

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

1. CORPORATE INFORMATION

The Company was previously incorporated in the Cayman Islands as an exempted company under the Cayman Islands Companies Law with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed by the shareholders in an extraordinary general meeting held on 9 June 2003 and approved by the Registrars of Companies in the Cayman Islands and Bermuda on 9 July 2003, the Company de-registered from the Cayman Islands under Section 226 of the Companies Law and re-domiciled in Bermuda under Section 132C of the Companies Act 1981 of Bermuda as an exempted company.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The Group incurred a consolidated loss attributable to shareholders of HK\$97,618,000 for the year ended 31 March 2004 and had net current liabilities of HK\$28,822,000 as at 31 March 2004.

The financial statements have been prepared on a going concern basis, the validity of which depends upon (i) the open offer to strengthen the Company's capital base and to enhance its financial position and (ii) the financial support by the Chairman of the Company of not more than HK\$2.5 million to finance the working capital requirement of the Company.

It was announced on 28 April 2004 that the Company intended to raise approximately HK\$29.2 million, before expenses, by issuing 146,013,900 shares at a price of HK\$0.20 per share by way of an open offer, on the basis of one share for every two shares. The proposed open offer was approved by the special general meeting held on 21 June 2004 and the net proceeds were deposited to the Company's bank account on 19 July 2004.

The accounting policies used in the preparation of the financial statements are consistent with the previous year except that the Group has adopted the revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" which became effective for the current financial year.

The principal effect of the implementation of the revised statement is in relation to deferred tax. In previous years partial provision was made for deferred tax using income statement liability method, that is, a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. The revised statement requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements, the new accounting policy has been adopted retrospectively, but the adoption of the standard has not had any material effect on the results for the current year or prior accounting periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements 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.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March. The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the 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 goodwill or capital reserve which was not previously charged or recognised in the income statement and also any related accumulated foreign currency translation reserve.

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

Subsidiaries are those entities in 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.

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 impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and significant influence is exercised in its management.

The Group's investments in associated companies include the Group's share of the net assets of the associated companies (plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised). The Group's share of post-acquisition results of associated companies is included in the income statement.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Long term investments

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

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the income statement in the period in which they arise. Where the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the income statement to the extent of the amounts previously charged.

(d) Short term investments

Short term investments are investments in unlisted equity securities held for resale and are stated at their fair values, as estimated by the directors, on an individual investment basis. The gains or losses arising from changes in the fair value of a security is credited or charged to the income statement in the period in which they arise.

(e) Revenue recognition

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

- (i) Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed to customers.
- (ii) Revenue from subcontracting services is recognised when the services were performed.
- (iii) Revenue arising from water supply is recognised based on water supplied as recorded by meters read during the year.
- (iv) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Fixed assets

Buildings and other fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Buildings and other fixed assets are depreciated on the straight-line basis to write off the cost or valuation of each asset over their estimated useful lives less any estimated residual value. The estimated useful lives used for this purpose are as follows:

Buildings	50 years or over the lease terms, whichever is shorter
Leasehold improvements	5 years or over the lease terms, whichever is shorter
Plant and machinery	6 years
Water pipelines	10 years
Moulds	4 to 6 years
Furniture, equipment and motor vehicles	5 years
Construction in progress	–

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Major costs incurred in restoring an asset to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

Construction in progress represents water pipelines under construction and is stated at cost less any impairment losses. Cost represents construction costs and is not depreciated. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(g) Impairment of assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Foreign currency translation

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst income statements' items are translated at average rates. Exchange differences are dealt with as a movement in reserves. Upon the disposal of an overseas subsidiary, the related cumulative exchange difference is included in the income statement as part of the gain or loss on disposal.

(k) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At inception finance lease is capitalised at the lower of the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Lease payments are allocated between the capital and finance charges. The corresponding rental obligations, net of finance charges, are recorded as obligations under finance leases. Finance charges are charged to the income statement in proportion to the capital balances outstanding.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(m) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

(n) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition. For the purpose of cash flow statement, bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(o) Trade receivables

Provision is made against trade receivables to the extent which they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(p) Employee benefits

The Group's contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the income statement as incurred.

Pursuant to the PRC laws and regulations, contributions to the retirement benefit scheme for staff of the Company's subsidiaries operating in the PRC are to be made monthly to a government agency at a certain percentage of the basic salaries of the employees. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The contributions are charged to the income statement as they become payable.

(q) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Taxation (Continued)

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, 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.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(r) Borrowing costs

All borrowing costs are charged to the income statement in the year in which they are incurred.

(s) Event after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

4. TURNOVER AND REVENUE

The Group is principally engaged in the manufacture of electronic products and provision of water supply during the year. Revenues recognised during the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of goods	15,176	123,464
Subcontracting income	17,395	–
Water supply	616	–
	33,187	123,464
Other revenue		
Sale of scrap materials	90	1,239
Interest income	2	26
Sundry income	199	99
	291	1,364
Total revenue	33,478	124,828

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND REVENUE (Continued)

Segmental information

Segment information is required by SSAP 26 "Segment reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis; and (ii) on a secondary segment reporting basis.

