

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

1. GENERAL

The Company is an exempted limited company incorporated in the Cayman Islands with its shares listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company acts as an investment holding company. The Group is principally engaged in securities trading and property investment. The activities of its principal subsidiaries are set out in note 17.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”), the term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAPs”) and Interpretations approved by the HKSA.

Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) – Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this standard has had no material effect on the results for the prior accounting periods. Accordingly, no prior period adjustment is required.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared under the historical cost convention, as modified for the revaluation of investment properties and securities other than held-to-maturity debt securities.

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

Basis of consolidation

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

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

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

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 at the date of acquisition.

Goodwill arising on acquisitions is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Interests in subsidiaries

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

Revenue recognition

Gains and losses on trading of securities are recognised on trade date basis and are calculated on average cost basis.

Rental income under operating lease is recognised on a straight-line basis over the relevant lease terms.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rate applicable.

Dividend income is recognised when the right to receive payment is established.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated 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:

Furniture and equipment	20% – 25%
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The gain and loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the lessees.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

All other leases are classified as operating leases and the rental income and expenses are recognised on a straight-line basis over the relevant lease term respectively.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Capitalisation of such borrowing costs ceases when the asset is substantially ready for its intended use or sale.

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Foreign currencies

Transactions in foreign currencies are converted at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Profit and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries denominated in foreign currencies are translated into Hong Kong dollars for inclusion in the Group's consolidated financial statements at the applicable rates of exchange ruling at the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange fluctuation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years. And it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (Continued)

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, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as revaluation increase under that SSAP.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, and which are held for their long term investment potential, any rental income being negotiated at arm's length.

No depreciation is provided for investment properties which are held on leases with an unexpired term of more than 20 years. Investment properties are stated at their open market value based on professional valuations at the balance sheet date.

Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On the subsequent sale of an investment property, the attributable revaluation surplus is transferred to income statement.

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities (Continued)

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, which are for non-trade purposes, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the year.

Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

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.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

4. TURNOVER

Turnover represents the net results from securities trading and gross rental income received and receivable from investment properties during the year. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Net results from securities trading	(1,723)	(339)
Gross rental from investment properties	3,881	6,856
	<u>2,158</u>	<u>6,517</u>

5. OTHER REVENUE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Dividend income from listed securities	–	3
Interest income	422	545
Other income	468	407
	<u>890</u>	<u>955</u>

6. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

- (a) the securities trading segment invests in equity securities listed on global stock markets;
- (b) the property investment segment invests in residential units and office space for their rental income potential;
and
- (c) the information technology segment provides high-speed wireless Internet access technology and property management system solutions.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

6. SEGMENT INFORMATION (Continued)

THE GROUP

	Securities trading		Property investment		Consolidated	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	(1,723)	(339)	3,881	6,856	2,158	6,517
Dividend income from listed securities	-	3	-	-	-	3
Gain on disposals of investment properties	-	-	64,241	15,399	64,241	15,399
Unrealised holding losses on listed securities	(1,812)	(368)	-	-	(1,812)	(368)
Allocated expenses	-	(36)	(692)	(1,520)	(692)	(1,556)
Segment results	(3,535)	(740)	67,430	20,735	63,895	19,995
Interest income					422	545
Other income					468	407
Unallocated expenses					(11,053)	(19,506)
Profit from operations					53,732	1,441
Finance costs					(1,070)	(1,987)
Profit/(loss) before taxation					52,662	(546)
Income tax expense					-	-
Net profit/(loss) attributable to shareholders					52,662	(546)

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

6. SEGMENT INFORMATION (Continued)

	Securities trading		Property investment		Information technology		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	35,828	1,712	30,800	124,401	2,217	-	68,845	126,113
Unallocated assets							46,311	5,077
Total assets							115,156	131,190
Segment liabilities	-	3	-	60,579	3,765	-	3,765	60,582
Unallocated liabilities							9,188	639
Total liabilities							12,953	61,221
Minority interests							195	-
Other segment information:								
Depreciation	-	-	-	208	-	-	-	208
Surplus/(deficit) on revaluation	-	-	12,427	(45,537)	-	-	12,427	(45,537)
Impairment loss	-	-	-	1,059	-	-	-	1,059

Geographical segments

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the stock markets and customers, and assets are attributed to the segments based on the location of the assets.

