

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

1. GENERAL AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

The Company is an investment holding company. The activities of its principal subsidiaries and associates as at 31 March 2004 are set out in notes 16 and 17 respectively.

In March 2004, the Company entered into a conditional agreement with PCCW Limited (“PCCW”, a company incorporated in Hong Kong with its shares listed on the Stock Exchange), among others, to acquire various property interests of PCCW and to propose a capital reorganisation. On 10 May 2004, the Company completed the acquisition of the property interests and the capital reorganisation. Details of these are set out in note 43.

As a result of the above transactions, PCCW became the Company’s controlled shareholder and ultimate holding company.

The financial statements have been prepared on a going concern basis because the Company’s immediate holding company, which is a subsidiary of PCCW, has agreed to provide adequate funds to the Group to enable it to meet in full its financial obligations as they fall due for the foreseeable future.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted for the first time, Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income Taxes” issued by the Hong Kong Society of Accountants (“HKSA”). The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. 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 amount 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 these standards had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment was required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition since 1 April 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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

Negative goodwill

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

Negative goodwill arising on acquisition prior to 1 April 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisition since 1 April 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Negative goodwill - continued

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

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

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interest in associates is stated at the Group's share of the net assets of the associates less any identified impairment loss.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

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

Sale proceeds on dealing of listed trading securities are recognised on trade date.

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

Revenue from household gas connection contract is recognised upon completion of contract.

Sales of gas appliances are recognised when goods are delivered and title has passed.

Service income is recognised at the time when services are rendered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant and equipment

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

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

Land	Over the remainder of lease terms
Buildings	
- Long lease in Hong Kong and the People's Republic of China (the "PRC")	2%
- Medium-term lease in the PRC	4.5%
Plant and machinery	9% - 15%
Leasehold improvements	
- Owned premises	15%
- Leased premises	Over the unexpired term of the lease
Furniture, fixtures and equipment	15% - 20%
Motor vehicles	18% - 30%
Computer software	15% - 33.33%

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Investments in securities

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

At subsequent reporting dates, investments in securities are measured at fair value. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Convertible loans

Convertible loans are separately disclosed and regarded as liabilities until conversion actually occurs. The finance cost, including the premium payable upon the final redemption of the convertible loans, recognised in the income statement in respect of the convertible loans is calculated so as to produce a constant periodic rate of charge on the remaining balances of the convertible loans for each accounting period.

Operating leases

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

Retirement benefit schemes

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes or Mandatory Provident Fund Scheme in Hong Kong and the Central Pension Scheme in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

Foreign currencies

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for building materials and gas appliances sold by the Group less discounts allowed and goods returned, gas connection, supply and storage and sale proceeds of marketable securities during the year.

	2004 HK\$'000	2003 HK\$'000
Trading of building materials	138,574	134,400
Trading of marketable securities	7,076	1,796
Natural gas connection, supply, storage and sales of gas appliances	3,592	—
	149,242	136,196

Business segments

For management purposes, the Group is organised into the following three major operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Building materials	–	Manufacturing and trading of building materials
Securities trading	–	Trading of marketable securities and financial instruments
Gas operations	–	Natural gas connection, supply, storage and sale of gas appliances

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND SEGMENT INFORMATION - CONTINUED

Business segments - continued

For the year ended 31 March 2004

	Building materials HK\$'000	Securities trading HK\$'000	Gas operations HK\$'000 (Note)	Consolidated HK\$'000
Turnover				
External sales	138,574	7,076	3,592	149,242
Result				
Segment results	(40,276)	(47,477)	(11,903)	(99,656)
Other operating income				8,723
Allowance for loans receivable				(31,047)
Unallocated corporate expenses				(16,810)
Loss from operations				(138,790)
Finance cost				(24,906)
Write back of provision for an onerous contract				23,400
Allowance for deposit paid for acquisition of an associate				(3,000)
Loss before taxation				(143,296)
Taxation				(1,649)
Loss before minority interests				(144,945)
Minority interests				2,544
Net loss for the year				(142,401)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND SEGMENT INFORMATION - CONTINUED

Business segments - continued

Balance sheet as at 31 March 2004

	Building materials HK\$'000	Securities trading HK\$'000	Gas operations HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	318,761	481	18,159	337,401
Unallocated corporate assets				176,760
Consolidated total assets				514,161
Liabilities				
Segment liabilities	125,493	—	20,142	145,635
Unallocated corporate liabilities				313,466
Consolidated total liabilities				459,101

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND SEGMENT INFORMATION - CONTINUED

Business segments - continued

Other information for the year ended 31 March 2004

	Building materials HK\$'000	Securities trading HK\$'000	Gas operations HK\$'000	Others HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	1,773	—	215	—	1,988
Additions of property, plant and equipment arising from acquisition of subsidiaries	—	—	5,216	—	5,216
Depreciation of property, plant and equipment	17,595	—	510	—	18,105
Allowance for bad and doubtful debts	40,568	—	—	—	40,568
Allowance for loans receivables	—	—	—	31,047	31,047
Allowance for deposit paid for acquisition of an associate	—	—	—	3,000	3,000
Allowance for amount due from a minority shareholder	278	—	—	—	278
Allowance for inventories	46	—	—	—	46

Note:

During the year, the Group acquired a 51.1% effective equity interest in Beijing Continental Gas Co. Ltd. ("Beijing Continental Gas"), which is engaged in the business of gas operations and regarded as a new business segment for the year ended 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND SEGMENT INFORMATION - CONTINUED

Business segments - continued

For the year ended 31 March 2003

	Building materials HK\$'000	Securities trading HK\$'000	Consolidated HK\$'000
TURNOVER			
External sales	134,400	1,796	136,196
RESULT			
Segment results	(96,040)	(6)	(96,046)
Other operating income			15,163
Unallocated corporate expenses			(6,369)
Loss from operations			(87,252)
Finance costs			(29,429)
Loss on disposal of subsidiaries	(6,554)	—	(6,554)
Loss on disposal of associates	(691)	—	(691)
Share of loss of associates	(2,129)	—	(2,129)
Loss before taxation			(126,055)
Taxation			(161)
Loss before minority interests			(126,216)
Minority interests			13,002
Net loss for the year			(113,214)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND SEGMENT INFORMATION - CONTINUED

