

# Notes to the Financial Statements

*For the year ended 31 March 2004*

## 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 30.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

### Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred taxation. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred taxation is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised) the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current and prior accounting periods. Accordingly, no prior year adjustment has been required.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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.

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

## Notes to the Financial Statements

For the year ended 31 March 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Revenue recognition

Dividend income from investments in securities is recognised when the Group's rights to receive payment have been established.

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

Rental income from properties under operating leases is recognised on a straight line basis over the period of the relevant leases.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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 value, using the straight line method, at the following rates per annum:

Leasehold improvements	33%
Furniture and equipment	15%-25%

The gain or loss arising on the 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.

#### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

#### 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, interests in associates are stated at the Group's share of the net assets of the associates less negative goodwill arising from acquisition and any identified impairment losses.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### Negative goodwill

Negative goodwill arising from acquisition of associates represented the excess of the Group's interest in the fair value of the identifiable assets and liabilities of associate at the date of acquisition over the cost of acquisition. Negative goodwill arising on acquisition of an associate is deducted from the carrying value of that associate.

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 economic lives 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 as income immediately.

Negative goodwill arising from acquisition of associates will be credited to the income statement at the time of disposal of the relevant associates.

#### Land held for development

Land held for development is stated at cost less any impairment losses.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations assessed by external qualified valuers at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance of the investment property revaluation reserve is charged to the consolidated income statement. Where a decrease has previously been charged to the consolidated income statement and a revaluation increase subsequently arises, this increase is credited to the consolidated income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired terms of the relevant lease is 20 years or less.

## 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.

All securities are measured at fair value at subsequent reporting dates.

When securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. 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 previously recognised in equity is included in net profit or loss for the year.

#### 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. An 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 so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### Convertible notes

The convertible notes are separately disclosed and regarded as a liability unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible notes, including the premium payable upon the final redemption of the convertible notes, are calculated so as to produce a constant periodic rate of change on the remaining balance of the convertible notes for each accounting period.

The costs incurred in connection with the issue of the convertible notes are deferred and amortised on a straight-line basis over the lives of the convertible notes from the date of issue of the convertible notes to the final redemption date. If the notes are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

## 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 taxation.

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 periods and it further excludes items that are never taxable or deductible.

Deferred taxation 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 taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation 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 taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company 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 taxation 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 taxation 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 taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

#### Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing 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. Gains and losses arising on exchange are dealt with in the income statement.

In preparing the consolidated financial statements, the results of operations outside Hong Kong are translated using the average exchange rates for the year. The assets and liabilities of the operations outside Hong Kong are translated using the rates ruling on the balance sheet date. On consolidation, any differences arising on translation of operations outside Hong Kong are dealt with in the translation reserve.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

#### Retirement benefit scheme

Payments to the Mandatory Provident Fund are charged as an expense as they fall due.

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### (a) Geographical segments

The Group is engaged in the corporate and strategic investment holding and investment in property. Corporate and strategic investment holding represents the investments in securities and development of properties for investment potential. The directors of the Company consider the geographical segments by location of assets as source of the Group's risks and return.

A geographical breakdown of the Group's turnover and segment results by geographical market is as follows:

	Turnover		Segment results	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The People's Republic of China (the "PRC"), other than Hong Kong	325	-	(5,595)	(10,164)
Hong Kong	486	4,927	(46,221)	(18,441)
Australia	-	-	-	244
	<u>811</u>	<u>4,927</u>		
Loss from operations			(51,816)	(28,361)
Finance costs			(1,674)	(10,697)
Gain on disposal of interest in an associate			-	38,442
Share of results of an associate			-	(44,603)
Loss on legal proceedings			(1,156)	(30,906)
Amount received in connection with legal proceedings			-	29,790
Loss on disposal of subsidiaries			(5,829)	-
Loss before taxation			(60,475)	(46,335)
Taxation			(59)	-
Net loss for the year			<u>(60,534)</u>	<u>(46,335)</u>

## Notes to the Financial Statements

For the year ended 31 March 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## (a) Geographical segments (continued)

