Notes on the Financial Statements

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

1. Significant accounting policies

China Eagle Group Company Limited ("the Company") is a company incorporated in Bermuda with limited liability and domiciled in Hong Kong. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The consolidated financial statements of the Company for the year ended 31 March 2004 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The financial statements were authorised for issue by the directors on 20 May 2004.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB").

Although it is not required to do so under the Bye-Laws of the Company, the financial statements of the Company and the Group have been prepared so as to also comply with the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

In previous years, the financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong.

As a result of the increase in the size and geographic spread of the Group, the directors decided to switch from HKFRS to IFRS.

These are the Group's first consolidated financial statements prepared in accordance with IFRS. The adoption of IFRS has not resulted in any significant changes in the accounting policies of the Company or in the quantification of the Company's assets and liabilities when compared with accounting principles generally accepted in Hong Kong.

(b) Basis of preparation

The financial statements are presented in Hong Kong dollars, rounded to the nearest thousand. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, investments held for trading and investment property.

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Basis of preparation *(Continued)*

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 April 2002 for the purposes of the transition to IFRS.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised gains arising from transactions with associates are eliminated against the investments in associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

1. Significant accounting policies *(continued)*

(d) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars at foreign exchange rates ruling at the dates the values were determined.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (l)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Property, plant and equipment *(Continued)*

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment and major components that are accounted for separately. Leasehold land is depreciated over the terms of the leases. Buildings are depreciated on a straight-line basis over the shorter of their estimated useful lives, being 50 years from the date of completion, and the unexpired terms of the leases. Leasehold improvements are depreciated on a straight-line basis over the remaining term of the lease.

The estimated useful lives of fixed assets are as follows:

Land and buildings	over the remaining lease terms
Leasehold improvements	over the remaining lease terms
Other fixed assets	5-15 years
Computer equipment	4 years

(f) Properties under development

Land and buildings other than investment properties are carried at purchased price, less accumulated depreciation and impairment losses.

(g) Intangible assets

(i) Goodwill and negative goodwill

Goodwill (positive and negative) represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of acquisitions that have occurred since 1 January 2001, goodwill (positive and negative) represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Positive goodwill is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (l)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investments in associates.

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(g) Intangible assets *(Continued)*

(i) Positive goodwill and negative goodwill (Continued)

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

In respect of associates, the carrying amount of negative goodwill is included in the carrying amount of the investments in associates. The carrying amount of other negative goodwill is deducted from the carrying amount of intangible assets.

(ii) Exchange trading rights

The trading right in Hong Kong Futures Exchange Limited is stated in the balance sheet at cost less accumulated amortisation and impairment losses (see accounting policy (l)). Amortisation of the trading rights is charged to the profit and loss account on a straight-line basis over its estimated useful life of 10 years.

(iii) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(iv) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is amortised from the date of initial recognition: other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Goodwill	20 years
Trading rights	10 years

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) Investments

(i) Investments in equity securities

Investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement.

The fair value of investments held for trading and investments available-for-sale is their quoted bid price at the balance sheet date.

Investments held for trading are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

(ii) Investment property

Investment property is stated at fair value. Fair value is based on current prices in an active market for similar properties in the same location and condition. Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy (r)(ii).

When an item of property, plant and equipment (see accounting policy (e)) becomes an investment property following a change in its use, any difference arising at the date of transfer between the carrying amount of the item and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item, the gain is transferred to retained earnings. Any loss is recognised in the income statement immediately.

(i) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy (l)).

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

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(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(l) Impairment

The carrying amounts of the Group's assets, other than investment property (see accounting policy (h)(ii)), inventories (see accounting policy (j)) and deferred tax assets (see accounting policy (o)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Goodwill was tested for impairment at 1 April 2002, the date of transition to IFRS, even through no indication of impairment existed.

(i) Calculation of recoverable amount

The recoverable amount of the Group's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss in respect of a receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Impairment *(Continued)*

(ii) Reversals of impairment (Continued)

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments, net of attributable transaction costs. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

To the extent that the liability element of a compound financial instrument was no longer outstanding at 1 April 2002, the date of transition to IFRS, the amounts within equity that are attributable to the equity and liability elements have not been identified separately.

Mandatory convertible notes are those convertible notes that are not redeemable and mandatorily converted to share capital. Mandatory convertible notes are classified as equity in the financial statements.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost under redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Trade and other payables

Trade and other payables are stated at their cost.

(q) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

For the year ended 31 March 2004
(Expressed in Hong Kong dollars)

1. Significant accounting policies *(continued)*

(r) Revenue

(i) Sale of goods

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income.

(iii) Commission income from brokerage services

Commission and brokerage on dealing in securities and futures contracts is recognised when the relevant contract is executed.

(iv) Trading gains on investments

Realised gains and losses arising from the trading in forex and futures contracts are accounted for in the year in which the positions are closed as the difference between the net sales proceeds and the carrying amount of the contracts. Open positions are valued at market rate with unrealised gains and losses included in the consolidated income statement.

Revenue from the sale of listed securities is recognised when the relevant contract is executed.

(s) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Net financing costs

Net financing costs comprise interest expense on borrowings, interest income on bank deposits, foreign exchange gains and losses and bank charges.

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

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1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Expenses *(Continued)*

(ii) Net financing costs (Continued)

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(t) Employee benefits

(i) Salaries, bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated income statement as incurred.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(u) Trust accounts

Trust accounts maintained by subsidiaries of the Group to hold clients' monies are not recognised in the financial statements.

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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1. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(w) Discontinuing operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

(x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

2. REVENUE

The principal activities of the Group are property development and investment, securities broking and investment and general trading.