Business segments - continued

Balance sheet as at 31 March 2003

	Building materials HK\$'000	Securities trading HK\$'000	Consolidated HK\$'000
Assets			
Segment assets	115,674	481	116,155
Unallocated corporate assets			522,822
Consolidated total assets			638,977
Liabilities			
Segment liabilities	163,633	—	163,633
Unallocated corporate liabilities			275,320
Consolidated total liabilities			438,953

Other information for the year ended 31 March 2003

	Building materials HK\$'000	Securities trading HK\$'000	Consolidated HK\$'000
Additions of property, plant and equipment	1,137	2,050	3,187
Depreciation of property, plant and equipment	23,649	217	23,866
Allowance for bad and doubtful debts	23,179	—	23,179
Allowance for amounts due from associates	28,363	—	28,363
Allowance for amounts due from a minority shareholder	1,664	—	1,664
Allowance for inventories	3,550	—	3,550

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

4. TURNOVER AND SEGMENT INFORMATION - CONTINUED

Geographical segments

The following table provides an analysis of the Group's sales by geographic markets, irrespective of the origin of the goods/services:

	Turnover	
	2004 HK\$'000	2003 HK\$'000
Hong Kong	14,333	4,977
Other regions of the PRC	74,006	81,361
USA	58,450	49,858
Australia	2,453	—
	149,242	136,196

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

	Carrying amount of segment assets At 31 March		Additions to property, plant and equipment and goodwill For the year ended 31 March	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	319,471	299,609	78	10
Other regions of the PRC	194,690	339,368	115,847	3,177
	514,161	638,977	115,925	3,187

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

5. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Interest income	5,198	7,091
Write back of other borrowings	1,696	—
Gain on disposal of property, plant and equipment	—	3,807
Rental income	—	380
Write back of unclaimed dividends	—	273
Gain on disposal of other securities	—	50
Sundry income	1,829	3,562
	8,723	15,163

6. OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Allowance for bad and doubtful debts	(40,568)	(23,179)
Allowance for loans receivable	(31,047)	—
Allowance for amounts due from associates written back (made)	6,260	(28,363)
Allowance for amount due from a minority shareholder	(278)	(1,664)
Amortisation of goodwill arising on acquisition of subsidiaries	(3,588)	—
Loss on securities trading and financial instruments	(45,835)	—
	(115,056)	(53,206)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

7. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs		
- Directors' fee (note 10)	—	—
- Directors' other emoluments (note 10)	137	370
- Retirement benefits schemes contribution, net of forfeiture of HK\$191,000 (2003: HK\$73,000)	121	589
- Others	8,279	12,929
	8,537	13,888
Allowance for inventories	46	3,550
Auditors' remuneration:		
Current year	755	794
Underprovision in prior years	—	180
Depreciation	18,105	23,866
Net foreign exchange loss	1,285	1,412
and after crediting:		
Rental income, net of outgoings of HK\$Nil (2003: HK\$2,000)	—	378

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

8. FINANCE COST

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	9,586	14,150
Convertible loan	15,320	15,279
	24,906	29,429

9. WRITE BACK OF PROVISION FOR AN ONEROUS CONTRACT

The Company entered into an agreement dated 20 April 2000 with a third party ("Purchaser") pursuant to which the Company granted to the Purchaser an option to require the Company to purchase certain shares of Skynet Limited ("Shares of Skynet") for a consideration of US\$3,000,000 during the period from 15 May 2000 to 15 May 2003.

During the year ended 31 March 2002, a provision of HK\$23,400,000, representing the full amount of the exercise price was made for the put option granted to the Purchaser in 2000 to require the Company to purchase the Shares of Skynet. The put option was not exercised during the year ended 31 March 2004 and lapsed on 15 May 2003. The provision of HK\$23,400,000 was written back during the year upon the lapse of the option.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

10. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive	—	—
Independent non-executive	—	—
	—	—
Other emoluments - Executive:		
Salaries and other benefits	110	354
Retirement benefits scheme contribution	27	16
	137	370

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group. None of the directors has waived any emoluments during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none of the Company's directors (2003: one) whose emoluments are included in the disclosures in note 10 above. The emoluments of the five (2003: remaining four) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	2,290	2,134
Retirement benefits scheme contributions	111	108
	2,401	2,242

Their emoluments were within the following bands:

	2004 Number of employees	2003 Number of employees
HK\$Nil to HK\$1,000,000	5	4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

12. TAXATION

	2004 HK\$'000	2003 HK\$'000
The charge comprises:		
Taxation in other jurisdictions		
Current year	(1,630)	(161)
Hong Kong Profits Tax		
Underprovision in prior years	(19)	—
Taxation attributable to the Company and its subsidiaries	(1,649)	(161)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries had no assessable profit in either year. Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year. Hong Kong Profits Tax rate was changed from 16% to 17.5% with effect from the 2003/2004 year of assessment.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are eligible for certain tax holidays and concessions and the income tax for the PRC subsidiaries were calculated on the basis of concessionary rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

12. TAXATION - CONTINUED

The tax charge for the year can be reconciled to the loss before taxation as per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(143,296)	(126,055)
Taxation at Hong Kong Profits Tax Rate of 17.5% (2003: 16%)	(25,077)	(20,169)
Tax effect of income not taxable in determining taxable profit	(2,925)	(8,802)
Tax effect of expenses not deductible for tax purpose	25,118	24,433
Underprovision in respect of prior year	19	—
Tax effect of tax losses not recognised	7,830	9,754
Effect of tax on concessionary rate	(1,629)	(145)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,687)	(4,900)
Others	—	(10)
Tax expense for the year	1,649	161

As at 31 March 2004, the Group had unused tax losses of approximately HK\$309,084,000 (2003: HK\$264,342,000) available for offset against future profits. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profits streams. Included in unrecognised tax losses is HK\$19,828,000 (2003: HK\$9,338,000) that will be expired in the five years.

At the balance sheet date, the Group and the Company had no other significant unrecognised deferred taxation.

