

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Group consisted of property development and investment, investments in securities, money lending and investment holding.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)

The revised SSAP 12 “Income taxes” is effective for the first time for the preparation of the current year’s financial statements.

This SSAP prescribes new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting the revised SSAP 12 are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

This SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These disclosures are presented in note 10 to the financial statements and include a reconciliation between the accounting profit and the tax charge for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements have been prepared in accordance with the SSAPs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain investments in securities, as further explained below.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

SUBSIDIARIES

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

ASSOCIATES

An associate is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates are included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. However, if the Group's share of losses of an associate equals or exceeds the carrying amount of an investment, the Group ordinarily discontinues including its share of further losses. The investment is reported at nil value. Additional losses are provided for to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes including its share of those profits only after its share of the profits equals the share of net losses not recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

JOINT VENTURE COMPANIES

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment in investment security, if the Group holds less than 20% of the joint venture company's registered capital and/or has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

IMPAIRMENT OF ASSETS

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FIXED ASSETS AND DEPRECIATION

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Motor vehicles	30%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

INVESTMENT PROPERTIES

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INVESTMENTS IN SECURITIES

Investments in securities include held-to-maturity securities, investment securities and other investments.

Held-to-maturity securities

Held-to-maturity securities are investments in dated debt securities which the Group has the expressed intention and ability to hold to maturity, and are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition, less any impairment losses which reflect their credit risk.

Investment securities

Investment securities are listed and unlisted equity securities, which are intended to be held for a continuing strategic or long term purpose. Investment securities are included in the balance sheet at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

Other investments

Other investments in securities are listed and unlisted equity and debt securities, which are not classified as held-to-maturity securities or investment securities, and are stated at their fair values at the balance sheet date, on an individual investment basis.

The fair values of such listed securities are normally their quoted market prices at the balance sheet date, provided the securities are actively traded in a liquid market, whereas the fair values of such unlisted securities and listed securities that are not actively traded in a liquid market are estimated by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or other appropriate valuations.

The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

PROPERTIES HELD FOR SALE

Properties held for sale are stated at the lower of cost and net realisable value, which is determined by the directors with reference to the prevailing market prices, on an individual property basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

INCOME TAX

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

INCOME TAX (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

EMPLOYEE BENEFITS

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account 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. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group’s employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option scheme is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION

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) rental income, on a time proportion basis over the lease terms;
- (ii) from the sale of equity and debt securities, on a trade-date basis;
- (iii) dividend income, when the shareholders' right to receive payment has been established; and
- (iv) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

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.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) the property development and investment segment engages primarily in the development and sale of properties, and the investments in commercial/industrial premises for their rental income potential and their potential appreciation in values;
- (ii) the investments in securities segment engages in the purchase and sale of securities and the holding of debt and equity investments primarily for interest income, dividend income and capital appreciation;
- (iii) the money lending segment engages in money lending operations in Hong Kong; and
- (iv) the investment holding segment engages in holding investments for a continuing strategic or long term purpose, primarily for their dividend income, interest income, capital appreciation and other benefits.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. Intersegment transactions are conducted at mutually agreed terms.

4. SEGMENT INFORMATION (continued)

(a) BUSINESS SEGMENTS

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's business segments.

GROUP

	Property development and investment		Investments in securities		Money lending		Investment holding		Eliminations		Consolidated	
	2004	2003	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	HK\$'000	HK\$'000
Segment revenue:												
Revenue from external customers	808	428	59,533	51,133	8,523	1,985	11,443	—	—	—	80,307	53,546
Other revenue	59	—	—	4,006	—	—	721	—	—	—	780	4,006
Total	867	428	59,533	55,139	8,523	1,985	12,164	—	—	—	81,087	57,552
Segment results	19,559	(3,157)	(13,841)	(6,695)	(6,408)	470	(7,260)	—	1,970	770	(5,980)	(8,612)
Unallocated interest income and other revenue/gains											2,534	11,100
Unallocated expenses											(9,367)	(8,227)
Loss from operating activities											(12,813)	(5,739)
Finance costs											(7,411)	(23,538)
Loss before tax											(20,224)	(29,277)
Tax											(31)	(10)
Net loss from ordinary activities attributable to shareholders											(20,255)	(29,287)

4. SEGMENT INFORMATION (continued)

(a) BUSINESS SEGMENTS (continued)

GROUP

	Property development and investment		Investments in securities		Money lending		Investment holding		Eliminations		Consolidated	
	2004	2003	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	HK\$'000	HK\$'000
Segment assets	13,734	33,180	58,902	80,020	128,061	62,355	82,768	—	—	—	283,465	175,555
Unallocated assets				(Restated)							1,620	362,584
Total assets											285,085	538,139
Segment liabilities	8,455	986	623	9,000	—	21,038	29,700	—	—	—	38,778	31,024
Unallocated liabilities											77,213	391,133
Total liabilities											115,991	422,157
Other segment information:											712	947
Unallocated depreciation												
Impairment losses recognised in the profit and loss account	—	—	—	—	—	—	19,400	—	—	—	19,400	—
Other non-cash revenue/(expenses)	(3,929)	(5,684)	12,645	(9,584)	(10,463)	—	—	—	—	—	(1,747)	(15,268)
Capital expenditure	7,779	25,074	—	—	—	—	—	—	—	—	7,779	25,074
Unallocated capital expenditure											25	911
											7,804	25,985

4. SEGMENT INFORMATION (continued)

(b) GEOGRAPHICAL SEGMENTS

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

GROUP

	Hong Kong		Mainland China		Macau		Consolidated	
	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)
Segment revenue:								
Revenue from external customers	68,517	53,118	347	428	11,443	—	80,307	53,546
Other external revenue	780	4,006	—	—	—	—	780	4,006
	69,297	57,124	347	428	11,443	—	81,087	57,552
Other segment information:								
Segment assets	236,237	165,235	4,880	20,571	43,968	—	285,085	185,806
Capital expenditure	7,804	911	—	25,074	—	—	7,804	25,985

5. TURNOVER

Turnover represents gross rental income received and receivable from investment properties; interest income earned from money lending operations; interest income and dividend income from investments in securities; and proceeds from sale of other investments during the year.

