

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 40 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of its consolidated loss attributable to shareholders of HK\$86,515,000 for the year ended 31 March 2003 and net current liabilities of HK\$42,250,000 and deficiency of shareholders' fund of HK\$16,077,000 as at 31 March 2003.

As stated in note 23 to the financial statements, the Group had overdue short term borrowings together with related interest expenses totaling HK\$48,150,000. Moreover, certain creditors of the Group have taken legal actions against the Group to recover overdue balances amounting to approximately HK\$13 million.

Against this background, the directors adopted the following measures to strengthen the capital base of the Group and to improve its financial position, liquidity and cash flows.

(i) Equity and trade financing

On 6 March 2003, the Company entered into a conditional subscription rights agreement with BAPEF Investments II Limited ("BARING"), a shareholder of the Company, pursuant to which Telecom Plus Technology Holdings Limited ("TPTHL"), a wholly-owned subsidiary of the Company, has agreed to grant the subscription rights to BARING to subscribe a maximum of 3,000 million shares of preferred stock of TPTHL at HK\$0.01 per share.

During the year, a subsidiary of the Group has secured banking facilities of HK\$12 million from one of its principal bankers against a corporate guarantee provided by the Company and a personal guarantee provided by an executive director, Mr. Zou Yishang. The facilities have not been utilized up to the date of this report.

On 27 May 2003, the Company announced the placing of 100 million new shares of the Company of HK\$0.10 each at a price of HK\$0.10 per share. The placing was completed on 10 October 2003.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Cont'd)*

(ii) **Restructuring of the Group's indebtedness and arranging for new facilities for trade financing**

The Group is negotiating with its bankers for the rescheduling or extension of existing loan facilities and for the granting of new facilities to support its future working capital and other financing requirements. The Group is also negotiating with certain of its creditors for the rescheduling of repayments.

As stated in note 24 to the financial statements, on 23 September 2003, the maturity date of the outstanding convertible bonds of the Company has been extended to 31 December 2004.

In view of the above measures taken to secure new equity and trade financing and the restructuring of the Group's indebtedness, the directors are of the opinion that these financial statements should be prepared on a going concern basis.

3. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statements and the statement of changes in equity but has had no material effect on the results of the Group for the current or prior accounting period. Accordingly, no prior period adjustments have been required.

Foreign currencies

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

3. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(Cont'd)*

Cash flow statements

In the current year, the Group adopted SSAP 15 (Revised) "Cash Flow Statement". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating, investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. 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. In addition, the amounts presented for cash and cash equivalent have been amended to exclude other borrowings that are financing in nature. The re-definition of cash and cash equivalents resulted in a restatement of the comparative amount shown in the consolidated cash flow statement.

Employee benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Goodwill

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 an associate, at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill

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

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Buildings	2% to 4%
Leasehold improvements	20% or over the terms of the lease, whichever is the shorter
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered impairment losses. 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Development costs

Expenditures on research activities are recognised as expenses in the period in which they incur.

An internally-generated intangible asset arising from development expenditures is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised systematically over its useful life by using the unit of production method.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Investment in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less the discount on acquisition in so far as it has not already been released to income, less any identified impairment loss.

Investment in securities

Investment in securities are recognized 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 losses that are other than temporary.

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventory is based on the specific identification cost formula and comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Operating lease

Lessor

Rental income is recognized on a straight-line basis over the relevant lease term.

Lessee

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

Related parties

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 individuals or corporate entities.

Revenue recognition

Sales of goods are recognized when the goods are delivered and title has passed.

Integration service, services income and contract income are recognised upon receipt of acceptance from outside customers.

Consultancy income is recognised when services are provided.

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

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

4. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Taxation

The charge for taxation is based on the results for the year after adjusting 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 the resulting timing differences, computed under 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.

Foreign currencies

Transactions in currencies other than Hong Kong dollar are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollar are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognized as income or as expenses in the year in which the operation is disposed of.

Retirement benefit schemes

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

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

5. TURNOVER

Turnover represent the net amounts received and receivable for goods sold and services provided by the Group to outside customers and is summarized as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Sales and integration service	208,497	291,283
Services income	17,346	26,652
Contract income	4,482	5,828
	230,325	323,763

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organized into three operating divisions – sales and integration service, services income and contract income. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Sales and integration service	–	income from sales and provision of integration services of computer and communication systems
Services income	–	income from design, consultation and production of information system software
Contract income	–	income in connection with the sale of communication systems equipment for intelligent buildings and provision of installation services

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Business segments *(Cont'd)*

Segment information about these business is presented below:

For the year ended 31 March 2003

Income Statement

	Sales and integration service <i>HK\$'000</i>	Services income <i>HK\$'000</i>	Contract income <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External sales	<u>208,497</u>	<u>17,346</u>	<u>4,482</u>	<u>230,325</u>
Segment results	<u>5,492</u>	<u>2,268</u>	<u>253</u>	8,013
Unallocated corporate expenses				<u>(92,616)</u>
Loss from operations				(84,603)
Finance costs				(5,569)
Share of result of associates				<u>(2,829)</u>
Loss before taxation				(93,001)
Taxation				<u>-</u>
Loss before minority interests				(93,001)
Minority interests				<u>6,486</u>
Loss attributable to shareholders				<u>(86,515)</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Business segments *(Cont'd)*