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$142,401,000 (2003: HK\$113,214,000) and on the 1,161,265,406 (2003: adjusted weighted average of 631,128,400) ordinary shares in issue during the year.

No diluted loss per share for the year ended 31 March 2004 was presented because the Company had no dilutive potential ordinary share outstanding at 31 March 2004. No diluted loss per share for the year ended 31 March 2003 was presented as the exercise of the potential ordinary shares under the convertible loan would result in a reduction in loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Computer software HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 April 2003	52,565	184,097	1,167	8,829	6,044	46	252,748
Additions	423	509	109	379	520	48	1,988
Acquired on acquisition of subsidiaries	—	5,135	—	42	39	—	5,216
Exchange adjustment	—	(962)	—	—	—	—	(962)
At 31 March 2004	52,988	188,779	1,276	9,250	6,603	94	258,990
DEPRECIATION AND IMPAIRMENT							
At 1 April 2003	16,449	95,763	96	8,267	5,720	6	126,301
Provided for the year	2,419	14,672	260	457	272	25	18,105
Exchange adjustment	—	288	—	—	—	—	288
At 31 March 2004	18,868	110,723	356	8,724	5,992	31	144,694
NET BOOK VALUE							
At 31 March 2004	34,120	78,056	920	526	611	63	114,296
At 31 March 2003	36,116	88,334	1,071	562	324	40	126,447
THE COMPANY							
COST							
At 1 April 2003 and 31 March 2004	—	—	—	—	—	10	10
DEPRECIATION							
At 1 April 2003	—	—	—	—	—	2	2
Provided for the year	—	—	—	—	—	3	3
At 31 March 2004	—	—	—	—	—	5	5
NET BOOK VALUE							
At 31 March 2004	—	—	—	—	—	5	5
At 31 March 2003	—	—	—	—	—	8	8

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

14. PROPERTY, PLANT AND EQUIPMENT - CONTINUED

The net book value of properties shown above comprises:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Land in PRC:		
Long lease	2,901	2,658
Medium-term lease	31,219	33,458
	34,120	36,116

15. GOODWILL

	THE GROUP HK'000
COST	
Arising on acquisition of subsidiaries and at 31 March 2004	108,721
AMORTISATION	
Provided for the period and at 31 March 2004	3,588
CARRYING AMOUNT	
At 31 March 2004	105,133

The amount represented the goodwill arising on acquisition of a 51.1% effective equity interest in Beijing Continental Gas during the year. It is amortised over 20 years.

Beijing Continental Gas is a sino-foreign equity joint venture engaged in the business of natural gas supply, storage and related services. Beijing Continental Gas' ongoing operations in 液化氣供氣站 (Liquefied Petroleum Gas Supply Station) projects in 北京門頭溝濱河小區 (Beijing Mentougou Binhe Xiaoqu) and 北京順義區半南壁店小區 (Beijing Shunyi Nanbanbidian Xiaoqu) have been approved by 北京市發展計劃委員會 (Beijing City Development Planning Committee) with a business scope to engage in natural gas business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2004 & 2003 HK\$'000
Investments in subsidiaries	
Unlisted shares, at cost	286,876
Impairment loss recognised	(286,876)
	—

Amounts due from subsidiaries - due after one year

The amounts were unsecured, non-interest bearing and had no fixed terms of repayment. The amounts were unlikely to be repaid within one year from the balance sheet date and were therefore shown as non-current.

Amounts due from (to) subsidiaries - due within one year

The amounts are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. INVESTMENTS IN SUBSIDIARIES - CONTINUED

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

Name of subsidiary	Place/ country of incorporation/ registration	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Operate in Hong Kong:						
Apex Landmark Limited	British Virgin Islands ("BVI")	Ordinary	US\$1	—	100	Investment holding
Companion Building Material (Holdings) Limited 友聯建築材料(集團)有限公司	Hong Kong	Ordinary	HK\$490,385,924	—	100	Investment holding
Companion-China Limited 友聯中國有限公司	Hong Kong	Ordinary	HK\$137,839,000	—	100	Investment holding and trading of ceramic tiles
Companion-China (Supplies) Limited 友聯中國(建材供應)有限公司	Hong Kong	Ordinary	HK\$2	—	100	Investment holding
Dong Fang Gas Limited 東方燃氣有限公司	Hong Kong	Ordinary	HK\$2	—	100	Investment holding
Dong Fang Gas (B.V.I.) Limited	BVI	Ordinary	US\$1	100	—	Investment holding
Dong Fang Gas Management Limited 東方燃氣管理有限公司	Hong Kong	Ordinary	HK\$2	—	100	Investment holding and provision of management services to group companies
Easy Reach Investments Limited	BVI	Ordinary	US\$1	—	100	Trading of securities and financial instruments
King Unity Investments Limited 興盟投資有限公司	Hong Kong	Ordinary	HK\$20,000	—	80	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. INVESTMENTS IN SUBSIDIARIES - CONTINUED

Name of subsidiary	Place/ country of incorporation/ registration	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Saint Galerie Tiles Limited 新嘉利瓷磚有限公司	Hong Kong	Ordinary	HK\$13,750,000	—	100	Manufacturing and trading of ceramic tiles
Operate in the PRC:						
Beijing Continental Gas Co. Ltd. 北京大陸燃氣有限公司	PRC	Registered capital	RMB10,000,000	—	51.1 (Note b)	Natural gas connection, supply, storage and sales of gas appliances
Chongqing Golden Unity Ceramics Co., Ltd. ("Golden Unity") 重慶金聯陶瓷有限公司	PRC	Registered capital	RMB46,750,000	—	56 (Notes a and b)	Manufacturing and trading of ceramic tiles
Wenzhou Xishan United Ceramics Company Limited 溫州西山聯合陶瓷有限公司	PRC	Registered capital	RMB46,360,148	—	73.5 (Note b)	Manufacturing and trading of ceramic tiles
江門市新會友聯專業 陶瓷有限公司	PRC	Registered capital	RMB14,280,640	—	100 (Note c)	Polishing of ceramic tiles

Notes:

- (a) The subsidiary was an equity joint venture company established by the Group and an independent third party in the PRC. Under the management agreements with the Chinese party, the Group is responsible for all of the assets and liabilities of the equity joint venture company and is entitled to all of the net profits or losses of the operation (after payment of fixed amount as management fee to the Chinese party) each year during the term of the management agreement.
- (b) This is a PRC sino-foreign equity joint venture.
- (c) This is a PRC subsidiary established as wholly foreign owned enterprise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. INVESTMENTS IN SUBSIDIARIES - CONTINUED

The above table lists the subsidiaries of the Company at 31 March 2004 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding during the year and at the end of the year.

