1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's shares had been suspended for trading on the Stock Exchange since 23 April 2002.

The Group has, since December 2002, been re-activated its business and engaged principally in the distribution of computer related products.

Based upon the operations of the Group's new distribution business, the Current Directors who were appointed as a result of the shareholders of the Company requisitioning a special general meeting of the Company to remove all former directors of the Company (except one independent non-executive director) on 21 June 2002 (the "Current Directors"), are of the view that the Company is able to satisfy the requirement under the Stock Exchange and therefore trading of the shares of the Company may be resumed. Accordingly, the trading in the shares of the Company on the Stock Exchange was resumed on 15 May 2003.

The Company continued to act as an investment holding company. The activities of its principal subsidiaries are set out in note 32.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) In preparing the financial statements, the Current Directors have given careful consideration to the going concern of the Group in the light of net current liabilities of approximately HK$4,169,000 as at 31 March 2003.

As at 31 March 2003, the Company had 24,178,700 outstanding preference shares of HK$1.00 each which should have been redeemed at par on 22 October 2001. On 15 October 2001, the Company received a demand letter from a preference shareholder, who holds 24,137,700 preference shares of HK$1.00 each, requesting for the redemption of the preference shares. No further action has been taken by this preference shareholder since 15 October 2001. Against this background, the Company is currently in negotiation with the preference shareholders to reschedule the repayment terms ("Refinancing Arrangements").

2. **BASIS OF PREPARATION OF FINANCIAL STATEMENTS** *(continued)*

(a) *(continued)*

On 14 May 2003, the Company announced its intention to raise net proceeds of approximately HK$6,000,000 from a rights issue ("Rights Issue") in order to settle the liabilities of the Group and for the further expansion of the Group's distribution business. The Company has entered into a conditional agreement with Mr. Ko Chun Shun on 12 May 2003, a shareholder of the Company, to underwrite the Rights Issue.

On the basis that the Refinancing Arrangements and the Rights Issue can be completed successfully, the Current Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

(b) These financial statements were prepared based on the limited financial information left by the former management and other latest information and records available to the Current Directors who were appointed on 21 June 2002. The Current Directors have used their best endeavours to access all the financial and business records of the Group. Most of the books and records are kept at the office of the subsidiaries in Shanghai. Despite repeated requests and demands, the Current Directors continue to be denied access to the books and records situated in Shanghai as the persons present at that office refused to recognise the authority of the Current Directors. The Current Directors have instructed the Company's lawyers to assist in gaining access to such records. In view of this, the Current Directors were unable to obtain sufficient information to satisfy themselves regarding the matters described below.

2. **BASIS OF PREPARATION OF FINANCIAL STATEMENTS** *(continued)*

(b) *(continued)*

(i) The Current Directors have been unable to satisfy themselves that the following amounts included in the consolidated balance sheet as at 31 March 2002 of the Group were free from material misstatement.

— Investments in jointly controlled entities with nil amount;

— Other investments of HK$16,346,000 with provision for impairment loss on these investments of HK$16,346,000;

— Trade and other receivables of HK$13,323,000;

— Bank balances and cash of HK$19,909,000;

— Trade and other payables of HK$29,837,000;

— Amount due to a shareholder of HK$5,691,000;

— Short-term loan of HK$1,414,000; and

— Reserves with a net debit balance of HK$40,245,000.

(ii) The Current Directors have been unable to satisfy themselves as to whether the following amounts included in the consolidated income statement for the year ended 31 March 2003 are free from material misstatement.

— Write back of accruals of HK$2,130,000;

— Allowance for doubtful recovery on other receivables of HK$281,000;

— Write-off of property, plant and equipment of HK$36,000; and

— Loss on disposal of subsidiaries of HK$615,000.