Other information

	Sales and integration service <i>HK\$'000</i>	Services income <i>HK\$'000</i>	Contract income <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	2,943	228	25	329	3,525
Depreciation and amortisation	<u>3,374</u>	<u>1,146</u>	<u>127</u>	<u>185</u>	<u>4,832</u>

As at 31 March 2003

Balance sheet

	Sales and integration service <i>HK\$'000</i>	Services income <i>HK\$'000</i>	Contract income <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	110,170	35,903	3,988	150,061
Unallocated corporate assets				<u>30,935</u>
Consolidated total assets				<u>180,996</u>
Liabilities				
Segment liabilities	66,104	28,534	3,169	97,807
Unallocated corporate liabilities				<u>93,373</u>
Consolidated total liabilities				<u>191,180</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Business segments *(Cont'd)*

For the year ended 31 March 2002

	Sales and integration service <i>HK\$'000</i>	Services income <i>HK\$'000</i>	Contract income <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover				
External sales	<u>291,283</u>	<u>26,652</u>	<u>5,828</u>	<u>323,763</u>
RESULTS				
Segment results	<u>17,720</u>	<u>10,898</u>	<u>(688)</u>	27,930
Unallocated corporate expenses				<u>(4,584)</u>
Profit from operations				23,346
Finance costs				<u>(5,598)</u>
Profit before taxation				17,748
Taxation				<u>(1,884)</u>
Profit before minority interests				15,864
Minority interests				<u>(6,649)</u>
Profit attributable to shareholders				<u>9,215</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Cont'd)*

Business segments *(Cont'd)*

Other information

	Sales and integration service <i>HK\$'000</i>	Services income <i>HK\$'000</i>	Contract income <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	10,942	396	87	1,360	12,785
Depreciation and amortisation	<u>2,973</u>	<u>275</u>	<u>60</u>	<u>1,103</u>	<u>4,411</u>

As at 31 March 2002

Balance sheet

	Sales and integration service <i>HK\$'000</i>	Services income <i>HK\$'000</i>	Contract income <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets				
Segment assets	142,352	6,757	9,069	158,178
Unallocated corporate assets				<u>47,089</u>
Consolidated total assets				<u><u>205,267</u></u>
Liabilities				
Segment liabilities	61,144	2,838	2,706	66,688
Unallocated corporate liabilities				<u>93,928</u>
Consolidated total liabilities				<u><u>160,616</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

Geographical segments

No geographical segment analysis is provided as substantially all of the Group's turnover and contribution to results were derived from the PRC.

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

	Carrying amount of segment assets		Additions to property, plant and equipment and development costs	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	49,573	73,844	2	48
PRC	131,423	131,423	3,523	12,737
	180,996	205,267	3,525	12,785

7. OTHER OPERATING INCOME

Other operating income comprises:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Gain on disposal of development cost	2,593	–
Gain on disposal of other investments	–	231
Gain on waiver of former directors' emoluments	–	1,551
Consultancy income	–	1,259
Interest income	74	246
Dividend income from other investments	336	–
Rental income	114	245
Unrealised holding gain on other investments	–	433
Write-back of over accrued salaries and wages	4,354	–
Write-back of long outstanding trade and other payables	–	2,659
Others	964	3,701
	8,435	10,325

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

8. OTHER OPERATING EXPENSES

Other operating expenses comprise:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Loss on disposal of other investments	9,957	–
Provision for bad and doubtful debts	21,931	357
Impairment loss on development cost	8,838	–
Loss on disposal of property, plant and equipment	335	103
Unrealised holding loss on other investments	25,801	–
Provision for other receivables	14,151	–
	<u>81,013</u>	<u>460</u>

9. (LOSS)/PROFIT FROM OPERATIONS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
(Loss)/profit from operations has been arrived at after charging:		
Auditors' remuneration	380	820
Amortisation of goodwill (included in administrative expenses)	2,027	1,861
Depreciation of property, plant and equipment	2,805	2,550
Staff costs including directors' emoluments	19,997	17,006
Contributions to retirement benefit schemes	629	445
	<u>20,626</u>	<u>17,451</u>
Total staff costs	<u>20,626</u>	<u>17,451</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid individuals for the year were as follows:

(a) Directors' emoluments

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Fee	-	-
Other emoluments:		
Salaries and other benefits	3,013	2,983
Contributions to retirement benefit schemes	19	18
	<u>3,032</u>	<u>3,001</u>
Total emoluments	<u><u>3,032</u></u>	<u><u>3,001</u></u>

No fees or other emoluments were paid to independent non-executive directors during the year.