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 as the secondary reporting format.

In determining the Group's geographical segments, revenue and results are attributable to the segments based on the location of the customers' operations, and assets are attributed to the segments based on the location of the assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND REVENUE (Continued)

Segmental information (Continued)

Business segments

	Electronic products		Electronic components		City water supply and sewage treatment		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
External customers	32,571	122,522	-	942	616	-	-	-	33,187	123,464
Intersegment sales	-	-	-	9,437	-	-	-	(9,437)	-	-
Other revenue	216	1,338	-	-	73	-	-	-	289	1,338
Total	32,787	123,860	-	10,379	689	-	-	(9,437)	33,476	124,802
Segment results	(23,845)	(242,267)	(799)	(5,978)	(1,643)	-	-	-	(26,287)	(248,245)
Interest income									2	26
Unallocated expenses									(8,243)	(13,886)
Loss from operations									(34,528)	(262,105)
Finance costs									(2,424)	(1,141)
Impairment of goodwill	-	-	(16,081)	-	-	-	-	-	(16,081)	-
Impairment losses on investments	-	-	-	-	-	-	-	-	(22,631)	-
Loss on deconsolidation of subsidiaries	(16,670)	-	2,650	-	-	-	-	-	(14,020)	-
Share of losses of associates	-	-	(9,654)	(729)	-	-	-	-	(9,654)	(729)
Loss on deemed partial disposal of interests in associates									-	(4,342)
Loss from operations before taxation									(99,338)	(268,317)
Taxation									-	2,520
Loss from operations after taxation									(99,338)	(265,797)
Minority interests									1,720	2,387
Loss attributable to shareholders									(97,618)	(263,410)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND REVENUE (Continued)

Segmental information (Continued)

Business segments (Continued)

	Electronic products		Electronic components		City water supply and sewage treatment		Eliminations		Consolidated	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets	31,550	76,044	-	35,723	31,470	-	-	(20,573)	63,020	91,194
Interests in associates	-	-	12,835	22,489	-	-	-	-	12,835	22,489
Deposit for acquisition of subsidiaries	-	-	-	-	17,680	-	-	-	17,680	-
Unallocated assets	-	-	-	-	-	-	-	-	4,688	32,491
Total	31,550	76,044	12,835	58,212	49,150	-	-	(20,573)	98,223	146,174
Segment liabilities	10,500	97,769	-	1,925	3,346	-	-	(20,573)	13,846	79,121
Unallocated liabilities	-	-	-	-	-	-	-	-	54,302	12,675
Total liabilities	10,500	97,769	-	1,925	3,346	-	-	(20,573)	68,148	91,796
Other segment information										
Depreciation and amortisation	2,649	22,706	(103)	6,630	701	-	-	-	3,247	29,336
Capital expenditure	22,169	5,162	-	281	45,096	-	-	-	67,265	5,443
Unallocated amounts	-	-	-	-	-	-	-	-	-	32,148
									67,265	37,591
Provision for doubtful debts	-	429	-	-	-	-	-	-	-	429
Loss on disposal of leasehold land and buildings	-	6,513	-	-	-	-	-	-	-	6,513
Loss on disposal of fixed assets, excluding leasehold land and buildings	-	5,149	-	1,769	-	-	-	-	-	6,918
Write-off of fixed assets	711	25,577	-	3,993	-	-	-	-	711	29,570
Write-off of inventories, Euro converters	-	60,887	-	-	-	-	-	-	-	60,887
Write-off of slow-moving inventories	-	31,804	-	-	-	-	-	-	-	31,804
Write-off of damaged inventories	-	35,436	-	-	-	-	-	-	-	35,436
Provision for slowing-moving inventories	-	15,669	-	-	-	-	-	-	-	15,669
Loss in respect of discounts given in collection of trade debts	-	33,331	-	-	-	-	-	-	-	33,331
Write-off of deposits recoverable	-	-	-	-	-	-	-	-	-	10,093

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND REVENUE (Continued)

Segmental information (Continued)

Geographical segment

	Asia		Europe		North and South Americas		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue										
External customers	<u>15,641</u>	<u>42,478</u>	<u>5,218</u>	<u>15,208</u>	<u>12,176</u>	<u>54,065</u>	<u>152</u>	<u>11,713</u>	<u>33,187</u>	<u>123,464</u>
Segment results	<u>(16,921)</u>	<u>(86,323)</u>	<u>(1,356)</u>	<u>(79,860)</u>	<u>(7,791)</u>	<u>(67,449)</u>	<u>(219)</u>	<u>(14,613)</u>	<u>(26,287)</u>	<u>(248,245)</u>
Other segment information										
Segment assets	<u>98,209</u>	<u>144,643</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>1,531</u>	<u>-</u>	<u>-</u>	<u>98,223</u>	<u>146,174</u>
Capital expenditure	<u>67,265</u>	<u>37,591</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,265</u>	<u>37,591</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. LOSS FROM OPERATIONS