2. **BASIS OF PREPARATION OF FINANCIAL STATEMENTS** *(continued)*

(b) *(continued)*

(iii) Due to the inability of the Group to control certain of its operating subsidiaries, the Current Directors are of the opinion that these companies can no longer be treated as subsidiaries of the Group. As a result, these companies are treated as other investments in the Group's financial statements with effect from 1 April 2002, the date the latest unaudited management accounts of these companies are available. Particulars of these subsidiaries are set out in note 16. Accordingly, certain subsidiaries were deconsolidated from the consolidated financial statements with effect from 1 April 2002.

Because these subsidiaries were included in the consolidated financial statements for the year ended 31 March 2002 based on unaudited management accounts, the Current Directors have been unable to satisfy themselves that the gain on deconsolidation of HK$525,000 included in the consolidated income statement for the year ended 31 March 2003, together with the associated disclosures in note 23, are free from material misstatement.

(iv) The Current Directors have been unable to obtain sufficient documentation to satisfy themselves as to whether trade and other payables amounting to approximately HK$473,000 included in the consolidated balance sheet as at 31 March 2003 were free from material misstatement.

(v) The Current Directors have been unable to represent as to the completeness of recording of transactions entered into by the Group for the period from 1 April 2002 to 21 June 2002 and of the completeness of disclosure of claims, commitments and contingent liabilities in the financial statements. Furthermore, the Current Directors have been unable to substantiate the validity of the capital commitments and contingent liabilities disclosed in notes 28 and 29 respectively. The Current Directors have also unable to represent as to the completeness of identification and disclosure of related party transactions for the period from 1 April 2002 to 21 June 2002.

3. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 4. In addition, the adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the introduction of a statement of changes in equity. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

Foreign Currencies

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

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings — operating, investing and financing, rather than the previous five headings. Interest received and paid are now classified as operating cash flows.

Cash flows of overseas subsidiaries have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee Benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group only participates in defined contribution retirement benefit scheme, the adoption of SSAP 34 has not had any significant impact on the financial statements of the Group for the current or prior periods.

4. **SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for the valuation of other investments.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

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

Goodwill and capital reserve

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

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

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity is included within the carrying amount of the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Negative goodwill *(continued)*

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition over the cost of acquisition.

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

Negative goodwill arising on acquisitions after 1 April 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of a jointly controlled entity is deducted from the carrying value of that jointly controlled entity. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

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

Turnover

Turnover represents the net amounts received and receivable for goods sold and services provided, less returns and allowances, during the year.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when the services are rendered.

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

Other Investments

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any identified impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, over the following estimated useful lives:

Machinery, equipment and tools	3 — 10 years
Computer hardware and software	3 years

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

Transactions in foreign currencies are initially recorded at the rate of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or expense in the period in which the operations are disposed of.

Retirement benefits scheme

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as expense as they fall due.

Taxation

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

5. TURNOVER

The Group is principally engaged in manufacture and distribution of computer related products and consumer electronic products and the provision of e-business solutions. The turnover is analysed as follows:

	2003	2002
	HK$'000	*HK$'000*
Manufacture and distribution of computer related products	**11,315**	9,935
Professional service fee	**—**	145
	11,315	10,080

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is principally engaged in manufacture and distribution of computer related products and consumer electronic products in the PRC, including Hong Kong. Accordingly, no analysis of segmental information is presented.

7. OTHER OPERATING INCOME

	2003	2002
	HK$'000	*HK$'000*
Interest income	**—**	24
Other income	**60**	550
	60	574

8. LOSS FROM OPERATIONS

	2003	2002
	HK$'000	*HK$'000*
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**200**	250
Cost of inventories sold	**10,705**	9,645
Exchange loss, net	**—**	7
Operating lease rentals in respect of		
Land and buildings	**31**	2,149
Equipment and others	**37**	—

9. DIRECTORS' EMOLUMENTS

The emoluments of the directors and the five highest paid individuals are summarised as follows:

(a) Directors' emoluments

	2003	2002
	HK$'000	*HK$'000*
Fees	**—**	—
Other emoluments:		
Salaries and other benefits	**270**	2,417
Contributions to retirement benefit scheme	**—**	—
	270	2,417

9. **DIRECTORS' EMOLUMENTS** *(continued)*

(a) **Directors' emoluments** *(continued)*

The directors' emoluments are within the following bands:

	2003 Number of directors	2002 Number of directors
Nil to HK$1,000,000	**2**	3
HK$1,500,001 — HK$2,000,000	**—**	1
	2	4

No director waived any emoluments in the year ended 31 March 2003 (2002: nil).