17. INTERESTS IN ASSOCIATES

	THE GROUP 2004 & 2003 HK\$'000
Share of net assets	—

Details of the principal associates of the Group as at 31 March 2004 are as follows:

Name of associate	Form of business structure	Place/ country of registration	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital/ registered capital by the Company		Nature of business
					Directly %	Indirectly %	
Asean Fortune Corporation	Incorporated	BVI	Hong Kong	Ordinary	—	50	Investment holding
Yixing United Ceramics Co., Ltd. 宜興聯合陶瓷有限公司	Incorporated	PRC	PRC	Capital	—	47.56	Manufacturing of ceramic tiles

The above table lists the associates of the Group at 31 March 2004 which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other associates would in the opinion of directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

18. DEPOSIT PAID FOR ACQUISITION OF AN ASSOCIATE

During the year ended 31 March 2003, China Crystal Investment Limited (“China Crystal”), an indirect wholly-owned subsidiary of the Company, entered into an agreement (“Acquisition Agreement”) with a third party (“Vendor”) to acquire 63% of the entire issued share capital of WIT International Group Limited (“WIT”) at a consideration of HK\$120,000,000. WIT shall hold a 49% equity interest in Nanning City Gas Co. Ltd., which is mainly engaged in the business of the construction and operation of the gas pipelines in Nanning, the PRC, and the provision of the related equipment, apparatus and other ancillary services. Deposit of HK\$10,000,000 (“Deposit”) was made by the Group in connection with the Acquisition Agreement.

On 2 January 2003, the Company announced that there had been certain disputes between the Vendor and China Crystal relating to the satisfaction of the conditions of the Acquisition Agreement and the Company received a notice dated 20 December 2002 from the solicitors acting for the Vendor purporting to rescind the Acquisition Agreement and forfeit the Deposit paid by the Group upon signing of the Acquisition Agreement on 8 November 2002. China Crystal, through its solicitors, issued a written reply denying any breach of the Acquisition Agreement on the part of China Crystal and reiterated the right of China Crystal to receive the refund of the Deposit in full under the terms of the Acquisition Agreement. Details of these are set out in the Company’s announcement dated on 2 January 2003.

During the year ended 31 March 2004, the Group entered into a settlement agreement with the Vendor and assigned all the rights and obligations including the claims of the Deposit to an independent third party for a consideration of HK\$7,000,000 to resolve the disputes and therefore the remaining balance of HK\$3,000,000 was fully written off during the year .

19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Trading securities:		
Equity securities listed in Hong Kong, at market price	14	14
Club debenture	467	467

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

20. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	9,443	10,154
Work in progress	278	240
Finished goods	11,897	14,320
	21,618	24,714

Included above are finished goods of HK\$10,636,000 (2003: HK\$14,137,000) which were carried at net realisable value.

21. PROPERTIES HELD FOR SALE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
At 1 April	6,500	6,500
Disposal	(6,500)	—
At 31 March	—	6,500

As at 31 March 2003, the properties held for sale were situated in Hong Kong under medium-term leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

22. TRADE RECEIVABLES

The Group does not have a fixed credit policy.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within 60 days	14,073	15,469
61 - 90 days	4,913	8,179
Over 90 days	27,344	25,494
	46,330	49,142

23. LOANS RECEIVABLE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unsecured	31,047	—
Less: Allowance	(31,047)	—
	—	—

Loans receivable bear interest at prevailing market rate and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

24. AMOUNTS DUE FROM ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Amounts due from associates	82,103	88,363
Less: Allowance	(82,103)	(88,363)
	—	—

The amounts are unsecured, non-interest bearing and are repayable on demand.

25. AMOUNTS DUE FROM (TO) MINORITY SHAREHOLDERS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Amounts due from minority shareholders	1,942	1,664
Less: Allowance	(1,942)	(1,664)
	—	—
Amounts due to minority shareholders	(6,199)	(6,599)

The amounts are unsecured, non-interest bearing and repayable on demand.

26. AMOUNT DUE FROM A RELATED COMPANY

The amount represents trading balance with Hong Kong Wing On Travel Services Limited, with credit terms of 30 days, which is a wholly-owned subsidiary of an associate of China Strategic Holdings Limited ("CSH"), which is listed on the Stock Exchange and was a substantial shareholder of the Company as at 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

27. TRADE PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within 60 days	5,646	4,433
61 - 90 days	828	1,280
Over 90 days	38,652	36,041
	45,126	41,754

28. AMOUNTS DUE TO RELATED COMPANIES

Details of the amounts due to related companies are as follows:

	Notes	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
北京市液化石油氣公司 (「北京市液化」)	(i)	377	—
Cycle Company Limited and Gunnell Properties Limited	(ii)	173	—
Hanny Magnetics Limited	(ii)	—	244
Paul Y. - Building Management Limited	(ii)	—	18
Paul Y. - ITC Management Limited	(ii)	—	1
Hong Kong Wing On Travel Services Limited	(iii)	—	36
Mass Success International Limited ("Mass Success")	(iv)	—	766
		550	1,065

All amounts are unsecured, non-interest bearing and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

28. AMOUNTS DUE TO RELATED COMPANIES - CONTINUED

Notes:

- (i) 北京市液化 is the shareholder of a subsidiary's minority shareholder.
- (ii) The companies are wholly-owned subsidiaries of a substantial shareholder of CSH as at 31 March 2004.
- (iii) The company is a wholly-owned subsidiary of an associate of CSH as at 31 March 2004.
- (iv) As at 31 March 2004, a director of the Company was also a director of Mass Success.

29. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Bank overdrafts	19,333	9,166
Bank loans	83,997	82,531
	103,330	91,697
Secured	92,315	74,417
Unsecured	11,015	17,280
	103,330	91,697

The Group was in breach of a covenant in respect of the banking facilities. As events of defaults had arisen under the loan agreements, certain amounts of the loans became repayable on demand and are classified under current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

30. OTHER BORROWINGS

	Notes	THE GROUP	
		2004 HK\$'000	2003 HK\$'000
Convertible loan - unsecured	(i)	92,302	92,302
Loan from a financial institution in the PRC	(ii)	29,889	34,729
Loans from employees	(iii)	7,097	3,738
Other short-term loans	(iv)	4,528	3,860
		133,816	134,629
Secured		29,889	34,729
Unsecured		103,927	99,900
		133,816	134,629

All amounts are repayable within one year or repayable on demand.

Notes:

- (i) In 1997, an unsecured convertible loan of US\$12,000,000 ("Loan") which carries interest at the rate of 9.8% per annum compounded annually for a term of six years was advanced by Simonson International Development Limited ("Simonson"), a wholly-owned subsidiary of ING Beijing Investment Company Limited ("ING"), an independent third party, to Companion-China Limited, a wholly-owned subsidiary of the Company. The Loan and the accrued interest thereon will, at the option of the convertible noteholder, be convertible into fully paid ordinary shares of the Company at a conversion price calculated at 90% of the average closing price of the shares of the Company quoted on the Stock Exchange for the twenty trading days immediately preceding the date of the notice under the terms and conditions of the convertible loan deed, details of which are set out in the circulars dated 13 May 1997 and 20 December 2000 to the shareholders of the Company.

By an assignment executed on 18 February 2002, Simonson assigned to Perfect Master Limited ("PML"), a wholly-owned subsidiary of ING, the Loan and all related rights and interest. On the same date, the entire issued share capital of PML and the Loan were sold to Galaxy Time Limited, a company held by New World Enterprise Holdings Limited. Details of these are set out in the announcement of the Company dated 18 February 2002.

The Loan bears interest at 9.8% per annum. The Group failed to repay certain part of the Loan and the accrued interest thereon, resulting in whole outstanding principal sum of US\$11.9 million and accrued interest being technically repayable on demand. The conversion option to convert the Loan and the accrued interest into fully paid ordinary shares of the Company lapsed on 25 June 2003 but all other rights attaching to the Loan continue to subsist.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

30. OTHER BORROWINGS - CONTINUED

- (ii) The amounts are secured, interest bearing at 10.8% per annum and repayable on demand.
- (iii) The amounts are unsecured, interest bearing at 0.8% per month and repayable on demand.
- (iv) The amounts are unsecured, interest bearing at 2% plus prime rate per annum and repayable on demand.

31. SHARE CAPITAL

	Number of shares	Value HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 April 2002	30,000,000,000	300,000
Additions	30,000,000,000	300,000
Share consolidation	(58,500,000,000)	—
Ordinary shares of HK\$0.40 each at 31 March 2003 and 31 March 2004	1,500,000,000	600,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 April 2002	1,450,612,577	14,506
Issue of shares	45,000,000,000	450,000
Exercise of warrants	3,658	—
Exercise of share options	5	—
Share consolidation	(45,289,350,834)	—
Ordinary shares of HK\$0.40 each at 31 March 2003 and 31 March 2004	1,161,265,406	464,506

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

32. SHARE OPTIONS

1998 Scheme

The Company's share option scheme ("1998 Scheme") was adopted pursuant to a resolution passed on 13 October 1998 and became effective on 24 December 1999 for the primary purpose of providing incentives to directors and eligible employees, and shall expire on 27 August 2003. The 1998 Scheme was terminated on 17 March 2003. Under the 1998 Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares of the Company in respect of which options may be granted under the 1998 Scheme is not permitted to exceed 10% in nominal amount of the issued share capital of the Company from time to time less: (i) the aggregate number of shares of the Company which have been duly allotted and issued pursuant to the 1998 Scheme; (ii) the number of shares of the Company which would be issued on the exercise in full of the options granted but not exercised on that date pursuant to the 1998 Scheme; and (iii) the number of shares of Companion Building Material (Holdings) Limited ("CBM") which have been duly allotted and issued pursuant to the share option scheme of CBM. The shares of CBM were previously listed on the Stock Exchange. Pursuant to a scheme of arrangement between CBM and its shareholders, CBM became an indirectly wholly owned subsidiary of the Company and its shares were withdrawn from listing on the Stock Exchange and the shares of the Company are listed on the Stock Exchange with effect from 24 December 1999. The number of shares of the Company in respect of which options may be granted under the 1998 Scheme to any eligible employee (together with (i) the number of shares of the Company issued in respect of options of the Company which have been exercised by that eligible employee; (ii) any shares of the Company which would be issued upon the exercise of outstanding options of the Company granted to that eligible employee; and (iii) the number of shares of CBM issued in respect of options of CBM which have been exercised by that eligible employee), is not permitted to exceed 25% of the maximum aggregate number of shares of the Company subject to the 1998 Scheme at the time it is proposed to grant the relevant option to such eligible employee.

Consideration to be paid on each grant of option is HK\$10 and an offer for an option must be accepted by the eligible employee not later than 28 days after the offer date of option. Options granted may be exercised at any time from the date of grant of the share option to the third anniversary of the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the greater of (i) 80% of the average closing price of the Company's shares for the five trading days immediately preceding the offer date of the option; and (ii) the nominal value of the Company's share.

No options were granted under 1998 Scheme during the year and no options were outstanding as at 31 March 2004 and 31 March 2003.

No options under 1998 Scheme were outstanding as at 31 March 2004 and 31 March 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

32. SHARE OPTIONS - CONTINUED

1998 Scheme - continued

A summary of movement of share options under the 1998 Scheme for the year ended 31 March 2003 was as follows:

Employees	Date of grant	Exercisable period	Exercise price* HK\$	Outstanding at 1.4.2002	Number of share under option		
					Granted during the year	Exercised during the year	Outstanding at 31.3.2003
	14.2.2003	14.2.2003 - 13.8.2003	0.012	—	5	(5)	—

The closing price of the shares of the Company on 13 February 2003 immediately before the date on which the options were granted was HK\$0.01. The closing price of the shares of the Company on the date of exercise was HK\$0.01.