The emoluments of the directors were within the following ranges:

	Number of directors	
	2003	2002
HK\$1,000,000 or below	10	7
HK\$2,000,001 – HK\$2,500,000	<u>1</u>	<u>1</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

(b) Employees' emoluments

The five highest paid individuals included three (2002: two) directors, details of their emoluments are set out above. The emoluments of the remaining two (2002: three) individuals are as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Salaries and other benefits	1,171	1,871
Contributions to retirement benefit schemes	19	36
	<u>1,190</u>	<u>1,907</u>

The emoluments of the employees were within the following bands:

	2003	2002
HK\$1,000,000 or below	<u>2</u>	<u>3</u>

11. FINANCE COSTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Interest on:		
Bank loans and overdrafts	782	739
Convertible bonds wholly repayable within five years	–	857
Other borrowings wholly repayable within five years	4,478	2,970
	<u>5,260</u>	<u>4,566</u>
Finance charges	309	1,032
	<u>5,569</u>	<u>5,598</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

12. TAXATION

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Taxation in the PRC	-	655
Deferred taxation (<i>note 25</i>)	-	1,229
	<u>-</u>	<u>1,884</u>
	<u>-</u>	<u>1,884</u>

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

Taxation in the PRC is calculated at the rates prevailing in the PRC. Certain subsidiaries of the Group operating in the PRC are eligible for certain tax exemptions and concessions. Accordingly, PRC income tax has been provided taking into account of these tax exemptions and concessions.

Details of deferred taxation are set out in note 25 to the financial statements.

13. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$86,515,000 (2002: profit of HK\$9,215,000) and on weighted average number of ordinary shares in issue during the year of 1,242,372,000 (2002: 1,052,996,000) shares.

No diluted earnings per share has been presented for the year ended 31 March 2003 as the exercise of the share options and conversion of convertible bonds are anti-dilutive. The calculation of diluted earnings per share for 2002 was based on diluted earnings of HK\$10,072,000, after taking into account the effect of interest on convertible bonds of HK\$857,000, and diluted weighted average number of shares in issue during the year of 1,182,370,000. The effect of the dilutive potential ordinary shares resulting from the outstanding convertible bonds and share options on the weighted average number of shares in issue during the year were approximately 115,191,000 shares and 14,183,000 shares respectively.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<u>THE GROUP</u>					
COST					
At 1 April 2002	2,103	2,253	8,688	850	13,894
Additions	164	305	620	229	1,318
Disposals	-	(374)	(3,233)	-	(3,607)
At 31 March 2003	<u>2,267</u>	<u>2,184</u>	<u>6,075</u>	<u>1,079</u>	<u>11,605</u>
DEPRECIATION					
At 1 April 2002	83	834	1,668	21	2,606
Provided for the year	490	228	1,846	241	2,805
Eliminated on disposals	-	(169)	(1,012)	-	(1,181)
At 31 March 2003	<u>573</u>	<u>893</u>	<u>2,502</u>	<u>262</u>	<u>4,230</u>
NET BOOK VALUES					
At 31 March 2003	<u><u>1,694</u></u>	<u><u>1,291</u></u>	<u><u>3,573</u></u>	<u><u>817</u></u>	<u><u>7,375</u></u>
At 31 March 2002	<u><u>2,020</u></u>	<u><u>1,419</u></u>	<u><u>7,020</u></u>	<u><u>829</u></u>	<u><u>11,288</u></u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

14. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

	Furniture, fixtures and office equipment <i>HK\$'000</i>
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<u>THE COMPANY</u>	
COST	
At 1 April 2002 and 31 March 2003	71
DEPRECIATION	
At 1 April 2002	34
Provided for the year	14
	<hr/>
At 31 March 2003	48
NET BOOK VALUES	
At 31 March 2003	23
	<hr/> <hr/>
At 31 March 2002	37
	<hr/> <hr/>

15. DEVELOPMENT COSTS

	THE GROUP <i>HK\$'000</i>
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COST	
At 1 April 2002	8,142
Additions	2,207
Disposal to an associate	(1,511)
Impairment loss recognised for the year	(8,838)
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At 31 March 2003	-
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Development costs represent cost incurred for developing a broadband network system and a call centre system.

During the year, the directors have reviewed the carrying amount of development costs of the broadband network and call centre systems. With reference to the current market condition and the performance of the broadband network system, impairment loss of HK\$8,838,000 has been identified and recognized in the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

16. GOODWILL

	THE GROUP
	<i>HK\$'000</i>
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COST	
At 1 April 2002 and 31 March 2003	30,519
AMORTISATION	
At 1 April 2002	2,117
Provided for the year	2,027
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At 31 March 2003	4,144
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NET BOOK VALUES	
At 31 March 2003	26,375
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At 31 March 2002	28,402
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The amortisation period adopted for goodwill is between 10 to 20 years.

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
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Unlisted shares, at cost	108,202	108,202
Less: Impairment loss	(108,192)	(108,192)
	<hr/>	<hr/>
	10	10
	<hr/> <hr/>	<hr/> <hr/>

Particulars of the Company's subsidiaries as at 31 March 2003 are set out in note 40 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	7,114	–
Discount on acquisition of an associate	(2,584)	–
	<u>4,530</u>	<u>–</u>

Details of the Group's associates at 31 March 2003 are as follows:

Name of entity	Country of establishment	Principal place of operation	Percentage of equity interest held by the Group	Nature of business
北京合力紅帆 自動化技術 有限公司	PRC	PRC	25.5%	Provision of technical development and consulting service
北京合力金橋 軟件技術 有限責任公司	PRC	PRC	39%	Provision of telecommunication infrastructure solution service

19. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials and consumables	4,997	959
Work in progress	59,685	33,621
	<u>64,682</u>	<u>34,580</u>

The raw materials and consumables are carried at net realisable value.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

20. TRADE AND OTHER RECEIVABLES

According to the contracts entered into with trade customers, an average of 80% of the contract revenue is normally repayable within 90 days from the date of receipt of customers' acceptance, whereas the remaining 20% of trade receivables represent retentions held by customers which are normally due for settlement within one year. The following is an aging analysis of trade receivables included in trade and other receivables at the balance sheet date:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade receivables:		
Within 30 days	32,663	37,782
Over 30 days but within 90 days	9,779	9,871
Over 90 days	9,570	32,680
	<u>52,012</u>	<u>80,333</u>
Other receivables (note)	7,578	20,966
	<u>59,590</u>	<u>101,299</u>

Note: Included in other receivables at 31 March 2002 was deposits paid to an independent third party of HK\$14,151,000 (equivalent to Rmb15,000,000) for certain proposed investments.

21. OTHER INVESTMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at market value	<u>10,676</u>	<u>8,051</u>

Other investments represents 15,252,000 (2002: 3,390,000) shares of Dynamic Holdings Limited ('Dynamic'). Dynamic is engaged in property investment and development business in the PRC and Hong Kong.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

22. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables included in trade and other payables at the balance sheet date:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Trade payables:		
Within 90 days	33,645	20,939
Over 90 days but within 180 days	105	12,931
Over 180 days	36,193	–
	<u>69,943</u>	<u>33,870</u>
Other payables	43,470	43,226
	<u>113,413</u>	<u>77,096</u>

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank and other borrowings				
comprise:				
Bank loans	4,717	14,151	–	–
Other borrowings	49,068	45,949	12,094	12,770
	<u>53,785</u>	<u>60,100</u>	<u>12,094</u>	<u>12,770</u>
Analysed as:				
Secured	14,934	1,126	–	–
Unsecured	38,851	58,974	12,094	12,770
	<u>53,785</u>	<u>60,100</u>	<u>12,094</u>	<u>12,770</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

23. BANK AND OTHER BORROWINGS (Cont'd)

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank and other borrowings are repayable as follows:				
Bank loans and overdrafts are repayable within one year	4,717	14,151	-	-
Other borrowings are repayable:				
Within one year	44,083	37,239	7,270	4,287
More than one year but not exceeding two years	2,052	2,604	1,985	2,538
More than two years but not exceeding five years	2,933	6,106	2,839	5,945
	49,068	45,949	12,094	12,770
	53,785	60,100	12,094	12,770
Less: Amount repayable within one year and shown under current liabilities	(48,800)	(51,390)	(7,270)	(4,287)
Amount due after one year	4,985	8,710	4,824	8,483

The repayment term of certain other borrowings amounting to HK\$44,110,000 have matured before the year end date. Together with the related interest expenses (included in other payables), the overdue amount is HK\$48,150,000. As described in note 2, the directors are of the opinion that the Group can obtain the support from the bankers to reschedule those loans for a further period of time.

Details of the assets of the Group pledged to secure bank and other borrowings are set out in note 32 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

24. CONVERTIBLE BONDS

Pursuant to the subscription letter dated 20 May 1998 made between Baring Asia Flagship Investments B.V. and the Company, the convertible bonds (the 'Bonds') in the principal amount of US\$6,000,000 (equivalent to approximately HK\$46,476,000) were issued by the Company at the direction of Baring Asia Flagship Investments B.V. on 30 June 1998 to Baring Asia Investments II B.V. The Bonds were transferred in or about July 2000 to BAPEF Investments II Limited (the "Bondholder").

The Bonds were, at the option of the Bondholder, convertible on or after 1 July 1998 up to and including 30 June 2001, into fully paid ordinary shares of the Company with a par value of HK\$0.10, at an initial conversion price of HK\$0.588 per share, subject to adjustment under certain events.

Unless previously redeemed, converted, purchased or cancelled, the Company is required to redeem the Bonds on the original maturity date at 133.75%. An amount of US\$2,400,000 (equivalent to approximately HK\$18,600,000) was cancelled upon repurchase by the Company during the year ended 31 March 1999. As at 31 March 2000 and 31 March 2001, the outstanding balance of the Bonds was US\$3,600,000 (equivalent to approximately HK\$28,031,000).

On 7 June 2001, the Company entered into an agreement with Able Technology Limited and the Bondholder pursuant to which the maturity date of the convertible bonds would be extended to 30 June 2003. The conversion price has been revised to HK\$0.25 per share, subject to adjustment under certain events. The conversion time of the Bonds is fixed at 31 December 2001, 30 June 2002, 31 December 2002 and 30 June 2003 (or such other time as the Company and Bondholder may agree) to convert US\$900,000 (equivalent to approximately HK\$7,020,000) on each date. In addition, all accrued interest from 30 June 1998 to the completion of the agreement was waived by the Bondholder in August 2001 upon issuance of 6.88 million ordinary shares of the Company to the Bondholder (note 26 (c)). In accordance with the supplemental deed entered into by the Company and the Bondholder on 9 August 2001, subject to the due performance by the Company and there being no event of default or potential event of default, the Bonds will not bear any interest. In the circumstances where there is any event of default or potential event of default, interest will be payable on the outstanding principal amount of the Bonds at 2% per annum.