Loss from operations is stated after crediting and charging the following:

	Group	
	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold	52,354	126,769
Depreciation	3,350	27,243
Operating leases in respect of land and buildings	2,348	1,843
Auditors' remuneration	420	460
Staff costs (excluding directors' remuneration – note 10):		
Salaries and wages	11,632	8,662
Pension scheme contributions	17	106
	11,649	8,768
Research and development costs	–	4,120
Amortisation of goodwill	(103)	2,093
Provision for doubtful debts	–	429
Exchange losses, net	18	1,300
Loss on disposal of leasehold land and buildings	–	6,513
Loss on disposal of fixed assets, excluding leasehold land and buildings	–	6,918
Write-off of fixed assets	711	29,570
Write-off of deposits recoverable	–	10,093
Write-off of inventories, Euro converters	–	60,887
Write-off of slow-moving inventories	–	31,804
Write-off of damaged inventories	–	35,436
Provision for slow-moving inventories	–	15,669
Loss in respect of discounts given in collection of trade debts	–	33,331
	11,649	8,768

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. FINANCE COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	1,039	623
Interest on mortgage loans wholly repayable after five years	–	339
Interest on finance leases	112	179
Other interest paid to trade creditors	533	–
Interest on promissory notes and convertible note	740	–
	2,424	1,141
	2,424	1,141

7. TAXATION

(a) Taxation in the income statement represents:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current year	–	–
Deferred tax	–	(2,520)
	–	(2,520)
	–	(2,520)

No provision for Hong Kong profits tax and overseas taxation is required since the Group has no assessable profit for the two years ended 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

7. TAXATION (Continued)

- (b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax taxation rate as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>99,338</u>	<u>268,317</u>
Tax at applicable rates of 17.5% (2003: 16%)	(17,384)	(42,931)
Tax effect of income that is not taxable in determining current year's taxable profits	(68,995)	(1,560)
Tax effect of expenses that is not deductible in determining current year's taxable profits	82,081	39,865
Tax effect of deferred tax assets not recognised	4,432	2,388
Utilisation of tax losses not previously recognised	–	(282)
Increase in unrecognised opening deferred tax assets resulting from an increase in tax rate	<u>(134)</u>	<u>–</u>
Taxation for the year	<u>–</u>	<u>(2,520)</u>

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$419,732,000 (2003: profit of HK\$76,103,000) which has been dealt with in the financial statements of the Company.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders for the year of HK\$97,618,000 (2003: HK\$263,410,000) and on the weighted average number of 207,316,293 ordinary shares in issue (2003: 145,456,426 (restated) adjusted to reflect the share consolidation during the year) throughout the year.

The diluted loss per share for the year ended 31 March 2004 was not shown as the ordinary shares issuable under outstanding convertible note were anti-dilutive. There was no potential dilutive shares during the year ended 31 March 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

10. DIRECTORS' AND SIX HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The directors of the Company who are also directors or employees of the subsidiaries comprising the Group received emoluments during the year as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	109	123
Basic salaries, bonuses, allowances and benefits in kind	1,762	709
Pension scheme contributions	11	21
	<u>1,882</u>	<u>853</u>

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

No option was granted to any directors under the share option scheme during the year.

The numbers of executive directors and non-executive directors of the Company whose emoluments fell within the following bands are as follows:

	2004	2003
Nil to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>8</u>	<u>8</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

10. DIRECTORS' AND SIX HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)

(b) Six highest paid individuals

The six highest paid individuals in the Group during the year included three directors (2003: one director), details of whose emoluments have been disclosed above. The emoluments paid to the remaining non-director, highest paid individuals for the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Basic salaries, bonuses, allowances and benefits in kind	614	1,748
Pension scheme contributions	16	48
	<u>630</u>	<u>1,796</u>

The number of the remaining highest paid individuals whose emoluments fell within the following band is as follows:

	2004	2003
Nil to HK\$1,000,000	<u>3</u>	<u>5</u>

During the year, no emoluments were paid by the Group to the directors or any of the three highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. RETIREMENT BENEFITS

According to the Mandatory Provident Fund ("MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000 the Group is required to participate in MPF scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

Employees of the Group in the PRC participated in retirement benefit plans (社會保險基金) under which the Group is required to make monthly contributions based on certain percentages of the applicable payroll costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