The following table provides an analysis of segment assets and additions to property, plant and equipment, other assets and investment properties, analysed by the geographical areas in which the assets and liabilities are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, other assets and investment properties	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The PRC, other than Hong Kong	22,455	53,170	27,889	2,765
Hong Kong	117,144	87,590	7	370
	<u>139,599</u>	<u>140,760</u>	<u>27,896</u>	<u>3,135</u>

## Other information

	The PRC, other than Hong Kong HK\$'000	Hong Kong HK\$'000	Total HK\$'000
<u>Year ended 31 March 2004</u>			
Capital additions	27,889	7	27,896
Depreciation	–	128	128
Deficit arising from revaluation of investment properties	5,689	–	5,689
Impairment losses recognised in respect of investment in securities	–	25,800	25,800
<u>Year ended 31 March 2003</u>			
Capital additions	2,765	370	3,135
Depreciation	–	69	69
Impairment losses recognised in respect of:			
- investments in securities	–	1,001	1,001
- land held for development	9,765	–	9,765

## Notes to the Financial Statements

For the year ended 31 March 2004

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

## (b) Business segments

An analysis of segment revenue is as follows:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Corporate and strategic investment holding:		
Dividend income from listed investments in securities	486	840
Interest income	–	4,087
	<u>486</u>	<u>4,927</u>
Rental income from investment properties	325	–
	<u>811</u>	<u>4,927</u>

## Balance sheet

	<u>2004</u>		<u>2003</u>	
	<u>Segment assets</u>	<u>Capital additions</u>	<u>Segment assets</u>	<u>Capital additions</u>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Corporate and strategic investment holding	89,874	–	137,867	–
Investment in property	22,200	27,889	–	–
Unallocated corporate assets	27,525	7	2,893	3,135
	<u>139,599</u>	<u>27,896</u>	<u>140,760</u>	<u>3,135</u>



## Notes to the Financial Statements

For the year ended 31 March 2004

## 5. LOSS FROM OPERATIONS

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments	333	1,148
Contributions to the Mandatory Provident Fund	32	33
Other staff costs	<u>1,139</u>	<u>1,204</u>
Total staff costs	<u>1,504</u>	<u>2,385</u>
Auditors' remuneration	650	990
Depreciation	128	69
Minimum lease payments under operating leases in respect of land and buildings	354	304
and after crediting:		
Gross rental income less outgoings of HK\$70,000 (2003: HK\$nil)	<u>255</u>	<u>-</u>

## (i) Information regarding directors' emoluments

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Directors' emoluments:		
Directors' fees		
Executive	-	-
Non-executive	-	-
Independent non-executive	<u>333</u>	<u>300</u>
	333	300
Other emoluments to executive directors		
Salaries and other benefits	-	826
Contributions to the Mandatory Provident Fund	<u>-</u>	<u>22</u>
Total emoluments	<u>333</u>	<u>1,148</u>

The emoluments of seven (2003: nine) directors were within the band of HK\$nil to HK\$1,000,000.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 5. LOSS FROM OPERATIONS *(continued)*

#### (ii) Information regarding employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2003: two) were directors of the Company whose emoluments are included in note 5(i) above. The emoluments of the remaining three (2003: three) individuals were as follows:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Salaries and other benefits	1,130	780
Contributions to the Mandatory Provident Fund	<u>32</u>	<u>17</u>
	<u>1,162</u>	<u>797</u>

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

### 6. FINANCE COSTS

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank and other borrowings	(1,279)	(10,319)
Amount due to a related company	(380)	(378)
Convertible notes	<u>(4)</u>	<u>-</u>
	(1,663)	(10,697)
Amortisation of the issue costs of convertible notes	<u>(11)</u>	<u>-</u>
	<u>(1,674)</u>	<u>(10,697)</u>

## Notes to the Financial Statements

For the year ended 31 March 2004

### 7. GAIN ON DISPOSAL OF INTEREST IN AN ASSOCIATE

In the prior year, the Group disposed of its interest in an associate through disposal of the entire share capital of a wholly owned subsidiary to an independent third party. The gain on disposal is computed as follows:

	<i>HK\$'000</i>
Net assets disposed of	
Interest in an associate	217,039
Investments in securities	352
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	217,391
Reserves attributable to the Group and released upon disposal	30,739
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	248,130
Gain on disposal of interest in an associate	38,442
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Cash consideration received	286,572
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Other than cash consideration received, the associate disposed of did not have any significant impact on the Group's cash flows. Share of loss of the associate in the prior year amounted to HK\$44,603,000.