Revenue represents the commission on securities and commodity broking, rental income and the sales value of goods supplied to customers. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2004	2003
	$'000	$'000
Profit on trading of securities, foreign exchange and futures	**37,464**	–
Commission on securities and commodity broking	**7,200**	–
Rental income	**145**	1,043
Sales of computer-aided-design-systems and machineries	**6**	450
General trading	**–**	2,631
	44,815	4,124

For the year ended 31 March 2004
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3. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

Another business segment, computer-aided-design-systems, ceased production since 2000 and has been treated as a discontinued operation (see note 4).

Geographical segments

The Group's business is managed in Hong Kong and other cities in the People's Republic of China ("PRC").

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Business segments

The Group comprises the following main business segments:

Property development and investment	:	Development of properties and leasing of properties
Securities broking and investment	:	Stockbroking business and dealing in futures contracts and options and investments
General trading	:	Trading of household and electric appliance products

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(Expressed in Hong Kong dollars)

3. SEGMENT REPORTING *(CONTINUED)*

Business segments *(Continued)*

	Securities broking and investment		Property development and investment		General trading		Sale of computer-aided-design-systems and machinery		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers:										
Sales	**–**	–	**–**	–	**–**	2,631	**6**	450	**6**	3,081
Commission income	**7,200**	–	**–**	–	**–**	–	**–**	–	**7,200**	–
Profit on trading of securities, foreign exchange and futures	**37,464**	–	**–**	–	**–**	–	**–**	–	**37,464**	–
Rentals	**–**	–	**145**	1,043	**–**	–	**–**	–	**145**	1,043
Total revenue from external customers	**44,664**	–	**145**	1,043	**–**	2,631	**6**	450	**44,815**	4,124
Segment result	**31,095**	–	**30**	(2,470)	**–**	179	**(2,700)**	(2,340)	**28,425**	(4,631)
Unallocated expenses									**(2,545)**	(7,218)
Profit/(loss) from operations									**25,880**	(11,849)
Net financing costs									**(380)**	(487)
Share of losses of associates									**(1)**	(24)
Income tax expense									**(5,500)**	–
Minority interests									**(118)**	–
Net profit/(loss) for the year									**19,881**	(12,360)

For the year ended 31 March 2004
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3. Segment reporting *(Continued)*

Business segments *(Continued)*

	Securities broking and investment		Property development and investment		General trading		Sale of computer-aided-design-systems and machinery		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment assets	**212,466**	–	**757,837**	12,145	**27**	50	**391**	2,683	**970,721**	14,878
Investments in associates									**–**	203,246
Unallocated assets									**367**	45,276
Total assets									**971,088**	263,400
Segment liabilities	**72,751**	–	**245,127**	75,503	**34**	186	**100**	33	**318,012**	75,722
Unallocated liabilities									**80**	1,718
Total liabilities									**318,092**	77,440
Capital expenditure	**2,139**	–	**827**	393	**–**	–	**–**	–	**2,966**	393
Depreciation charge and amortisation expense	**583**	–	**573**	765	**–**	–	**–**	–	**1,156**	765

Geographical segments

	Hong Kong		PRC		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers	**44,815**	3,149	**–**	975	**44,815**	4,124
Segment assets	**219,951**	54,876	**751,137**	208,524	**971,088**	263,400
Capital expenditure	**2,966**	393	**–**	–	**2,966**	393

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4. DISCONTINUED OPERATION

The Group closed its computer-aided-design-systems and machinery manufacturing plant located in the PRC which was subsequently sold in November 2000 for a cash consideration of $3,519,000. A loss on disposal of the plant of $799,000 was recognised in the consolidated income statement for the year ended 31 March 2001.

Subsequent to the cessation of production in 2000, the Group sold the remaining inventories of computer-aided-design-systems and machinery through June 2003. During the year ended 31 March 2004, inventories of computer-aided-design-systems and machinery with cost totalling $5,867,000 were fully written off.

At 31 March 2004, the computer-aided-design-systems business ("CAD business") had net liabilities of $8,261,000, comprising assets of $391,000 less liabilities $8,652,000. During the year, the CAD business had cash outflows from operating activities $26,000 (2003: $11,000), and no cash flows from investing activities and financing activities (2003: $Nil).

5. ACQUISITIONS OF SUBSIDIARIES

On 20 and 23 May 2003, the Group acquired a 95% equity interests in Eagle Legend Futures Limited ("Eagle Legend Futures") and Eagle Legend Securities Limited ("East Legend Securities") respectively, with all acquisitions satisfied in cash. Eagle Legend Securities is engaged in securities dealing and brokerage while Eagle Legend Futures is engaged in futures contracts dealing. The acquisitions were accounted for using the purchase method of consolidation.

On 31 March 2004, the Group acquired the entire share capital of Bestly. The acquisition was financed by issuing of mandatory convertible notes to Shinning Crown. Bestly's principal activity is investment holding. It holds 100% interests in Beijing Wenyean Software Development Limited ("Beijing Wenyean") and Beijing Xinwenan Technology Limited ("Beijing Xinwenan") which in turn holds the remaining 20% interest in Beijing Jin Zun Property Development Limited ("Beijing Jin Zun Property") and 51% interest in Beijing Jin Zun Technology Development Limited ("Beijing Jin Zun Technology"). The acquisition was accounted for using the purchase method of accounting.

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5. ACQUISITIONS OF SUBSIDIARIES *(CONTINUED)*

Effect of acquisitions

The acquisitions had the following effect on the Group's assets and liabilities.