Total consideration received during the year ended 31 March 2003 from the employee for taking up the options granted was HK\$10. No charge is recognised in the income statement in respect of the value of options granted during the year ended 31 March 2003.

* As the options were granted and exercised before the share consolidation of the Company becoming effective during the year ended 31 March 2003, no adjustment were required to be made on the exercise price.

2003 Scheme

A new share option scheme ("2003 Scheme") was approved and adopted on 17 March 2003. The 2003 Scheme is valid and effective for a period of 10 years after the date of adoption.

The purpose of the 2003 Scheme is to enable the Company to grant options to any directors (including executive directors, non-executive directors and independent non-executive directors) of the Group and full-time or part-time employees (including executives or officers) of the Group and any advisors and consultants providing advisory, consultancy or other services to the Group, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group and those staff under secondment to the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group ("Participant") as incentives or rewards for their contribution to the Group and to encourage Participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

32. SHARE OPTIONS - CONTINUED

2003 Scheme - continued

The maximum number of shares of the Company in respect of which options may be granted under the 2003 Scheme and other share option schemes of the Company is not permitted to exceed 30% in nominal amount of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options may be granted to a specifically identified single grantee under the 2003 Scheme shall not (when aggregated with any shares subject to any other share option scheme(s) of the Company) in any 12 month period exceed 1 per cent. of the shares in issue.

Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) to such person in the 12 month period up to and including the date of grant:

- (i) representing in aggregate over 0.1 per cent. of the shares in issued; and
- (ii) having an aggregate value, based on the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, in excess of HK\$5 million,

such grant of options shall be subject to prior approval by resolution of the shareholders who are not connected persons of the Company pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

Consideration to be paid on each grant of option is HK\$1 and an offer remains open for acceptance by Participant concerned for a period of 28 days from date of grant or otherwise stated in the offer letter. The option period is a period to be notified by the Board to each grantee at the time of making an offer which shall not expire later than ten years from the date of grant. The exercise price is determined by the directors of the Company, and shall not be less than the greatest of (i) the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant; (ii) the average closing price of the shares of Company for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share of Company.

No share options were granted or exercised pursuant to the 2003 Scheme since its adoption.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

33. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1 April 2002	47,140	572	392,912	(480,692)	(40,068)
Net loss for the year	—	—	—	(78,645)	(78,645)
At 31 March 2003	47,140	572	392,912	(559,337)	(118,713)
Net loss for the year	—	—	—	(88,481)	(88,481)
At 31 March 2004	47,140	572	392,912	(647,818)	(207,194)

The contributed surplus of the Company represents the difference between the fair value of the share capital of Companion Building Material (Holdings) Limited whose shares were exchanged for the Company's shares and the nominal amount of the share capital issued by the Company pursuant to the scheme of arrangement on 24 December 1999.

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

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

At the balance sheet, the Company had no reserves available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

34. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	3,109
Properties under development held for sale	—	13,380
Trade receivables, other receivables, deposits and prepayments	—	22,467
Amounts due from customers for contract work	—	246
Bank balances and cash	—	256
Rental deposits received	—	(580)
Trade payables, other payables and accruals	—	(2,549)
Amounts due to customers for contract work	—	(562)
Taxation payable	—	(20)
Bank borrowings	—	(740)
Deferred taxation	—	(3)
	—	35,004
Loss on disposal	—	(6,554)
Release of capital reserve on consolidation	—	(10)
	—	28,440
Satisfied by:		
Cash	—	28,440

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

34. DISPOSAL OF SUBSIDIARIES - CONTINUED

Net cash inflow arising on disposal of subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	—	28,440
Bank balances and cash disposed of	—	(256)
	—	28,184

The subsidiaries disposed of did not make a significant contribution to the net cash flows or the results of the Group for the year ended 31 March 2003.

35. PURCHASE OF SUBSIDIARIES

During the year, the Group acquired 73% equity interest in Top Power Holdings Limited, which holds 70% equity interest in Beijing Continental Gas, for a consideration of HK\$80,000,000. The acquisition has been accounted for by the acquisition method of accounting.

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Property, plant and equipment	5,216	—
Other receivables, deposits and prepayments	1,145	—
Bank balances and cash	1,483	—
Trade payables	(2,543)	—
Other payables and accruals	(8,103)	—
Bank borrowings	(25,919)	—
	(28,721)	—
Goodwill arising on acquisition	108,721	—
	80,000	—
Satisfied by:		
Cash	80,000	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

35. PURCHASE OF SUBSIDIARIES - CONTINUED

An analysis of the net outflow of cash and cash equivalents in connection with the purchase of subsidiaries is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration paid	(80,000)	—
Bank balances and cash acquired	1,483	—
	(78,517)	—

The subsidiaries acquired during the year contributed approximately HK\$3,592,000 to the Group's turnover and HK\$11,903,000 to the Group's loss from operations.

36. MAJOR NON-CASH TRANSACTION

At 31 March 2004, the proceeds of HK\$6,500,000 on disposal of properties held for sale during the year was not received by the Company and had been included in other receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

37. RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with the related parties as follows:

Company	Nature of transactions	Notes	2004 HK\$'000	2003 HK\$'000
Yixing United Ceramics Co., Ltd.	Sale of ceramic tiles by the Group	(i)	235	4,332
	Disposal of plant and machinery by the Group	(i)	—	6,552
	Purchase of ceramic tiles by the Group	(i)	53,805	41,582
Cycle Company Limited and Gunnell Properties Limited	Rent deposits paid by the Group	(ii)	247	247
	Rent expenses paid by the Group	(ii)	751	288
	Management fee paid by the Group	(ii)	271	106
Hong Kong Wing On Travel Service Limited	Air ticket and travel service expenses paid by the Group	(iii)	163	51
Paul Y. - ITC Management Limited	Sundry expenses paid by the Group	(ii)	6	5
Paul Y. - Building Management Limited	Renovation work for fire service system paid by the Group	(ii)	—	18
Paul Y. - ITC General Contractors Limited	Sale of ceramics by the Group	(ii)	—	259
Hanny Magnetics Limited	Loan interest income received by the Group	(ii)	—	201
中國重慶第六棉紡織廠	Management fee paid and payable by the Group	(iv)	—	2,367
	Rent expenses paid and payable by the Group	(iv)	113	113
Mass Success	Consultancy fee paid by the Group	(v)	3,187	961
	Management fee paid by the Group	(v)	2,400	—
Great Joint Profits Limited	Interest expense paid by the Group	(vi)	608	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