(b) **Employees' emoluments**

Of the five individuals with the highest emoluments in the Group, two (2002: three) were directors of the Company whose emoluments are included in the disclosures in note 9(a) above. The emoluments of the remaining three (2002: two) individuals were as follows:

	2003	2002
	HK$'000	*HK$'000*
Salaries and other benefits	**327**	514
Contributions to retirement benefit scheme	**—**	—
Compensation for loss of office	**48**	—
	375	514

9. DIRECTORS' EMOLUMENTS *(continued)*

(b) Employees' emoluments *(continued)*

Their emoluments were within the following bands:

	2003 Number of employees	2002 Number of employees
HK$ nil to HK$1,000,000	**3**	2

10. FINANCE COSTS

	2003 *HK$'000*	2002 *HK$'000*
Interests on:		
Bank loans and overdrafts	**—**	196
Amount due to a shareholder	**56**	—
	56	196

11. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the year.

Details of the unprovided deferred taxation are set out in note 25.

12. DIVIDENDS

Pursuant to Section 54 of the Companies Act 1981 of Bermuda (as amended) (the "Act"), a company incorporated in Bermuda shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that

(a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

There are two types of convertible cumulative non-voting preference shares outstanding in the share capital of the Company. The first type was issued on 23 October 1996 with par value of HK$1.00 each ("Type I preference shares"). The second type was issued on 17 December 1999 with par value of HK$0.10 each ("Type II preference shares"). According to the terms of the Type I preference shares, the Type I preference shares were entitled to a cash dividend of 5% per annum for each year ending on the date of the third and fourth anniversary of the issue date and 15% per annum for the year ending on the date of the fifth anniversary of the issue date. According to the terms of the Type II preference shares, the Type II preferences shares were entitled to a fixed cumulative cash dividend of 5% per annum on the principal amount of HK$0.30 each.

Dividends to these two preference shares shall be cumulative and payable in arrears subject to the approval of the board of directors and upon fulfillment of the aforementioned conditions of the Act. As at 31 March 2003, there were approximately HK$6,000,000 (as at 31 March 2002: HK$6,000,000) and HK$5,843,000 (as at 31 March 2002: HK$4,068,000) dividends accumulated but not being paid to the Type I and Type II preference shares respectively.

As all the preference shares dividends can only be paid out subject to the approval of the board of directors and upon fulfillment of the aforementioned conditions of the Act, thus no preference shares dividends have been recognised as a liability as at 31 March 2003.

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of HK$5,957,000 (2002: HK$55,914,000) and the weighted average of 742,094,359 (2002: 742,094,359) shares in issue during the year.

14. PROPERTY, PLANT AND EQUIPMENT

	Machinery, equipment and tools	Computer hardware and software	Total
	HK$'000	*HK$'000*	*HK$'000*
THE GROUP			
COST			
At 1 April 2002	21	28	49
Written off during the year	(21)	(28)	(49)
At 31 March 2003	—	—	—
ACCUMULATED DEPRECIATION			
At 1 April 2002	4	9	13
Eliminated on written off	(4)	(9)	(13)
At 31 March 2003	—	—	—
NET BOOK VALUES			
At 31 March 2003	—	—	—
At 31 March 2002	17	19	36

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK$'000	*HK$'000*
Unlisted investments, at cost	**1**	1
Amounts due from subsidiaries	**186,329**	190,673
	186,330	190,674
Less: Impairment loss	**(184,310)**	(183,918)
	2,020	6,756

The amounts due from subsidiaries are unsecured and interest-free. In the opinion of the directors, the amounts due from subsidiaries are not repayable within the next twelve months. Accordingly, the amount is shown as non-current assets.