On 28 December 2001, approximately 30.7 million ordinary shares of the Company at a conversion price of HK\$0.2366 were issued to the Bondholder to convert the principal amount of Bonds of US\$900,000 (equivalent to approximately HK\$7,020,000) together with the administrative charges of US\$31,770 (equivalent to approximately HK\$248,000) (note 26(c)).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

24. CONVERTIBLE BONDS (Cont'd)

On 30 June 2002, approximately 32.5 million ordinary shares of the Company at a conversion price of HK\$0.2236 were issued to the Bondholder to convert the principal amount of Bonds of US\$900,000 (equivalent to approximately HK\$7,020,000) together with the administrative charges of US\$31,770 (equivalent to approximately HK\$248,000) (*note 26(f)*).

The Bondholder didn't exercise the rights to convert the principal amount of Bonds of US\$1,800,000 which were fixed to be converted on 31 December 2002 and 30 June 2003.

On 23 September 2003, the Bondholder agreed with the Company to extend the maturity date of the outstanding Bonds to 31 December 2004.

Changes in the balance of the convertible bonds are as follows:

	THE GROUP & THE COMPANY	
	<i>USD'000</i>	<i>HK\$'000</i> equivalent
Balance as at 1 April 2001	3,600	28,031
Exchange adjustments	–	49
Conversion into ordinary shares on 28 December 2001	(900)	(7,020)
Balance as at 31 March 2002	2,700	21,060
Conversion into ordinary shares on 30 June 2002	(900)	(7,020)
Balance as at 31 March 2003	<u>1,800</u>	<u>14,040</u>

25. DEFERRED TAXATION

	THE GROUP	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of year	1,229	–
Charge for the year	–	1,229
Balance at end of year	<u>1,229</u>	<u>1,229</u>

The amount mainly represented the tax effect arising from the timing difference in revenue recognition for accounting and tax reporting purposes.

Neither the Group nor the Company had any other significant unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

26. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised		
At 1 April 2001	1,500,000	150,000
Increase on 12 July 2001 (<i>note a</i>)	1,500,000	150,000
	<u>3,000,000</u>	<u>300,000</u>
At 31 March 2002 and 31 March 2003		
	<u>3,000,000</u>	<u>300,000</u>
Issued and fully paid:		
At 1 April 2001	891,508	89,151
Issued on private placements (<i>note b</i>)	240,000	24,000
Conversion of debts (<i>note c</i>)	39,625	3,962
Shares repurchased and cancelled (<i>note d</i>)	(22,750)	(2,275)
	<u>1,148,383</u>	<u>114,838</u>
At 31 March 2002	1,148,383	114,838
Issued in consideration for the acquisition of other investments (<i>note e</i>)	90,276	9,028
Conversion of debts (<i>note f</i>)	32,504	3,250
	<u>1,271,163</u>	<u>127,116</u>
At 31 March 2003	<u>1,271,163</u>	<u>127,116</u>

Notes:

- (a) On 12 July 2001, the authorized share capital of the Company was increased from 1,500,000,000 to 3,000,000,000 ordinary shares of HK\$0.10 each by the creation of an additional 1,500,000,000 ordinary shares of HK\$0.10 each.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

26. SHARE CAPITAL (Cont'd)

- (b) During the year ended 31 March 2002, arrangements were made for private placements and details are as follows:

Issue date	Number of ordinary shares	Issue price HK\$
5 June 2001 (note (i))	160,000,000	0.18
December 19, 2001 (note (ii))	80,000,000	0.45
	<u>240,000,000</u>	

- (i) The Company entered into two private placements with two independent third parties. The proceeds were used to finance the acquisition by the Group of 51% interest in Beijing HollyBridge System Integration Company Limited ("Beijing HollyBridge") and provide additional working capital for the Group. These new shares were allotted pursuant to a general mandate granted by the shareholders at the annual general meeting of the Company held on 22 January 2001.
- (ii) The allotment of these shares was made to Able Technology Limited, a substantial shareholder of the Company, and not in proportion to other shareholders of the Company. Such allotment has not been specifically authorised by the shareholders. The proceeds were used to provide additional working capital for the Group. These new shares were allotted pursuant to a general mandate granted by the shareholders at the annual general meeting of the Company held on 21 September 2001.
- (c) During the year ended 31 March 2002, the Company converted certain of its debts into subscription shares and details are as follows:

Date of conversion	Number of ordinary shares	Issue price HK\$
11 June 2001 (note)	1,600,000	approximately 0.305
29 June 2001 (note)	427,000	approximately 1.000
22 August 2001 (note 24)	6,880,000	approximately 2.110
28 December 2001 (note 24)	30,717,692	0.2366
	<u>39,624,692</u>	

Notes: During the year ended 31 March 2002, the Company entered into two debt-equity conversion agreements with its other creditors, resulting in an issue of 1,600,000 and 427,000 ordinary shares of HK\$0.10 each at issue prices of approximately HK\$0.305 and approximately HK\$1.00 each respectively.