### 8. LOSS ON LEGAL PROCEEDINGS/AMOUNT RECEIVED IN CONNECTION WITH LEGAL PROCEEDINGS

In the prior year, the Company paid in favour of a third party in connection with a claim for a sum of HK\$23,636,122 for the Company's cheque payment on behalf of former associates and the accrued interest thereon, the Group was ordered to pay HK\$23,636,122, interest of HK\$6,153,480 and the Group's share of legal costs of HK\$1,115,751. An aggregate amount of HK\$29,789,602, excluding legal costs, has been paid by the Company to settle the aforesaid claim.

During the year, an additional amount of legal cost of HK\$1,155,768 was paid in relation to the claim.

Pursuant to a deed of undertaking and indemnity dated 26 July 1999 (the "Deed") executed by Mr. Chiu Tao, a former director of the Company, Mr. Chiu has undertaken to fully indemnify the Group against all losses, liabilities, damages, costs and expenses (save legal costs and expenses only) suffered or incurred by the Group as a result of or in connection with the claims. The Company has exercised its rights under the Deed and demanded Mr. Chiu to honour the undertaking and indemnity as set out therein. In the prior year, Mr. Chiu paid HK\$29,789,602 to the Company in accordance with the Deed. No further indemnity was received during the year.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 9. LOSS ON DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its entire interests in certain subsidiaries which hold the Group's land for development.

The net assets of these disposed subsidiaries at the effective date of disposal were as follows:

	<i>HK\$'000</i>
Property, plant and equipment	12
Land held for development	53,000
Other receivables, deposits and prepayments	1,013
Bank balances and cash	34
Other payables and accrued charges	<u>(6,272)</u>
	47,787
Loss on disposal of subsidiaries	<u>(5,829)</u>
Cash consideration received	<u>41,958</u>
Net cash inflow arising on disposal	
Cash consideration received	41,958
Bank balances and cash disposed of	<u>(34)</u>
	<u>41,924</u>

The subsidiaries disposed of during the year did not contribute significantly to the Group's operating results and cash flows for the year.

### 10. TAXATION

	<u>2004</u>	<u>2003</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Underprovision of Hong Kong Profits Tax in prior years	(3)	-
Taxation in other jurisdictions	<u>(56)</u>	<u>-</u>
	<u>(59)</u>	<u>-</u>

No provision for Hong Kong Profits Tax has been made since the Group had no assessable profits for the year.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

## Notes to the Financial Statements

For the year ended 31 March 2004

## 10. TAXATION (continued)

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

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Loss before taxation	<u>(60,475)</u>	<u>(46,335)</u>
Tax at the domestic income tax rate of 17.5% (2003: 16%)	10,583	7,414
Tax effect of expenses not deductible for tax purpose	(7,939)	(4,533)
Tax effect of income not taxable for tax purpose	194	6,298
Underprovision of Hong Kong Profits Tax in prior years	(3)	-
Tax effect of losses not recognised	(2,841)	(2,663)
Utilisation of tax losses previously not recognised	-	52
Effect of different tax rate of subsidiaries operating in other jurisdictions	(37)	558
Tax effect of share of results of associates	-	(7,136)
Others	<u>(16)</u>	<u>10</u>
Taxation charge for the year	<u>(59)</u>	<u>-</u>

At balance sheet date, the Group and the Company had unused tax losses of approximately HK\$223,670,000 and HK\$44,202,000 (2003: HK\$209,644,000 and HK\$39,613,000) respectively available to offset against future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams.

## 11. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of approximately HK\$60,534,000 (2003: HK\$46,335,000) and on the weighted average of 6,893,617,364 (2003: 5,806,770,004) shares in issue during the year.