Particulars of the principal subsidiaries of the Company at 31 March 2003 are set out in note 32.

16. OTHER INVESTMENTS

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares	**16,346**	16,346	**—**	—
Amounts due from former subsidiaries	**2,636**	—	**2,636**	—
	18,982	16,346	**2,636**	—
Impairment loss recognised	**(18,982)**	(16,346)	**(2,636)**	—
	—	—	**—**	—
Listed shares in Hong Kong	**30,675**	35,410	**—**	—
Disposal during the year	**—**	(4,735)	**—**	—
Unrealised loss *(Note a)*	**(29,275)**	(23,813)	**—**	—
	1,400	6,862	**—**	—
	1,400	6,862	**—**	—
Market value of listed shares *(Note b)*	**5,449**	6,862	**—**	—

16. **OTHER INVESTMENTS** *(continued)*

At 31 March 2003, the particulars of the principal investments are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
DigiTel Group Limited ("DigiTel")	The Cayman Islands	Provision of system integration services	40,362,571 ordinary shares of HK$0.10 each	3.53%
Leap Information Technologies Inc. *(note c)*	The British Virgin Islands	Investment holding	1 share of US$1.00 each	100%
Leap Information Technologies (Shanghai) Ltd. *(note c)*	The PRC	Distribution of computer related products	HK$10,000,000	100%
Leap Multimedia International Inc. *(note c)*	The British Virgin Islands	Investment holding	1 share of US$1.00 each	100%
Leap Multimedia (Shanghai) Ltd. *(note c)*	The PRC	Provision for professional services	HK$10,000,000	100%

16. OTHER INVESTMENTS *(continued)*

Notes:

a. The unrealised loss as at 31 March 2003 was calculated based on the latest net asset value of DigiTel as at 30 June 2002, taking into account the quarterly results for the 3 months ended 30 September 2002 and any adjustments which the Current Directors considered appropriate. Accordingly, the Current Directors are of the opinion that this basis is reasonable and appropriate to reflect the carrying value of the investments.

b. Based on the last trading price before the suspension of trading of DigiTel on the Stock Exchange on 2 July 2002 (2002: based on the last trading price prior to 31 March 2002).

c. During the year, upon appointment of the Current Directors on 21 June 2002, they have repeatedly requested and demanded access to the Group's operations in Shanghai and to the related books and records. However, the Company has not been able to access or regain control over such operations or to access such records because the persons present at such offices refused to allow the Company's representatives access to such operations and informed the Company's representatives that they continue to take their instructions from Mr. Hon Tung Keung, the former chairman of the Company, and will not recognise the authority of the Current Directors. The Company has made full provision against the value of these subsidiaries in the Company's financial statements for the year ended 31 March 2002. Due to the Company's inability to control the operating subsidiaries, these companies can no longer be treated as subsidiaries of the Company. As a result the Current Directors are of the opinion that such subsidiaries should be treated as other investments with nil value as at 31 March 2003.

17. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Trade debtors	**–**	2,406
Other receivables	**244**	10,917
	244	13,323

As explained in note 2, no aged analysis in respect of trade debtors as at 31 March 2002 is presented as no sufficient information is available.

18. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Trade creditors	**—**	2,255
Other payables	**2,817**	27,582
	2,817	29,837

As explained in note 2, no aged analysis in respect of trade creditors as at 31 March 2002 is presented as no sufficient information is available.

19. AMOUNT DUE TO A SHAREHOLDER

The Group and The Company

The amount due to a shareholder is unsecured, repayable on demand, bears interest at Hong Kong prime rate plus 2% per annum.

20. SHORT-TERM LOAN

The Group

As explained in note 2, no sufficient information is available for description of the terms of the loan as at 31 March 2002. The balance at 31 March 2002 has been reversed during the year upon deconsolidation of the relevant subsidiaries.