	Acquisitions	
	2004	2003
	$'000	$'000
Interest in associate	**–**	195,999
Property, plant and equipment	**239**	–
Trading rights	**218**	–
Property under development	**459,955**	–
Trade and other receivables	**51,260**	2
Cash and cash equivalents	**11,626**	2
Relocation and compensation fee payable	**(95,789)**	–
Trade and other payables	**(91,365)**	(3)
Net identifiable asset and liabilities	**336,144**	196,000
Negative goodwill on acquisition	**(12,550)**	(1,000)
Gross consideration	**323,594**	195,000
Cash (acquired)	**(11,626)**	(2)
Net consideration	**311,968**	194,998
Represented by:		
Cash consideration	**22,727**	120,000
First convertible notes	**–**	37,500
Second convertible notes	**–**	37,500
Mandatory convertible notes	**300,000**	–
	322,727	195,000
Legal and professional fees paid	**867**	–
	323,594	195,000

6. Other operating income

	2004	2003
	$'000	$'000
Gain on disposal of property, plant and equipment	510	–
Waiver of loan from a former director	–	7,271
Others	397	95
	907	7,366

7. Other operating expenses

	2004	2003
	$'000	$'000
Amortisation of positive goodwill/(negative goodwill)	92	(50)
Amortisation of other intangible assets	87	–
Loss on disposal of property, plant and equipment	–	578
Others	–	7
	179	535

8. Personnel expenses

	2004	2003
	$'000	$'000
Wages and salaries	6,169	7,490
Retirement benefit costs	193	130
	6,362	7,620

The average number of employees during the year ended 31 March 2004 was 17 (2003: 10).

The Group makes contributions to defined contribution plans pursuant to the rules and regulations applicable to the Group in the countries where the Group operates.

The Group has no obligation for the payment of retirement benefits beyond the contributions.

For the year ended 31 March 2004
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9. NET FINANCING COSTS

	2004	2003
	$'000	$'000
Other interest expense	(4,774)	–
Interest on convertible notes	(780)	(1,249)
Bank interest expense	–	(2)
	(5,554)	(1,251)
Less: borrowing costs capitalised into property under development *	4,774	–
Net interest expense	(780)	(1,251)
Bank interest income	110	166
Other interest income	291	593
Net foreign exchange (loss)/gain	(1)	5
Net financing costs	(380)	(487)

* *The borrowing costs have been capitalised at a rate of 0.49% per annum.*

10. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(loss) from ordinary activities before taxation is arrived at after charging/(crediting):

	2004	2003
	$'000	$'000
Operating lease charges in respect of land and buildings	2,210	1,961
Depreciation	977	815
Cost of goods sold	–	5,795
Provision of inventories	–	650
Rental receivable from investment properties less direct outgoings of $Nil (2003: $Nil)	145	1,043
Amortisation of positive goodwill/(negative goodwill)	92	(50)
Auditors' remuneration	600	200

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(Expressed in Hong Kong dollars)

11. INCOME TAX EXPENSE

(a) (i) In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's financial statements for the year ended 31 March 2004. Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 March 2004 is calculated at 17.5% (2003: 16%) of the estimated assessable profits for the year.

Income tax expense in the consolidated income statement represents provision for Hong Kong Profits Tax charged at 17.5% (2003: 16%).

(ii) No provision has been made for the PRC income tax as the PRC subsidiary companies of the Group sustained losses for taxation purposes during the year (2003: $Nil).

(iii) The Group has tax losses carried forward. However, no provision for deferred taxation has been made as it is not probable for the Group to have sufficient taxable profits from which the temporary differences can be utilised in the foreseeable future.

(b) **Reconciliation of effective tax rate:**

	2004	2003
	$'000	$'000
Profit/(loss) before tax	**25,499**	(12,360)
Notional tax on profit/(loss) before tax at 17.5% (2003: 16%)	**4,462**	(1,978)
Tax effect of non-deductible expenses	**861**	3,225
Tax effect of non-taxable revenue	**(112)**	(1,525)
Unused tax losses not recognised in the income statement	**289**	278
Income tax expense	**5,500**	–

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12. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2004	2003
	$'000	$'000
Fees	**216**	90
Salaries and other emoluments	**2,118**	3,530
Retirement scheme contributions	**36**	36
	2,370	3,656

Included in the directors' remuneration were fees of $216,000 (2003: $90,000) paid to the independent non-executive directors during the year.

The remuneration of the directors is within the following bands:

$	**2004 Number of directors**	2003 Number of directors
Nil – 1,000,000	**5**	5
1,000,001 – 1,500,000	**1**	–
1,500,001 – 2,000,000	**–**	–
2,500,001 – 3,000,000	**–**	1

13. Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2003: three) are directors whose emoluments are disclosed in note 12.

14. Profit/(loss) attributable to shareholders

The profit attributable to shareholders included a profit of $8,893,000 (2003: loss of $11,571,000) which has been dealt with in the financial statements of the Company.

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15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings $'000	Leasehold improvements $'000	Other fixed assets $'000	Computer equipment $'000	Total $'000
Cost:					
At 1 April 2003	10,533	2,570	3,303	5,108	21,514
Additions through acquisitions of subsidiaries	–	384	335	1,270	1,989
Additions during the year	–	1,934	457	575	2,966
Transfer to investment properties *(note 18)*	(5,520)	–	–	–	(5,520)
Disposals	(3,523)	(507)	(154)	(1,041)	(5,225)
At 31 March 2004	**1,490**	**4,381**	**3,941**	**5,912**	**15,724**
Accumulated depreciation:					
At 1 April 2003	2,037	1,499	2,871	4,912	11,319
Additions through acquisitions of subsidiaries	–	308	270	1,172	1,750
Charge for the year	125	473	153	226	977
Transfer to investment properties *(note 18)*	(1,412)	–	–	–	(1,412)
Written back on disposal	(86)	(399)	(132)	(1,041)	(1,658)
At 31 March 2004	**664**	**1,881**	**3,162**	**5,269**	**10,976**
Net book value:					
At 31 March 2004	**826**	**2,500**	**779**	**643**	**4,748**
At 31 March 2003	8,496	1,071	432	196	10,195

Land and buildings are located in the PRC under medium-term leases.

