

Notes to the Financial Statements

For the year ended 31 March 2004

1. CORPORATE INFORMATION

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

The Company is an investment holding company. The principal activities and other particulars of its subsidiaries are set out in Note 17 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group. As at 31 March 2004, the Group recorded consolidated accumulated losses of approximately HK\$412,636,000. To improve the Group's liquidity position, during the year ended 31 March 2004, the Group has raised new capital by way of two private placements, details of which are disclosed in Note 25 to the financial statements. The directors have formulated plans to expand the trade of the Group and enter new markets which, the directors expect, will improve the liquidity position of the Group. In March 2004, the Company announced the proposed acquisition of a company which may provide an opportunity for the Group to diversify into the property market in the PRC. On the basis that the directors' plans to expand the trade of the Group and enter new markets will materialise, the directors consider that the Group will have sufficient working capital for the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. However, if these measures were not to be successful or insufficient, or if the going concern basis were not to be appropriate, adjustments would have to be made to the financial statements to restate the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with all Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

3. ACCOUNTING POLICIES (continued)

In the current year, the Group has adopted for the first time the revised SSAP 12 "Income taxes" which is effective for accounting periods commencing on or after 1 January 2003. The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation were assured beyond reasonable doubt. 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. The adoption of SSAP 12 (revised) has had no material effect on the results of the Group for the current or prior financial years, accordingly, no prior year adjustment has been required.

A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

(a) Basis of measurement

The measurement basis used in the preparation of the financial statements is historical cost as modified by the marking-to-market of certain investments in securities as explained in Note 3(d) to the financial statements.

(b) Basis of consolidation

A subsidiary is a company which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Group has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses. An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

3. ACCOUNTING POLICIES (continued)

(c) Intangible assets

(i) *Goodwill*

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of subsidiaries acquired. The Group previously eliminated goodwill arising from different acquisitions on consolidation either by immediate elimination to reserves or by amortisation through the consolidated income statement. Goodwill arising on acquisition after 1 January 2001 is capitalised as an asset which is presented separately in the consolidated balance sheet and amortised by equal annual instalments over its estimated useful economic life up to a maximum of twenty years.

Upon the disposal of an interest in a subsidiary, the attributable amount of unamortised goodwill is realised and taken into account in arriving at the gain or loss on disposal.

(ii) *Patent*

Patent is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over an estimated useful life of five years.

(d) Other investments

Other investments are securities that are neither held-to-maturity debt securities nor investment securities and are stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement.

Profits or losses on sale of investments in securities are determined as the difference between the estimated sales proceeds and the carrying value of the investments and are accounted for in the income statement as they arise.

(e) Tangible fixed assets and depreciation

An item of tangible fixed asset is recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset to the Group can be measured reliably.

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Subsequent expenditure relating to a tangible fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

3. ACCOUNTING POLICIES (continued)

(e) Tangible fixed assets and depreciation (continued)

Depreciation is provided on the straight-line method so as to write down the cost of tangible fixed assets to their estimated realisable value over their anticipated useful lives at the following annual rates:

Land	:	Over the term of the lease
Buildings	:	5%
Plant, machinery, equipment and moulds	:	10% to 20%
Furniture and fixtures	:	10%
Motor vehicles	:	10%
Leasehold improvements	:	20%

During the current year, the basis of calculation of depreciation was changed from the reducing balance method to the straight-line method. The directors consider that this change in accounting estimate does not have material financial effects in the current and prior financial years and such change will result in a more appropriate presentation in the financial statements for the current and future periods.

Gains or losses arising from the retirement or disposal of tangible fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amounts of the assets and are recognised in the income statement on the date of retirement or disposal.

(f) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual asset or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. A reversal of an impairment loss is recognised as income immediately.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

3. ACCOUNTING POLICIES (continued)

(h) Foreign currencies

Transactions in foreign currencies during the year are translated into Hong Kong dollars at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. All gains and losses on translation of foreign currencies are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the income statements of foreign enterprises were translated at closing rate. This is a change in accounting policy, however, the translation of the income statements of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

(i) Taxation

The charge for taxation in the income statement for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially 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. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. 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 substantially 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 unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

3. ACCOUNTING POLICIES (continued)

(j) Recognition of revenue

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

- i. Revenue from the sale of goods is recognised on the transfer of the significant risks and reward of ownership of goods, which generally coincides with the time when the goods are delivered to customers and title has passed.
- ii. Rental income is recognised on a straight-line basis over the periods of the leases.
- iii. Revenue associated with the rendering of sub-contracting services is recognised so as to reflect the stage of work performed at the balance sheet date. When the outcome of the service contract cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are expected to be recoverable.
- iv. Interest income is recognised on a time-apportioned basis on the principal outstanding and at the rates applicable.
- v. Dividend income is recognised when the shareholders' right to receive payment is established.

(k) Assets under leases

(i) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

(ii) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in liabilities. The finance charges are charged to the income statement over the lease periods. Depreciation is provided in accordance with the Group's depreciation policy (Note 3(e)).

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

3. ACCOUNTING POLICIES (continued)

(l) Employee benefits

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

The Group participates in the mandatory provident fund for its employees in Hong Kong. Contributions to the fund by the Group and the employees are calculated as a percentage of the employees' basic salaries. The retirement benefit cost charged to the income statement represents contributions payable by the Group to the fund. The Group's contributions to the fund are expensed as incurred and the Group's voluntary contributions are reduced by contributions forfeited by those employees who leave the fund prior to vesting fully in the contributions. The assets of the fund are held separately from those of the Group in an independently administered fund.

The Group's contributions to the local government authorities in the PRC are charged to the income statement as incurred while the local government authorities in the PRC undertakes to assume the retirement obligations of all existing and future retirees of the qualified staff in the PRC.

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.

(m) Related party transactions

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. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(n) Cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

3. ACCOUNTING POLICIES (continued)

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Research and development

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the products are technically feasible, and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(r) Segment reporting

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

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

3. ACCOUNTING POLICIES (continued)

(r) Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, corporate and financing expenses and minority interests.