37. RELATED PARTY TRANSACTIONS - CONTINUED

Notes:

- (i) Yixing United Ceramics Co., Ltd. is an associate of the Group.
- (ii) Paul Y. - ITC Management Limited, Paul Y. - Building Management Limited, Paul Y. - ITC General Contractors Limited, Hanny Magnetics Limited, Cycle Company Limited and Gunnell Properties Limited are wholly-owned subsidiaries of the substantial shareholders of CSH, during the year.
- (iii) Hong Kong Wing On Travel Service Limited is a wholly-owned subsidiary of an associate of CSH, during the year.
- (iv) 中國重慶第六棉紡織廠 is a minority shareholder of the Chongqing Golden Unity Ceramics Co., Ltd., a non wholly-owned subsidiary of the Company.
- (v) A director of the Company was also a director of Mass Success during the year.
- (vi) Great Joint Profits Limited is a wholly-owned subsidiary of CSH.

During the year, CSH advanced approximately HK\$25,693,000 to the Group. The amount was unsecured, interest bearing at prevailing market rate and fully settled during the year.

In the opinion of the directors, the above transactions were undertaken at the terms mutually agreed between the Group and the related parties with reference to the market price.

Details of balances with related parties at the balance sheet date are set out in notes 24, 25, 26 and 28.

38. CONTINGENT LIABILITIES

At balance sheet date, the contingent liabilities of the Group and the Company not provided for in the financial statements are set out as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Corporate guarantee given to bankers in respect of banking facilities utilised by				
- an associate	—	10,268	—	—
- subsidiaries	—	—	92,302	92,302

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

39. COMMITMENTS

(i) Lease commitments

The Group as lessee

The Group made approximately HK\$1,422,000 (2003: HK\$2,115,000) minimum lease payments under operating lease during the year in respect of premises and warehouse.

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

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	1,891	1,551
In the second to fifth year	1,527	646
	3,418	2,197

Operating lease payments represent rentals payable by the Group for its office premises and warehouse. Leases are mainly negotiated for an average term of three years and rentals are fixed for an average term of three years.

The Group as lessor

No property rental income was earned during the year (2003: HK\$380,000). The properties had no committed tenants.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

39. COMMITMENTS - CONTINUED

(ii) Capital commitments

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements relating to the acquisition of property, plant and equipment	85	—

The Company had no capital commitment at the balance sheet date.

40. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to secure bank and other borrowings facilities granted to the Group:

	Notes	2004 HK\$'000	2003 HK\$'000
Properties held for sale	(i)	—	6,500
Property, plant and equipment	(i)	83,262	96,744
Trade receivables	(ii)	13,329	14,292
Bank deposits	(ii)	27,329	26,593
		123,920	144,129

Notes:

- (i) The assets were pledged to secure the banking facilities and other borrowings of the Group.
- (ii) The trade receivables and bank deposits were pledged to a bank to secure the banking facilities granted to the Group.
- (iii) The investment in securities with market value of HK\$10,188,000 (2003: HK\$16,457,000) which were pledged to secure margin loan payable included in other payable and accruals were used to set off the amount of margin loan payables of HK\$15,875,000 (2003: HK\$21,482,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

41. RETIREMENT BENEFITS SCHEMES

- (a) The Group has two defined contribution provident fund schemes for its Hong Kong employees. The scheme assets of the one scheme are being held under a provident fund operated by The Prudential Assurance Company Limited with BOCI-Prudential Trustee Limited as Trustees (the "Old ORSO Scheme"). The other one is operated by CMG Asia Pensions and Retirement Limited with Butterfield Trust (Hong Kong) Limited as Trustees (the "New ORSO Scheme").

The Group is required to make contributions to the above schemes calculated at 5% of the employees' basic salaries and commissions on a monthly basis. The Old ORSO Scheme was granted an exemption from the Mandatory Provident Fund Schemes Authority on 20 July 2000. Under the Old ORSO Scheme, the employees are entitled to 100% of the employers' contributions and the accrued interest after 12 years of completed service, or at a vesting scale of between 30% and 100% after completion of 5 to 12 years' service. With effect from 1 October 2000, the Group participates in the New ORSO Scheme, which was granted an exemption from the Mandatory Provident Fund Schemes Authority on 22 June 2001. Under the New ORSO Scheme, the employees are entitled to 100% of the employers' contributions and the accrued interest after 10 years of completed service, or at a vesting scale of between 30% to 100% after completion of 3 to 10 years' service. The forfeited contributions and related accrued interest can be used to reduce the employers' contributions. The principal deed and the rules of the above provident fund schemes were amended accordingly to comply with the rules of the Mandatory Provident Fund Schemes Ordinance.

The employees entitled to the defined contribution provident fund schemes before 1 December 2000 were allowed an option between joining the mandatory provident fund or continuing to making contributions to the New ORSO Scheme. All newly employed employees are required to join the mandatory provident fund scheme or the New ORSO Scheme. The Group is required to make contributions to either of the two schemes according to the employees' options.

With effect from 1 December 2000, the Group also participates in a mandatory provident fund scheme. The scheme assets are held under a mandatory provident fund operated by CMG Asia Pensions and Retirement Limited. Under the scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Schemes Ordinance) on a monthly basis.

Certain employees in Hong Kong joined another mandatory provident fund scheme, in which the assets of the MPF Scheme are held separately from those of the Group, with funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

41. RETIREMENT BENEFITS SCHEMES - CONTINUED

At both balance sheet dates, there were no forfeited contributions available to offset future employers' contributions to the schemes.