The following table presents certain revenue, results, assets and expenditure information for the geographical segments of the Group.

	USA		Hong Kong		United Kingdom		The People's Republic of China (excluding Hong Kong)		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	-	-	2,158	6,517	-	-	-	-	2,158	6,517
Segment results	-	-	52,662	(11,013)	-	10,467	-	-	52,662	(546)
Other segment information:										
Segment assets	-	1,352	98,882	129,802	-	36	16,274	-	115,156	131,190

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

7. PROFIT FROM OPERATIONS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Staff costs (excluding directors' remuneration, note 9)		
Wages and salaries	–	3,057
Provident fund contributions	–	74
	–	3,131
Bad debts written off	–	163
Depreciation of property, plant and equipment on		
Owned assets	–	195
Assets held under finance leases	–	13
Minimum lease payments under operating leases on land and buildings	–	715
Auditors' remuneration	200	320
Loss on disposal of property, plant and equipment	–	747
Unrealised holding losses on listed securities	1,812	368
Exchange losses, net	–	1,327
And after crediting:		
Rental income	3,881	6,856

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

8. FINANCE COSTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Interest expense on bank loans	1,070	1,969
Interest on finance leases	-	4
Others	-	14
	1,070	1,987

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	113	34
Independent non-executive directors	110	108
	223	142
Other emoluments of executive directors:		
Basic salaries, housing benefits, other allowances and benefits in kind	-	441
Provident fund contributions	-	18
Severance payment	-	330
	-	789
	223	931

The remuneration of 6 (2003: 5) of the directors of the Company during the year fell within the band of Nil-HK\$1,000,000 (2003: Nil-HK\$1,000,000).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

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

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included 5 (2003: one) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining highest paid, non-director employees in the year ended 31 March 2004 are as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	–	1,813

The number of highest paid, non-director employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil – HK\$1,000,000	–	4

During the year, no emoluments were paid by the Group to any of the highest paid, non-director employees as an inducement to join or upon joining the Group or as compensation for loss of office.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

11. INCOME TAX EXPENSE

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004	2003
	HK\$'000	HK\$'000
Profit/(loss) before tax	52,662	(546)
Income tax at 17.5% (2003: 16%)	9,216	(87)
Tax effect of expenses not deductible and income not taxable in determining taxable profit	(11,652)	(1,099)
Tax effect of utilisation of tax losses not previously recognised	2,436	1,186
Tax expense for the year	–	–

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of assessable profit.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Details of the potential deferred tax asset not recognised in the year are set out in note 23.

12. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit attributable to shareholders of HK\$52,662,000 (2003: loss of HK\$546,000) and on the weighted average number of 442,723,725 (2003: 129,852,418) shares in issue during the year.

For the purpose of calculating diluted earnings per share, the outstanding convertible notes (Note 22) were considered as potential ordinary shares. No diluted earnings per share is presented for the year ended 31 March 2004 as the outstanding potential ordinary shares are anti-dilutive.

No diluted loss per share is shown for the year ended 31 March 2003 as there had been no potential ordinary share outstanding.

13. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 March 2004 (2003:Nil).

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

14. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Furniture and equipment
	HK\$'000
<hr/>	
COST	
Acquired on acquisition of subsidiaries and balance at 31 March 2004	680
	<hr/>
DEPRECIATION	
Acquired on acquisition of subsidiaries and balance at 31 March 2004	56
	<hr/>
NET BOOK VALUES	
At 31 March 2004	624
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At 31 March 2003	–
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15. INVESTMENT PROPERTIES

THE GROUP

	2004	2003
	HK\$'000	HK\$'000
<hr/>		
VALUATION:		
At beginning of year	123,904	195,808
Disposals	(105,531)	(25,308)
Surplus/(deficit) on revaluation	12,427	(45,537)
Impairment loss	–	(1,059)
	<hr/>	<hr/>
At end of year	30,800	123,904
	<hr/>	<hr/>

All of the investment properties of the Group were revalued on 31 March 2004 by BMI Appraisals Limited, an independent firm of professional valuers, at HK\$30,800,000 (2003: HK\$123,904,000) on an open market, existing use basis.

