK\$12 million) from the public offering which was originally intended for investment in electronic commerce, will be used to invest in environmental conservation projects in light of and in line with the recent government policy on sustainability. The Group has looked into certain potential products or service lines relating to this area and will continue to do so.

Future Prospects

As Hong Kong people do understand, it will take some time for the gradual recovery of the local property market and the recent radical, decisive and welcome change of Government housing policy, including the restructuring of statutory housing bodies, will no doubt accelerate the recovery of the market. However, as mentioned in our annual reports for the past 2 years, until and unless the issue of the negative equity owners has been resolved or a new middle class of Hong Kong comes into existence to replace them, either of which are unlikely to be seen in near future, we are cautiously optimistic about the recovery of the economy in Hong Kong.

In order to cope with the slow down of the housing projects, both private and public, the Group has and will continue to expand its distribution network in Hong Kong. We have opened further retail outlets during this period. These include Sunny Pro in Wan Chai and H2O (Pro) in Portland Street. The Group will also open a new showroom in Electric Street Wan Chai named OVO LIVING to provide our prestigious customers not only the high end bathroom and kitchen accessories but also the selected luxurious designer living room furniture and accessories. The sales from retail operations have and will contribute higher profit margin than project sales and lower the risk of doubtful debts.

Sun Tzu

I. *With careful and detailed planning, one can win; with careless and less detailed planning, one cannot win.*

How much more certain is defeat if one does not plan at all!

From the way planning is done beforehand, we can predict victory or defeat.

II. *In War it is advantageous to go for swift victory and not prolonged campaigns.*





Meanwhile, the Group continues to expand its operation in China, with China attaining her membership to WTO, the Beijing Olympic in 2008 followed by the World Expo in Shanghai in 2010, this represents an ample of business opportunities as for the Group in Beijing, Shanghai and other part of China. Shanghai Tech Pro International Trading Company Limited, a wholly owned subsidiary, will be expanding its operation and be opening an office to Tinjiang as well as the office in Beijing to ensure that the Group is strategically positioned in these areas. During this period, the Group supplied materials to various building projects in China including JinJiang Hotel in Pudong Shanghai, China World Hotel in Beijing.

Purchase, Sales or Redemption of Shares

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

Directors' Interest in Equity Securities

At 30 September 2002, the interests of the directors in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded.

Interests in shares of the Company

Director	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Mr. TSE Sun Fat, Henry (Note 1)	–	–	–	140,000,000
Mr. TSE Sun Po, Tony (Note 1)	–	140,000,000	–	140,000,000

Note 1: Bache Hill Group Limited ("BHGL") is holding these shares. BHGL is held as to approximately 60.98 per cent. by Tse Brothers Assets Management Limited which is the trustee of The Tse Brothers Unit Trust (which is in turn held by a discretionary trust, The Tse's Family Trust). Mr. TSE Sun Fat, Henry is one of the objects of The Tse's Family Trust. The interest of Mr. TSE Sun Fat, Henry is accordingly regarded as "other interest" as described in Practice Note 5 of the Rules Governing the Listing of the Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). In addition, as the spouse and other family members of Mr. TSE Sun Po, Tony are objects of The Tse's Family Trust. The interests of Mr. TSE Sun Po, Tony are accordingly regarded as "family interest" and "other interest" as described in Practice Note 5 of the Listing Rules.

Interests in shares of associated corporations

(i) BHGL

Director	Number of ordinary shares held				Total
	Personal interest	Family interest	Corporate interest	Other interest	
Mr. TSE Sun Fat, Henry (Note 2)	–	–	–	30,491	30,491
Mr. TSE Sun Po, Tony (Note 2)	–	30,491	–	30,491	30,491
Mr. TSE Sun Lung, Alan	3,025	–	–	–	3,025
Mr. LEE Chi Wah, Rhodes	965	–	–	–	965
Mr. WONG Tin Cheung, Ricky	1,265	–	–	–	1,265

Note 2: These shares are held by Tse Brother Assets Management Limited which is the trustee of The Tse Brothers Unit Trust (which is in turn held by a discretionary trust, The Tse's Family Trust). Mr. Tse Sun Fat, Henry is one of the objects of The Tse's Family Trust. The interest of Mr. TSE Sun Fat, Henry is accordingly regarded as "other interest" as described in Practice Note 5 of the Listing Rules. In addition, as the spouse and other family members of Mr. TSE Sun Po, Tony are objects of The Tse's Family Trust. The interests of Mr. TSE Sun Po, Tony are accordingly regarded as "family interest" and "other interest" as described in Practice Note 5 of the Listing Rules.