No diluted loss per share figures have been presented for either 2004 or 2003 because the exercise price of the Company's share options which were terminated in January 2004 was higher than the average market price of the Company's shares in 2004 and 2003; and the exercise of the convertible notes which were issued in March 2004 would result in a decrease in the loss per share in 2004.

## Notes to the Financial Statements

For the year ended 31 March 2004

## 12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>THE GROUP</b>			
<b>COST</b>			
At 1 April 2003	262	215	477
Additions	-	7	7
Disposal of subsidiaries	-	(20)	(20)
<b>At 31 March 2004</b>	<b>262</b>	<b>202</b>	<b>464</b>
<b>DEPRECIATION</b>			
At 1 April 2003	41	80	121
Provided for the year	87	41	128
Eliminated on disposal of subsidiaries	-	(8)	(8)
<b>At 31 March 2004</b>	<b>128</b>	<b>113</b>	<b>241</b>
<b>NET BOOK VALUES</b>			
<b>At 31 March 2004</b>	<b>134</b>	<b>89</b>	<b>223</b>
At 31 March 2003	221	135	356
<b>THE COMPANY</b>			
<b>COST</b>			
At 1 April 2003	262	195	457
Additions	-	7	7
<b>At 31 March 2004</b>	<b>262</b>	<b>202</b>	<b>464</b>
<b>DEPRECIATION</b>			
At 1 April 2003	41	71	112
Provided for the year	87	41	128
<b>At 31 March 2004</b>	<b>128</b>	<b>112</b>	<b>240</b>
<b>NET BOOK VALUES</b>			
<b>At 31 March 2004</b>	<b>134</b>	<b>90</b>	<b>224</b>
At 31 March 2003	221	124	345

## Notes to the Financial Statements

For the year ended 31 March 2004

## 13. INVESTMENT PROPERTIES

	<u>THE GROUP</u>
	<i>HK\$'000</i>
<b>AT VALUATION</b>	
At 1 April 2003	-
Acquired on acquisition of subsidiaries	27,889
Deficit arising from revaluation	(5,689)
	<u>          </u>
At 31 March 2004	<u>22,200</u>

The investment properties were valued at 31 March 2004 by Legend Surveyors Limited, a firm of property valuers, on an open market value basis. This valuation gives rise to a revaluation decrease of HK\$5,689,000 which has been charged to the consolidated income statement.

All investment properties are situated in the PRC and held under medium term leases. Certain properties were vacant as at 31 March 2004.

## 14. LAND HELD FOR DEVELOPMENT

	<u>THE GROUP</u>	
	<u>2004</u>	<u>2003</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost	93,765	93,765
Impairment losses recognised	(40,765)	(40,765)
Eliminated on disposal of subsidiaries	(53,000)	-
	<u>          </u>	<u>          </u>
	<u>-</u>	<u>53,000</u>

The Group's land held for development was held through four wholly-owned PRC subsidiaries which are engaged in the development of a scientific park in Jiangsu Province, the PRC.

During the year, land held for development was disposed of through disposal of these subsidiaries for net cash consideration of HK\$41,958,000.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	127,614	13,838
Amounts due from subsidiaries	351,631	462,785
	<u>479,245</u>	<u>476,623</u>
Impairment losses recognised	<u>(361,216)</u>	<u>(350,905)</u>
	<u>118,029</u>	<u>125,718</u>

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of directors, the Company will not demand for repayment of the amounts within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets.

In view of the operating loss position of certain subsidiaries, impairment losses were made with reference to the recoverable amounts.

Particulars of the Company's principal subsidiaries at 31 March 2004 are set out in note 30.