	GROUP	
	2004	2003
	HK\$'000	HK\$'000
		(Restated)
Gross rental income	808	428
Interest income from money lending operations	8,523	1,985
Interest income from unlisted debt securities	839	379
Dividend income from listed securities	237	1,665
Dividend income from unlisted securities	11,443	—
Proceeds from sale of listed other investments	58,457	49,089
	<u>80,307</u>	<u>53,546</u>

The Group's gain/loss on sale of other investments was included in turnover on the net basis in the prior year's financial statements. During the current year, the Group changed its presentation of such gain/loss, as in the opinion of the directors, it is more appropriate to separately present the proceeds from the sale of other investments as "turnover" and the cost of other investments disposed of as "cost of sales".

The effect of this change in presentation was to increase the turnover and the cost of sales for the year ended 31 March 2004 by HK\$85,502,000, representing the cost of other investments disposed of during the current year.

To conform with the current year's presentation, the cost of other investments disposed of for the year ended 31 March 2003 of HK\$52,196,000 has been reclassified as cost of sales, resulting in an increase in the turnover and the cost of sales for that year by the same amount. This has resulted in no change to the amount of accumulated losses as at 1 April 2002.

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	<i>Notes</i>	2004 HK\$'000	2003 HK\$'000
Depreciation	13	712	947
Staff costs (excluding directors' remuneration (<i>note 7</i>)):			
Wages, salaries and allowances		1,636	1,356
Retirement benefits scheme contributions (defined contribution scheme)*		<u>64</u>	<u>76</u>
		<u>1,700</u>	<u>1,432</u>
Auditors' remuneration		820	718
Minimum lease payments under operating leases in respect of land and buildings		532	504
Provision for bad and doubtful debts**	20	10,463	—
Provision for impairment of investment securities**	17	19,400	—
Provisions against properties held for sale**		—	880
Provision for the settlement of legal proceedings**	29(a)	4,800	—
Revaluation deficit/(surplus) of investment properties**	14	(871)	4,804
Loss on sale of listed other investments, net		27,045	3,107
Write back of provision for compensation loss**		—	(3,500)
Gross and net rental income from investment properties		(808)	(428)
Gain on disposal of listed investment securities, net		—	(4,006)
Interest income from an associate		(2,529)	(10,481)
Other interest income		<u>(779)</u>	<u>(243)</u>

* At 31 March 2004, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2003: Nil).

** These items are included in "Other operating expenses, net" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	GROUP	
	2004	2003
	HK\$'000	HK\$'000
Fees*	<u>252</u>	<u>253</u>
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	2,591	2,376
Retirement benefits scheme contributions	<u>33</u>	<u>24</u>
	<u>2,624</u>	<u>2,400</u>
	<u>2,876</u>	<u>2,653</u>

* Fees included HK\$252,000 (2003: HK\$240,000) payable to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

HK\$	Number of directors	
	2004	2003
Nil - 1,000,000	5	4
1,500,001 - 2,000,000	<u>1</u>	<u>1</u>
	<u>6</u>	<u>5</u>

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

During the year, no share options were granted to the directors in respect of their services to the Group (2003: Nil).

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: two) directors, details of whose remuneration are disclosed in note 7 above. Details of the remuneration of the remaining two (2003: three) non-director, highest paid employees are as follows:

	GROUP	
	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	704	877
Retirement benefits scheme contributions	19	31
	<u>723</u>	<u>908</u>

The remuneration of two (2003: three) non-director, highest paid employees fell within the nil to HK\$1,000,000 band for the year ended 31 March 2004.

During the year, 22,430,000 share options were granted to one of the above two non-director, highest paid employees in respect of his/her services to the Group, further details of which are set out in note 24 to the financial statements. No value in respect of the above share options granted has been charged to the consolidated profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures because, in the absence of a readily available market value for the options on the Company's shares, the directors were unable to arrive at an accurate assessment of the value of the options granted.

9. FINANCE COSTS

	GROUP	
	2004	2003
	HK\$'000	HK\$'000
Interest on:		
Other borrowings wholly repayable within five years	10,379	24,410
Bank loans not wholly repayable within five years	56	—
	<u>10,435</u>	<u>24,410</u>
Total interest	10,435	24,410
Less: Interest expense classified as cost of sales	(3,024)	(872)
	<u>7,411</u>	<u>23,538</u>
Total finance costs for the year	7,411	23,538

10. TAX

No provision for Hong Kong profits tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong during the year (2003: Nil). The Hong Kong profits tax rate has been increased from 16.0% to 17.5% and became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 March 2004. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004 HK\$'000	2003 HK\$'000
Group:		
Current - overseas	<u>31</u>	<u>10</u>

A reconciliation of the tax credit applicable to loss before tax using the Hong Kong statutory tax rate in which the Company and the majority of subsidiaries are domiciled to the tax charge at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	GROUP			
	2004		2003	
	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(20,224)</u>		<u>(29,277)</u>	
Tax credit at the statutory tax rate	(3,539)	(17.5)	(4,684)	(16.0)
Income not subject to tax	(6,817)	(33.7)	(2,853)	(9.7)
Expenses not deductible for tax	6,824	33.7	6,510	22.2
Tax losses utilised from previous periods	(200)	(1.0)	(37)	(0.1)
Tax loss for the year not recognised	3,772	18.7	1,068	3.6
Others	(9)	—	6	—
Tax charge at the Group's effective rate	<u>31</u>	<u>0.2</u>	<u>10</u>	<u>—</u>

There was no material unprovided deferred tax in respect of the year and as at the balance sheet date (2003: Nil).