(ii) Negotiator Consultants Limited

Director	Personal interest	Number of ordinary shares held			Total
		Family interest	Corporate interest	Other interest	
Mr. TSE Sun Fat, Henry (Note 3)	–	–	–	1	1
Mr. TSE Sun Po, Tony (Note 3)	–	1	–	1	1

Note 3: Such share is held by BHGL. Accordingly, the interest of Mr. TSE Sun Fat, Henry is regarded as “other interest” and the interests of Mr. TSE Sun Po, Tony are regarded as “family interest” and “other interest”, respectively as described in Practice Note 5 of the Listing Rules.

Directors’ Benefits from Rights to Acquire Shares or Debentures

Under the terms of the Company’s share option scheme adopted on 22 March 2000, which is in accordance with the Listing Rules governing share option schemes, the Board of Directors of the Company may, at their discretion, invite any full-time employees or executive directors of the Company or any of its subsidiaries to subscribe for ordinary shares of HK\$0.10 each in the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued share capital of the Company. No options have been granted to the directors since its adoption.

Apart from the above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 30 September 2002, the Company had been notified of the following substantial shareholders’ interests, being 10% or more of the Company’s issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executive.

Name of Shareholder	Number of Shares
BHGL	140,000,000
Tse Brothers Assets Management Limited (Note 4)	140,000,000
Messrs. Kelvin K W Cheung & Chu Hei Chun (Note 4)	140,000,000

Note 4: BHGL is held as to approximately 60.98% by Tse Brothers Assets Management Limited, the entire issued share capital of which is in turn held by Messrs. Kelvin K W Cheung & Chu Hei Chun (who are the trustees of the Tse’s Family Trust). Tse Brothers Assets Management Limited and Messrs. Kelvin K W Cheung & Chu Hei Chun are respectively taken to be interested in these shares under Section 8(2) of the SDI Ordinance.

Information Pursuant to Practice Note 19 of the Listing Rules

The directors of the Company are not aware of any circumstances which would give rise to any disclosure obligations under Practice Note 19 of Listing Rule as at 30 September 2002.

Compliance with the Code of Best Practice of the Listing Rules

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 in the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 September 2002.

Sun Tzu

III. *Know your competitor, know yourself, and your victory will not be threatened, know the terrain, know the weather, and your victory will be complete.*

IV. *The elements of the science of war are; first, measurement of space; second, estimation of expenses; third, calculation of forces; fourth, weighing of possibilities; and fifth, planning for victory.*





Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adapted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30 September 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

	Note	Unaudited	
		Six months ended	
		30 September	
		2002	2001
		HK\$'000	HK\$'000
Turnover	2	67,229	78,934
Cost of sales		(42,710)	(53,878)
Gross profit		24,519	25,056
Other revenue	2	216	655
Selling and distribution expenses		(16,271)	(21,882)
Administrative expenses		(13,502)	(16,149)
Operating loss	3	(5,038)	(12,320)
Finance costs	4	(21)	(610)
Loss before taxation		(5,059)	(12,930)
Taxation	5(b)	28	–
Loss attributable to shareholders		(5,031)	(12,930)
Basic loss per share	6	(HK3 cents)	(HK6 cents)





CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2002

		Unaudited 30 September 2002	Audited 31 March 2002
	Note	HK\$'000	HK\$'000
Fixed assets	7	27,900	27,106
Current assets			
Inventories		40,135	45,223
Trade receivables, other receivables, deposits and prepayments	8	65,211	66,496
Tax recoverable		1,757	1,717
Cash and bank balances		31,142	30,817
		<u>138,245</u>	<u>144,253</u>
Current liabilities			
Trade payables, accruals and deposits received	9	8,438	10,489
Bills payable		2,797	2,045
Current portion of obligations under finance leases	10	280	–
		<u>11,515</u>	<u>12,534</u>
Net current assets		<u>126,730</u>	<u>131,719</u>
Total assets less current liabilities		<u>154,630</u>	<u>158,825</u>
Financed by:			
Share capital	11	20,000	20,000
Reserves		133,503	138,534
Shareholders' funds		<u>153,503</u>	<u>158,534</u>
Non-current liabilities	10	1,127	291
		<u>154,630</u>	<u>158,825</u>