## Notes to the Financial Statements

For the year ended 31 March 2004

## 16. INVESTMENTS IN SECURITIES

THE GROUP

	Trading securities		Non-trading securities		Total	
	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity securities in Hong Kong	70,674	84,867	-	44,515	70,674	129,382
Unlisted equity securities	-	-	45,000	-	45,000	-
	<u>70,674</u>	<u>84,867</u>	<u>45,000</u>	<u>44,515</u>	<u>115,674</u>	<u>129,382</u>
Impairment losses recognised in respect of:						
- listed equity securities	-	-	-	(44,515)	-	(44,515)
- unlisted equity securities	-	-	(25,800)	-	(25,800)	-
	<u>-</u>	<u>-</u>	<u>(25,800)</u>	<u>(44,515)</u>	<u>(25,800)</u>	<u>(44,515)</u>
Carrying amount analysed for reporting purposes:						
- current asset	70,674	84,867	-	-	70,674	84,867
- non current asset	-	-	19,200	-	19,200	-
	<u>70,674</u>	<u>84,867</u>	<u>19,200</u>	<u>-</u>	<u>89,874</u>	<u>84,867</u>
Market value of listed securities	<u>70,674</u>	<u>84,867</u>	<u>N/A</u>	<u>N/A</u>	<u>70,764</u>	<u>84,867</u>

During the year, the directors reviewed the investment potential of the non-trading unlisted equity securities and fully impaired certain securities. In addition, the remaining securities were partially impaired with reference to the recent selling price. Accordingly, an impairment loss of approximately HK\$25,800,000 was recognised in the financial statement.

The directors considered that the market value of the non-trading listed equity securities at 31 March 2003 did not represent their fair value as the underlying investments were quoted at the lowest quotable price of HK\$0.01 per unit throughout the prior year.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 16. INVESTMENTS IN SECURITIES (continued)

Details of the investments in non-trading securities as at 31 March 2004 are as follows:

<u>Name of investee company</u>	<u>Place of incorporation</u>	<u>Class of shares held</u>	<u>Proportion of nominal value of issued capital held by the Group</u>
Hennabun Management Inc.	British Virgin Islands	Ordinary shares	4.35%
New Star International Inc.	British Virgin Islands	Ordinary shares	38.46% <i>Note (a)</i>

*Note (a):* Although a subsidiary of the Group holds a 38.46% interest in this investee company, the directors consider that the Group cannot exercise significant influence on the financial and operating policies of the investee company. Accordingly, it is classified as an investment in securities.

### 17. AMOUNTS DUE TO DIRECTORS

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

### 18. AMOUNT DUE TO A RELATED COMPANY

The amount represents balance due to a company in which a brother of Mr. Chiu Kong, a director of the Company, has a beneficial interest. The amount is unsecured, carries interest at 12% per annum and has no fixed repayment terms. This related company has undertaken not to demand for repayment until 1 April 2005. Accordingly, the amount is classified as non-current.

## Notes to the Financial Statements

For the year ended 31 March 2004

## 19. CONVERTIBLE NOTES

	<u>THE GROUP AND THE COMPANY</u>
	<i>HK\$'000</i>
Convertible notes	
At 1 April 2003	–
Issued during the year	<u>22,000</u>
At 31 March 2004	<u>22,000</u>
Issue costs	
At 1 April 2003	–
Incurred during the year	264
Amortised during the year	<u>(11)</u>
At 31 March 2004	<u>253</u>
Carrying value at 31 March 2004	<u><u>21,747</u></u>

On 13 February 2004, the Company entered into a subscription agreement with a placing agent for the subscription of an aggregate principal amount of HK\$22,000,000 convertible notes (the "Convertible Notes") issued by the Company. The Convertible Notes are unsecured, carry interest at 2% per annum and are repayable upon maturity on 29 March 2006 (the "Maturity Date") on the amount outstanding. The Company may redeem the Convertible Notes to the extent of the entire principal amount outstanding at any time until fourteen days prior to the Maturity Date. The Convertible Notes may be converted into ordinary shares of the Company at an initial conversion price of HK\$0.022 per share, subject to adjustments.

No Convertible Notes were converted during the year.