4. TURNOVER, REVENUES AND OTHER NET INCOME

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of computers and related accessories	20,839	19,298
Sale of garment	2,275	–
Sale of electronic products and components	3	1,270
Sub-contracting income	–	2,294
Sale of software games and related copyrights	–	548
	<u>23,117</u>	<u>23,410</u>
Other revenues		
Gross rental income from plant and equipment	–	36
Interest income	1	1
Sundry income	604	705
	<u>605</u>	<u>742</u>
Total revenues	<u>23,722</u>	<u>24,152</u>
Other net income		
Gain on disposal of subsidiaries (Note 8)	5,805	–
Reversal of impairment loss on tangible fixed assets (Note 16)	1,291	–
Net unrealised holding gains on other investments	1,776	11,660
	<u>8,872</u>	<u>11,660</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

5. PROFIT/ (LOSS) FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit/ (loss) from operations is stated after charging:		
Total staff costs		
– salaries and other allowances	3,538	6,885
– provident fund contributions	148	347
Depreciation		
– owned assets	758	4,944
– leased assets	12	140
Loss on disposal of tangible fixed assets	250	2,408
Loss on disposal of other investments	195	–
Operating lease rentals in respect of land and buildings	1,477	1,948
Auditors' remuneration	378	398
Research and development expenditure	–	993

6. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Hire-purchase interest	8	68
Interest on other loans	1,593	217
	<u>1,601</u>	<u>285</u>

7. PROVISIONS FOR WRITE-DOWNS AND IMPAIRMENTS

	2004 HK\$'000	2003 HK\$'000
Impairment loss on intangible assets	–	23,022
Impairment loss on tangible fixed assets	–	42,216
Provision in respect of deposit paid for acquisition of investment	–	15,000
Provision in respect of deposit paid for acquisition of tangible fixed assets	–	6,472
Provision for doubtful debts	–	5,069
	<u>–</u>	<u>91,779</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

8. GAIN ON DISPOSAL OF SUBSIDIARIES

On 2 January 2004, the Company disposed of its entire equity interests in Recor International Limited and its subsidiaries (the "Recor Group") at a cash consideration of HK\$100. Further details of the disposed subsidiaries are disclosed in Note 17 to the financial statements. The consolidated results of the Recor Group for the period from 1 April 2003 to 2 January 2004 (date of disposal), which have been included in the consolidated income statement of the Group were as follows:

	Period from 1 April 2003 to 2 January 2004 HK\$'000
Turnover	20,842
Cost of sales	(20,279)
Other revenues	193
Other net income	1,292
Waiver of inter-company debts	332,860
Administrative and other operating expenses	(2,176)
Finance costs	(17)
Taxation	-
Profit after tax	<u>332,715</u>



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

8. GAIN ON DISPOSAL OF SUBSIDIARIES (continued)

The gain of approximately HK\$5,805,000 arising on the disposal of the Recor Group, being the difference between the proceeds of disposal and the carrying amount of the net liabilities of the Recor Group as at the date of disposal, has been taken to the consolidated income statement. No tax charge or credit arose from the transaction. The carrying amounts of the assets and liabilities of the Recor Group as at the date of disposal were as follows:

	As at 2 January 2004
	HK\$'000
<hr/>	
Net liabilities disposed of:	
Tangible fixed assets	2,867
Inventories	776
Trade and other receivables	1,369
Cash and bank balances	19
Obligations under hire-purchase contracts	(329)
Trade and other payables	(10,481)
	<hr/>
Total net liabilities disposed of	(5,779)
Minority interest	(25)
Gain on disposal of subsidiaries	5,805
	<hr/>
Total consideration satisfied by cash	1
	<hr/>
Net cash outflow arising on disposal:	
Cash consideration	1
Less: Cash and bank balances disposed of	(19)
	<hr/>
	(18)
	<hr/>

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

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

	2004 HK\$'000	2003 HK\$'000
<i>Independent non-executive directors</i>		
Fees	140	–
Other emoluments	–	–
<i>Executive directors</i>		
Fees	–	–
Salaries, allowances and benefits in kind	1,061	420
Mandatory provident fund contributions	30	13
	<u>1,231</u>	<u>433</u>

The emoluments of each of the directors of the Company were within the band of nil to HK\$1,000,000.

There were no arrangements under which the directors of the Company have waived or agreed to waive any remuneration. No emoluments were paid to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

The aggregate emoluments for the year ended 31 March 2004 of the five highest paid individuals included three directors (2003: one director) of the Company, whose remunerations have been disclosed above. Details of the remuneration of the remaining two (2003: four) highest paid, non-director employees of the Group are set out below:

	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	322	1,181
Mandatory provident fund contributions	11	53
	<u>333</u>	<u>1,234</u>

The emoluments of each of the remaining two (2003: four) highest paid, non-director employees were within the band of nil to HK\$1,000,000.

No emoluments were paid by the Group to the respective five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

10. EMPLOYEE BENEFITS

(a) Retirement scheme

Certain subsidiaries of the Group in Hong Kong participate in a pension scheme, which was registered under the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), for all the employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance. During the year under review, the total amount contributed by the Group to the scheme and charged to the consolidated income statement amounted to approximately HK\$148,000 (2003: HK\$347,000). As at 31 March 2004, there were no forfeited contributions available for the Group to offset contributions payable in future years (2003: Nil).

The subsidiary of the Group in the PRC participates in a defined contribution retirement scheme organised by the relevant local government authorities in the PRC. Each employee covered by this scheme is entitled, after retirement from the Company, to a pension as of their retirement dates. The local government authorities are responsible for the pension liabilities to these retired employees. The Company is required to make monthly contributions to the retirement scheme at a rate of 22.5% based on the eligible employees' salaries.

(b) Housing fund

The Company has opened housing fund accounts for all its PRC employees. The housing fund scheme comprised two parts, the Company and individual employees are required to contribute to the housing fund. The amount payable by each employee will be deducted from the employee's monthly salary by the Company. The ratio of housing fund to be deposited by individual employee and the Company is 7% of the average monthly salary of such employee for the previous year. Withdrawals from the fund are subject to qualifications and procedures specified under local regulations.

11. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong did not have any assessable profits in both current and prior years. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

No deferred tax liabilities are recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31 March 2003 and 2004.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

11. TAXATION (continued)

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 March 2004, the unprovided deferred tax asset of the Group is as follows:

	2004 HK\$'000	2003 HK\$'000
Tax effect of temporary difference attributable to estimated tax losses	<u>6,665</u>	<u>6,823</u>

The deductible temporary differences and unused tax losses do not expire under current tax legislation.

12. PROFIT/ (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/ (loss) attributable to shareholders includes a loss of approximately HK\$3,155,000 (2003: a loss of approximately HK\$274,186,000) which has been dealt with in the financial statements of the Company.