At 31 March 2004, the Group had tax losses arising in Hong Kong of HK\$96,436,000 (2003: HK\$98,078,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the Company and subsidiaries that have been loss-making for some time.

At 31 March 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, as the Group has no liability to additional tax should such amounts be remitted.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$46,143,000 (2003: HK\$15,090,000) (note 25(b)).

12. LOSS PER SHARE

(a) BASIC LOSS PER SHARE

Basic loss per share is calculated based on (i) the net loss from ordinary activities attributable to shareholders of HK\$20,255,000 (2003: HK\$29,287,000); and (ii) the weighted average number of 1,980,060,784 (2003: 1,194,999,043) ordinary shares in issue during the year.

(b) DILUTED LOSS PER SHARE

No diluted loss per share amounts have been presented for the years ended 31 March 2004 and 2003, as the effect of the Company's share options and warrants outstanding during these years were anti-dilutive.

13. FIXED ASSETS

GROUP

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At beginning of year	471	452	1,754	2,677
Additions	18	7	—	25
At 31 March 2004	489	459	1,754	2,702
Accumulated depreciation:				
At beginning of year	124	151	830	1,105
Provided during the year	96	91	525	712
At 31 March 2004	220	242	1,355	1,817
Net book value:				
At 31 March 2004	269	217	399	885
At 31 March 2003	347	301	924	1,572

14. INVESTMENT PROPERTIES

	GROUP	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year, at valuation	20,270	—
Acquisition of subsidiaries (<i>note 26(a)</i>)	7,779	25,074
Disposal of a subsidiary (<i>note 26(b)</i>)	(15,500)	—
Surplus/(deficit) on revaluation credited/(charged) to profit and loss account (<i>note 6</i>)	871	(4,804)
	<hr/> 13,420 <hr/>	<hr/> 20,270 <hr/>
At 31 March, at valuation		
Analysis by geographical location:		
Long term leases situated in Hong Kong	8,540	—
Medium term leases situated in Mainland China	4,880	20,270
	<hr/> 13,420 <hr/>	<hr/> 20,270 <hr/>

The Group's investment properties were revalued by Legend Surveyors Limited and Centaline Surveyors Limited, independent professionally qualified valuers, on an open market basis, based on their existing use, at 31 March 2004. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 28(a) to the financial statements.

The Group's investment properties situated in Hong Kong, with an aggregate carrying value at the balance sheet date of approximately HK\$8,540,000 (2003: Nil), were pledged to secure a bank loan granted to the Group (note 22).

Further particulars of the Group's investment properties are included on page 65.

15. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	697,439	555,459
Amounts due to subsidiaries	(5,477)	(4,272)
	691,963	551,188
Provisions against amounts due from subsidiaries	(446,947)	(427,927)
	245,016	123,261

The balances with subsidiaries are unsecured and have no fixed terms of repayment. Certain of the balances bear interest at Hong Kong dollar prime rate (the "Prime Rate") per annum.

Particulars of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation	Nominal value of issued and fully paid ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Brillant Crown Trading Limited	Hong Kong	HK\$1,000,000	—	100	Holding of motor vehicles
Dollar Group Limited	British Virgin Islands	US\$1	—	100	Investments in securities
Double Smart Finance Limited	Hong Kong	HK\$2	—	100	Money lending
Heritage Strategic Enterprises Limited	Hong Kong	HK\$10,000	—	100	Provision of corporate services

15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries at the balance sheet date are as follows: (continued)

Name	Place of incorporation	Nominal value of issued and fully paid ordinary share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mass Nation Investments Limited	British Virgin Islands	US\$1	—	100	Investment holding
Newick Group Limited*	British Virgin Islands	US\$1	—	100	Property investment
Overseas Global Limited	British Virgin Islands	US\$1	—	100	Investment holding
Planner Ford Limited	Hong Kong	HK\$2	—	100	Provision of corporate services
Prostar Hong Kong Limited	Hong Kong	HK\$2	100	—	Provision of corporate services
Sun Year Enterprises Limited	Hong Kong	HK\$2	—	100	Property investment

* Being subsidiary newly acquired during the year. Further details of the acquisition are included in note 26(a) to the financial statements.

During the year, Polywise Investments Limited (“Polywise”) and Kingarm Company Limited were disposed of to third parties. Further details of the disposals are included in note 26(b) to the financial statements.

Except for the following companies, all of the above subsidiaries operate in the place of their incorporation:

- (i) Kingarm Company Limited and Sun Year Enterprises Limited were incorporated in Hong Kong but operate in Mainland China; and
- (ii) Dollar Group Limited was incorporated in the British Virgin Islands but operates in Hong Kong.

The above table lists the 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.

16. INTERESTS IN ASSOCIATES

On 25 July 2003, the Group disposed of its entire interest in Polywise, a then wholly-owned subsidiary of the Group, which held the Group's entire interests in associates. Upon the Group's disposal of its entire interest in Polywise, all the associates of the Group were disposed of.