## Notes to the Financial Statements

For the year ended 31 March 2004

## 20. SHARE CAPITAL

	<u>Number of ordinary shares</u>	<u>Amount</u> HK\$'000
Authorised:		
Balance as at 31 March 2003 and 31 March 2004		
Ordinary shares of HK\$0.01 each	<u>20,000,000,000</u>	<u>200,000</u>
Issued and fully paid share capital:		
Balance as at 1 April 2002 and 31 March 2003	5,806,770,004	58,068
Issue of new shares	<u>2,541,354,000</u>	<u>25,413</u>
Balance as at 31 March 2004	<u>8,348,124,004</u>	<u>83,481</u>

## (i) Information regarding share capital

- (a) Pursuant to a subscription agreement dated 30 June 2003, the Company issued 1,150,000,000 new shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.02 per share to Sunderland Properties Limited, a substantial shareholder of the Company as at the balance sheet date. The subscription was completed on 16 July 2003. These new shares issued rank pari passu with the then existing shares in all respects.
- (b) Pursuant to a placing agreement dated 6 October 2003 entered into by the Company and Chung Nam Securities Limited, the placing agent, for a placement of 1,391,354,000 new shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.022 per share (the "Placing Price"). The Placing Price was subsequently adjusted to HK\$0.015 per share pursuant to a supplemental agreement dated 10 December 2003. The placement was completed on 21 January 2004. Together with that from the issue of 1,150,000,000 new share as described in (a) above, the total net proceeds amounting to approximately HK\$43 million was used to repay debts, acquire investment with the balance used as additional working capital of the Group. These new shares issued rank pari passu with the then existing shares in all respects.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 20. SHARE CAPITAL (continued)

#### (ii) Information regarding share options

Pursuant to the share option scheme of the Company, adopted on 12 January 1994, the directors of the Company may grant options to eligible employees of the Company and its subsidiaries, including directors of the Company and its subsidiaries, for the purpose of providing incentive, to subscribe for shares in the Company at a price of the higher of 80 percent of the average price of the closing prices of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date of options offered or the nominal value of the share of the Company. Options granted may be exercised at a period of three years commencing on the expiry of twelve months after the acceptance of the option granted, which shall not be more than ten years from the date of adoption of the share option scheme. Options granted must be taken up within 28 days of the date of options offered, upon payment of HK\$10.

The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 10% of the issued shares of the Company from time to time which have been duly allotted and issued. The maximum number of shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Scheme. At 31 March 2003, the number of shares issuable under share options granted under the Scheme was 13,050,000, which represented approximately 0.2% of the Company's shares in issue. The share option scheme was terminated in January 2004.

Movements of options granted to a former director of the Company are as follows:

Name of director	Date of grant	Exercise price	Exercisable period	Number of options		
				Outstanding at 1.4.2002 and 1.4.2003	Lapsed during the year	Outstanding at 31.3.2004
Chiu Tao	23 April 1999	HK\$0.10	23.4.2000 to 22.4.2003	13,050,000	(13,050,000)	-

No other share option was granted to other employee or director.

No charge is recognised in the income statement in respect of the value of options granted.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 21. RESERVES

#### THE GROUP

The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange, in connection with the Group reorganisation completed in January 1994 (the "Reorganisation").

The other capital reserve of the Group represents the balance of the credit arising from the Capital Reduction.

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i> <i>(note a)</i>	Other capital reserve <i>HK\$'000</i> <i>(note b)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<u>THE COMPANY</u>					
At 1 April 2002	-	35,125	396,347	(339,409)	92,063
Net loss for the year	-	-	-	(25,431)	(25,431)
At 31 March 2003 and 1 April 2003	-	35,125	396,347	(364,840)	66,632
Premium arising on issue of new shares	18,457	-	-	-	18,457
Expenses incurred in connection with issue of new shares	(513)	-	-	-	(513)
Net loss for the year	-	-	-	(66,544)	(66,544)
At 31 March 2004	<u>17,944</u>	<u>35,125</u>	<u>396,347</u>	<u>(431,384)</u>	<u>18,032</u>

Notes:

- (a) The capital reserve of the Company represents the excess of the fair value of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange, pursuant to the Reorganisation.
- (b) The other capital reserve of the Company represents the reserve arising from the cancelling of paid up capital in previous years.