13. EARNINGS/ (LOSS) PER SHARE

The calculation of the basic earnings/ (loss) per share is based on the profit attributable to shareholders of approximately HK\$103,000 (2003: loss attributable to shareholders of approximately HK\$121,923,000) and on the weighted average of 488,695,483 shares (2003: 139,102,303 shares) (as retrospectively adjusted for the effects of the share consolidation which became effective subsequent to the balance sheet date on 4 May 2004, further details of which are set out in Note 34 to the financial statements) deemed to be in issue during the year.

No diluted earnings/ (loss) per share is presented as there are no dilutive potential ordinary shares in issue for each of the years ended 31 March 2004 and 2003.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

14. 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.

(a) Business segments

The Group comprises the following main business segments:

1. Sub-contracting services – The rendering of sub-contracting services
2. Audio and visual products and components – The manufacture and sale of audio and visual products and components
3. Computers, software games, related accessories and copyrights – The manufacture and sale of computers, software games and related accessories and copyrights
4. Garment – The manufacture and sales of garment
5. Trading of securities



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

14. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the year ended 31 March 2004

	Sub-contracting services HK\$'000	Audio and visual products and components HK\$'000	Computers, software games, related accessories and copyrights HK\$'000	Garment HK\$'000	Trading of securities HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Revenue from external customers	-	3	20,839	2,275	-	-	23,117
Other revenue from external customers	-	-	-	-	-	605	605
Total revenue	-	3	20,839	2,275	-	605	23,722
Segment results	490	(31)	(551)	(1,503)	1,332	-	(263)
Unallocated corporate income and expenses							1,986
Profit from operations							1,723
Finance costs							(1,601)
Profit from ordinary activities before taxation							122
Taxation							(26)
Profit from ordinary activities after taxation							96
Minority interests							7
Net profit for the year							103

No inter-segment sales and transfers were transacted during the year.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

14. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the year ended 31 March 2004 (continued)

	Sub-contracting services HK\$'000	Audio and visual products and components HK\$'000	Computers, software games, related accessories and copyrights HK\$'000	Garment HK\$'000	Trading of securities HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
ASSETS							
Segment assets	-	-	-	85,143	29,462	-	114,605
Unallocated corporate assets	-	-	-	-	-	938	938
Total assets							115,543
LIABILITIES							
Segment liabilities	-	-	-	67,963	21	-	67,984
Unallocated corporate liabilities	-	-	-	-	-	4,402	4,402
Total liabilities							72,386

Other information

	Sub-contracting services HK\$'000	Audio and visual products and components HK\$'000	Computers, software games, related accessories and copyrights HK\$'000	Garment HK\$'000	Trading of securities HK\$'000
Capital additions	-	-	-	895	-
Depreciation	-	48	49	661	-
Other non-cash expenses	-	-	-	1	195

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

14. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the year ended 31 March 2003

	Sub- contracting services HK\$'000	Audio and visual products and components HK\$'000	Computers, software games, related accessories and copyrights HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Revenue from external customers	2,294	1,270	19,846	–	23,410
Other revenue from external customers	–	–	–	742	742
Total revenue	<u>2,294</u>	<u>1,270</u>	<u>19,846</u>	<u>742</u>	<u>24,152</u>
Segment results	(20,323)	(24,138)	(3,506)	–	(47,967)
Unallocated corporate expenses					<u>(73,657)</u>
Loss from operations					(121,624)
Finance costs					<u>(285)</u>
Loss from ordinary activities before taxation					(121,909)
Taxation					<u>–</u>
Loss from ordinary activities after taxation					(121,909)
Minority interests					<u>(14)</u>
Net loss for the year					<u>(121,923)</u>

No inter-segment sales and transfers were transacted during the year.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

14. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the year ended 31 March 2003 (continued)

	Sub- contracting services HK\$'000	Audio and visual products and components HK\$'000	Computers, software games, related accessories and copyrights HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	9	2,051	2,041	4,101
Unallocated corporate assets				30,544
Total assets				<u>34,645</u>
LIABILITIES				
Segment liabilities	2,227	6,280	2,312	10,819
Unallocated corporate liabilities				9,096
Total liabilities				<u>19,915</u>

Other information

	Sub- contracting services HK\$'000	Audio and visual products and components HK\$'000	Computers, software games, related accessories and copyrights HK\$'000
Capital additions	150	386	85
Depreciation	1,255	319	49
Impairment loss	9,579	867	–
Loss on de-consolidation of a subsidiary in liquidation	–	–	14,118
Other non-cash expenses	8,486	4,314	744

(b) Geographical segments

More than 90% of the Group's turnover is derived from the region of Hong Kong and the PRC, and more than 90% of the segment assets are located in this region. Accordingly, no other analysis has been disclosed.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

15. INTANGIBLE ASSETS

Group:	Goodwill	Patents	Total
	HK\$'000	HK\$'000	HK\$'000
At cost:			
As at 1 April 2003	40,598	383	40,981
Disposal of subsidiaries	(40,598)	(383)	(40,981)
As at 31 March 2004	–	–	–
Accumulated amortisation and impairment loss:			
As at 1 April 2003	40,598	383	40,981
Disposal of subsidiaries	(40,598)	(383)	(40,981)
As at 31 March 2004	–	–	–
Net book value:			
As at 31 March 2004	–	–	–
As at 31 March 2003	–	–	–



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

16. TANGIBLE FIXED ASSETS

Group:	Land and buildings HK\$'000	Plant, machinery, equipment and moulds HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
At cost:						
As at 1 April 2003	9,250	91,543	8,159	2,530	3,277	114,759
Additions						
– through acquisition of subsidiaries	–	20,723	28	–	–	20,751
– others	–	738	25	638	–	1,401
Disposals						
– through disposal of subsidiaries	(9,250)	(59,995)	(8,169)	(2,530)	(3,277)	(83,221)
– others	–	(31,791)	–	–	–	(31,791)
As at 31 March 2004	–	21,218	43	638	–	21,899
Accumulated depreciation and impairment losses:						
As at 1 April 2003	9,250	90,119	7,654	1,254	3,277	111,554
Through acquisition of subsidiaries	–	1,247	4	–	–	1,251
Charge for the year	–	657	94	19	–	770
Reversal of impairment loss previously recognised	–	(1,291)	–	–	–	(1,291)
On disposals written back	–	(30,052)	–	–	–	(30,052)
Disposal of subsidiaries	(9,250)	(58,825)	(7,748)	(1,254)	(3,277)	(80,354)
As at 31 March 2004	–	1,855	4	19	–	1,878
Net book value:						
As at 31 March 2004	–	19,363	39	619	–	20,021
As at 31 March 2003	–	1,424	505	1,276	–	3,205