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16. INTANGIBLE ASSETS

The Group

	Negative goodwill $'000	Positive goodwill $'000	Exchange trading right $'000	Total $'000
Cost:				
At 1 April 2003	(1,000)	–	–	(1,000)
Acquisitions of subsidiaries *(see note 5)*	(14,768)	2,218	218	(12,332)
At 31 March 2004	**(15,768)**	**2,218**	**218**	**(13,332)**
Accumulated amortisation:				
At 1 April 2003	50	–	–	50
Amortisation for the year	–	(92)	(87)	(179)
At 31 March 2004	**50**	**(92)**	**(87)**	**(129)**
Net book value:				
At 31 March 2004	**(15,718)**	**2,126**	**131**	**(13,461)**
At 31 March 2003	(950)	–	–	(950)

Negative goodwill as at 1 April 2003 arose from the acquisition of the entire equity interests in Artway Development Limited ("Artway") on 10 April 2002. The additions of positive goodwill in the current year arose from the acquisitions of a 95% interests in Eagle Legend Futures and a 95% interests in Eagle Legend Securities. The negative goodwill in current year arose from the acquisition of a 100% equity interests in Bestly (note 5).

Exchange trading right is the right for trading and dealing of futures granted by Hong Kong Futures Exchange Limited.

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17. PROPERTY UNDER DEVELOPMENT

	The Group	
	2004	2003
	$'000	$'000
Property acquisition cost	**509,434**	–
Relocation and compensation fees	**235,849**	–
Interest capitalised	**4,774**	–
Other expenses	**384**	–
	750,441	–

The Company's subsidiary, Beijing Jin Zun Property entered into a contract ("the transfer contract") on 1 February 2002, whereby Beijing Jin Zun Property agreed to acquire and develop the parcel of the property located at "Area No. 7, Xi Ba He Bei Lane, Chaoyang District, Beijing, the PRC (the "Property")" at a consideration of RMB250,000,000 (the "consideration") from Beijing Bus Company Limited ("Beijing Bus"). Beijing Jin Zun Property intends to construct a multi-purpose complex on the Property.

The consideration is payable by Beijing Jin Zun Property to Beijing Bus by instalments. An amount of RMB83,000,000 was paid in 2002 pursuant to the transfer contract. By a supplementary contract, Beijing Bus agreed that RMB80,000,000 would be settled on or before 30 September 2005 and the balance of the consideration of RMB87,000,000 would be settled on or before 30 September 2006. Upon the completion of the application procedures and the payment of land premium of RMB470,000,000 to the relevant PRC authorities, Beijing Jin Zun Property would obtain the Land Use Rights of the Property.

According to Provisional Regulations for Grant and Transfer of State-owned Land Use Rights in Cities and Towns in the PRC, the terms regarding the land use rights of the Property are 70 years for residential use, 40 years for commercial/entertainment uses and 50 years for composite use. The land is in initial stage of development.

As discussed in note 5, during the year, the Company purchased a 100% interest in Bestly, which increased the Group's interest in the Property from 39.2% to 100% as at 31 March 2004. Consequently, the Group began to consolidate the Property from 31 March 2004. In connection with the acquisition of Bestly, the fair market value of the property was determined by the directors of the Company with reference to an appraisal by a professional third party valuer, as at 31 December 2003 amounted to RMB540,000,000.

During the year, the Group capitalised interest costs of approximately $4,774,000 in respect of property under development (note 9), details of which are set out in to the financial statements.

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18. INVESTMENT PROPERTIES

	2004	2003
	$'000	$'000
At 1 April	330	330
Transfer from property, plant and equipment *(note 15)*	4,108	–
At 31 March	4,438	330

The carrying amount of investment properties is the fair value of the properties as determined by the directors of the Company. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment properties. The Group's current lease arrangements, which were entered into on an arm's length basis and which are comparable to those for similar properties in the same location, were taken into account.

Investment properties comprise an industrial property and a car park that are leased to a related party and a third party respectively. The leases do not contain an initial non-cancellable period. No contingent rents are charged.

Investment properties are located in Hong Kong under medium-term leases.

19. INVESTMENTS IN ASSOCIATES

The Group has acquired the remaining interest of the associate companies during the year. The Group has the following investments in associates as at 31 March 2003:

				Proportion of ownership interest			
Name of	Form of business structure	Place of incorporation and operation	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by an associate	Principal activities
Beijing Jin Zun Technology Development Ltd	Sino-foreign equity joint venture	PRC	Registered capital RMB 16,000,000	49%	49%	–	Property management, research and development of computing software and investment holding
Beijing Jin Zun Property Development Ltd	Limited liability company	PRC	Registered capital RMB 10,000,000	39.2%	–	80%	Development and sales of real property

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19. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

The Group's share of post-acquisition total recognised losses in the above associates for the year ended 31 March 2004 was $1,000 (2003: $24,000).

	The Group	
	2004	2003
	$'000	$'000
Share of net assets	**203,245**	203,246
Less: Re-classified as subsidiaries	**(203,245)**	–
Balance at 31 March	**–**	203,246

On 31 March 2004, the Company acquired the remaining 51% and 60.8% interest in Beijing Jin Zun Technology and Beijing Jin Zun Property respectively. Beijing Jin Zun Technology and Beijing Jin Zun Property became the wholly owned subsidiaries of the Company as at 31 March 2004.

20. OTHER INVESTMENTS

	The Group	
	2004	2003
	$'000	$'000
Non-current investments		
Equity securities available-for-sale		
– listed in Hong Kong, at fair value	**124**	–

	The Group and the Company	
	2004	2003
	$'000	$'000
Current investments		
Equity securities held for trading		
– listed in Hong Kong, at fair value	**804**	–

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21. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004	2003
	$'000	$'000
Unlisted shares at cost	**540,624**	240,624
Amounts due from subsidiaries	**150,474**	76,334
Amounts due to subsidiaries	**(72,704)**	(27,452)
	618,394	289,506
Less: Impairment loss	**(59,282)**	(45,700)
	559,112	243,806

Amounts due from/(to) subsidiaries are interest-free, unsecured and have no fixed terms of repayment, except for an amount of $30,142,000 (2003: $25,057,000) due from a subsidiary which is interest bearing at 7.5% per annum (2003: 2% per annum).