12. FIXED ASSETS

Group

	Buildings	Leasehold improvements	Plant and machinery	Water pipelines	Moulds	Furniture, equipment and motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation								
At 1 April 2003	-	2,792	27,368	-	51,336	3,944	-	85,440
Additions	-	20	4	-	2,701	217	2,998	5,940
Acquisition of subsidiaries	2,318	5,892	16,410	18,364	-	380	281	43,645
Write-off	-	-	-	-	-	(2,594)	-	(2,594)
Revaluation	-	-	-	-	10,524	66	-	10,590
Deconsolidation of subsidiaries	-	(2,792)	(28,112)	-	(48,604)	(1,695)	-	(81,203)
At 31 March 2004	2,318	5,912	15,670	18,364	15,957	318	3,279	61,818
Accumulated depreciation								
At 1 April 2003	-	2,710	9,770	-	16,949	2,827	-	32,256
Charge for the year	348	888	1,585	460	-	69	-	3,350
Write-off	-	-	-	-	-	(1,883)	-	(1,883)
Deconsolidation of subsidiaries	-	(2,710)	(9,768)	-	(15,310)	(945)	-	(28,733)
At 31 March 2004	348	888	1,587	460	1,639	68	-	4,990
Net book value								
At 31 March 2004	1,970	5,024	14,083	17,904	14,318	250	3,279	56,828
At 31 March 2003	-	82	17,598	-	34,387	1,117	-	53,184
The analysis of the cost or valuation at 31 March 2004 of the above assets are as follows:								
At cost	2,318	5,912	15,670	18,364	2,732	233	3,279	48,508
At valuation	-	-	-	-	13,225	85	-	13,310
	2,318	5,912	15,670	18,364	15,957	318	3,279	61,818

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

12. FIXED ASSETS (Continued)

At 31 March 2004, the Group's certain moulds and equipment were revalued on the fair market value of continued use by Grant Sherman Appraisal Limited at RMB14,107,000 (equivalent to HK\$13,310,000). A surplus on revaluation of approximately HK\$10,590,000 arising from the above valuation had been charged to the fixed assets revaluation reserve.

Had the moulds and the equipment been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$2,720,000 (2003: Nil).

The net book value of the Group's fixed assets held under finance lease included in the total amount of the motor vehicles at 31 March 2004, amounted to HK\$Nil (2003: approximately HK\$711,000).

13. GOODWILL – GROUP

	HK\$'000
Cost	
At 1 April 2003	15,838
Deconsolidation of subsidiaries	<u>(15,838)</u>
At 31 March 2004	<u>–</u>
Accumulated amortisation	
At 1 April 2003	4,001
Deconsolidation of subsidiaries	<u>(4,001)</u>
At 31 March 2004	<u>–</u>
Net book value	
At 31 March 2004	<u><u>–</u></u>
At 31 March 2003	<u><u>11,837</u></u>

The amount of goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisitions. Goodwill is recognised as an asset and amortised on the straight-line basis over its estimated useful life of not exceeding five years. During the year, the subsidiaries were deconsolidated from the Group. The loss on deconsolidation of subsidiaries is calculated by reference to the net liabilities at the date of deconsolidation, including the attributable amount of goodwill which remains unamortised of HK\$11,837,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	95,229	95,229
Less: Provision for impairment	(77,800)	(77,800)
	<u>17,429</u>	<u>17,429</u>
Due from subsidiaries (note b)	425,613	387,810
Less: Provision	(405,000)	–
	<u>20,613</u>	<u>387,810</u>
	<u><u>38,042</u></u>	<u><u>405,239</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. INVESTMENTS IN SUBSIDIARIES (Continued)

(a) Details of the principal subsidiaries at 31 March 2004 are as follows:

Company	Place of incorporation/ principal place of operation	Attributable equity interest	Issued and fully paid share capital	Principal activities
Held directly:				
Cedar Base (BVI) Limited	British Virgin Islands/ Hong Kong	100%	Ordinary US\$200	Investment holding
Held indirectly:				
Cedar Base International Limited	Hong Kong/ Hong Kong	100%	Ordinary HK\$10	Trading of electronic products
Cedar Promotions Company Limited	Hong Kong/ Hong Kong	100%	Ordinary HK\$10,000	Trading of electronic products and investment holding
Graham Industrial Limited	British Virgin Islands/The PRC	55%	Ordinary US\$100	Provision of subcontracting services
China Water Affairs Group Limited	Hong Kong/ Hong Kong	100%	Ordinary HK\$2	Investment holding
China Water Supply Group Limited	Hong Kong/ Hong Kong	100%	Ordinary HK\$2	Investment holding
Limbrick Investment Limited	British Virgin Islands/ Hong Kong	100%	Ordinary US\$1	Investment holding
Superwise Business Limited	British Virgin Islands/ Hong Kong	100%	Ordinary US\$100	Investment holding
廣東仁化銀龍供水有限公司	The PRC/ The PRC	73%	Paid-up capital RMB8,324,000	Water supply
東莞銀龍電子有限公司	The PRC/ The PRC	100%	Paid-up capital HK\$2,100,000	Manufacture and trading of electronic products

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. INVESTMENTS IN SUBSIDIARIES (Continued)

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

- (b) Amounts due from subsidiaries are unsecured, interest free and are not repayable within the next twelve months.