The net book value of tangible fixed assets of the Group includes an amount of approximately HK\$484,000 (2003: HK\$393,000) in respect of assets held under hire-purchase contracts.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

16. TANGIBLE FIXED ASSETS (continued)

Company:	Plant, machinery, equipment and moulds HK\$'000
<hr/>	
At cost:	
As at 1 April 2003	27,374
Disposals	(27,374)
	<hr/>
As at 31 March 2004	–
	<hr/>
Accumulated depreciation and impairment losses:	
As at 1 April 2003	27,124
On disposals written back	(27,124)
	<hr/>
As at 31 March 2004	–
	<hr/>
Net book value:	
As at 31 March 2004	–
	<hr/>
As at 31 March 2003	250
	<hr/>

17. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
<hr/>		
Unlisted shares at cost, net of provision	1	–
	<hr/>	<hr/>

The amounts due from the subsidiaries as shown on the Company's balance sheet are unsecured, interest free and have no fixed terms of repayment.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries as at 31 March 2004 are as follows:

Name of company	Place of incorporation/ establishment	Issued share capital/ registered capital	Principal activities and place of operations	Percentage of equity held by the Company	
				Directly	Indirectly
Broadway Stars Limited (note (a))	British Virgin Islands	Ordinary shares US\$2	Securities trading in Hong Kong	100%	–
Nicefit Limited	British Virgin Islands	Ordinary share US\$1	Securities trading in Hong Kong	100%	–
A Winner Limited (note (a))	British Virgin Islands	Ordinary share US\$1	Investment holding in Hong Kong	100%	–
Joint China Trading Limited (note (a))	Hong Kong	Ordinary shares HK\$2	Trading of garment in Hong Kong	100%	–
Rollstone Limited (note (a))	British Virgin Islands	Ordinary share US\$1	Investment holding in Hong Kong	100%	–
上海凱祥服飾有限公司 (note (b))	PRC	Registered capital RMB40,000,000	Manufacture of garment in PRC	–	100%

Notes:

- (a) Broadway Stars Limited, A Winner Limited, Joint China Trading Limited and Rollstone Limited were incorporated by the Company during the year ended 31 March 2004.
- (b) 上海凱祥服飾有限公司 was acquired by Rollstone Limited, a wholly-owned subsidiary of the Company during the year ended 31 March 2004. After the acquisition, 上海凱祥服飾有限公司 became a wholly foreign-owned enterprise established in the PRC with an operational term of 10 years commencing from 6 December 2000.
- (c) The above list contains only the particulars of subsidiaries which principally affected the results 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 (continued)

For the year ended 31 March 2004

17. INTERESTS IN SUBSIDIARIES (continued)

On 2 January 2004, the Company disposed of its entire equity interests in Recor International Limited and its subsidiaries, details of which are as follows:

Name of company	Place of incorporation/ establishment	Issued share capital/ registered capital	Principal activities and place of operations	Percentage of equity held by the Company	
				Directly	Indirectly

Recor International Limited	British Virgin Islands	Ordinary shares HK\$360,000	Investment holding in Hong Kong	100%	–
-----------------------------	------------------------	--------------------------------	------------------------------------	------	---

Subsidiaries held by Recor International Limited:

RCR Electronics (Holdings) Limited	Hong Kong	Ordinary shares HK\$10 Deferred shares HK\$36,000,000	Investment holding in Hong Kong	–	100%
Recor Enterprises China Limited	Hong Kong	Ordinary shares HK\$3,800,000	Design, development and sale of consumer electronic products in Hong Kong	–	100%
Recor (RCR) Limited	British Virgin Islands	Ordinary shares US\$5,000	Provision of sub- contracting services in the PRC	–	100%
Merway Limited	Hong Kong	Ordinary shares HK\$2	Provision of sub- contracting services in Hong Kong	–	100%
Lobelia International Limited	British Virgin Islands	Ordinary share US\$1	Investment holding in Hong Kong	–	100%
Great Importance Limited	British Virgin Islands	Ordinary share US\$1	Investment holding in Hong Kong	–	100%
Cyber 397 Limited	Hong Kong	Ordinary shares HK\$2	Investment holding and trading of electronic products in Hong Kong	–	100%



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued share capital/ registered capital	Principal activities and place of operations	Percentage of equity held by the Company	
				Directly	Indirectly
Subsidiaries held by Recor International Limited <small>(continued)</small>:					
Quality First Developments Limited	British Virgin Islands	Ordinary share US\$1	Investment holding in Hong Kong	–	100%
Profit Promise Enterprises Limited	British Virgin Islands	Ordinary share US\$1	Investment holding in Hong Kong	–	100%
Ecopro Hi-Tech Limited	British Virgin Islands	Ordinary share US\$1	Investment holding and trading of computer games in Hong Kong	–	100%
Ecopro Hi-Tech Product Company Limited	PRC	Registered capital HK\$23,800,000	Manufacture of HI-CL products in the PRC	–	100%
Lobelia Holdings (Canada) Limited	Canada	Ordinary share CAD1	Investment holding in Canada	–	100%
Advance Hitech (Canada) Corporation	Canada	Ordinary shares CAD200	Investment holding in Canada	–	100%
Asian Eagle Co., Ltd.	British Virgin Islands	Ordinary share US\$1	Investment holding in Hong Kong	–	100%
PC-Web (H.K.) Limited	Hong Kong	Ordinary shares HK\$10,000	Trading of computers and related accessories in Hong Kong	–	100%
PC-Web Technology Limited	Hong Kong	Ordinary shares HK\$100,000	Trading of computers and related accessories and provision of system development and maintenance services in Hong Kong	–	70%

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Issued share capital/ registered capital	Principal activities and place of operations	Percentage of equity held by the Company	
				Directly	Indirectly

Subsidiaries held by Recor International Limited (continued):

Bits Tech Inc.	British Virgin Islands	Ordinary shares US\$50,000	Development, manufacture and distribution of radio- frequency wireless video and computer game controllers and accessories in Hong Kong	–	80%
----------------	------------------------	-------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------	---	-----

18. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials, at cost	108	–
Work-in-progress, at cost	85	–
Finished goods, at cost	206	793
	399	793



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade receivables, with ageing analysis:				
0-60 days	1,934	134	-	-
61-90 days	7	11	-	-
Over 90 days	286	25	-	-
Total trade receivables (Note (i))	2,227	170	-	-
Other debtors, deposits and prepayments (Note (ii))	48,313	1,587	5	367
	50,540	1,757	5	367

Notes:

- (i) Credit is offered to customers following financial assessment and based on established payment record. Credit limits are set for individual customers and these are exceeded only with the approval of senior officials of the Group. Senior staff of the Group monitor trade debts and follow up collections periodically. General credit terms are payment by the end of the month following the month in which sales took place.
- (ii) Included in other debtors, deposits and prepayments as at 31 March 2004 is an amount of approximately HK\$47,409,000 due from 上海凱托集團有限公司, an independent third party. The amount is unsecured, interest-free and due for repayment before the end of the year 2004. As the directors consider that the amount to be fully recoverable, no provision has been made as at 31 March 2004.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

20. OTHER INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Equity securities listed in Hong Kong, at market value	<u>29,426</u>	<u>26,680</u>

As at 31 March 2004, the carrying amount of the Group's investment in the following company exceeded 10% of the total assets of the Group:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
Kanstar Environmental Technology Holdings Limited	Cayman Islands	Research and development of paper filling material and the manufacture and sales of pulp and paper	Ordinary shares	1.25%

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables, with ageing analysis:				
0-60 days	1,638	1,946	-	-
61-90 days	10	3	-	-
Over 90 days	958	263	-	-
Total trade payables	<u>2,606</u>	2,212	-	-
Other payables and accruals	20,297	15,374	2,045	6,898
	<u>22,903</u>	<u>17,586</u>	<u>2,045</u>	<u>6,898</u>



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

22. OBLIGATIONS UNDER HIRE-PURCHASE CONTRACTS

As at 31 March 2004, the Group had obligations under hire-purchase contracts repayable as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	91	98
In the second year	91	98
More than two years but within five years	199	164
Total minimum finance lease payables	<u>381</u>	360
Future finance charges on finance lease	(53)	(45)
Total present value of minimum lease payment	<u>328</u>	<u>315</u>
Present value of minimum finance lease liabilities		
– Within one year	79	86
– In the second year	79	86
– More than two years but within five years	170	143
	<u>328</u>	<u>315</u>

23. AMOUNTS DUE TO DIRECTORS

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

24. UNSECURED LOANS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Short-term bank loans (Note (i))	47,170	–	–	–
Other loan (Note (ii))	1,980	1,980	1,980	1,980
	<u>49,150</u>	<u>1,980</u>	<u>1,980</u>	<u>1,980</u>

Notes:

- (i) The short-term bank loans included an amount of RMB10,000,000 (equivalent to approximately HK\$9,434,000) which is unsecured, interest bearing at 5.83% per annum and has been fully repaid in June 2004. The remaining balance of the short-term bank loans amounting to RMB40,000,000 (equivalent to approximately HK\$37,736,000) is unsecured, interest bearing at the prevailing market rates and repayable in August 2004.
- (ii) The other loan bears interest at 10% per annum and is repayable on demand.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

25. SHARE CAPITAL

Authorised:	Number of shares	Total value
Ordinary shares of HK\$0.01 each	('000)	(HK\$'000)
As at 1 April 2002	30,000,000	300,000
Capital Reduction (Note (a)(i))	–	(285,000)
Share Consolidation (Note (a)(ii))	(28,500,000)	–
Capital Reorganisation (Note (a)(iii))	28,500,000	285,000
As at 31 March 2003 and 2004	30,000,000	300,000

Issued and fully paid:	Number of shares	Total value
Ordinary shares of HK\$0.01 each	('000)	(HK\$'000)
As at 1 April 2002	7,463,937	74,639
Capital Reduction (Note (a)(i))	–	(70,907)
Share Consolidation (Note (a)(ii))	(7,090,740)	–
New issue of shares by way of private placement (Note (b))	74,600	746
New issue of shares by way of open offer (Note (c))	4,030,172	40,302
As at 31 March 2003 and 1 April 2003	4,477,969	44,780
New issue of shares by way of private placement (Note (d))	880,000	8,800
New issue of shares by way of private placement (Note (e))	2,000,000	20,000
As at 31 March 2004	7,357,969	73,580

Changes in share capital

- (a) Pursuant to the resolutions passed by the shareholders of the Company at a special general meeting held on 14 August 2002, it was resolved that:
- (i) the nominal value of all the then issued shares of the Company was reduced from HK\$0.01 each to HK\$0.0005 each by cancelling HK\$0.0095 paid up capital on each then issued share (the “Capital Reduction”). The amount cancelled arising from the Capital Reduction was credited to the contributed surplus account of the Company and was applied to set off against part of the accumulated losses of the Company as permitted by the laws of Bermuda and the Company’s Bye-laws;
 - (ii) every 20 issued shares of HK\$0.0005 each of the Company (after the Capital Reduction became effective) were consolidated into 1 consolidated share (the “Share Consolidation”); and
 - (iii) immediately upon completion of the Capital Reduction and the Share Consolidation, the authorised share capital of the Company was restored back to HK\$300,000,000 (collectively, the “Capital Reorganisation”).

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

25. SHARE CAPITAL (continued)

Changes in share capital (continued)