This valuation gave rise to a revaluation surplus of HK\$12,427,000 (2003: deficit of HK\$45,537,000) which was credited (2003: charged) to the investment property revaluation reserve.

At 31 March 2004, none of the Group's investment properties were pledged to banks to secure against loan facilities granted to the Group. At 31 March 2003, investment properties of an aggregate carrying value of approximately HK\$115,669,000 were pledged for such purpose.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

15. INVESTMENT PROPERTIES (Continued)

The Group's interests in investment properties at carrying value are analysed as follows:

	2004	2003
	HK\$'000	HK\$'000
In Hong Kong held on:		
Long lease	–	85,598
Medium-term lease	30,800	38,306
	30,800	123,904

16. GOODWILL

	THE GROUP
	HK\$'000
COST	
Arising on acquisitions during the year and balance at 31 March 2004	14,134
AMORTISATION	
Charge for the year and balance at 31 March 2004	–
NET BOOK VALUE	
At 31 March 2004	14,134
At 31 March 2003	–

The amortisation period adopted for goodwill is 5 years.

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	298,005	298,005
Impairment loss	(276,526)	(283,179)
	21,479	14,826

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

17. INTERESTS IN SUBSIDIARIES (Continued)

The following is a list of the principal subsidiaries at 31 March 2004:

Name of subsidiary	Place of incorporation and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Directly	Indirectly	
Cosmopolitan Properties and Securities Limited	Hong Kong	HK\$1,000	100%	–	Securities trading and property investment
Village Properties Limited	Hong Kong	HK\$20	–	100%	Property investment
Power Wish Global Technology Limited (Note a)	The British Virgin Islands (“BVI”)	US\$400	–	49%	Investment holdings
Power2Roam Company Limited (Note b)	Hong Kong	HK\$1,000	–	50.36%	Provision of high-speed wireless Internet access technology
Wish Technologies Holding Limited (Note c)	BVI	US\$100	–	36.26%	Investment holding
Wish Technologies Limited (Note c)	Hong Kong	HK\$100	–	36.26%	Investment holding
WISH Technologies China Limited (衍科軟件科技(上海)有限公司) (Note c)	The People’s Republic of China	US\$140,000	–	36.26%	Provision of property management system solutions

Note a: The Group holds 49% of the equity interest in Power Wish Global Technology Limited (“Power Wish”), through Village Properties Limited. Power Wish is accounted for as a subsidiary of the Company by virtue of control as the Company gained majority representation in the board of directors of Power Wish by an agreement among all shareholders of Power Wish.

Note b: Power Wish owns 64% of the equity shares in Power2Roam Company Limited (“P2R”). The Group therefore has control over P2R. The Group also holds 19% of the equity shares in P2R through Village Properties Limited.

Note c: These companies are wholly owned subsidiaries of a 74% held subsidiary of Power Wish and is accordingly accounted for as subsidiaries of the Company by virtue of control.

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

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

18. INVESTMENT IN SECURITIES

THE GROUP

	Held to maturity debt		Trading securities		Other securities		Total	
	Securities							
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities:								
Listed (Note a)	-	-	21,468	1,343	-	-	21,468	1,343
Unlisted (Note b)	-	-	-	-	14,000	-	14,000	-
	-	-	21,468	1,343	14,000	-	35,468	1,343
Debt securities:								
Unlisted	360	360	-	-	-	-	360	360
	360	360	21,468	1,343	14,000	-	35,828	1,703
Total:								
Listed								
Hong Kong (Note a)	-	-	21,468	-	-	-	21,468	-
Elsewhere	-	-	-	1,343	-	-	-	1,343
Unlisted (Note b)	360	360	-	-	14,000	-	14,360	360
	360	360	21,468	1,343	14,000	-	35,828	1,703
Market value of listed								
Securities (Note a)	N/A	N/A	21,468	1,343	N/A	N/A	21,468	1,343
Carrying amount analysed for reporting purposes as:								
Current (Note a)	-	-	21,468	1,343	-	-	21,468	1,343
Non-current (Note b)	360	360	-	-	14,000	-	14,360	360
	360	360	21,468	1,343	14,000	-	35,828	1,703