## Notes to the Financial Statements

For the year ended 31 March 2004

## 21. RESERVES (continued)

In the opinion of the directors, the Company's reserve available for distribution to shareholders were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share premium	17,944	–
Capital reserve	35,125	35,125
Other capital reserve	396,347	396,347
Accumulated losses	<u>(431,384)</u>	<u>(364,840)</u>
	<u>18,032</u>	<u>66,632</u>

## 22. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Mandatory Provident Fund Scheme is funded by monthly contribution from both employees and the Group at a rate of 5% of the employee's basic salary with maximum employee's contribution of not exceeding HK\$1,000 a month.

The retirement benefit cost charged to the income statement of HK\$32,000 (2003: HK\$55,000) represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

## 23. OPERATING LEASE ARRANGEMENTS

## The Group and the Company as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
In respect of rented premises:		
Within one year	244	257
In the second to fifth year inclusive	<u>98</u>	<u>392</u>
	<u>342</u>	<u>649</u>

Operating lease payments represent rentals payable by the Group and the Company for their rented premises. Leases are negotiated for an average term of three years.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 23. OPERATING LEASE ARRANGEMENTS (continued)

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000
Within one year	258	-
In the second to fifth year inclusive	<u>57</u>	<u>-</u>
	<u><u>315</u></u>	<u><u>-</u></u>

Leases are negotiated for an average term of two years and rental income are fixed for an average term of two years.

### 24. ACQUISITIONS OF SUBSIDIARIES

The Group acquired the entire issued share capital of Kingarm Company Limited and Unigolden Limited for an aggregate consideration of HK\$27,000,000. These acquisitions have been accounted for by the Group using the acquisition method of accounting.

The net assets of these subsidiaries at the effective date of acquisition were as follows:

	HK\$'000
Investment properties	27,889
Other receivables	164
Bank balances and cash	15
Taxation payable	(548)
Creditors and accrued charges	<u>(520)</u>
Total consideration paid	<u><u>27,000</u></u>
Net cash outflow arising on acquisition	
Consideration paid	(27,000)
Bank balances and cash acquired	<u>15</u>
	<u><u>(26,985)</u></u>

The subsidiaries acquired during the year did not contribute significantly to the Group's operating results and cash flows for the year.



## Notes to the Financial Statements

*For the year ended 31 March 2004*

### 25. PENDING LITIGATION

- (a) On 1 September 1999, a former officer of the Company entered into a supply contract with an independent third party (the "Supplier") for the supply of 20,000 cable modems for a total consideration of US\$6,000,000 (approximately HK\$46,560,000), purportedly on behalf of the Company. On 8 September 1999, the Company announced that the supply contract was entered into without being properly authorised by the Company and, therefore, disputed the validity of the contract. On the same day, the Company issued a legal letter to the Supplier confirming that the Company would not recognise the supply contract and it should not be binding on the Company. The Supplier was claiming damages of a sum of US\$3.6 million (approximately HK\$28 million) in respect of the Group's failure to take delivery of the cable modems.

Having considered legal counsel's advice, the directors of the Company believe that the Group has a favourable defence against the claim. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

- (b) On 6 December 1999, Mr. Yeung Kang Lam ("Mr. Yeung"), who was appointed and subsequently resigned as a director of the Company during the year ended 31 March 2000, filed a High Court proceeding against the Company for a sum of HK\$932,958 and damages, interest and costs arising from the termination of an alleged employment letter which was signed between Mr. Yeung and Mr. Chiu, a former director of the Company. The directors of the Company consider that since no board meeting was ever called to approve the alleged employment letter of Mr. Yeung and the alleged remuneration relating thereto, the Company disputes the validity of the alleged employment letter. On 23 February 2000, the Company filed its defence against the claim.

Having considered legal counsel's advice, the directors of the Company believe that the Group has a favourable defence against the claim. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

### 26. PLEDGE OF ASSETS

At the balance sheet date, the Company has pledged the shares of its two subsidiaries to a company to secure a credit facility granted to the Company.

### 27. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given guarantee of HK\$50 million to a financial institution for credit facilities granted to a subsidiary. No facilities were utilised at 31 March 2004 (2003: Nil).