- (b) On 31 October 2002, the Company announced that it had entered into a subscription agreement with Great Sense Limited, an independent third party which was independent of and not connected with the directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). Pursuant to the subscription agreement, the Company issued and allotted 74,600,000 new shares of HK\$0.01 each at a subscription price of HK\$0.015 per subscription share. The subscription shares were issued under the general mandate granted to the directors of the Company at the annual general meeting held on 28 August 2002. The subscription price represented (i) a discount of approximately 40% to the closing price of HK\$0.025 per share as quoted on The Stock Exchange of Hong Kong Limited on the last trading day immediately before the date of the announcement; and (ii) a discount of approximately 15% to the average closing price of approximately HK\$0.0176 per share as quoted on The Stock Exchange of Hong Kong Limited for the last ten trading days immediately before the date of the announcement. The proceeds received by the Company amounted to approximately HK\$1,119,000 and were used to repay the Group's outstanding liabilities and remuneration of employees of the Group. The excess of the consideration received over the nominal value of the shares issued in the amount of approximately HK\$373,000 was credited to the share premium account of the Company (Note 27).
- (c) On 8 January 2003, the Company announced an open offer to the then qualifying shareholders of the Company of 4,030,171,677 offer shares of HK\$0.01 each (the "Open Offer"), on the basis of nine offer shares for every then existing ordinary share held at a subscription price of HK\$0.01 per offer share. The Open Offer became unconditional on 24 January 2003. The proceeds received by the Company of approximately HK\$40.3 million were used as to approximately HK\$2 million as expenses related to the Open Offer, as to approximately HK\$20 million for the repayment of the Group's debts, as to approximately HK\$15 million for investment in Hong Kong listed equity securities and as to approximately HK\$3.3 million as general expenses for the operations of the Group.
- (d) On 30 October 2003, the Company announced that it had entered into a placing agreement with a placing agent. Pursuant to the placing agreement, the Company agreed to place, through the placing agent on a fully underwritten basis, 880,000,000 placing shares to independent investors at a price of HK\$0.01 per placing share. The placing shares were issued under the general mandate granted to the directors of the Company by resolution of the Company's shareholders passed at the annual general meeting of the Company held on 27 August 2003. The placing price represented (i) a discount of approximately 9.1% to the closing price of HK\$0.011 per share as quoted on The Stock Exchange of Hong Kong Limited on the last trading day before the date of the announcement; (ii) a discount of approximately 12.28% to the average closing price per share of HK\$0.0114 as quoted on The Stock Exchange of Hong Kong Limited for the last ten trading days immediately before the date of the announcement; and (iii) a premium of approximately 205% of the net asset value per share of HK\$0.00328 as at 31 March 2003. The proceeds received by the Company amounted to approximately HK\$8.8 million and were used as to (i) approximately HK\$6.4 million for the acquisition of a subsidiary, 上海凱祥服飾有限公司; (ii) approximately HK\$1.2 million for the payment of rental expense and staff salaries; and (iii) approximately HK\$1.2 million for the miscellaneous operating expenses of the Group.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

25. SHARE CAPITAL (continued)

Changes in share capital (continued)

- (e) On 13 January 2004, the Company announced that it had entered into a placing agreement with a placing agent. Pursuant to the placing agreement, the Company agreed to place, through the placing agent on a fully underwritten basis, 2,000,000,000 placing shares to independent investors at a price of HK\$0.01 per placing share. The placing shares were issued under the relevant resolution passed at the special general meeting of the Company held on 25 February 2004. The placing price represented (i) a discount of approximately 9.1% to the closing price of HK\$0.011 per share as quoted on The Stock Exchange of Hong Kong Limited on the last trading day before the date of the announcement; (ii) a discount of approximately 7.4% to the average closing price per share of HK\$0.0108 as quoted on The Stock Exchange of Hong Kong Limited for the last ten trading days immediately before the date of the announcement; and (iii) a premium of approximately 205% of the net asset value per share of HK\$0.00328 as at 31 March 2003. The proceeds received by the Company amounted to approximately HK\$20 million and would be used to repay loans and liabilities of the Group, and for general working capital of the Group such as payment of staff salaries, rental expense and other operating expenses of the Group.

26. SHARE OPTION SCHEME

On 23 August 2001, The Stock Exchange of Hong Kong Limited announced amendments to Chapter 17 of the Listing Rules, which came into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of The Stock Exchange of Hong Kong Limited, the directors of the Company consider that it is in the interests of the Company to terminate the existing share option scheme of the Company which was adopted by the Company on 21 September 1993 (the "1993 Share Option Scheme") and to adopt a new share option scheme which allows wider classes of persons and/or entities to be the eligible employees and contains terms which are in compliance with the requirements of Chapter 17 of the Listing Rules now in force. Under the provisions of the 1993 Share Option Scheme, the Company may by ordinary resolution in general meeting at any time terminate the 1993 Share Option Scheme.

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 17 November 2003, the shareholders of the Company approved the termination of the 1993 Share Option Scheme and adopted a new share option scheme (the "2003 Share Option Scheme").

The maximum number of shares which may be issued upon exercise of all outstanding options granted under the 2003 Share Option Scheme and any other share options schemes of the Company must not exceed 30% of the total number of shares in issue from time to time. No options may be granted under the 2003 Share Option Scheme or any other share option schemes of the Company if this will result in this limit being exceeded.

The total number of shares which may be issued upon exercise of all options to be granted under the 2003 Share Option Scheme and any other share option schemes of the Company must not exceed 10% of the total number of shares in issue on 17 November 2003 unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the 2003 Share Option Scheme provided that options lapsed in accordance with the terms of the 2003 Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

26. SHARE OPTION SCHEME (continued)

The 2003 Share Option Scheme will remain in force for a period of 10 years commencing from 17 November 2003. Options complying the provisions of the Listing Rules which are granted during the duration of the 2003 Share Option Scheme and remain unexercised immediately prior to the end of the 10 year period shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the 2003 Share Option Scheme.

The subscription price for shares under the 2003 Share Option Scheme shall be a price determined by the board of directors of the Company (the "Board"), but shall not be lower than the highest of (i) the closing price of shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited on the date on which the Board approve the making of the offer for the grant of options (the "Date of Grant"), which must be a trading day; (ii) the average closing price of shares as stated in the daily quotations sheets of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the Date of Grant; and (iii) the nominal value of a share.

No share option has been granted by the Company since the adoption of the 2003 Share Option Scheme.