THE COMPANY

	2004	2003
	HK\$'000	HK\$'000
Listed equity securities at market value	3,927	-

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

18. INVESTMENT IN SECURITIES (Continued)

Note a: Included above is the Group's investment in China Investment Fund Company Limited ("CIF"), a company incorporated in Cayman Islands, with carrying amount of approximately HK\$2,420,000 (2003: Nil). The Group's investment represents a 22% holding of the ordinary shares of CIF. The Group has not accounted for CIF as an associate as the investment in the shares of CIF is intended to be held for the purpose of future disposal. The Group has not nominated any representative in the board of directors of CIF nor has it exercised any influence in the business strategy and financial policy of CIF.

Note b: Included above is the Group's investment in Mithian Investments Limited ("Mithian"), a company incorporated in the British Virgin Islands, with carrying amount of HK\$14,000,000 (2003: Nil). The Group's investment represents a 7% holding of the ordinary shares of Mithian.

19. ACCOUNTS RECEIVABLE

The Group allows an average credit period of 30 to 60 days to its trade customers.

The following is an aged analysis of accounts receivable at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
<30 days	171	463
31-60 days	199	–
61-120 days	73	–
	<u>443</u>	<u>463</u>

20. AMOUNT DUE FROM/TO A SUBSIDIARY

The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

21. BORROWINGS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Bank loans, secured	–	58,972

The maturity profile of the above loans is as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	–	3,873
More than one year, but not exceeding two years	–	5,096
More than two years, but not exceeding five years	–	18,039
More than five years	–	31,964
	–	58,972
Less: Amounts due within one year shown under current liabilities	–	(3,873)
	–	55,099

22. CONVERTIBLE NOTES

In April 2003, the Company entered into an agreement with Sunfull Resources Limited for the subscription of the Company's convertible notes of HK\$8,747,780. The holder of the convertible notes has the right to convert the note into shares at a price of HK\$0.25 each share. In July 2003, Sunfull Resources Limited exercised its right to convert HK\$1,500,000 of the notes into 6,000,000 shares of the Company of HK\$0.1 each at a price of HK\$0.25 each.

In June 2003, the Company announced an open offer of 2 offer shares for every 5 shares to qualifying shareholders. The conversion price of the convertible notes has been adjusted from HK\$0.25 to HK\$0.21 upon the completion of the open offer in order to account for the dilutive effect arising therefrom. As at the balance sheet date, the balance of the convertible notes was HK\$7,247,780.

23. DEFERRED TAXATION

At the balance sheet date, the Group has estimated unrecognised tax losses of HK\$11,102,000 (2003: HK\$8,391,000) to set off against future taxable income. No deferred tax asset is recognised in respect of such tax losses carried forward as the realisation of the related tax benefit through future taxable profits is not certain. This tax loss has no expiry date.

The Company and the Group had no material unprovided deferred tax liabilities at the balance sheet date (2003: Nil).