## Notes to the Financial Statements

For the year ended 31 March 2004

### 28. CONNECTED TRANSACTIONS AND RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	<u>2004</u>	<u>2003</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount received from a director in connection with an indemnity for legal proceedings ( <i>note a</i> )	–	29,790
Interest expenses payable to a related company ( <i>note 18</i> )	380	378
Reimbursement of expenses from an associate ( <i>note b</i> )	–	2,500
	<u>          </u>	<u>          </u>

Notes:

- (a) Pursuant to the Deed executed by Mr. Chiu Tao, a former director of the Company, Mr. Chiu has undertaken to fully indemnify the Company against all losses, liabilities, damages, costs and expenses (save legal costs and expenses only) suffered or incurred by the Company as a result of or in connection with the claims brought by a third party to pay a sum of HK\$23.6 million and accrued interest on 30 January 1999. No further indemnity was received from Mr. Chiu during the year.
- (b) In the prior year, the Company received a reimbursement of expenses of HK\$2,500,000 from China Online (Bermuda) Limited ("China Online"), a former associate. The reimbursement included the salaries of two directors of China Online who were also the directors of the Company, other staff costs and daily operating expenses. The reimbursement was charged on the actual cost incurred by the Company.

In the opinion of the directors, all of the above transactions were in the ordinary course of Group's business.

## Notes to the Financial Statements

*For the year ended 31 March 2004*

### 29. POST BALANCE SHEET EVENTS

- (a) On 30 March 2004, an agreement was entered into by Sunderland Properties Limited ("Sunderland"), a substantial shareholder of the Company as at the balance sheet date, and a placing agent for a placement of 1,669,624,000 existing shares (the "Placing Shares") of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share. Kingston Securities Limited (the "Placing Agent") were appointed as the placing agent to place the Placing Shares to not less than six independent investors on a fully underwritten basis.

On the same date, Sunderland also entered into a subscription agreement with the Company to subscribe for 1,669,624,000 new shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share. The subscription was completed on 13 April 2004. These shares rank *pari passu* with the then existing share in all respects. The net proceeds of the subscription was used for investments in securities.

- (b) On 30 March 2004, the Company entered into an agreement with the Placing Agent for the placement of 1,669,624,000 ordinary shares of HK\$0.01 each in the capital of the Company at a price of HK\$0.019 per share on a fully underwritten basis. The placement was completed on 7 May 2004 and these shares rank *pari passu* in all respects with the then existing shares of the Company. The net proceeds of the placement was retained for general working capital purposes.
- (c) On 16 April 2004, a holder of the Convertible Notes exercised its rights to convert an amount of HK\$11,000,000 into 500,000,000 ordinary shares of the Company at a conversion price of HK\$0.022 per share.

## Notes to the Financial Statements

For the year ended 31 March 2004

### 30. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered and paid-up capital	Proportion of nominal value of issued share capital/registered and paid-up capital held by the Company		Principal activities
			Directly	Indirectly	
China Sci-Tech Secretaries Limited	Hong Kong	HK\$10,000	100%	–	Provision of secretarial services and investment holding
Cyber Range Limited	British Virgin Islands*	US\$1	100%	–	Investment holding
Effort Leader Limited	British Virgin Islands*	US\$1	100%	–	Investment holding
Harbour Fair Overseas Limited	British Virgin Islands*	US\$1	100%	–	Investment holding
Millennium Riders Limited	British Virgin Islands*	US\$1	100%	–	Investment holding
Perfect Touch Technology Inc.	British Virgin Islands*	US\$2	100%	–	Investment holding
Kingarm Company Limited	Hong Kong	HK\$2	–	100%	Property investment
Skytop Technology Limited	Hong Kong	HK\$2	–	100%	Securities investment and investment holding
Unigolden Limited	Hong Kong	HK\$2	–	100%	Property investment

\* These companies are engaged in investment business and have no specific principal place of operations.

In the opinion of the directors, the above companies will principally affect the operations 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 at 31 March 2004 or at any time during the year.