- (b) Employees in subsidiaries in the PRC are members of the Central Pension Scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of their payroll to the Central Pension Scheme to fund the benefits. The only obligation of the Group with respect to the Central Pension Scheme is the required contribution under the Central Pension Scheme.

42. LITIGATION

- (a) Companion-China Limited ("Companion-China"), a wholly-owned subsidiary of the Company, entered into a supply contract with a raw tiles manufacturer in Shenzhen on 17 May 1997. The contract was finally terminated due to the sub-standard raw tiles. On 2 June 1999, legal action was instituted by the manufacturers in the High Court of Hong Kong against Companion-China demanding the payment of outstanding contract sum of HK\$2,349,000. On 7 August 1999, Companion-China made a counterclaim against the manufacturer for loss and damages as a result of the sub-standard raw tiles.

On 20 December 1999, summary judgment was entered against Companion-China for the payment of outstanding contract sum of approximately HK\$1,860,000 and interests thereon. Companion-China lodged an appeal against such summary judgment and an unconditional leave was granted to Companion-China on 3 March 2000 to defend the action. If final judgment is entered against Companion-China, Companion-China may be obliged to pay the manufacturer a sum of approximately HK\$1,860,000 plus interests and costs. At the date of this report, there has been no further progress in respect of such action. As the outstanding contract sum of approximately HK\$1,860,000 was provided for in prior year, the directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgement is not in favour of Companion-China.

- (b) On 22 January 2002, Companion Finance Limited ("Companion Finance"), a wholly-owned subsidiary of the Company, issued a writ against Pang Siu Chung ("Mr. Pang") and Kwok Mun Nei, Candy and Leung Wai Hon (as guarantors) claiming payment of a sum of HK\$322,097 and further interest on the sum of HK\$300,000 at the daily rate of HK\$78 from 29 November 2001 to the date of payment, being the unpaid amount due from Mr. Pang to Companion Finance pursuant to a loan agreement dated 16 February 2001 made between Companion Finance and Mr. Pang, plus cost. At the date of this report, there has been no further progress in respect of such action. As the total amount including interest due from Mr. Pang has already been written off, the directors are of the opinion that there is unlikely to be any material adverse financial impact on the Group in the event that the final judgment is not in favour of Companion Finance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

42. LITIGATION - CONTINUED

- (c) On 3 June 2002, a legal action was instituted against Wenzhou Xishan United Ceramics Company Limited (溫州西山聯合陶瓷有限公司) (“Wenzhou Xishan”) and Chongqing Golden Unity Ceramics Co., Ltd. (重慶金聯陶瓷有限公司) (“Chongqing Golden”) as guarantor (both are subsidiaries of the Company) by China Huarong Asset Management Corporation, Hangzhou Office (中國華融資產管理公司杭州辦事處) (“China Huarong”) claiming payment of a sum of RMB12,049,781, being the outstanding principal sum and interest of a loan due from Wenzhou Xishan to Industrial and Commercial Bank of China, Wenzhou Branch, Lucheng Sub-branch (中國工商銀行溫州市分行鹿城支行), who assigned the said loan to China Huarong. On 8 August 2002, the Intermediate People’s Court in the Wenzhou Municipality (“the Court”) ruled against Wenzhou Xishan and Chongqing Golden under which a sum of RMB5,000,000 plus interests and costs shall be paid to China Huarong. On 5 December 2002, the Court gave a final judgement against Wenzhou Xishan and Chongqing Golden under which a sum of RMB5,000,000 plus interests and costs of RMB1,581,311 shall be paid to China Huarong. At the date of this report, such amounts had not been paid and no demand for payment had been received by the Group so far. A provision of RMB6,581,311 (approximately HK\$6,234,000) has been included in the Group’s financial statements in respect of the sums claimed. The directors are of the opinion that there will not be any additional material adverse financial impact on the Group.

43. POST BALANCE SHEET EVENTS

On 5 March 2004, PCCW and the Company jointly announced that the Company has conditionally agreed, among others, to purchase:

- (i) the entire issued share capital of Ipswich Holdings Limited and its subsidiaries (the “Property Group”), being the group of companies holding Pacific Century Place Beijing located in the PRC, PCCW Tower located in Hong Kong, other investment properties and related property and facilities management companies of PCCW and its subsidiaries (“PCCW Group”) and includes Cyber-Port Limited (the developer of the Cyberport Project in Hong Kong);
- (ii) the property situated at Ko Shing Street and Wo Fung Street, Western, Hong Kong and the approximately HK\$3,529 million in aggregate of interest-bearing loans owing by the relevant members of the Property Group to PCCW.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

43. POST BALANCE SHEET EVENTS - CONTINUED

The aggregate consideration was approximately HK\$6,557 million which was satisfied:

- (i) as to HK\$2,967 million, by the allotment and issue of approximately 1,648 million new shares of par value of HK\$0.10 each by the Company, immediately following the capital reorganisation (including a 10:1 share consolidation) becoming unconditional and effective, to PCCW (or as it may direct) credited as fully paid at an issue price of HK\$1.80 per new share; and
- (ii) as to the remaining HK\$3,590 million, by the issue of the convertible notes by the Company to PCCW (or as it may direct).

The Company also carried out the following capital reorganisation:

- (i) every issued share of HK\$0.40 was reduced in value by cancelling HK\$0.39 per share and the cancellation of each unissued share ("Capital Reduction");
- (ii) every 10 shares of HK\$0.01 each of the Company were consolidated into one share of HK\$0.10 each;
- (iii) an amount of approximately HK\$47.14 million standing to the credit of the share premium account of the Company was cancelled ("Share Premium Cancellation");
- (iv) the aggregate amount of the credit balance of the share premium account of the Company and the credit arising from the Capital Reduction and the Share Premium Cancellation, in the amount of approximately HK\$500.03 million, will be transferred to the contributed surplus account of the Company. That credit was be used to set off against the accumulated losses of the Company; and
- (v) increased the authorised share capital from HK\$11,612,654 to HK\$1,000,000,000 by the creation of an additional 9,883,873,460 shares of HK\$0.10 each.

The above purchase completed on 10 May 2004. Further details of these are set out in the Company's circular dated 2 April 2004.