	Group	
	2004 HK\$'000	2003 HK\$'000
Loans to an associate	—	352,116
Amount due from an associate	—	217
	<hr/>	<hr/>
	—	352,333
Portion classified as current assets	—	(217)
	<hr/>	<hr/>
Non-current portion	—	352,116
	<hr/>	<hr/>

As at 31 March 2003, the loans to the associate were unsecured, bore interest at rates ranging from 1.402% to 1.659% per annum above HIBOR and were not repayable within one year. The amount due from the associate at 31 March 2003 was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the associates, all of which are corporations, at 31 March 2003 were as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ paid-up capital	Percentage of ownership interest attributable to the Group		Principal activities
			2004	2003	
Guangzhou Chong Hing Property Development Company Limited	People's Republic of China (the "PRC")	RMB170,000,000	—	30	Property development
Linktime International Development Limited	British Virgin Islands	Ordinary US\$10	—	30	Inactive
Speed World Investment Limited	Hong Kong	Ordinary HK\$100	—	30	Investment holding

All the above associates were indirectly held by the Company at 31 March 2003 and were not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

All the above associates have a financial year ending 31 December.

Notes to Financial Statements

31 March 2004

17. INVESTMENTS IN SECURITIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Investment securities, at cost:				
Unlisted equity investments	28,525	—	—	—
Convertible bond issued by an unlisted investee company*	29,700	—	—	—
	<u>58,225</u>	<u>—</u>	<u>—</u>	<u>—</u>
Less: Provision for impairment	(19,400)	—	—	—
	<u>38,825</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other investments, at fair value:				
Hong Kong listed equity securities	51,402	64,100	—	21,646
Unlisted debt securities	—	8,420	—	—
	<u>51,402</u>	<u>72,520</u>	<u>—</u>	<u>21,646</u>
Held-to-maturity securities, at amortised cost:				
Unlisted debt securities	7,500	7,500	—	—
Total investments in securities	<u>97,727</u>	<u>80,020</u>	<u>—</u>	<u>21,646</u>
Less: Portion of other investments and held-to-maturity securities classified as current assets:				
Hong Kong listed equity securities	(51,402)	(51,636)	—	(18,812)
Unlisted debt securities	(7,500)	—	—	—
Non-current portion	<u>38,825</u>	<u>28,384</u>	<u>—</u>	<u>2,834</u>
Market value of Hong Kong listed equity securities, at 31 March	<u>64,511</u>	<u>64,100</u>	<u>—</u>	<u>21,646</u>

* On 29 March 2004, the Group acquired a subordinate convertible bond (the "Convertible Bond") issued by an investee company (the "Investee"). The Convertible Bond with a face value of HK\$29,700,000 carrying the right of conversion into shares of the Investee at HK\$1.50 per share (subject to adjustment). The Convertible Bond is non-transferable, unsecured, bears interest at 6% per annum and will mature on the third anniversary from its date of issue. Subsequent to the balance sheet date, on 25 June 2004, the Convertible Bond was fully converted into 19,800,000 shares of the Investee.

17. INVESTMENTS IN SECURITIES (continued)

At the balance sheet date, the Group's and the Company's investments in securities with an aggregate carrying value of approximately HK\$55,649,000 (2003: HK\$76,666,000) and nil (2003: HK\$21,646,000), respectively, were pledged to certain financial institutions to secure certain margin financing facilities provided to the Group and the Company.

At the date of the approval of these financial statements, the market value of listed equity securities held by the Group and the Company as at the balance sheet date was approximately HK\$39,129,000 (2003: HK\$55,474,000) and nil (2003: HK\$16,871,000), respectively.

Included in other investments of the Group as at 31 March 2004 were investments in 20% or more of the nominal value of the issued ordinary share capital of certain equity investees (the "Equity Investees"). The Equity Investees were not treated as associates, because in the opinion of the directors, the Equity Investees were acquired and held with a view to the ultimate realisation of capital gain from the subsequent disposal.

Particulars of the Equity Investees are as follows:

Company name	Place of incorporation	Class of shares held	Percentage of the nominal value of issued ordinary share capital held by the Group	
			2004	2003
Green Choice Technology Limited	British Virgin Islands	Ordinary	25	25
PiLink International Limited	British Virgin Islands	Ordinary	22	22
World Class Technology Limited	British Virgin Islands	Ordinary	20	20
King Kong International Investments Limited	Macau	Ordinary	20	—

18. LOAN TO AN INVESTEE COMPANY

The loan to an investee company is unsecured, interest-free and has no fixed terms of repayment.

19. PROPERTIES HELD FOR SALE

The properties held for sale of the Group and the Company were stated at their net realisable value as at the balance sheet date.

20. LOANS RECEIVABLE

	Group	
	2004	2003
	HK\$'000	HK\$'000
Loans receivable	134,751	62,331
Less: Provision for bad and doubtful debts	(10,463)	—
	124,288	62,331
Less: Balances due within one year included in current assets	(122,563)	(62,331)
Non-current portion	1,725	—

Loans receivable represent receivables arising from the money lending business of the Group, and bear interest at rates ranging from 1.5% above the Prime Rate to 10.0% per annum. The grant of these loans is approved and monitored by the Company's executive directors in charge of the Group's money lending operations.

Included in the loans receivable is a loan granted to an officer of the Company during the year of HK\$5,000,000 (2003: Nil). Particulars of this loan, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Name	31 March	Maximum amount outstanding during the year	1 April
	2004	during the year	2003
	HK\$'000	HK\$'000	HK\$'000
Mr. Wong Siu Lun, Alan	5,000	15,000	—

The loan granted to the officer is unsecured, bears interest at Prime Rate plus 2% per annum and is repayable within one year.