Notes to the Financial Statements (continued)

For the year ended 31 March 2004

27. RESERVES

Company and subsidiaries:	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 April 2002	270,845	861	110,578	(361,723)	20,561
Adjustments arising from the Capital Reduction (Note 25(a))	–	–	–	70,907	70,907
Issue of shares at a premium (Note 25(b))	373	–	–	–	373
Net loss attributable to shareholders	–	–	–	(121,923)	(121,923)
As at 31 March 2003 and 1 April 2003	271,218	861	110,578	(412,739)	(30,082)
Share issue expenses	(444)	–	–	–	(444)
Net profit attributable to shareholders	–	–	–	103	103
As at 31 March 2004	270,774	861	110,578	(412,636)	(30,423)
Company:					
Company:	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 April 2002	270,845	861	241,054	(345,825)	166,935
Adjustments arising from the Capital Reduction (Note 25(a))	–	–	–	70,907	70,907
Issue of shares at a premium (Note 25(b))	373	–	–	–	373
Net loss attributable to shareholders	–	–	–	(274,186)	(274,186)
As at 31 March 2003 and 1 April 2003	271,218	861	241,054	(549,104)	(35,971)
Share issue expenses	(444)	–	–	–	(444)
Net loss attributable to shareholders	–	–	–	(3,155)	(3,155)
As at 31 March 2004	270,774	861	241,054	(552,259)	(39,570)

Contributed surplus

The contributed surplus of the Group represents the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued by the Company as consideration for the acquisition under the corporate reorganisation prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1993.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's shares issued for the acquisition at the time of the corporate reorganisation prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 1993.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

27. RESERVES (continued)

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

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

28. RECONCILIATION OF PROFIT/ (LOSS) FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES

	2004 HK\$'000	2003 HK\$'000
Profit/ (loss) from operations	1,723	(121,624)
Adjustments for:		
Interest income	(1)	(1)
Amortisation and depreciation	770	18,116
Impairment losses on tangible and intangible assets	–	65,238
Reversal of impairment loss on tangible fixed assets	(1,291)	–
Net unrealised holding gains on other investments	(1,776)	(11,660)
Loss on disposal of tangible fixed assets	250	2,408
Loss on disposal of other investments	195	–
Gain on disposal of subsidiaries	(5,805)	–
Loss on de-consolidation of a subsidiary in liquidation	–	14,118
Operating loss before changes in working capital	<u>(5,935)</u>	<u>(33,405)</u>
Changes in working capital:		
Trade and other receivables	(13,255)	26,401
Inventories	260	1,790
Amounts due to directors	(29)	(2,824)
Trade and other payables	(6,073)	(18,213)
Cash used in operations	<u>(25,032)</u>	<u>(26,251)</u>
Interest received	1	1
Hire-purchase interest	(8)	(217)
Interest on unsecured loans	(1,593)	(68)
Overseas tax paid	(26)	–
Net cash used in operating activities	<u>(26,658)</u>	<u>(26,535)</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

29. ACQUISITION OF A SUBSIDIARY

On 26 June 2003, the Group entered into a sale and purchase agreement to acquire the entire equity interest in 上海凱祥服飾有限公司 for a total consideration of HK\$20,000,000. The acquisition was completed on 17 November 2003, on which date control of 上海凱祥服飾有限公司 was passed to the Group. Details of the assets and liabilities acquired are as follows:

	HK\$'000
Net assets acquired:	
Tangible fixed assets	19,500
Trade and other receivables	36,897
Inventories	642
Cash and bank balances	32,002
Trade and other payables	(21,871)
Short-term bank loans	(47,170)
Total consideration satisfied by cash	20,000
Net cash inflow arising on acquisition:	
Cash consideration	(20,000)
Cash and bank balances acquired	32,002
	12,002

上海凱祥服飾有限公司 contributed approximately HK\$2,275,000 of turnover and HK\$2,794,000 of loss before tax for the period between the date of acquisition and the balance sheet date.

30. LOSS ON DE-CONSOLIDATION OF A SUBSIDIARY IN LIQUIDATION

On 19 February 2003, an employee of Info-Mission Technology Inc. Limited, a then subsidiary of the Company, filed a petition to the High Court of Hong Kong to wind up Info-Mission Technology Inc. Limited on grounds that Info-Mission Technology Inc. Limited was insolvent and unable to pay its debts. Consequently, the subsidiary operated under severe long-term restrictions which significantly impaired its ability to transfer funds to the Group and was excluded from consolidation upon such restrictions came into effect, being the date on which the winding up petition was presented to the court. The directors considered that the estimated recoverable amount of the Group's investment in Info-Mission Technology Inc. Limited upon de-consolidation was nil.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

30. LOSS ON DE-CONSOLIDATION OF A SUBSIDIARY IN LIQUIDATION (continued)

	HK\$'000
Net effect on de-consolidation of the subsidiary:	
Deposits, prepayments and other receivables	1,083
Cash and bank balances	1
Other creditors and accruals	(10,042)
Net identifiable assets and liabilities	(8,958)
Amount due from the subsidiary to the Group written off	8,676
Unamortised goodwill de-recognised	14,400
Net loss on de-consolidation	<u>14,118</u>

The subsidiary de-consolidated during the year ended 31 March 2003 contributed approximately HK\$117,000 and HK\$2,166,000 to the Group's turnover and loss before tax respectively for the year ended 31 March 2003. Net cash outflow arising from de-consolidation represents cash and bank balances de-consolidated amounting to approximately HK\$1,000 for the year ended 31 March 2003.

31. OPERATING LEASE COMMITMENTS

As at 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	338	938
In the second to fifth years	–	609
	<u>338</u>	<u>1,547</u>

32. CAPITAL COMMITMENTS

As at 31 March 2004, the Group had the following commitments which were not provided for in the financial statements:

	2004 HK\$'000	2003 HK\$'000
Authorised and contracted for in respect of acquisition of investment	<u>18,500</u>	<u>20,000</u>

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

32. CAPITAL COMMITMENTS (continued)

Pursuant to an acquisition agreement dated 24 March 2004 entered into between the Company and Mr. Huang Qing (the "Vendor"), the Company agreed to acquire from the Vendor at a consideration of HK\$18,500,000 (i) the entire issued share capital of Franki Limited; and (ii) all the shareholder's loan and monies owing from Franki Limited to the Vendor as at the date of completion. Franki Limited is a company incorporated with limited liability in Hong Kong and the Vendor is independent of and not connected with the directors, chief executive or substantial shareholders of the Company or its subsidiaries or any of their respective associates (as defined in the Listing Rules). Completion of the acquisition agreement is conditional upon the fulfilment of certain conditions as stipulated in the acquisition agreement. Further details of the transactions are set out in the circular of the Company dated 16 April 2004. As at 31 March 2004, the Company has not paid any consideration in respect of the acquisition and the acquisition has not yet been completed up to the date of approval of these financial statements.