Details of the Company's principal subsidiaries at 31 March 2004 are set out below:

Name of Company	Place of incorporation and operation	Particulars of issued and paid-up capital	Percentage of equity held	Principal activities
Shares held by Company directly:				
Artway Development Limited*	British Virgin Islands ("BVI")	Ordinary US$1	100	Investment holding
Capital Automation (BVI) Limited*	BVI	Ordinary US$50,000	100	Investment holding
Eagle Decade Investments Limited*	BVI	Ordinary US$1	100	Dormant

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21. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name of Company	Place of incorporation and operation	Particulars of issued and paid-up capital	Percentage of equity held	Principal activities
Shares held by Company directly: *(Continued)*				
Smartech Cyberworks Limited*	BVI	Ordinary US$1	100	Investment holding
Bestly Legend Limited*	BVI	1 share of US$1 each	100	Investment holding
Shares held indirectly:				
Capital Computerized Machinery Manufacturing (Shaoxing) Company Limited* (limited liability company)	PRC	Registered capital $6,286,189	100	Dormant
Capital Machinery Agency and Supplies Limited	Hong Kong	Ordinary $10,000	100	Marketing of machinery
Capital Realty Development Company Limited	Hong Kong	Ordinary $100,000	100	Property holding
China Eagle Capital Company Limited	Hong Kong	Ordinary $10,000	100	Investment holding
China Eagle Management Limited	Hong Kong	Ordinary $10,000	100	Management services
China Sino Technology Limited	Hong Kong	Ordinary $10,000	100	Dormant

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21. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name of Company	Place of incorporation and operation	Particulars of issued and paid-up capital	Percentage of equity held	Principal activities
Shares held indirectly: *(Continued)*				
Citimate (Hong Kong) Limited	Hong Kong	Ordinary $100 Non-voting deferred $1,000,000	100	Investment holding
Beijing Jin Zun Technology Development Limited* (sino-foreign equity joint venture)	PRC	RMB 16,000,000	100	Property management, research and development of computing software and investment holding
Beijing Jin Zun Property Development Limited* (limited liability company)	PRC	RMB 10,000,000	100	Development and sales of real property
Beijing Wenyean Software Development Limited* (sino-foreign equity joint venture)	PRC	RMB 16,760,000	100	Sales, research and development of software
Beijing Xinwenan Technology Limited* (sino-foreign equity joint venture)	PRC	RMB 9,900,000	100	Development of technology, property consulting and management
Eagle Legend Securities Limited	Hong Kong	Ordinary $20,000,000	95	Stockbroking business

21. INVESTMENTS IN SUBSIDIARIES *(CONTINUED)*

Name of Company	Place of incorporation and operation	Particulars of issued and paid-up capital	Percentage of equity held	Principal activities
Shares held indirectly: *(Continued)*				
Eagle Legend Futures Limited	Hong Kong	Ordinary $20,000,000	97.5%	Dealing in futures contracts and options on Hong Kong Futures Exchange Limited
Hong Kong Punching Centre Limited	Hong Kong	Ordinary $100,000	100	Property holding
New Smarter Trading Limited trading	Hong Kong	Ordinary $100	100	Dormant
Profit Made Properties Limited	Hong Kong	Ordinary $10,000	100	Dormant
Top Advance Technology Limited	Hong Kong	Ordinary $10,000	100	Dormant

* *Companies not audited by KPMG*

22. INVENTORIES

	2004 **$'000**	2003 $'000
Computer-aided-design-system products	–	1,310
Raw materials	–	634
Work in progress	–	731
	–	2,675

Inventories other than construction work in progress

Inventories stated at net realisable value	–	2,675

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23. DEPOSITS WITH BROKERS AND FINANCIAL INSTITUTIONS

At 31 March 2004, the Group had placed deposits with brokers and financial institutions amounted to $64,323,000. The Group had entered into certain margin transactions in foreign currency and futures contracts with carrying value totalling $21,273,000 and $8,650,000 respectively. The notional amount for foreign currency and futures contracts totalled to $685 million and $126 million at 31 March 2004. At 31 March 2004, open foreign currency and futures contracts were valued at market rate with unrealised losses included in the consolidated income statement.

Subsequent to 31 March 2004, the foreign currency contracts realised gains amounting to $2,059,000 and the futures contracts realised losses amounting to $4,587,000 (note 39(a)).

24. AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties are unsecured, interest-free and have no fixed terms of repayment. The amounts also included rent receivables of $90,000 (2003: $Nil) from a related party which is expected to be settled within one year.

25. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Trade receivables arising from the ordinary course of business of dealing in				
Securities and equity options transactions:				
– Cash clients	**13,233**	–	**–**	–
– Margin clients	**22,361**	–	**–**	–
– HKFE Clearing Corporation	**22,618**	–	**–**	–
	58,212	–	**–**	–
Other debtors, deposits and prepayments	**4,617**	2,661	**315**	1,039
	62,829	2,661	**315**	1,039

The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities and equity options transactions are two days after the trade date. The balances are all aged within 30 days.

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26. Cash and cash equivalents

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Bank balances	**80,824**	3,902	**45,725**	762
Call deposits	**3,152**	16,000	**–**	16,000
Cash and cash equivalents in the statement of cash flows	**83,976**	19,902	**45,725**	16,762

27. Convertible notes

	The Group and the Company	
	2004	2003
	$'000	$'000
Proceeds from issue of 48 (2003: 150) convertible notes	**24,000**	75,000

Pursuant to an acquisition agreement dated 10 April 2002 as part of the total consideration of $195,000,000 for the acquisition of Artway, First and Second Convertible Notes (issued on 22 April and 10 July 2002 respectively) totalling $75,000,000 were issued to Link Zone International Limited.