Sun Tzu

- V. *In battle there are only the direct and indirect forces, yet their combinations are limitless and beyond comprehension.*
- VI. *Just as water shapes itself according to the ground, an army (company) should manage its victory in accordance with the situation of the competitor.*
- Just as water has no constant shape, so in warfare there are no fixed rules and regulations.*



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

	Unaudited Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow from operating activities	3,114	1,401
Net cash outflow from investing activities	(2,686)	(1,618)
Net cash outflow from financing activities	(103)	(21,791)
Increase/(decrease) in cash and cash equivalents	325	(22,008)
Cash and cash equivalents at 1 April	30,817	65,427
Cash and cash equivalents at 30 September	<u>31,142</u>	<u>43,419</u>

Cash and cash equivalents represent cash and bank balances at the respective period end dates.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

	Unaudited							Total
	Share capital HK\$'000	Share premium HK\$'000	Revaluation reserve HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	HK\$'000
At 1 April 2001	20,000	41,261	9,947	6,979	2,896	–	78,200	159,283
Loss for the period	–	–	–	–	–	–	(12,930)	(12,930)
At 30 September 2001	<u>20,000</u>	<u>41,261</u>	<u>9,947</u>	<u>6,979</u>	<u>2,896</u>	<u>–</u>	<u>65,270</u>	<u>146,353</u>
At 1 April 2002	20,000	41,261	9,947	6,979	2,896	(44)	77,495	158,534
Loss for the period	–	–	–	–	–	–	(5,031)	(5,031)
At 30 September 2002	<u>20,000</u>	<u>41,261</u>	<u>9,947</u>	<u>6,979</u>	<u>2,896</u>	<u>(44)</u>	<u>72,464</u>	<u>153,503</u>

NOTES TO THE UNAUDITED CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts (“interim accounts”) are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 March 2002. The Group has presented its cash flow statement with effect from 1 April 2002 based on SSAP 15 (revised): “Cash flow statements” issued by the HKSA which is effective for accounting periods commencing on or after 1 January 2002. The comparative figures have been reclassified accordingly. In addition, the following SSAPs issued by the HKSA became effect for accounting periods commencing on or after 1 January 2002 and which are applicable to the Group.

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 25 (revised)	: Interim financial reporting
SSAP 34	: Employee benefits

The adoption of the above SSAPs has no material effect on the Group’s prior year accounts.

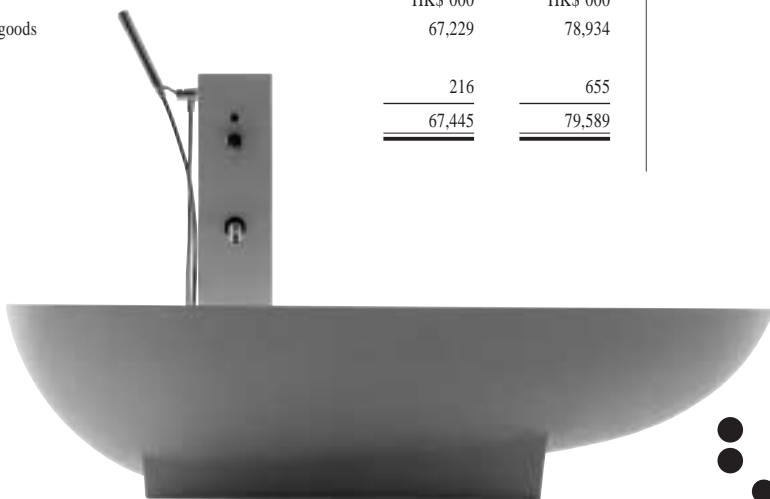
2. Turnover, revenue and segment information

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

	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Turnover – sales of goods	67,229	78,934
Other revenue		
Interest income	216	655
Total revenues	<u>67,445</u>	<u>79,589</u>

Sun Tzu

- VII. *Swift as the Wind*
Calmly majestic as the Forest
Plundering like Fire
Steady as the Mountains
Impenetrable as Darkness
Striking as Thunderbolts.
- VIII. *The generalship of the commander refers to the general's qualities of wisdom, sincerity, benevolence, courage and strictness.*





Primary reporting format – business segments

The Group is organized principally 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.

	Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000
Segment results		
Turnover		
Wholesale	60,935	74,322
Retail	17,101	16,735
Inter-segment elimination	(10,807)	(12,123)
Total turnover	<u>67,229</u>	<u>78,934</u>
Cost of goods sold		
Wholesale	42,476	53,855
Retail	11,041	12,146
Inter-segment elimination	(10,807)	(12,123)
Total cost of goods sold	<u>42,710</u>	<u>53,878</u>
Gross profit		
Wholesale	18,459	20,467
Retail	6,060	4,589
Total gross profit	<u>24,519</u>	<u>25,056</u>
Other costs, net of other revenues and other income		
Wholesale	(22,954)	(29,585)
Retail	(6,603)	(7,791)
Total other costs, net of other revenues and other income	<u>(29,556)</u>	<u>(37,376)</u>
Segment operating loss		
Wholesale	(4,495)	(9,118)
Retail	(543)	(3,202)
Total operating loss	<u>(5,038)</u>	<u>(12,320)</u>
Finance costs	(21)	(610)
Total operating loss after finance cost	<u>(5,059)</u>	<u>(12,930)</u>
Taxation		
Wholesale	28	–
Retail	–	–
Loss attributable to shareholders	<u>(5,031)</u>	<u>(12,930)</u>



Secondary reporting format – geographical segments

No geographical analysis of turnover and operating loss 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.

3. Operating loss

	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Operating loss is stated after charging/(crediting) the following:		
Cost of inventories sold	42,710	53,878
Depreciation:		
Owned fixed assets	1,767	1,322
Leased fixed assets	125	244
Net exchange loss/(gain)	229	(371)
Payments under operating leases for leasehold land and buildings (Write-back of provision)/provision for slow-moving inventories, included in cost of inventories	6,216	5,547
	<u>(3,004)</u>	<u>4,582</u>

4. Finance costs

	Six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Interest on bank borrowings	7	604
Interest element of finance leases	14	6
	<u>21</u>	<u>610</u>

5. Taxation

- (a) No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profits for the period (six months ended 30 September 2001: Nil).
- (b) The movements in the deferred taxation account are as follows:

	Six months ended 30 September	
	2002	2001
Brought forward	291	392
Transfer from profit and loss account	(28)	–
Carried forward	<u>263</u>	<u>392</u>

The deferred taxation is provided for in respect of accelerated depreciation allowances. There is no material unprovided deferred taxation for the period.

Sun Tzu

- IX. Speed is the essence of war. Capitalize on the unpreparedness of the competitor; travel by the unexpected routes; and attack those places where he does not take precautions.
- X. An army (company) may suffer from flight, insubordination, collapse, ruin, disorganization and rout. These six calamities are not attributed to natural causes. They are due to the faults of the general.





6. Loss per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$5,031,000 (six month ended 30 September 2001: loss of HK\$12,930,000) and 200,000,000 shares (30 September 2001: 200,000,000 shares) in issue during the period. Diluted earnings per share for the periods was not disclosed as there were no dilutive potential ordinary shares.

7. Capital expenditure

	Fixed assets HK\$'000
Net book amount as at 31 March 2002	27,106
Additions	2,686
Depreciation	(1,892)
Net book amount as at 30 September 2002	<u>27,900</u>

8. Trade receivables, other receivables, deposits and prepayments

Included in the balance are trade receivables, net of provision, and their aging analysis is as follows:

	0-30 days	31-60 days	61-90 days	Over 90 days	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 30 September 2002	<u>8,492</u>	<u>5,464</u>	<u>7,432</u>	<u>34,852</u>	<u>56,240</u>
Balance at 31 March 2002	<u>12,313</u>	<u>2,633</u>	<u>8,728</u>	<u>39,680</u>	<u>63,354</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 documents against payment.