15. LONG TERM INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investments outside Hong Kong, at cost		
Hodgkins Enterprises Limited (note a)	9,000	9,000
Less: Reduction due to a warranty claim (note 27)	(6,000)	–
Less: Provision for impairment	(3,000)	–
	–	9,000
Shanghai Jianhua Satellite Communication Co., Ltd	23,148	23,148
Less: Reclassified to short term investment (note b)	(23,148)	–
	–	23,148
	–	32,148

Note:

- (a) The Group has issued nine promissory notes with an aggregate principal amount of HK\$9,000,000 in consideration for the acquisition of 30% equity interest in Hodgkins Enterprises Limited (“Hodgkins”). During the year, a warranty claim of HK\$6,000,000 was raised by the Group against the vendor which resulted in an off-set against the HK\$9,000,000 outstanding promissory notes and investment cost respectively. Due to continued losses of Hodgkins, full provision for impairment was made in current year.
- (b) The Group has 10% equity investment in Shanghai Jianhua Satellite Communication Co., Ltd (“Shanghai Jianhua”). The directors after review of the earning potential and financial position of Shanghai Jianhua have considered its performance was disappointing. In view of this, the directors are considering to dispose its interest in Shanghai Jianhua when opportunities arise. Accordingly, the investment cost was reclassified to short term investment (note 19).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

15. LONG TERM INVESTMENTS (Continued)

Particulars of the investee companies are as follows:

Name	Place of incorporation	Class of shares held	Percentage of equity interest attributable to the Group	Principal activities
Hodgkins	British Virgin Islands	Ordinary shares	30%	System integration and training
Shanghai Jianhua	The PRC	Registered capital	10%	Operation of satellite communication business

16. DEPOSIT FOR ACQUISITION OF SUBSIDIARIES – GROUP

On 17 December 2003, a wholly owned subsidiary of the Company entered into two sale and purchase agreements pursuant to which the wholly owned subsidiary has agreed to acquire from an independent third party 55% equity interest in each of two companies incorporated in the PRC together with the attributable shareholders' loans for a total consideration of HK\$17,680,000. The consideration will be settled by cash for HK\$7,072,000 and by convertible note for HK\$10,608,000. Details of the convertible note please refer to note 28. The two companies are in the process of applying to the relevant PRC authorities to transform from domestic incorporated companies into sino-foreign joint venture companies. The consideration will be classified as investments in subsidiaries after the completion of the transformation.

17. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Material supplies	308	–
Raw materials	–	22,267
Work in progress	–	797
Finished goods	545	440
	<u>853</u>	<u>23,504</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

18. TRADE RECEIVABLES

The Group has a policy of allowing trade customers with credit period normally 30 days. An aged analysis of the trade receivables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	8	1,754
91 – 180 days	6	–
Over 180 days	–	3
	14	1,757

19. SHORT TERM INVESTMENT

The investment in Shanghai Jianhua was reclassified from long term investment during the year and stated at fair value as estimated by the directors (note 15(b)).

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted equity investment outside Hong Kong, at cost	23,148	–
Less: Provision of impairment	(19,631)	–
	3,517	–

20. INTERESTS IN ASSOCIATES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets other than goodwill	12,835	22,489

On the adoption of SSAP 30, the Group applied the transitional provisions of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves. The movement of goodwill so eliminated is as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

20. INTERESTS IN ASSOCIATES (Continued)

	Group HK\$'000
Cost	
At 1 April 2003 and at 31 March 2004	28,550
Accumulated impairment	
At 1 April 2003	12,469
Addition for the year	16,081
At 31 March 2004	28,550
Net book value	
At 31 March 2004	—
At 31 March 2003	16,081

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Held indirectly:				
Electronics Tomorrow Manufactory Inc. ("ETMI")	Corporate	British Virgin Islands	35%	Investment holding
E-Top PCB Limited	Corporate	Hong Kong	35%	Trading of printed circuit boards
Plentiful Light Limited	Corporate	British Virgin Islands/The PRC	35%	Manufacture of printed circuit boards
Dongguan Yifu Circuit Board Factory ("DG Yifu")	Corporate	The PRC	29.4%	Manufacture of printed circuit boards

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

20. INTERESTS IN ASSOCIATES (Continued)

The financial statements of the above associates (collectively the "ETMI Group") have a financial year ending 31 December. The consolidated financial statements have been adjusted for material transactions, if any, between these associates and the Group companies between 1 January and 31 March.

The assets and liabilities of ETMI Group as at 31 December 2003 together with the turnover and net loss attributable to shareholders for the year ended 31 December 2003 are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	<u>141,183</u>	<u>106,872</u>
Net loss attributable to shareholders	<u>19,425</u>	<u>2,082</u>
ASSETS AND LIABILITIES		
Non-current assets	43,104	50,666
Current assets	86,010	58,149
Current liabilities	(68,402)	(28,699)
Non-current liabilities	(7,000)	(7,000)
Minority interests	(8,899)	(8,896)
	<u>44,813</u>	<u>64,220</u>

21. BANK AND CASH BALANCES – GROUP

Included in the bank and cash balances of the Group, HK\$1,563,000 (2003: HK\$33,000) were denominated in Renminbi ("RMB"), which was not freely convertible to other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