These Notes are due in 2004 and convertible by Link Zone International Limited to ordinary shares of the Company of $0.10 each at a conversion price of the lower of (i) the price of $0.12 per ordinary share, subject to adjustment and (ii) 93% of the average closing price per share for the five trading days immediately prior to the date of the exercise date, at the option of the note-holders in the denomination of $500,000 each or integral multiples thereof.

The Notes bear interest from the date of their issue at a fixed rate of 2% per annum, which is payable semi-annually in arrears.

On 20 April 2004, convertible notes totalling $24,000,000 were converted into 200,000,000 ordinary shares of $0.10 each (note 39(b)).

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28. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Amount payable arising in the ordinary course of business of dealing in				
Securities and equity options transactions:				
– Cash clients	**6,855**	–	**–**	–
– Margin clients	**22,515**	–	**–**	–
– Hong Kong Securities Clearing Company Limited ("HKSCC")	**11,243**	–	**–**	–
	40,613	–	**–**	–
Other payables	**3,388**	2,440	**1,523**	716
	44,001	2,440	**1,523**	716

The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities and equity options transactions in respect of cash clients are two days after the trade date.

Accounts payable to clients arising from the ordinary course of business of dealing in futures and options transactions represent margin deposits received from clients for their trading of futures and options respectively. The excesses of the outstanding amounts over the required margin deposit stipulated are repayable to clients on demand.

No ageing analysis of cash clients is disclosed as, in the opinion of the directors, an aged analysis is not meaningful in view of the nature of the business of dealing in securities and options contracts.

29. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest-bearing at 0.4868% per annum and have no fixed terms of repayment. The amounts also include rent payable of $80,000 (2003: $Nil) to a related party which is expected to be settled within one year.

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30. Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Provision for Hong Kong Profits Tax for the year	**5,500**	–	**5,500**	–

(b) Deferred taxation

Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of tax losses of $42,481,000 (2003: $42,375,000) as it is not probable that there will be sufficient future taxable income. The tax losses do not expire under the current tax legislation.

31. Long-term payables

The amount represents the balance of the consideration of RMB167,000,000 (equivalent to $157,547,000) payable to Beijing Bus. Pursuant to the transfer contract and the supplementary contracts, an amount of RMB80,000,000 would be settled on or before 30 September 2005 and the remaining balance of RMB87,000,000 would be settled on or before 30 September 2006 (note 17).

32. Share capital

	The Group and the Company			
	2004		2003	
	Number of shares '000	**$'000**	Number of shares '000	$'000
Authorised:				
Ordinary shares of $0.10 each	**50,000,000**	**5,000,000**	20,000,000	2,000,000

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32. SHARE CAPITAL *(CONTINUED)*

		The Group and the Company	
		Number of shares	
	Note	'000	$'000
Issued and fully paid:			
At 1 April 2002 and 31 March 2003		1,618,304	161,830
At 1 April 2003		1,618,304	161,830
Share issued upon conversion of convertible notes	*(i)*	425,000	42,500
Placing of shares	*(ii)*	796,000	79,600
At 31 March 2004		**2,839,304**	**283,930**

Notes:

(i) On 17 July 2003, convertible notes totalling $51,000,000, comprising the entire amount of the First Notes and partial amount of the Second Notes of amounts $37,500,000 and $13,500,000 respectively, were converted into 425,000,000 ordinary shares of $0.10 each (note 27). The conversion price was $0.12 per ordinary share.

(ii) On 26 June 2003, the Company entered into a placing arrangement with Ricofull Securities Limited as Placing Agent to place 323,000,000 ordinary shares of $0.10 each to 10 placees, independent external parties, at a price of $0.12 per ordinary share. The net proceeds from the placing were $37,985,000, after deducting expenses of $775,000, which has been used for general working capital.

On 7 January 2004, the Company entered into a placing arrangement with Eagle Legend Securities, a subsidiary of the Company, as Placing Agent to place 473,000,000 ordinary shares of $0.10 each to a placee, Shinning Crown, at a price of $0.12 per ordinary share. The net proceeds from the placing were $55,487,000, after deducting expenses of $1,273,000, which is intended to be used for future business expansion when investment opportunities arise.

33. RESERVES

Reconciliation of movements in capital and reserves

The Group

	Share premium	Reserve on consolidation	(Accumulated losses)/ Retained earnings	Total
	$'000	$'000	$'000	$'000
	(Note (i))			
At 1 April 2002	40,734	620	(4,864)	36,490
Net loss for the year	–	–	(12,360)	(12,360)
At 31 March 2003	40,734	620	(17,224)	24,130
At 1 April 2003	40,734	620	(17,224)	24,130
Net profit for the year	–	–	19,881	19,881
Shares issued upon conversion of convertible notes	8,500	–	–	8,500
Placing of shares	15,008	–	–	15,008
At 31 March 2004	**64,242**	**620**	**2,657**	**67,519**

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33. RESERVES *(CONTINUED)*

The Company

	Share premium	Reserve on consolidation	Accumulated losses	Total
	$'000	$'000	$'000	$'000
	(Note (i))	*(Note (ii))*		
At 1 April 2002	40,734	40,423	(45,525)	35,632
Net loss for the year	–	–	(11,571)	(11,571)
At 31 March 2003	40,734	40,423	(57,096)	24,061
At 1 April 2003	40,734	40,423	(57,096)	24,061
Net profit for the year	–	–	8,893	8,893
Shares issued upon conversion of convertible notes	8,500	–	–	8,500
Placing of shares	13,872	–	–	13,872
At 31 March 2004	**63,106**	**40,423**	**(48,203)**	**55,326**

(i) Share premium

The net proceeds of the June 2003 placement of 323,000,000 shares (note 32(ii)) in excess of the par value of shares issued resulted in a share premium of $5,680,000.