21. SHARE CAPITAL

	Ordinary shares of HK$0.01 each		Convertible cumulative non-voting preference shares of HK$1.00 each		Convertible cumulative non-voting preference shares of HK$0.10 each		Total
	Number of shares	*HK$'000*	Number of shares *(Note 21(a))*	*HK$'000*	Number of shares *(Note 21(b))*	*HK$'000*	*HK$'000*
Authorised:							
At 31 March 2003 and 31 March 2002	3,000,000,000	30,000	50,000,000	50,000	350,000,000	35,000	
Issued and fully paid:							
At 31 March 2003 and 31 March 2002	742,094,359	7,421	24,178,700	24,179	118,333,333	11,833	43,433

21. SHARE CAPITAL *(continued)*

Notes:

a. The terms of the preference shares of HK$1.00 each are set out in the relevant prospectus dated 3 October 1996 issued by the Company to its shareholders. The holders of the preference shares are entitled to convert their shares into ordinary shares at a conversion price of HK$0.22 as adjusted. To the extent that the preference shares have not been converted on or prior to 15 October 2001, they shall be, subject to the Act, redeemed at par on 22 October 2001.

b. The terms of the preference shares of HK$0.10 each issued on 17 December 1999 at a price of HK$0.30 each ("Principal Amount") are as follows:

(i) the preference shares will be entitled to a cumulative annual dividend of 5% on the Principal Amount, payable semi-annually in arrears but will not be entitled to any further dividend distribution.

(ii) such dividend shall be paid subject to the approval of the board of directors of the Company and the fulfilment of Section 54 of the Act.

(iii) the holders of such preference shares will be entitled to convert their shares in multiple of 100,000 into ordinary shares at any time on or prior to the fifth anniversary of the date of issue at a conversion price of HK$0.30 per share. To the extent that the preference shares have not been converted on or prior to the fifth anniversary of their issue date, they shall be, subject to the Act, redeemed by the Company at the Principal Amount on that date.

22. RESERVES

	Contributed surplus	Share premium account	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY				
At 1 April 2001	51,111	266,076	(313,506)	3,681
Loss for the year	—	—	(43,851)	(43,851)
At 31 March 2002	51,111	266,076	(357,357)	(40,170)
Loss for the year	—	—	(5,158)	(5,158)
At 31 March 2003	51,111	266,076	(362,515)	(45,328)

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which the corporate reorganisation became effective and the nominal amount of the Company's shares issued under the reorganisation.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus 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:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) 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.

At the balance sheet date, in the opinion of the Current Directors, the Company had no reserves available for distribution to shareholders.

23. DECONSOLIDATION OF SUBSIDIARIES

	2003	2002
	HK$'000	*HK$'000*
Net liabilities excluded:		
Trade and other receivables	11,579	—
Bank balances and cash	4,621	—
Trade and other payables	(12,311)	—
Amount due to a shareholder	(3,000)	—
Short-term loan	(1,414)	—
Gain on deconsolidation of subsidiaries	(525)	—
Net cash outflow arising on deconsolidation:		
Bank balances and cash disposed of	(4,621)	—

24. DISPOSAL OF SUBSIDIARIES

	2003	2002
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	–	428
Trade and other receivables	**1,463**	630
Bank balances and cash	**15,279**	4,079
Trade and other payables	**(13,727)**	(874)
Amount due to a shareholder	**(2,400)**	—
Amounts due to related companies	–	(2,055)
Taxation	–	(34)
	615	2,174
Loss on disposal	**(615)**	(1,224)
	–	950
Satisfied by:		
Cash	–	950

Analysis of net cash outflow in respect of the disposal of subsidiaries:

	2003	2002
	HK$'000	*HK$'000*
Cash consideration received	–	950
Bank balances and cash disposed of	**(15,279)**	(4,079)
Net cash outflow in respect of the disposal of subsidiaries	**(15,279)**	(3,129)

25. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the net potential deferred tax asset in respect of timing differences, which have not been recognised, is analysed as follows:

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Tax effect of timing differences attributable to:		
Tax losses	**860**	860

The net potential deferred tax asset has not been recognised in the financial statements as it is not certain that the asset will be realised in the foreseeable future.