21. DEPOSITS FOR CONVERTIBLE NOTES

Pursuant to a placing agreement and a supplemental agreement entered into between the Company, and a placing agent and a financial adviser on 11 August 2003 and 10 November 2003, respectively, the Company has agreed, through the placing agent, to place convertible notes up to HK\$75,000,000 (the “Convertible Notes”) to third parties on or before 1 March 2004 (subsequently agreed to extend to 30 April 2004). The Convertible Notes are unsecured, bear interest at a rate of 6.8% per annum and have a maturity date on the third anniversary of the date of issue. The Company may redeem the Convertible Notes at 100% of the outstanding principal amount of the Convertible Notes from the date of issue of Convertible Notes up to 14 days prior to (and excluding) the maturity date. The Convertible Notes may be convertible into shares of the Company in amounts or integral multiples of HK\$1,000,000 at any time from the date of issue of the Convertible Notes up to 14 days prior to (and excluding) the maturity date at a price of HK\$0.16 per share.

In March 2004, the Company received from the placing agent deposits for the Convertible Notes totalling HK\$75,000,000. Subsequent to the balance sheet date on 15 April 2004, the Convertible Notes were issued by the Company. Subsequent to the issuance and upto the date of approval of the financial statements, Convertible Notes with face values aggregating HK\$23,000,000 were redeemed by the Company and HK\$16,000,000 were converted into 100,000,000 ordinary shares of the Company of HK\$0.01 each by the holders of the Convertible Notes.

Further details of the Convertible Notes are also set out in the circulars of the Company dated 18 August 2003 and 1 December 2003, and an announcement made on 20 February 2004.

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank loan, secured (<i>note 14</i>)	<u>2,966</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other borrowings:				
Secured (<i>note 17</i>)	<u>623</u>	<u>387,878</u>	<u>—</u>	<u>7,482</u>
Unsecured	<u>—</u>	<u>21,000</u>	<u>—</u>	<u>—</u>
	<u>623</u>	<u>408,878</u>	<u>—</u>	<u>7,482</u>
	<u>3,589</u>	<u>408,878</u>	<u>—</u>	<u>7,482</u>
Bank loan repayable:				
Within one year	<u>283</u>	<u>—</u>	<u>—</u>	<u>—</u>
In the second year	<u>290</u>	<u>—</u>	<u>—</u>	<u>—</u>
In the third to fifth years, inclusive	<u>921</u>	<u>—</u>	<u>—</u>	<u>—</u>
Beyond five years	<u>1,472</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>2,966</u>	<u>—</u>	<u>—</u>	<u>—</u>
Other borrowings repayable:				
Within one year or on demand	<u>623</u>	<u>408,878</u>	<u>—</u>	<u>7,482</u>
Total borrowings	<u>3,589</u>	<u>408,878</u>	<u>—</u>	<u>7,482</u>
Portion classified as current liabilities	<u>(906)</u>	<u>(408,878)</u>	<u>—</u>	<u>(7,482)</u>
Non-current portion	<u>2,683</u>	<u>—</u>	<u>—</u>	<u>—</u>

The Group's secured other borrowings carry floating interest rates calculated by reference to the Prime Rate. The interest rates thereon at the balance sheet date were 8% per annum (2003: ranged from 7% to 10% per annum).

As at 31 March 2003, the Group's unsecured other borrowings either carry fixed interest rates or floating interest rates calculated by reference to the Prime Rate. The interest rates thereon at the balance sheet date were 6% per annum.

23. SHARE CAPITAL

SHARES

	Company	
	2004 HK\$'000	2003 HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
2,243,991,157 (2003: 1,556,665,445) ordinary shares of HK\$0.01 each	<u>22,440</u>	<u>15,567</u>

A summary of movements of the Company's issued share capital and share premium account is as follows:

	<i>Notes</i>	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2002		4,894,896,474	48,949	13,360	62,309
Capital reorganisation:					
- Reduction of capital	(a)(i)	—	(47,725)	—	(47,725)
- Consolidation of shares	(a)(ii)	(4,772,524,063)	—	—	—
- Rights issue	(a)(iii)	1,223,724,110	12,237	90,556	102,793
Issue of new shares	(b) & (c)	210,568,924	2,106	16,913	19,019
Share issue expenses		—	—	(3,419)	(3,419)
At 31 March 2003 and 1 April 2003		1,556,665,445	15,567	117,410	132,977
Placement of new shares	(d)	684,970,000	6,850	61,647	68,497
Exercise of warrants	(e)	2,355,712	23	190	213
Share issue expenses		—	—	(1,412)	(1,412)
Cancellation of share premium	(f)(i)	—	—	(177,833)	(177,833)
At 31 March 2004		<u>2,243,991,157</u>	<u>22,440</u>	<u>2</u>	<u>22,442</u>

23. SHARE CAPITAL (continued)

SHARES (continued)

Notes:

- (a) On 24 May 2002, a special general meeting was convened and the shareholders approved a capital reorganisation of the Company as follows:

(i) Reduction of capital

The par value of all issued shares of the Company was reduced from HK\$0.01 per share to HK\$0.00025 per share (the “Reduced Share”). The credit arising from such reduction has been credited to the contributed surplus of the Company.

(ii) Consolidation of shares

Every forty issued Reduced Share was consolidated into one ordinary share of HK\$0.01 (the “Consolidated Share”).

(iii) Rights issue with bonus issue

1,223,724,110 ordinary shares (the “Rights Shares”) were issued at a price of HK\$0.084 each (being a premium of HK\$0.074 per share) based on ten Rights Shares for every Consolidated Share with total cash proceeds of approximately HK\$100 million, net of expenses (the “Rights Issue”).