These new shares were allotted pursuant to a general mandate granted by the shareholders at the annual general meeting of the Company held on 22 January 2001.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

26. SHARE CAPITAL (Cont'd)

- (d) During the year ended 31 March 2002, a subsidiary of the Company repurchased certain shares of the Company through the Stock Exchange and these shares were cancelled as follows:

Month/year	No. of shares repurchased	Price per share		Aggregate price paid (before expenses) HK\$'000
		Lowest HK\$	Highest HK\$	
December 2001	19,750,000	0.405	0.450	8,362
January 2002	3,000,000	0.435	0.435	1,305
	22,750,000			9,667

An amount of approximately HK\$36,000, representing the brokerage expenses on the aforesaid repurchase, was charged against the share premium account.

- (e) On 24 June 2002, the Company allotted 90,276,000 ordinary shares as consideration for the acquisition of 15,046,000 shares in Dynamic Holdings Limited, which was HK\$40,624,000.
- (f) On 30 June 2002, 32,504,000 ordinary shares of the Company at a conversion price of HK\$0.2236 were issued to the Bondholder to convert certain of its Bonds (note 24).

All the issued shares rank pari passu with other existing shares in issue in all respects.

27. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 22 January 2001.

Summary of the Scheme

(a) Purpose of the Scheme

The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group and to retain the services of the employees who will continue to make valuable contribution to the Group.

(b) Participants of the Scheme

Pursuant to the Scheme, the board of directors of the Company (the "Board") may grant options to any full-time employees of the Company or its subsidiaries, including executive directors in full-time employment of the Company or any subsidiary, to subscribe for shares in the Company.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

27. SHARE OPTION SCHEME *(Cont'd)*

Summary of the Scheme *(Cont'd)*

(c) Total number of shares available for issue under the Scheme

As at 31 March 2003, the total number of shares of the Company available for issue under the options granted pursuant to the Scheme was 70,290,000, representing approximately 5.53% of the issued share capital of the Company as at 31 March 2003.

The total number of shares, in respect of which options may be granted under the Scheme, is not permitted to exceed 10% of the shares of the Company in issue at any point of time.

(d) Maximum entitlement of each participant

No participant shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of shares of the Company for the time being issued and issuable under the Scheme.

(e) Time of exercise of options

Pursuant to the Scheme, an option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the Board to each grantee and in any event shall not exceed 10 years from the date of offer of the option.

(f) Payment on acceptance of option

Pursuant to the Scheme, HK\$1 is payable by each grantee to the Company on acceptance of the option within the period to be notified by the Board.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

27. SHARE OPTION SCHEME *(Cont'd)*

Summary of the Scheme *(Cont'd)*

(g) Basis of determining the subscription price

The subscription price per share under the Scheme is determined by the Board and notified to the grantee and shall be no less than the higher of:

- (i) the average closing price of the Company's shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of grant;
- (ii) the closing price of the Company's shares as quoted on the Stock Exchange on the date of grant; and
- (iii) the nominal value of the share of the Company.

(h) Remaining life of the Scheme

The Scheme will remain valid until 21 January 2011.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

27. SHARE OPTION SCHEME (Cont'd)

Share Options

The following table disclose details of the Company's share options held by employees (including directors) and movement in such holdings during the year.

Date of grant	Exercisable period	Subscription price per share HK\$	Number of share options		
			Outstanding at 1 April 2002	Lapsed during the year (Note c)	Outstanding at 31 March 2003
3 August 2001	3 August 2001 to 2 August 2011 (Note a)	0.3672	4,500,000	(1,000,000)	3,500,000
29 August 2001	29 August 2001 to 28 August 2011 (Note b)	0.3520	92,084,000	(25,294,000)	66,790,000
			96,584,000	(26,294,000)	70,290,000

Note a: The options are immediately vested on the date of grant.

Note b: The options will vest in four tranches in the proportion of 15%:25%:30%:30%. The first tranche of the options has vested on 1 April 2002. The second, third and fourth tranche will vest on 1 April 2003, 1 April 2004 and 1 April 2005, respectively.

Note c: Options to subscribe for an aggregate of 26,294,000 shares of the Company were lapsed upon termination of employment of a director and certain employees of the Group.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are lapsed or cancelled prior to their exercise date are deleted from the register of outstanding share options.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

28. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 April 2001	288,156	107,992	(564,069)	(167,921)
Premium on issue of shares	59,531	–	–	59,531
Share issue expenses	(1,030)	–	–	(1,030)
Premium on repurchase of shares	(7,428)	–	–	(7,428)
Loss for the year	–	–	(40,841)	(40,841)
At 31 March 2002	339,229	107,992	(604,910)	(157,689)
Premium on issue of shares	26,136	–	–	26,136
Share issue expenses	(248)	–	–	(248)
Loss for the year	–	–	(31,071)	(31,071)
At 31 March 2003	<u>365,117</u>	<u>107,992</u>	<u>(635,981)</u>	<u>(162,872)</u>

The contributed surplus of the Company represents the difference between the fair value of the consolidated net assets of Chun Tai (BVI) Limited acquired and the nominal value of the Company's shares issued in exchange therefore.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus; if:

- 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.