There was no significant unprovided deferred tax credit of the Group arising in both years.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

26. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all the eligible employees of the Group. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to maximum of HK$1,000 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HK$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

During the year, no contributions to MPF Scheme were made by the Group as the Group was not required to make such contribution during the year (2002: HK$25,000).

27. OPERATING LEASE COMMITMENTS

Based on the information available to the Current Directors, the Group and the Company did not have significant operating lease commitment at 31 March 2003 and 31 March 2002.

28. CAPITAL COMMITMENTS

At the balance sheet date, the Group and the Company had capital commitments based on the disclosure in the interim results announced on 2 January 2003. However, the Current Directors do not have any other information available to substantiate the validity of this commitment.

	THE COMPANY	
	2003	2002
	HK$'000	*HK$'000*
Contracted for but not provided in the financial statements in respect of the capital contributions to its PRC subsidiaries	**30,600**	30,600

29. CONTINGENT LIABILITIES

The Current Directors noted from an announcement dated 29 April 2002 made by the former directors that a verbal demand notice was received from one of the creditors demanding immediate settlement of the outstanding debts of RMB9,600,000 (2002: RMB9,600,000). However, the Current Directors do not have any other information available to substantiate the validity of this claim.

30. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following transactions with related parties:

	2003	2002
	HK$'000	*HK$'000*
Management fee paid to a shareholder *(note a)*	**450**	—
Interest paid to a shareholder *(note b)*	**56**	—
Purchase of goods *(note c)*	**—**	4,348
Rental expenses *(note c)*	**—**	645
Advances from a shareholder *(note c)*	**1,962**	5,691

Notes:

(a) Management fee represented the allocation of expense which were based on estimated administrative costs including sharing of office premises and corporate management services which the management considered was an appropriate basis of allocation.

(b) Interest expense was charged at Hong Kong Prime Rate plus 2% on the outstanding balance.

(c) As explained in note 2, the Current Directors were unable to obtain sufficient information to substantiate the validity of the related party transactions of the Group and the Company for the year ended 31 March 2002. The related party information was based on the disclosure in the interim report of the Group for the six months ended 30 September 2001.

Advances from a former shareholder in 2002 include the capital contributions and operating expenses of certain PRC subsidiaries.

31. POST BALANCE SHEET EVENT

Pursuant to an announcement dated 14 May 2003, the Company has entered into a conditional agreement with Mr. Ko Chun Shun, an indirect shareholder of the Company, to underwrite the Rights Issue. On the same date, the Company proposed a share consolidation by consolidating every 10 issued and unissued shares of the Company of HK$0.01 each into one new share of HK$0.10 each. Details of the Rights Issue and the share consolidation are set out in the announcement.

32. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 March 2003 are as follows:

Name of company	Place of incorporation/ registration	Principal activities	Particulars of issued share capital/ registered capital	Interest held Directly	Interest held Indirectly
netalone.com (BVI) Limited	The British Virgin Islands	Investment holding	1 share of US$1.00 each	100%	—
netalone.com Management Limited*	Hong Kong	Provision of management services	2 ordinary shares of HK$1.00 each	100%	—
innovestor.com Limited	The British Virgin Islands	Investment holding	100 shares of US$1.00 each	100%	—
Leap Strategic Holdings Limited	The British Virgin Islands	Investment holding	100 shares of US$1.00 each	100%	—
netalone.com (Nominees) Ltd.	The British Virgin Islands	Inactive	1 share of US$1.00 each	100%	—
Leap Construction Group Ltd.	The British Virgin Islands	Inactive	100 shares of US$1.00 each	—	100%
Asiarim Associates Limited	The British Virgin Islands	Distribution of computer related products	1 share of US$1.00 each	100%	—

* netalone.com Management Limited operates in Hong Kong while all other subsidiaries operate in the British Virgin Islands.