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

24. SHARE CAPITAL

	2004				2003	
	Ordinary shares of HK\$0.001 each		Ordinary shares of HK\$0.1 each		Ordinary shares of HK\$0.1 each	
	Number of shares	Amount HK'000	Number of shares	Amount HK'000	Number of shares	Amount HK'000
Authorised						
At beginning of year	-		500,000,000	50,000	200,000,000	20,000
Increase of authorised share capital	-		2,000,000,000	200,000	300,000,000	30,000
Subdivision	250,000,000,000	250,000	(2,500,000,000)	(250,000)	-	-
At end of year	250,000,000,000	250,000	-	-	500,000,000	50,000
Issued and fully paid						
At beginning of year	-	-	294,159,267	29,416	108,659,267	10,866
Issue of new shares during the year:						
As consideration for acquisition of asset	-	-	23,840,733	2,384	-	-
Upon conversion of convertible notes	-	-	6,000,000	600	-	-
Upon a 2 for 5 open offer	-	-	129,600,000	12,960	-	-
Placement of shares	-	-	78,500,000	7,850	185,500,000	18,550
Reduction of capital	532,100,000	532	(532,100,000)	(53,210)	-	-
At end of year	532,100,000	532	-	-	294,159,267	29,416

In March 2003, the Company entered into a subscription agreement with GR Investment International Limited pursuant to which GR Investment International Limited agreed to issue 115,230,210 shares at HK\$0.06 per share to the Company. The consideration was satisfied by issue of 23,840,733 new ordinary shares of the Company at agreed price of HK\$0.29 each in April 2003.

In April 2003, the Company entered into an agreement with Sunfull Resources Limited for the subscription of the Company's convertible note of HK\$8,747,780. The holder of the convertible notes has the right to convert the note into share at price of HK\$0.25 each share. In July 2003, Sunfull Resources Limited exercised its right to convert HK\$1,500,000 into 6,000,000 shares of the Company of HK\$0.1 each at a price of HK\$0.25 each.

In August 2003, the Company allotted 129,600,000 new ordinary shares of HK\$0.1 each at a price of HK\$0.1 each according to the open offer of new shares to qualifying shareholders on the basis of assured allotments of 2 offer shares for every 5 existing shares held payable in full on application.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

24. SHARE CAPITAL (Continued)

At the annual general meeting of the Company held in August 2003, the authorised share capital of the Company was increased from HK\$50,000,000 to HK\$250,000,000 by the creation of an additional 2,000,000,000 new shares of HK\$0.1 each.

In September 2003, the Company placed out 78,500,000 new ordinary shares of HK\$0.1 each at a price of HK\$0.15 each.

In December 2003, a special resolution was passed at an extraordinary general meeting that the nominal value of each of then issued shares was reduced by HK\$0.099, from HK\$0.10 to HK\$0.001 and the value of each of the authorised but unissued share in the capital of the Company be reduced from nominal value of HK\$0.10 to nominal value of HK\$0.001 by way of subdivision so that the authorised share capital of the Company of HK\$250,000,000 remains unchanged. The then issued share capital of the Company of HK\$53,210,000 was reduced by HK\$52,677,900 to HK\$532,100.

Share options

On 20 August 2003, at the annual general meeting, the Company adopted share option scheme (“the Scheme”) under which the board of directors may, at their discretion, invite any full time and part time employees, directors, suppliers, customers, consultants, advisors or shareholders of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption of the Scheme.

The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and other schemes of the Group must not in aggregate exceed 10% of the shares in issue as at the date of approval of the Scheme (the “10% Limit”). The Company may obtain approval from the shareholders of the Company to refresh the 10% Limit, provided that the total number of shares which may be issued upon exercise of all options to be granted under the Scheme and other schemes of the Group under the limit as refreshed must not exceed 10% of the number of shares in issue at the date of approval of the refresher mandate.

The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time.

The total number of shares issued and may be issued upon exercise of the options granted to each eligible person under the Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding options) in the 12-month period up to and including the proposed date of grant for such options must not exceed 1% of the then number of issued shares of the Company, without prior approval from the Company’s shareholders.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

24. SHARE CAPITAL (Continued)

Share options (Continued)

Option granted under the Scheme must be accepted within 6 months from the date of grant and in any event no later than the last date of the period of ten years from the date of adoption of the Scheme. Upon acceptance, the grantee shall pay HK\$10.00 to the Company as consideration for the grant.

The subscription price for the shares under the Scheme shall be a price determined by the board of directors of the Company and notified to an eligible participant and shall be at least the higher of: (i) the nominal value of a share; (ii) the closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of grant, which shall be a business day; and (iii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant.