33. LITIGATIONS

- (a) During the year ended 31 March 2001, Merway Limited, a then wholly-owned subsidiary of the Company, brought legal actions against a customer claiming a sum of approximately HK\$1,050,000 in relation to sub-contracting charges due to Merway Limited by the customer pursuant to a sub-contracting agreement between the Company and the customer. The customer filed a defence and counterclaim against the Company for alleged breach of contract. As a result, claims for damages and loss of profits in aggregate of approximately HK\$20,000,000 together with interests and costs have been brought against the Company. During the year ended 31 March 2004, the case was settled by a consent order dated 19 July 2003.
- (b) The Company was also a defendant in a law suit brought by a supplier during the year ended 31 March 1998 claiming approximately HK\$1,962,000 together with interest and costs relating to a guarantee in respect of a credit facility granted to RCR Electronics Manufacturing Limited, a former subsidiary of the Company. The Company filed a defence in March 1999 in response to the claim and since then, the supplier has taken no further action against the Company. Since the outcome of the litigation could not be determined with reasonable certainty at this stage, no provision has been made in the financial statements.
- (c) The Company was a plaintiff in a legal action against Toolex (Hong Kong) Limited ("Toolex"), Manwide Development Limited ("Manwide"), Mr. Tsoi Kei Lung ("Mr. Tsoi") and Mr. Cheung Ying Nang ("Mr. Cheung") who was the chairman of the Company from 10 May 1999 and resigned on about 22 April 2000. The Company contended that Toolex, Manwide, Mr. Tsoi and Mr. Cheung (together, the "Defendants") all were conspiring together with the predominant purposes to injure the interests of the Company by inducing the Company to enter into the guarantee in favour of Toolex on behalf of Manwide shouldering 80% of the price under the agreement and/ or to pay for the sums under the settlement agreement. On 27 July 2000, the Company claimed against all Defendants the return of approximately HK\$17.1 million already paid under the guarantee, damages, interests and costs as stated in the statement of claim. On 7 October 2000, Toolex counterclaimed the Company for approximately US\$2.3 million (being approximately the remaining balance due under the guaranteed sum) or alternatively approximately HK\$12.3 million or such further sum being cheques drawn by the Company in favour of Toolex but were dishonoured, damages, interests and costs as stated in the defense and counterclaim filed by Toolex. During the year ended 31 March 2004, the legal actions between the Company and Toolex were settled by a consent order dated 22 July 2003 and the liability had already been recorded in the financial statements as at 31 March 2003.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

33. LITIGATIONS (continued)

- (d) The Company and its then indirect subsidiary, Recor Enterprises China Limited (“RECL”), are the first plaintiff and second plaintiff respectively in a claim against two former directors of RECL and of the Company who were the defendants. The Company together with RECL claimed against the defendants for damages in excess of HK\$12 million plus interests, costs and other sums to be assessed. One of the defendants on 25 February 2002 filed a defence and counterclaim against the Company for approximately HK\$0.7 million being his entitled salary and bonus, interests and costs. As there has not been any development since the filing of the defence and counter-claim by the defendant, and RECL was disposed of by the Company during the year ended 31 March 2004, the directors of the Company consider that no material provision for the claim was necessary.
- (e) Twelve former employees of Info-Mission Technology Inc., Limited, a then indirect subsidiary, succeeded in obtaining a judgement against Info-Mission Technology Inc., Limited, as the defendant, on 25 September 2002 for outstanding salaries, accrued double pay, payment in lieu of notice, severance payment and mandatory provident fund contribution totalling approximately HK\$0.53 million which related to the period from 1 May 2002 to no later than 12 August 2002. Info-Mission Technology Inc., Limited did not settle such payment and was put into compulsory liquidation by the former employees in February 2003. As the Company had disposed of its investment in Info-Mission Technology Inc., Limited during the year ended 31 March 2004 through its disposal of other subsidiaries, no provision was considered necessary by the directors of the Company.
- (f) The Company was involved as a defendant, in legal actions brought by Mr. Tsoi Kei Lung and Madam Ng Kam Fung as plaintiffs claiming against the Company for recovery of balance of loans extended to the Company amounting to HK\$1,700,000 and HK\$800,000 respectively and accrued interests from 1 March 2000 and costs as stated on their respective statements of claim. Both actions have been, by consent summons, consolidated into the legal actions as described in Note (c) above.
- (g) The Company was also a defendant in a lawsuit brought by a shareholder of the Company during the year ended 31 March 2003 claiming from the Company a sum of approximately HK\$399,000 being his purported loss of 9.5 million old shares of his entire shareholding of 10 million old shares bought in May and June 2002 resulting from the Share Consolidation. A court order in favour of the Company was granted during the year ended 31 March 2004.
- (h) Cyber 397 Limited, a then wholly-owned subsidiary of the Company, was a defendant in a legal action brought by a supplier during the year ended 31 March 2003 claiming unpaid balance amounting to approximately US\$67,500 (equivalent to approximately HK\$527,000) together with interest and costs in relation to purchase of electronics components. Cyber 397 Limited had been in negotiation with such supplier for the settlement of the claim while the Company was seeking legal opinion regarding the case. As the liability had already been recorded in the financial statements of the Group as at 31 March 2003 and Cyber 397 Limited was disposed of by the Company during the year ended 31 March 2004, the directors consider that no material additional provision for the claim was necessary.

Notes to the Financial Statements (continued)

For the year ended 31 March 2004

34. POST BALANCE SHEET EVENTS

Pursuant to the Company's announcements dated 17 March 2004 and 7 April 2004, and pursuant to the special resolution passed by the shareholders of the Company at a special general meeting held on 3 May 2004, the capital reorganisation became effective on 4 May 2004. The capital reorganisation involved the following:

Capital reduction

- (i) The nominal value of all issued shares of the Company of HK\$0.01 each was reduced by HK\$0.009 by cancelling an equivalent amount of paid up capital per share so that the nominal value of each share was reduced from HK\$0.01 to HK\$0.001.
- (ii) The credit arising from the capital reduction was credited to the contributed surplus account of the Company;

Subdivision

- (iii) Each authorised but unissued share was subdivided into 10 shares of HK\$0.001 each;

Share consolidation

- (iv) Every 10 shares of HK\$0.001 each created from the capital reduction and subdivision were consolidated into one consolidated share of HK\$0.01 each;

Share premium cancellation

- (v) The share premium account of the Company was cancelled and the credit arising was credited to the contributed surplus account of the Company; and

Elimination of accumulated losses

- (vi) The credit transferred to the contributed surplus account of the Company mentioned in (ii) and (v) above, together with the existing balance standing therein, were used to set off against the accumulated losses of the Company.

Details of the above capital reorganisation were set out in the circular dated 8 April 2004.

35. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 26 July 2004.