In the opinion of the directors, the Company had no reserves available for distribution to its shareholders as at 31 March 2003 and 2002.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

29. ACQUISITION OF A SUBSIDIARY

During the year ended 31 March 2002, the Group acquired 51% of the registered capital of Beijing HollyBridge for a cash consideration of HK\$16,000,000. This acquisition has been accounted for by the purchase method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$10,035,000.

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<hr/>		
NET ASSETS ACQUIRED		
Property, plant and equipment	-	9,062
Inventories	-	31,779
Trade and other receivables	-	27,662
Bank balances and cash	-	6,830
Trade and other payables	-	(51,342)
Taxation payable	-	(975)
Bank and other borrowings (<i>note 31</i>)	-	(11,321)
Minority interests	-	(5,730)
	<hr/>	<hr/>
	-	5,965
Goodwill	-	10,035
	<hr/>	<hr/>
	-	16,000
	<hr/> <hr/>	<hr/> <hr/>
SATISFIED BY:		
Cash	-	16,000
	<hr/> <hr/>	<hr/> <hr/>

Net cash outflow arising on acquisition:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
<hr/>		
Cash consideration	-	(16,000)
Bank balances and cash acquired	-	6,830
	<hr/>	<hr/>
	-	(9,170)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

30. NON-CASH TRANSACTIONS

During the year, convertible bonds of HK\$7,020,000 is converted into shares of the Company (note 24).

In addition, the Group transferred certain of its property, plant and equipment to an associate and the consideration was settled through current account with the associate.

31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Minority interests <i>HK\$'000</i>	Share capital and premium <i>HK\$'000</i>	Bank and other borrowings <i>HK\$'000</i> (Restated)
At 1 April 2002	–	377,307	36,654
Issue of shares	–	64,800	–
Share issue expenses	–	(1,030)	–
Repurchase of shares (note 26 (d))	–	(9,703)	–
Conversion of debts	–	22,693	–
Acquisition of a subsidiary (note 29)	–	–	11,321
New borrowings raised	–	–	45,328
Repayments during the year	–	–	(33,203)
Share of pre-acquisition reserve by minority interests	5,730	–	–
Share of profit of subsidiaries by minority interests	6,649	–	–
At 31 March 2002	12,379	454,067	60,100
Issue of shares	–	31,146	–
Shares issue expenses	–	(248)	–
Conversion of debts	–	7,268	–
Repayments during the year	–	–	(6,315)
Share of loss of subsidiaries by minority interests	(6,486)	–	–
At 31 March 2003	<u>5,893</u>	<u>492,233</u>	<u>53,785</u>

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

32. PLEDGE OF ASSETS

As at 31 March 2003, bank deposits of HK\$1,002,000 (2002: HK\$4,446,000) were pledged to a bank to secure banking facilities granted to the Group.

In addition, other investments of HK\$10,675,000 (2002: HK\$5,035,000) were pledged to secure other borrowings of the Group.

33. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Minimum lease payments paid under operating leases during the year	<u>4,061</u>	<u>3,164</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	<u>3,753</u>	4,976
In the second to fifth year inclusive	<u>1,283</u>	4,811
	<u>5,036</u>	<u>9,787</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Rentals are negotiated and fixed for an average lease term of 2 years.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

33. OPERATING LEASE ARRANGEMENTS (Cont'd)

The Group as lessor

Property rental income earned during the year was HK\$114,000 (2002: HK\$245,000), which was derived from the sub-lease of rented premises.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	199	192
In the second to fifth year inclusive	117	–
	316	192

At 31 March 2003, the Company had no commitments under non-cancelable operating leases (2002: Nil).

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantee given to a bank in respect of bills of exchange discounted with recourse	–	13,756	–	13,756
Guarantee given in respect of other loans granted to a former subsidiary	36,867	36,184	36,867	36,184
Guarantee given in respect of other loans granted to a subsidiary	–	–	10,137	20,853
Guarantee given to a bank in respect of warranty bonds issued to a customer	999	543	–	–
	37,866	50,483	47,004	70,793

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

35. LITIGATION

Showa Leasing (Hong Kong) Limited (“Showa Leasing”), a hire purchase creditor to which the Company owed indebtedness in an amount of approximately HK\$6.1 million with related interest of approximately HK\$0.18 million, has filed a winding-up petition against the Company which was scheduled to be heard on 18 June 2003. On 18 August 2003, the winding-up petition was dismissed and the Company has agreed with Showa Leasing to settle the principal amount and related interest payable by 30 monthly installments starting from August 2003.

On 25 November 2002, Sino Link (Technology) Trading and Development Company Limited (“Sinolink”), issued legal proceedings against the Company in respect of a dispute regarding the services rendered and materials supplied to the Company. The High Court of the Hong Kong Special Administrative Region ruled in favour of Sinolink and ordered that the unsettled claim of approximately HK\$2.6 million together with related interest of HK\$0.2 million and legal fee of approximately HK\$0.1 million be returned by the Company. The Company and Sinolink Technology have agreed in principal to settle the outstanding claims and interest and are negotiating the terms and conditions of settlement.