22. TRADE AND BILLS PAYABLE

The credit terms of trade payables varies according to the terms agreed with different suppliers. The aging analysis of trade payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	11	609
91 – 180 days	–	2,482
Over 180 days	713	31,167
	<u>724</u>	<u>34,258</u>

23. BANK LOANS

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans repayable within one year		
– secured	<u>10,566</u>	<u>8,308</u>

At 31 March 2004, the bank loans were secured by properties owned by Renhua County of the PRC Government and the joint venture partner of a subsidiary, and the water supply rights of a subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

24. OTHER LOANS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Other loans repayable within five years				
– secured	3,003	–	3,003	–
– unsecured	11,311	–	–	–
	<u>14,314</u>	<u>–</u>	<u>3,003</u>	<u>–</u>
Repayable:				
Within one year	6,956	–	3,003	–
In the second year	–	–	–	–
In the third to fifth year, inclusive	7,358	–	–	–
	<u>14,314</u>	<u>–</u>	<u>3,003</u>	<u>–</u>

Included in other loans was a loan of HK\$3,003,000 which was secured by a personal guarantee given by a director of the Company.

25. OBLIGATION UNDER FINANCE LEASE

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	284	3,865
Future finance charges on finance lease	(43)	(215)
Present value of finance lease liabilities payable within one year	<u>241</u>	<u>3,650</u>

26. DUE TO A SHAREHOLDER, A DIRECTOR, A RELATED COMPANY AND MINORITY SHAREHOLDERS – GROUP AND COMPANY

The amounts due to a shareholder, a director, a related company and minority shareholders of subsidiaries are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

27. PROMISSORY NOTES

	Group	
	2004 HK\$'000	2003 HK\$'000
Hodgkins (note a)	3,000	9,000
Graham Industrial Limited (note b)	10,480	–
	13,480	9,000
Current portion of promissory notes	(3,000)	–
	10,480	9,000

Note:

- (a) The Group has issued nine promissory notes with an aggregate principal amount of HK\$9,000,000 in consideration for the acquisition of Hodgkins Enterprises Limited. The promissory notes are unsecured, interest free and are repayable on 30 December 2004. During the year, HK\$6,000,000 promissory notes were off-set as a result of a warranty claim (note 15(a)).
- (b) On 30 June 2003, the Group issued six promissory notes with an aggregate principal amount of HK\$10,480,000 in consideration for the acquisition of Graham Industrial Limited. The promissory notes are unsecured, interest bearing at seven per cent per annum and are repayable on 29 June 2006.

28. CONVERTIBLE NOTE – GROUP AND COMPANY

On 17 December 2003, the Company issued convertible note in the principal amount of HK\$10,608,000 as consideration of acquisitions of two companies incorporated in the PRC (note 16). The convertible note bears interest at six per cent per annum with maturity date of three years from the date of issuance and are repayable after three years from the date of issuance or convertible into shares of the Company at the conversion price of HK\$0.80 subject to adjustments as stipulated in the convertible note at any time after six months from the date of issuance. During the year, none of the convertible note were converted into shares of the Company.

29. DEFERRED TAX

At the balance sheet date, the Group has deferred tax assets in respect of unused tax losses of HK\$2,889,000 (2003: HK\$3,047,000) available for offset against future profits. These deferred tax assets have not been recognised due to the unpredictability of future profit streams. Included in the unrecognised deferred tax assets are HK\$333,000 that will expire within the coming five years up to 2008. Other losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

30. SHARE CAPITAL

(A) Shares

	Number of shares '000	Par value HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each at 1 April 2002 and 31 March 2003	10,000,000	1,000,000
Capital restructuring (note a)	<u>10,000,000</u>	<u>(800,000)</u>
Ordinary shares of HK\$0.01 each at 31 March 2004	<u>20,000,000</u>	<u>200,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 1 April 2002	1,312,524	131,252
Open offer of shares	437,508	43,751
Bonus issue of shares	<u>1,312,524</u>	<u>131,253</u>
Ordinary shares of HK\$0.10 each at 31 March 2003	3,062,556	306,256
Capital restructuring (note a)	(2,909,428)	(304,725)
Shares issued for conversion of convertible bonds (note b)	60,000	600
Placing of existing shares (note c)	70,000	700
Shares issued for settlement of creditors (note d)	<u>8,900</u>	<u>89</u>
Ordinary shares of HK\$0.01 each at 31 March 2004	<u>292,028</u>	<u>2,920</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

30. SHARE CAPITAL (Continued)

(A) Shares (Continued)

Note:

- (a) Pursuant to resolutions passed at a special general meeting held on 9 June 2003, a capital restructuring was proposed, approved and became unconditional on 25 July 2003 as follows:
- (i) A reduction in the issued share capital in the amount of HK\$0.0995 for every issued share at a nominal value of HK\$0.10 each of the Company. The credit will be set-off against the accumulated losses of the Company. Any remaining balance will be credited to the contributed surplus account of the Company;
 - (ii) A subdivision of each authorised, but unissued share of the Company at HK\$0.10 each into 200 shares at HK\$0.0005 each (the "Reduced Share");
 - (iii) A reduction of the authorised share capital of the Company from the original amount of HK\$1,000,000,000 to HK\$200,000,000, which will be represented by 400,000,000,000 Reduced Shares; and
 - (iv) A consolidation of every 20 Reduced Shares of HK\$0.0005 each credited by the capital reduction in (i) and (ii) above into one share of HK\$0.01 each.
- (b) On 20 May 2003 and 18 July 2003, the Company entered into underwriting agreements with an independent placing agent to subscribe for convertible bonds in aggregate principal amounts of HK\$6 million and HK\$7.5 million respectively. The convertible bonds have the rights to convert into shares at a conversion price of HK\$0.20 and HK\$0.25 per share respectively. All the convertible bonds were converted into 30,000,000 and 30,000,000 shares respectively during the year.
- (c) On 2 October 2003 and 18 February 2004, a shareholder entered into placing agreements with an independent placing agent for the placement of 32,500,000 and 37,500,000 ordinary shares of the Company owned by the shareholder at a price of HK\$0.30 and HK\$0.315 per share respectively. Pursuant to the top-up agreements of the same dates, the shareholder subscribed for 32,500,000 and 37,500,000 new ordinary shares of the Company at a price of HK\$0.30 and HK\$0.315 per share respectively. The placement of shares raised total consideration of approximate HK\$9.75 million (before expenses) and approximate HK\$11.8 million (before expenses) respectively.
- (d) On 25 October 2003, the Company entered into eight settlement agreements with eight creditors whereby the Company will issue an aggregate of 8,900,000 shares at HK\$0.40 each to the creditors to settle the outstanding debt owed by the Company to the creditors of an aggregate amount of HK\$3,560,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

30. SHARE CAPITAL (Continued)

(B) Share option scheme

On 6 September 2002, the share option scheme of the Company adopted on 22 September 1999 ceased to operate and a new share option scheme (the "Scheme") was adopted on the same date to comply with the new requirements of Chapter 17 of the Listing Rules regarding share option scheme of a company.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholders in the Company's subsidiaries. The Scheme became effective on 6 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options.

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

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

No share options have been granted since the adoption of the Scheme and the Company had no share options outstanding as the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

31. RESERVES

(a) Group

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

The amount of the goodwill remaining in consolidated reserves, arising from the acquisition of associates in prior years, was HK\$Nil (2003: HK\$16,081,000), as at 31 March 2004. Details of the movement in goodwill are included in note 20 to the financial statements.

The capital reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares in October 1999 (the "Reorganisation") over the nominal value of the share capital of the Company issue in exchange thereafter.

The contributed surplus of the Group represents the difference between the reduction in the issued share capital of HK\$0.0995 for every issued share at a nominal value of HK\$0.10 each of the Company and amount to be set-off against the accumulated losses of the Company. Details please also refer to note 30(A)(a)(i).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

31. RESERVES (Continued)

(b) Company

	Share premium HK\$'000	Capital reserve HK\$'000	Retained profits/ (accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2002	113,204	95,029	(54,004)	154,229
Profit for the year	–	–	76,103	76,103
Bonus issue of shares	(110,117)	–	(21,136)	(131,253)
Share issue expenses	(3,087)	–	–	(3,087)
At 31 March 2003	–	95,029	963	95,992
Capital restructuring (note 30(A)(a))	–	70,725	234,000	304,725
Conversion of convertible bonds (note 30(A)(b))	12,900	–	–	12,900
Placing of existing shares (note 30(A)(c))	20,863	–	–	20,863
Shares issued for settlement of creditors (note 30(A)(d))	3,471	–	–	3,471
Share issue expenses	(649)	–	–	(649)
Loss for the year	–	–	(419,732)	(419,732)
At 31 March 2004	<u>36,585</u>	<u>165,754</u>	<u>(184,769)</u>	<u>17,570</u>

The capital reserve of the Company of HK\$95,029,000 as at 31 March 2003 represented the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

Under the Companies Law of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(a) Analysis of changes in financing during the year is as follows:

	Promissory notes	Obligation under finance lease	Share capital	Share premium	Convertible bonds	Bank and mortgage loans	Other loans	Due to a related company	Due to a shareholder	Due to a director	Due to minority shareholders of subsidiaries	Trust receipt loans
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2002	-	5,231	131,252	113,204	-	17,257	-	-	-	-	-	2,344
Repayment of trust receipt loans	-	-	-	-	-	-	-	-	-	-	-	(2,344)
Issue of promissory notes for the acquisition of a long term investment	9,000	-	-	-	-	-	-	-	-	-	-	-
Repayment of finance lease obligation	-	(1,581)	-	-	-	-	-	-	-	-	-	-
Repayment of bank and mortgage loans	-	-	-	-	-	(8,949)	-	-	-	-	-	-
Proceeds from issue of shares	-	-	43,751	-	-	-	-	-	-	-	-	-
Bonus issue of shares	-	-	131,253	(110,117)	-	-	-	-	-	-	-	-
Share issue expenses	-	-	-	(3,087)	-	-	-	-	-	-	-	-
Advance from a shareholder	-	-	-	-	-	-	-	-	4,630	-	-	-
At 31 March 2003	9,000	3,650	306,256	-	-	8,308	-	-	4,630	-	-	-
Proceeds from issue of convertible note	-	-	-	-	13,500	-	-	-	-	-	-	-
Repayment of finance lease obligation	-	(3,409)	-	-	-	-	-	-	-	-	-	-
Proceeds from issue of shares	-	-	789	24,334	-	-	-	-	-	-	-	-
Share issue expenses	-	-	-	(649)	-	-	-	-	-	-	-	-
Capital restructuring	-	-	(304,725)	-	-	-	-	-	-	-	-	-
Cancellation of promissory notes	(6,000)	-	-	-	-	-	-	-	-	-	-	-
Conversion of convertible bonds	-	-	600	12,900	(13,500)	-	-	-	-	-	-	-
Other loans raised	-	-	-	-	-	-	3,003	-	-	-	-	-
Repayment of other loans	-	-	-	-	-	-	(2,038)	-	-	-	-	-
Repayment of bank loans	-	-	-	-	-	(4,830)	-	-	-	-	-	-
Advance from a related company	-	-	-	-	-	-	-	472	-	-	-	-
Deconsolidation of subsidiaries	-	-	-	-	-	(3,472)	-	-	-	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	10,566	13,349	-	-	-	-	-
Advance from a director	-	-	-	-	-	-	-	-	-	1,811	-	-
Repayment to a shareholder	-	-	-	-	-	-	-	-	(1,500)	-	-	-
Advance from minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	372	-
Issue of convertible note for the acquisitions of 2 companies in the PRC	-	-	-	-	10,608	-	-	-	-	-	-	-
Issue of promissory note for the acquisition of subsidiaries	10,480	-	-	-	-	-	-	-	-	-	-	-
At 31 March 2004	13,480	241	2,920	36,585	10,608	10,566	14,314	472	3,130	1,811	372	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

(b) Acquisition of subsidiaries in the PRC (Continued)

	Group	
	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Fixed assets	43,645	–
Inventories	2,744	–
Trade receivables	–	–
Prepayments, deposits and other receivables	3,441	–
Bank and cash balances	3,520	–
Accrued liabilities and other payables	(2,544)	–
Other loans	(13,349)	–
Bank loans	(10,566)	–
Trade and bills payable	(1,785)	–
	25,106	–
Goodwill on acquisition	(103)	–
	25,003	–
Satisfied by:		
Cash	3,012	–
Injection by minority shareholders	11,511	–
Promissory notes (note 27)	10,480	–
	25,003	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

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

(b) Acquisition of subsidiaries in the PRC (Continued)

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Cash consideration	(3,012)	–
Bank and cash balances acquired	3,520	–
	<u> </u>	<u> </u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>508</u>	<u>–</u>

33. LEASE COMMITMENTS

The Group had the following outstanding lease commitments under non-cancellable operating leases in respect of land and buildings payable as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	309	1,242
In the second to fifth years inclusive	98	915
	<u> </u>	<u> </u>
	<u>407</u>	<u>2,157</u>

34. CAPITAL COMMITMENTS

At 31 March 2004, the Group committed to make a capital injection to an equity venture operating in the PRC which is engaged in city water supply business in the PRC of approximately HK\$6.9 million (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

- (a) As at 31 March 2004, the Group's banking facilities were secured by the following related parties:
- (i) legal charges on certain properties owned by a joint venture partner of a subsidiary (2003: Nil); and
 - (ii) legal charges on certain properties owned by one (2003: two) related parties.
- (b) During the year, Mr. Duan Chuan Liang, a director of the Company, advanced approximately HK\$1.8 million to the Company and the Group. The advance included in financial statements is interest free, unsecured and is repayable on demand.
- (c) At 31 March 2004, Mr. Duan Chuan Liang, a director of the Company, has given a personal guarantee as security for a loan at approximate HK\$3 million.
- (d) During the year, a related company which beneficially owned by Mr. Duan Chuan Liang, a director of the Company, has advanced approximately HK\$0.5 million to the Group. The advance is interest free, unsecured and is repayable on demand.

36. POST BALANCE SHEET EVENTS

- (a) On 28 April 2004, the Company announced a proposed open offer of new shares on the basis of one offer share for every two shares held on 21 June 2004. The expected gross amount of the open offer will be HK\$29.2 million (before expenses). The proposed open offer was approved on the special general meeting held on 21 June 2004 and the net proceeds were deposited to the Company's bank account on 19 July 2004..
- (b) One of the companies incorporated in the PRC as mentioned in note 16 to the financial statements has subsequently transformed from a domestic incorporated company into a sino-foreign joint venture company on 20 July 2004. Hence, the company became a subsidiary of the Group with effect from 20 July 2004.

37. COMPARATIVE FIGURES

The comparative figures were audited by another firm of certified public accountants in Hong Kong. Certain comparative figures have been reclassified to conform to current year's presentation.