The reduction of capital and the consolidation of share were effective from 24 May 2002. The Rights Issue was completed in June 2002.

- (b) During the year ended 31 March 2003, 197,108,924 warrants were exercised and 197,108,924 ordinary shares of HK\$0.01 each were allotted and issued at HK\$0.09 per share.
- (c) On 5 July 2002, 13,460,000 ordinary shares of HK\$0.01 each were allotted and issued to a share option holder at HK\$0.095 per share.
- (d) Pursuant to two placement agreements dated 24 June 2003, 311,330,000 and 373,640,000 new ordinary shares of HK\$0.01 each were allotted and issued for cash to independent third parties at a price of HK\$0.10 per share on 24 July 2003 and 11 September 2003, respectively.
- (e) During the year ended 31 March 2004, 2,355,712 warrants were exercised and 2,340,465 and 15,247 ordinary shares of HK\$0.01 each were allotted and issued at HK\$0.09 and HK\$0.17 per share, respectively.

23. SHARE CAPITAL (continued)

SHARES (continued)

- (f) On 26 September 2003, a special general meeting was convened and the shareholders approved the cancellation of the share premium of the Company as follows:
- (i) The amount standing to the credit of the share premium account of the Company on 26 September 2003 amounting to HK\$177,833,000 was cancelled and the credit arising therefrom was applied to the contributed surplus account of the Company; and
 - (ii) The contributed surplus account of the Company was then utilised by the directors of the Company in accordance with the bye-laws of the Company and all the applicable laws, including but not limited to the elimination of the accumulated losses of the Company as at 31 March 2003 amounting to HK\$241,446,000.

Further details of the changes in the Company's share capital after the balance sheet date are set out in note 31 to the financial statements.

SHARE OPTIONS

Details of the Company's share option scheme and the share options issued under the scheme are included in note 24 to the financial statements.

WARRANTS

At 31 March 2003, 47,651,145 warrants at a subscription price of HK\$0.09 per share were outstanding. During the year, 2,355,712 warrants were exercised for 2,355,712 ordinary shares of HK\$0.01 each at a price of HK\$0.09 per share. The remaining 45,295,433 warrants were expired/lapsed on 30 June 2003.

During the year, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 26 September 2003, resulting in 448,795,182 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.01 at a subscription price of HK\$0.17 per share, payable in cash and subject to adjustment, from 13 October 2003 to 12 April 2005. Of which, up to the balance sheet date, 15,247 warrants were exercised for 15,247 ordinary shares of HK\$0.01 each at a price of HK\$0.17 per share.

At the balance sheet date, the Company had 448,779,935 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 448,779,935 additional shares of HK\$0.01 each and additional share capital of approximately HK\$4,488,000 and share premium of approximately HK\$71,805,000 (before issue expenses).

24. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors, including the independent non-executive directors, and other employees of the Group. The Scheme became effective on 10 October 1996 and was amended on 30 September 1997 and, unless otherwise cancelled or amended, will remain in force for ten years from 10 October 1996.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. No option may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares of the time being issued and issuable under the Scheme.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date upon which the offer of the share options is accepted or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average of the closing prices of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) for the five trading days immediately preceding the date of the offer; and (ii) the nominal value of the Company’s shares.

The Stock Exchange has introduced a number of changes to the Listing Rules on share option schemes. These new rules came into effect on 1 September 2001. An option granted shall be subject to the new changes which include, *inter alia*, the following:

- (a) the maximum number of shares issuable under the share option to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by the independent non-executive directors; and
- (c) the exercise price of the share options is determined by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the shares on the date of grant of the shares options; and (ii) the average Stock Exchange closing price of the shares for the five trading days immediately preceding the date of the grant.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

Since 1 September 2001, certain options were granted to employees of the Group pursuant to the new requirements.

24. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

Category of participant	Number of share options			Date of grant of share options *	Exercise period of share options	Exercise price of share options **	Price of Company's shares at grant date of options ***
	At 1 April 2003	Granted during the year '000	At 31 March 2004 '000				
Employee	—	22,430	22,430	30-01-2004	30-01-2004 to 30-01-2014	0.114	0.108

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day on which the options were granted.

At the balance sheet date, the Company had 22,430,000 share options outstanding under the Scheme, which represented approximately 1% of the Company's ordinary shares in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 22,430,000 additional ordinary shares of the Company and additional share capital of approximately HK\$224,300 and share premium of approximately HK\$2,333,000 (before issue expenses).

25. RESERVES

(a) GROUP

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) COMPANY

	Notes	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2002		13,360	1,038	202,436	(226,356)	(9,522)
Capital reorganisation:						
- Reduction of capital	23(a)(i)	—	—	47,725	—	47,725
- Rights issue	23(a)(iii)	90,556	—	—	—	90,556
Issue of new shares	23(b) & (c)	16,913	—	—	—	16,913
Share issue expenses		(3,419)	—	—	—	(3,419)
Net loss for the year		—	—	—	(15,090)	(15,090)
At 31 March 2003 and 1 April 2003		117,410	1,038	250,161	(241,446)	127,163
Placement of new shares	23(d)	61,647	—	—	—	61,647
Exercise of warrants	23(e)	190	—	—	—	190
Share issue expenses		(1,412)	—	—	—	(1,412)
Cancellation of share premium	23(f)(i)	(177,833)	—	177,833	—	—
Offsetting against accumulated losses	23(f)(ii)	—	—	(241,446)	241,446	—
Net loss for the year		—	—	—	(46,143)	(46,143)
At 31 March 2004		2	1,038	186,548	(46,143)	141,445

Under the Bermuda Companies Act 1981, the Company's share premium account and capital redemption reserve may be distributed in the form of fully paid bonus shares.