9. Trade payables, accruals and deposits received

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

	0-30 days	31-60 days	61-90 days	Over 90 days	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at					
30 September 2002	<u>4,227</u>	<u>1,812</u>	<u>196</u>	<u>914</u>	<u>7,229</u>
Balance at 31 March 2002	<u>3,627</u>	<u>564</u>	<u>2,561</u>	<u>1,769</u>	<u>8,521</u>

10. Non-current liabilities

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Obligations under finance leases	1,144	–
Current portion	(280)	–
	864	–
Deferred taxation (note 5(b))	263	291
	<u>1,127</u>	<u>291</u>

At 30 September 2002, the Group's obligations under finance leases were repayable as follows:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Within one year	280	–
In the second year	280	–
In the third to fifth years inclusive	584	–
	<u>1,144</u>	<u>–</u>

11. Share capital

	Authorised ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1 April 2001 and 30 September 2002	<u>1,000,000,000</u>	<u>100,000</u>
	Issued and fully paid ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1 April 2001 and 30 September 2002	<u>200,000,000</u>	<u>20,000</u>

Pursuant to a share option scheme approved on 22 March 2000 which is in accordance with the requirements of the Listing Rules, the executive directors may, at their discretion, grant options to themselves and the full-time employees of the Group entitling them to subscribe for shares representing up to a maximum of 10% of the shares in issue from time to time (excluding shares which have been allotted and issued pursuant to the share option scheme). No share option had been granted by the Company as at 30 September 2002.

12. Contingent liabilities

(a) In August 2001, the Company sued one of its customers ("Defendant A") for recovery of an amount of approximately HK\$5,333,000 in respect of goods sold and delivered to Defendant A. In September 2001, Defendant A filed a counter-claim in a sum of approximately HK\$6,148,000 against the Company for the alleged losses and damages as a result of the alleged breach of the supply agreement entered into between Defendant A and the Company. The proceedings are still in the pleadings stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Company has a good arguable case against Defendant A 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 Company.



Sun Tzu

XI. *Those who reach and occupy the battleground early will have time to rest and wait for the competitor. Those who arrive at the battleground late will have to rush into action when they are already tired and exhausted.*

XII. *There are five ways of attacking with fire:*

*The first is to burn personnel;
the second, to burn stores;
the third, to burn equipment;
the fourth, to burn arsenals;
and the fifth, to burn supply routes.*

XIII. *There are five types of secret agents: local agents, inside agents, double agents, doomed agents and living agents.*



- (b) In August 2001, the Company sued another customer (“Defendant B”) for recovery of an amount of approximately HK\$1,017,000 in respect of goods sold and delivered to Defendant B. In September 2001, Defendant B filed a counter-claim in a sum of approximately HK\$1,443,000 against the Company for the alleged losses and damages as a result of the alleged breach of contract by the Company. The proceedings are still in the pleadings stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Company has a good arguable case against Defendant B 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 Company.
- (c) In November 2001, the Company sued another customer (“Defendant C”) for recovery of an amount of approximately HK\$1,325,000 in respect of goods sold and delivered to Defendant C. In March 2002, Defendant C filed a counter-claim for unspecified amount of damages on the Company for the alleged breach of contract and misrepresentation by the Company. The proceedings are still in the pleadings stage and the directors of the Company, on the basis of independent legal advice obtained, consider the Company has a good arguable case against the customer 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 Company.
- (d) As at 30 September 2002, the Group had indemnities in respect of performance bonds amounting to approximately HK\$2,107,678 (31 March 2002: HK\$2,152,647) given to certain customers in respect of commitments for the supply of goods to such customers.
- Apart from the above, the Group had no material litigation or contingent liabilities as at 30 September 2002 and up to the date of the approval of these condensed interim accounts.

13. Commitments

(a) Commitments under operating leases

At 30 September 2002, the Group had total future aggregate minimum lease payments in respect of land and buildings under non-cancellable operating leases as follows:

	30 September 2002	31 March 2002
	HK\$'000	HK\$'000
No later than one year	11,319	9,623
Later than one year and not later than five years	10,709	3,305
	<u>22,028</u>	<u>12,928</u>

14. Related party transactions

During the period, the Group paid rental expenses of HK\$1,368,000 (six months ended 30 September 2001: HK\$1,368,000) to Negotiator Consultants Limited (“NCL”), a company in which Mr Tse Sun Fat, Henry, Mr Tse Sun Po, Tony, Mr Tse Sun Lung, Mr Lee Chi Wah, Rhodes and Mr Wong Tin Cheung, Ricky, have beneficial interests, in the normal course of business at terms mutually agreed between the Group and NCL.

15. Ultimate holding company

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

On behalf of the Board

TSE, Sun Fat, Henry

Chairman

Hong Kong, 17 December 2002