The net proceeds of the January 2004 placement of 473,000,000 shares (note 32(ii)) in excess of the par value of the shares issued resulted in a share premium of $9,328,000 (The Company: $8,192,000).

The excess of the total value of converted shares (notes 27 and 32(i)) $51,000,000 over the par value of the converted share ($42,500,000) has been treated as share premium.

(ii) Contributed surplus

The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Capital Automation (BVI) Limited and the value of net assets of the underlying subsidiaries acquired as at 27 March 1992. At the group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

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33. RESERVES *(CONTINUED)*

(ii) Contributed surplus *(Continued)*

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

(a) it is, or would 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.

34. MANDATORY CONVERTIBLE NOTES

	The Group and the Company	
	2004	2003
	$'000	$'000
Mandatory convertible notes	**300,000**	–

Pursuant to an acquisition agreement dated 6 February 2004 regarding the acquisition of the entire issued share capital of Bestly for a consideration of $300,000,000, convertible notes totalling $300,000,000 were issued to Shinning Crown.

These Notes, in $3,000,000 denominations each or integral multiples thereof, are due in 2007. These notes are convertible at any time from the date of issue, with mandatory conversion of the entire outstanding convertible notes on maturity. These Notes are convertible into ordinary shares in the capital of the Company of $0.10 each at a conversion price the lower of (i) the price of $0.12 per share, subject to adjustment and (ii) 90% of the average closing price per share for the ten trading days immediately prior to the date of the exercise date.

The Notes bear interest from the date of their issue at a fixed rate of 2% per annum, which is payable semi-annually in arrears.

On 6 April 2004, the notes totalling $300,000,000 were converted into 2,500,000,000 ordinary shares of $0.10 each (note 39(b)).

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35. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share at 31 March 2004 was based on the net profit attributable to ordinary shareholders of $19,881,000 (2003: loss of $12,360,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2004 of 2,239,508,979 (2003: 1,618,303,500) calculated as follows:

	2004	2003
	$'000	$'000
Net profit/(loss) attributable to ordinary shareholders	**19,881**	(12,360)

	Note	**2004**	2003
		Number	Number
		'000	'000
Weighted average number of ordinary shares			
Issued ordinary shares at 1 April	*32*	**1,618,304**	1,618,304
Effect of shares issued in July 2003	*32*	**530,493**	–
Effect of shares issued in January 2004	*32*	**90,712**	–
Weighted average number of ordinary shares at 31 March		**2,239,509**	1,618,304
Basic earnings/(loss) per share		**0.89**	(0.76)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 March 2004 was based on net profit attributable to ordinary shareholders of $20,556,000 (2003: Not applicable) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2004 of 2,580,194,000 (2003: Not applicable), calculated as follows:

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(Expressed in Hong Kong dollars)

35. EARNINGS/(LOSS) PER SHARE *(CONTINUED)*

(b) Diluted earnings per share *(Continued)*

Net profit attributable to ordinary shareholders (diluted)

	2004
	$'000
Net profit attributable to ordinary shareholders	19,881
After-tax effect of interest on convertible notes	675
Net profit attributable to ordinary shareholders (diluted)	20,556

Weighted average number of ordinary shares (diluted)

	2004
	Number
	'000
Weighted average number of ordinary shares at 31 March	2,239,509
Effect of conversion of convertible notes	340,685
Weighted average number of ordinary shares (diluted) at 31 March	2,580,194

(c) Earnings per share for continuing operations

For the year ended 31 March 2004, earnings per share for continuing operations has been calculated using the same figures as earnings per share, except that the net profit for the year used in the calculation is the net profit relating to continuing operations of $22,581,000 (2003: loss of $10,020,000).

36. FINANCIAL INSTRUMENTS

(a) Effective interest rates and repricing analysis

Financial assets of the Group include cash and cash equivalents, deposits with banks and non-bank financial institutions, investments, trade receivables, advance payments, prepayments, amounts due from related parties and other receivables. Financial liabilities of the Group include trade payables, amounts due to related parties and other creditors. The Group had no positions in derivative contracts that are designed and qualified as hedging instruments at 31 March 2004 and 2003.

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(Expressed in Hong Kong dollars)

36. FINANCIAL INSTRUMENTS *(CONTINUED)*

(a) Effective interest rates and repricing analysis *(Continued)*

In respect of interest-bearing financing liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

	Effective interest rate	Total $'000	2004 6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Convertible notes*	2%	24,000	24,000	–	–	–	–
Mandatory convertible notes*	2%	300,000	–	–	–	300,000	–
		324,000	24,000	–	–	300,000	–

	Effective interest rate	Total $'000	2003 6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000
Convertible notes*	2%	75,000	–	–	75,000	–	–

* *These liabilities bear interest at a fixed rate.*

Exposure to credit, interest and currency risk arises in the normal course of the Group's business.

For the year ended 31 March 2004
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36. FINANCIAL INSTRUMENTS *(CONTINUED)*

(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to perform as contracted. At balance sheet date there were no significant concentrations of credit risks. Credit risks on trade and other receivables and deposits with non-bank financial institution (non-current assets) are limited to receivables and deposits are shown net of provision for bad and doubtful debts.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivative financial instruments are dealt with brokers with whom the Group has a signed investment agreement as well as sound credit ratings.

(c) Interest rate risk

There are no bank loans obtained by the Group as at 31 March 2004. Certain amounts due to related parties are interest bearing at a fixed rate of 0.4868% per annum. Convertible notes issued also bear a fixed interest rate of 2% per annum.

(d) Foreign currency risk

The Group has entered into certain foreign currency transactions denominated in Swiss Franc. All gains and losses on foreign currency contracts are recognised in the income statement. Details of foreign currency contracts outstanding as at 31 March 2004 has been disclosed in note 23.