On 18 March 2003, Deloitte Touche Tohmatsu, issued legal proceedings against the Company with respect to an amount of approximately HK\$1.3 million for the services rendered to the Company. The Company has agreed with Deloitte Touche Tohmatsu to settle the amount fully.

The directors consider that adequate provision has been made against these claims and no additional provision is required.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

36. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme ('MPF Scheme') for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

During the year, the total amount contributed by the Group to the MPF Scheme amounted to approximately HK\$99,000 (2002:HK\$126,000).

The Group is also required to make contributions to state pension schemes in the PRC based on a certain percentage of the monthly salaries of the employees of its PRC subsidiaries. The Group has no other obligation under the state pension schemes in the PRC other than the contribution payment.

The Group has provided approximately HK\$530,000 (2002: HK\$319,000) for the year to cover the contributions payable to the state pension schemes.

37. POST BALANCE SHEET EVENTS

- (a) One 27 May 2003, placing agreements were entered into between the Company and independent investors, pursuant to which the Company agreed to place 100 million new shares of HK\$0.10 each in the share capital of the Company to independent investors at a price of HK\$0.10 per share. The net proceeds from placing of approximately HK\$9,850,000 will be used for repayment of indebtedness and for general working capital of the Group. The placing was completed on 10 October 2003.
- (b) On 23 September 2003, the Bondholder agreed with the Company to extend the maturity date of the outstanding Bonds to 31 December 2004.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 March 2003

38. RELATED PARTY DISCLOSURES

The Group entered into the following significant transactions with related parties:

- (a) On 6 March 2003, the Company entered into a conditional subscription rights agreement with BAPEF Investment II Limited (“BARING”), a shareholder of the Company, pursuant to which Telecom Plus Technology Holdings Limited (“TPTHL”), a wholly-owned subsidiary of the Company, has agreed to grant the subscription rights to BARING to subscribe a maximum of 3,000 million shares of preferred stock of TPTHL at HK\$0.01 per share.
- (b) During the year, the Group disposed certain of its property, plant and equipment with net book value of HK\$1,824,000 to its associate at the consideration of HK\$2,091,000. The transaction was carried out on terms determined and agreed by both parties.
- (c) During the year, development costs of HK\$1,511,000 were disposed to an associate as capital injection to the associate. The development cost was recognised as HK\$4,104,000 (RMB4,350,000) of paid-up capital of the associate as a result of the revaluation of the development cost made by an independent PRC valuer for capital verification purpose.
- (d) The Group’s deposit paid to an independent third party of HK\$14,151,000 (equivalent to RMB15,000,000) were guaranteed by Able Technology Limited, a substantial shareholder.
- (e) Mr. Chen Jian, a former director of the Company, pledged 48,000,000 shares of the Company to secure other borrowings of the Group. Mr. Chen Jian resigned as director of the Company on 27 September 2002.
- (f) An executive director, Mr. Zou Yishang provided a personal guarantee to a bank to secure banking facilities for the Group during the year. The facilities have not been utilized during the year

The above transactions were carried out in accordance with terms determined and agreed by both parties.

The amount due to a related company represents the balance due to Able Technology Limited. The balance is unsecured, non-interest bearing and repayable on demand.

The amounts due to directors and amount due to an associate are unsecured, non-interest bearing and repayable on demand.

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For the year ended 31 March 2003

39. COMPARATIVE FIGURES

As explained in note 3 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of certain balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

40. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ establishment and operations	Issued share/paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Allnet Company Limited (Note)	The PRC	HK\$2,000,000	-	100%	Development and trading of communication and electronic products
Beijing HollyBridge System Integration Company Limited (Note)	The PRC	RMB20,000,000	-	51%	Provide solutions, software and service
Chun Tai (BVI) Limited	The British Virgin Islands	US\$100	100%	-	Investment holding
Chun Tai Novelty Company Limited	Hong Kong	HK\$10,000	-	100%	Inactive
Chun Tai Printing Limited	Hong Kong	HK\$10,000	-	90%	Investment holding
Full Hope Enterprises Limited	Hong Kong	HK\$10,000	100%	-	Investment holding
Holy (Hong Kong) Universal Limited	Hong Kong	HK\$300,000	-	100%	Trading of communication products

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40. SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued share/paid-up registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Plus Education Limited*	Hong Kong	HK\$2	100%	-	Inactive
Telecom Plus Investment Limited	Hong Kong	HK\$2	100%	-	Investment holding
Plus Investment & Management Consulting Company Limited (Note)	The PRC	HK\$1,500,200	-	100%	Inactive
Telecom Plus Technology Holdings Limited	Hong Kong	HK\$2	100%	-	Investment holding
Telecom Plus Technology Limited	Hong Kong	HK\$1,000,000	-	100%	Investment holding
Up Hill Investments Limited	The British Virgin Islands	US\$1	100%	-	Inactive
Zhongshan Modern Colour Printing and Packaging Products Factory Company Limited (Note)	The PRC	HK\$11,000,000	-	90%	Inactive

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

Note: The English name is directly translated from the Chinese name shown in the PRC business license.

* The name of the subsidiary was changed to Plus Financial Distribution Holdings Limited on 26 September 2003.