No share option has been granted as at 31 March 2004.

25. ACQUISITIONS OF SUBSIDIARIES

During the year the Group acquired certain subsidiaries for an aggregate consideration of HK\$14,000,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$14,134,000.

	2004 HK\$'000	2003 HK\$'000
NET LIABILITIES ACQUIRED		
Property, plant and equipment	624	–
Accounts receivable	443	–
Prepayments, deposits and other receivables	1,150	–
Bank balances and cash	1,609	–
Amounts due to minority shareholders	(1,401)	–
Accrued liabilities and other payables	(2,364)	–
Minority interests	(195)	–
	<u>(134)</u>	–
Goodwill	14,134	–
Total consideration	<u>14,000</u>	–
SATISFIED BY		
Cash	<u>14,000</u>	–

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

25. ACQUISITIONS OF SUBSIDIARIES (Continued)

Net cash outflow arising on acquisition:

	2004	2003
	HK\$'000	HK\$'000
Cash consideration	14,000	–
Bank balances and cash acquired	(1,609)	–
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	12,391	–

No significant turnover and profit from operations were contributed by the subsidiaries acquired to the Group during the year.

26. RECONCILIATION OF PROFIT/(LOSS) BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2004	2003
	HK\$'000	HK\$'000
PROFIT/(LOSS) FROM OPERATIONS BEFORE TAXATION	52,662	(546)
Adjustment for:		
Unrealised holding losses on trading securities	1,812	368
Bad debts written off	–	163
Gain on disposal of investment properties	(64,241)	(15,399)
Depreciation	–	208
Loss on disposals of property, plant and equipment	–	747
Interest income	(422)	(545)
Interest expenses	1,070	1,987
Operating cash outflow before movements in working capital	(9,119)	(13,017)
Decrease in amount due from a related company	–	720
Increase in prepayments, deposits and other receivables	(3,934)	(2,468)
Decrease/(increase) in account receivables	463	(333)
(Increase)/decrease in investments in securities	(15,023)	315
Decrease in accrued liabilities and accruals	(309)	(1,272)
Increase in government lease regrant premium	–	1
Cash outflow from operations	(27,922)	(16,054)
Interest received	422	545
Interest paid	(1,070)	(1,987)
Net cash outflow from operating activities	(28,570)	(17,496)

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

27. MAJOR NON-CASH TRANSACTIONS

During the year, the Company acquired certain of its investments in securities for a consideration satisfied by issue of 23,840,733 new ordinary shares of the Company at agreed price of HK\$0.29 each. Further details of the transactions are set out in note 24 to the financial statements.

28. RETIREMENT BENEFITS SCHEME

The Group operated a defined contribution Mandatory Provident Fund Exempted ORSO retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who were eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. When an employee leaves the MPF Scheme prior to his/her interests in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

29. CONTINGENT LIABILITIES

A letter dated 9 January 2003 has been sent to Eric Edward Hotung, C.B.E., a previous director and a substantial shareholder of the Company, from a former legal adviser (the "Previous Lawyer") alleging that there was an unpaid bill amounting to approximately HK\$1.1 million in relation to professional services rendered more than 5 years ago and which were extended to Cosmopolitan Properties and Securities Limited, a wholly-owned subsidiary of the Company. According to the records of Eric Edward Hotung, C.B.E., all professional fees claimed by the Previous Lawyer has been settled and the alleged claim is unsubstantiated. Save as disclosed above, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the directors to be pending or threatened by or against the Company or any of its subsidiaries.

30. OPERATING LEASE

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	<u>105</u>	<u>–</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. The lease was negotiated for a term of one year and with fixed rentals.

■ NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group disposed of its investment properties with carrying value of approximately HK\$30,800,000 at a consideration of approximately HK\$34,545,000.

Subsequent to the balance sheet date, the Company repaid the outstanding principal amount of the convertible note of HK\$7,247,000 in full upon maturity.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with the current year's presentation.