(e) Fair values

The fair values of cash, deposits with banks and financial institutions, trade and other receivables, trade and other payables, trading and non-trading securities are not materially different from their carrying amounts.

Due to the related party nature, it is not practical to estimate the fair value of the amounts due from/to related parties.

Fair values of the convertible notes are not materially different from their carrying amounts as all the notes have been converted into ordinary shares in April 2004 as disclosed in note 39.

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(Expressed in Hong Kong dollars)

37. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 March 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	$'000	$'000
Authorised but not contracted for:		
– Acquisition of property under development	**443,396**	–

(b) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	The Group	
	2004	2003
	$'000	$'000
Less than one year	**1,691**	675
Between one and five years	**2,497**	–
	4,188	675

The Group leases a number of office premises under operating leases. The leases typically run for an initial period of one year to three years with an option to renew the lease after that date. Lease payments are increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the year ended 31 March 2004, $2,210,000 was recognised as an expense in the income statement in respect of operating leases (2003: $2,079,000).

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(Expressed in Hong Kong dollars)

38. MATERIAL RELATED PARTY TRANSACTIONS

The Group has the following material transactions with related parties during the year.

Transaction with directors and shareholders:

(i) The Company acquired the entire issued share capital of Bestly from Mr Han Yuejun.

Mr Han Yuejun is a shareholder of the Company and also has equity interest in Beijing Xin Yi Tian Property Agents Company Limited.

(ii) A subsidiary made unsecured advancements to Mr Han Yuejun in the preceding year. The amount was fully settled during the current year (2003: $24,957,000).

(iii) The Company issued $300,000,000 of mandatory convertible notes to Shinning Crown as consideration for the purchase of Bestly. Shinning Crown is a shareholder of the Company (note 34).

(iv) A director of the Company, Mr Ng Kin Wah, traded securities and futures contracts through Eagle Legend Securities Limited and Eagle Legend Futures Limited, subsidiary companies of the Company. The total transaction volume incurred during the year for securities trading amounted to $7,292,000. The total number of futures contracts entered during the year amounted to 506. The total commission charged by the subsidiaries to the director amounted to $14,000. The amount has been fully settled as at year end.

Other related party transactions:

(i) The Company's subsidiary, Beijing Wenyean, purchased a 20% equity interest in the capital of Beijing Xinwenan from Beijing Xin Yi Tian Property Agents Company Limited ("Beijing Xin Yi Tian") at the consideration of RMB1,980,000. Mr Han Yuejun is a shareholder of the Company and also has equity interest in Beijing Xin Yi Tian.

(ii) The Company's subsidiary, Beijing Xinwenan, purchased a 20% equity interest in the capital of Beijing Wenyean from Beijing Xin Yi Tian at a consideration of RMB3,352,000. Mr Han Yuejun is a shareholder of the Company and also has equity interest in Beijing Xin Yi Tian.

(iii) The Company's subsidiary, Beijing Xinwenan purchased a 20% equity interest in the capital of Beijing Jin Zun Property from Mr Han Yuejun, a shareholder of the Company, at a consideration of RMB1,600,000.

(iv) The Company's subsidiary, Beijing Wenyean purchased a 51% equity interests in the capital of Beijing Jin Zun Technology from Beijing Xin Yi Tian at the consideration of RMB6,400,000. Mr Han Yuejun is a shareholder of the Company and also has equity interest in Beijing Xin Yi Tian.

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38. MATERIAL RELATED PARTY TRANSACTIONS *(CONTINUED)*

Other related party transactions: *(Continued)*

(v) The Company's subsidiary, Beijing Jin Zun Property paid the interest of RMB3,987,000 to Mr Han Yuejun, a shareholder of the Company.

(vi) The Company paid operating lease rentals in respect of the Group's office premises to Gome Home Appliances (Hong Kong) Limited ("Gome"), a related company of the Group totalling $917,000 (2003: $Nil) during the year. At 31 March 2004, the rental payable to Gome amounted to $80,000 (2003: $Nil). Mr. Wong Kwong Yu and Miss Du Juan, who are the directors of the Company, are also the directors of Gome.

(vii) The Company's subsidiary, Hong Kong Punching Centre Limited, received operating lease rentals in respect of the Group's factory premises from Gome, a related Company of the Group totalling $90,000 (2003: $Nil), during the year. At 31 March 2004, the rental receivable from Gome amounted to $90,000 (2003: $Nil). Mr. Wong Kwong Yu and Miss Du Juan, who are the directors of the Company, are also the directors of Gome.

(viii) Beijing Eagle Investment Co., Limited ("Beijing Eagle Investment"), a related company, received operating lease rentals on behalf of a subsidiary in the preceding year. At 31 March 2004, reimbursement payable to the subsidiary amounted to $Nil (2003: $384,000). Mr Wong Kwong Yu, who is the director of the Company is also the chief executive officer of Beijing Eagle Investment.

The directors of the Company are of the opinion that the above related parties transactions were conducted on normal commercial terms and in the ordinary course of business.

39. POST BALANCE SHEET EVENTS

(a) At 31 March 2004, the Group had exposure to foreign currency and futures contracts with principal amounts totalling $21,274,000 and $8,650,000 respectively. Subsequent to 31 March 2004, the foreign currency contracts realised gains amounting to $2,059,000 and the futures contracts realised losses amounting to $4,587,000.

(b) On 6 April 2004, mandatory convertible notes totalling $300,000,000 were converted into 2,500,000,000 ordinary shares of $0.10 each. The conversion price was $0.12 per ordinary shares. The net proceeds over the par value of the shares issued resulted in a share premium of $50,000,000.

On 20 April 2004, convertible notes totalling $24,000,000, were converted into 200,000,000 ordinary shares of $0.10 each. The conversion price was $0.12 per ordinary shares. The net proceeds over the par value of the shares issued resulted in a share premium of $4,000,000.