Under the Bermuda Companies Act 1981, the Company may make distribution to its members out of the contributed surplus in certain circumstances.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) ACQUISITION OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Fixed assets	—	554
Investment properties	7,779	25,074
Prepayments, deposits and other receivables	372	131
Cash and bank balances	15	2
Other payables and accrued liabilities	(166)	(1,018)
Tax payable	—	(189)
	<u>8,000</u>	<u>24,554</u>
Satisfied by:		
Cash	8,000	5,554
Set-off against loans receivable	—	19,000
	<u>8,000</u>	<u>24,554</u>

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	(8,000)	(5,554)
Cash and bank balances acquired	15	2
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(7,985)</u>	<u>(5,552)</u>

During the year, on 1 July 2003, the Group acquired 100% equity interest in Newick Group Limited (“Newick”) from a third party. Newick is principally engaged in property investment. The purchase consideration of HK\$8,000,000 was satisfied by cash on the date of acquisition.

The subsidiary acquired during the year contributed HK\$460,000 to the Group’s turnover and a profit of HK\$203,000 to the consolidated loss after tax for the year.

The subsidiaries acquired in the prior year contributed HK\$428,000 to the Group’s turnover and a loss of HK\$4,910,000 to the consolidated loss after tax for that year.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Interests in associates	354,862	—
Investment properties	15,500	—
Prepayments, deposits and other receivables	135	—
Cash and bank balances	15	—
Other payables and accrued liabilities	(1,047)	—
Interest-bearing other borrowings	(381,401)	—
Amounts due to group companies	(35,587)	—
	<hr/>	<hr/>
Net liabilities disposed of	(47,523)	—
Amounts due from subsidiaries disposed of	35,587	—
Exchange fluctuation reserve released upon disposal of associates	6,069	—
Gain on disposal of subsidiaries/associates	23,867	—
	<hr/>	<hr/>
Consideration	18,000	—
	<hr/>	<hr/>
Satisfied by:		
Cash	18,000	—
	<hr/>	<hr/>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	18,000	—
Cash and bank balances disposed of	(15)	—
	<hr/>	<hr/>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	17,985	—
	<hr/>	<hr/>

The subsidiaries disposed of during the year contributed HK\$60,000 (2003: HK\$284,000) to the Group's turnover and a loss of HK\$5,421,000 (2003: HK\$16,701,000) to the Group's consolidated loss after tax for the year.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) MAJOR NON-CASH TRANSACTIONS

- (i) During the year, the Group accrued a total of HK\$7,355,000 (2003: HK\$23,271,000) interest expense for the year for certain other borrowings and HK\$2,529,000 (2003: HK\$10,481,000) interest income for the year for the loans to an associate. These amounts were included in the respective loan accounts and were disposed of as a part of the subsidiaries disposed of during the year.
- (ii) During the year, as detailed in note 17 to the financial statements, the Group acquired the Convertible Bond amounting to HK\$29,700,000, which was not yet settled at the balance sheet date and was included in "Other payables and accrued liabilities" on the face of the consolidated balance sheet.
- (iii) During the year ended 31 March 2003, the Group obtained further other borrowings of HK\$2,496,000 to finance an equivalent amount of the loans to an associate. The loans were directly advanced from the lender to the associate.
- (iv) During the year ended 31 March 2003, the Group settled the consideration for the acquisition of a subsidiary amounting to HK\$19,000,000 by the offsetting of the Group's loan receivable with the same amount.

27. PLEDGES OF ASSETS

Details of the Group's and the Company's interest-bearing bank and other borrowings, which are secured by the assets of the Group and the Company, are included in notes 14, 17 and 22 to the financial statements.

28. OPERATING LEASE ARRANGEMENTS

(a) AS LESSOR

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms of one to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	580	217
In the second to fifth years, inclusive	147	28
	<hr/> 727 <hr/>	<hr/> 245 <hr/>

28. OPERATING LEASE ARRANGEMENTS (continued)

(b) AS LESSEE

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of three years.

At 31 March 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	420	504
In the second to fifth years, inclusive	—	420
	<hr/> 420 <hr/>	<hr/> 924 <hr/>

At the balance sheet date, the Company did not have any operating lease arrangements.

29. CONTINGENT LIABILITIES

- (a) In the prior year, the Company received a writ of summons from a contractor (the “Plaintiff”), for a sum of HK\$124 million claimed for alleged substandard mechanical and electrical installation work completed by the Plaintiff and the supply of project management services under two head contracts in connection with a property development project in Guangzhou, the PRC. The subject head contracts were entered into between the Plaintiff and Guangzhou Dong-Jun Real Estate Interest Company Limited (“GZ Dong Jun”, a then indirect wholly-owned subsidiary of the Company) but the Plaintiff claimed directly against the Company in reliance on two alleged guarantee letters given by the Company in favour of the Plaintiff.

The Hong Kong High Court ordered that all proceedings be stayed and the case was passed to Fushan, the PRC, for arbitration as this case was under its jurisdiction. The case was finalised on 30 November 1999 and the Fushan Arbitration Committee decided that GZ Dong Jun should pay the Plaintiff HK\$12 million together with interest from 30 December 1999 until the date of actual payment at the interest rate of 0.04% per day to settle the outstanding construction costs (the “Decision”).

In May 2000, GZ Dong Jun appealed to the Guangdong Fushan City Intermediate People’s Court (the “Fushan Intermediate Court”) in respect of the Decision, which such appeal was rejected by the Fushan Intermediate Court.

On 31 July 2000, GZ Dong Jun was disposed of by the Group. Pursuant to a deed of indemnity dated 31 July 2000, Mr. Peng Xiongfa (“Mr. Peng”, a then director of the Company) indemnified the Company for all damages, losses and liabilities arising from these proceedings.

On 10 January 2001, GZ Dong Jun appealed against the decision of the Fushan Intermediate Court to the Guangdong Province Higher People’s Court (the “GD Higher Court”).

29. CONTINGENT LIABILITIES (continued)

On 3 April 2001, GZ Dong Jun also filed a separate application to the Guangzhou City Intermediate People's Court (the "GZ Intermediate Court") requesting for the termination of the execution of the Decision.

In July 2001, the GZ Intermediate Court decided that the enforcement of the Decision should be disallowed due to the improper procedure of the Fushan Arbitration Committee.

On 22 March 2001, the Plaintiff issued a summons to uplift the stay of proceedings imposed by the Hong Kong High Court.

On 28 September 2001, the above-mentioned stay of proceedings was removed according to an order of the Hong Kong High Court (the "Order").

On 9 January 2002, the Plaintiff obtained a default judgement of HK\$12,004,800 plus interest (the "Default Judgement") issued by the Hong Kong High Court. By another order of the Hong Kong High Court dated 15 April 2002, the Default Judgement was set aside.

In August 2002, the GZ Intermediate Court set aside its previous decision in July 2001 of disallowing the enforcement of the Decision due to the improper procedure of the GZ Intermediate Court.

In December 2002, GZ Dong Jun Real Estate applied to the GZ Intermediate Court to confirm its previous decision in July 2001 of disallowing the enforcement of the Decision. However, no decision has been obtained up to the date of this report.

Subsequent to the balance sheet date, on 3 June 2004, the Company entered into a settlement agreement (the "Settlement Agreement") with the Plaintiff to settle the above legal proceedings. In consideration of the Plaintiff agreeing to withdraw the legal proceedings against the Company, the Company shall pay to the Plaintiff a total of HK\$4,800,000 by a combination of HK\$150,000 in cash and the remaining HK\$4,650,000 either in cash or 250,000,000 ordinary shares of the Company. HK\$150,000 was paid on 8 June 2004 and the Company proposed to settle the remaining HK\$4,650,000 by the issue of 250,000,000 ordinary shares of the Company, subject to the approval of the shareholders of the Company in a special general meeting to be held on 30 July 2004. Further details of the Settlement Agreement are also set out in a circular of the Company dated 14 July 2004.

Accordingly, a provision for the settlement of the legal proceedings of HK\$4,800,000 was made during the year and was included in the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 March 2004 (2003: Nil).

Based on the advice of the Group's legal adviser, the directors are of the opinion that no further provision for the legal proceedings is required.

- (b) Pursuant to the shareholders' agreements of certain other investments entered into in the prior years, the Group has agreed to provide corporate guarantees to secure certain investees' borrowing facilities as and when required. As at 31 March 2004 and the date of the approval of these financial statements, no borrowings have been drawn by the respective investees (2003: Nil).

30. RELATED PARTY TRANSACTION

During the year, interest income was earned from a then associate of the Group of HK\$2,529,000 (2003: HK\$10,481,000), arising from certain loans to the associate during the year. The loans to the associate were unsecured, bore interest at 1.4201% per annum above HIBOR (2003: ranged from 1.402% to 1.659% per annum above HIBOR) and were disposed of as part of the disposal of a subsidiary during the year (note 16).

31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events of the Group, not disclosed elsewhere in the financial statements, were occurred:

- (a) On 3 June 2004, the Fortuna Investments Group Limited and Sovicotra Capital Limited (the “Vendors”), substantial shareholders of the Company, entered into a placing agreement (the “Placing Agreement”) and a subscription agreement (the “Top Up Subscription Agreement”) with a placing agent (the “Placing Agent”) and the Company, respectively. Pursuant to the Placing Agreement, the Vendors agreed to place, through the Placing Agent, an aggregate of 448,000,000 existing ordinary shares of the Company, to not fewer than six independent placees at a price of HK\$0.037 per share. Pursuant to the Top Up Subscription Agreement, the Vendors agreed to subscribe for an aggregate of 448,000,000 new ordinary shares of the Company at a price of HK\$0.037 per share. The Placing Agreement and Top Up Subscription Agreement were completed on 14 June 2004 and 17 June 2004, respectively. The proceeds from the issue of 448,000,000 new ordinary shares of the Company of HK\$16,576,000 (before issue expenses) will be used to provide additional working capital for the Group/to finance the Group’s possible future investments.
- (b) On 3 June 2004, the Company also entered into another subscription agreement (the “New Subscription Agreement”) with a third party to place 600,000,000 new ordinary shares of the Company at a price of HK\$0.037 per share. The New Subscription Agreement is conditional upon, inter alia, the approval by the shareholders of the Company in a special general meeting to be held on 30 July 2004. The proceeds from the issue of 600,000,000 new ordinary shares of the Company of approximately HK\$22,200,000 (before issue expenses) will be used to provide additional working capital for the Group/to finance the Group’s possible future investments.

Further details of the Placing Agreement, Top Up Subscription Agreement and New Subscription Agreement are also set out in an announcement and a circular of the Company dated 9 June 2004 and 14 July 2004, respectively.

32. COMPARATIVE AMOUNTS

As further explained in note 5 to the financial statements, certain comparative amounts have been reclassified to conform with the current year’s presentation.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 July 2004.