1. GENERAL

The Company is a public limited company incorporated in Hong Kong 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 16 to the financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on a going concern basis because 中國誠通控股公司 China Chengtong Holdings Company, the ultimate holding company of the controlling shareholder of the Company (the "Ultimate Controlling Shareholder") has agreed to provide continuing financial support to the Company to enable it to meet in full its liabilities as and when they fall due for at least one year from the date of the financial statements.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard ("HKFRS") – the Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA.

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

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The financial statements have been prepared 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 and associates acquired and disposed of during the year are included in the consolidated income statement from and up to their effective dates of acquisition and disposal respectively.

All significant inter-company transactions and balances within the Group have been eliminated on consolidation.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in 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 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. 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 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 in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate.

On disposal, the attributable amount of negative goodwill is included in the determination of the profit or loss on disposal.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the term of the leases.

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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 professional valuation at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the 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 in respect of investment properties except where the unexpired terms is twenty years or less.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses.

Construction in progress is not depreciated until completion of construction.

Depreciation and amortisation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method, at the following rates per annum:

Land use right	Over the lease term
Leasehold land and buildings	1.67% to 3.60%
Plant and machinery	5% to 20%
Furniture, fixtures and computer equipment	10% to 20%
Motor vehicles	20%

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

Intangible assets

Intangible assets are capitalised and amortised over the estimated useful life of the assets.

Subsidiaries

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

Associates

The results and assets and liabilities of the associates are incorporated in the consolidated financial statements using the equity method of accounting.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the assets transferred.

In the consolidated balance sheet, interest in associates are stated at the Group's share of the net assets of the associates less the negative goodwill in so far as it has not already been released to income, less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 period. 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 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 taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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 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 to 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the results, assets and liabilities of the Group's foreign operations are translated at the rates ruling at the balance sheet date. Income and expense items are translated at the average exchange rate for the year. All exchange differences arising on translation are dealt with in the exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operations are disposed of.

Operating leases

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

Retirement benefits costs

Payments to the defined contribution retirement benefits scheme are charged as expenses as they fall due.

5. SEGMENT INFORMATION

Business Segments

The Group's principal activities are sales of goods, property investment and investments holding. These three business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

	Sales of goods HK$'000	Property investment HK$'000	Investments holding HK$'000	Consolidated HK$'000
For the year ended 31 March 2004				
Turnover				
Segment turnover	171,404	3,646	–	175,050
Result				
Segment result	22,192	7,677	(21)	29,848
Unallocated corporate expenses				(17,171)
Profit from operations				12,677
Finance costs				(4,557)
Share of results of associates	–	–	9,214	9,214
Realisation of negative goodwill in respect of acquisition of an associate	–	–	13,488	13,488
Profit before taxation				30,822
Taxation				2,752
Profit before minority interests				33,574
Minority interests				10,818
Net profit for the year				44,392
Other information				
Additions of property, plant and equipment	5,551	–	1,159	6,710
Depreciation and amortisation of property, plant and equipment	(5,178)	(127)	(321)	(5,626)
Gain (loss) on disposal of property, plant and equipment	518	(30)	(1,140)	(652)
Revaluation surplus recognised in respect of investment properties	–	6,228	–	6,228

5. SEGMENT INFORMATION *(continued)*

Business Segments (continued)

	Sales of goods HK$'000	Property investment HK$'000	Investments holding HK$'000	Consolidated HK$'000
As at 31 March 2004				
Balance sheet				
Assets				
Segment assets	114,100	199,799	219,774	533,673
Consolidated total assets				533,673
Liabilities				
Segment liabilities	33,126	31,717	1,092	65,935
Unallocated corporate liabilities				256,224
Consolidated total liabilities				322,159
For the year ended 31 March 2003				
Turnover				
Segment turnover	103,301	5,076	5	108,382
Result				
Segment result	10,695	4,028	101,130	115,853
Unallocated corporate expenses				(23,630)
Profit from operations				92,223
Finance costs				(6,878)
Profit before taxation				85,345
Taxation				64
Profit before minority interests				85,409
Minority interests				7,670
Net profit for the year				93,079
Other information				
Additions of property, plant and equipment	348	53	2,945	3,346
Depreciation and amortisation of property, plant and equipment	7,104	85	475	7,664
(Loss) gain on disposal of property, plant and equipment	–	(42)	331	289
Revaluation surplus recognised in respect of investment properties	–	5,894	–	5,894
Reversal of impairment loss recognised in respect of intangible assets	–	–	79,460	79,460
Gain from settlement in respect of Heat Supply Project	–	–	22,861	22,861
Reversal of allowance of inventories	10,918	–	–	10,918
Gain from forfeiture of payables	8,087	–	–	8,087
Reversal of allowance of doubtful receivables	2,583	–	–	2,583
Reversal of impairment loss recognised in respect of property, plant and equipment	–	–	615	615

For the year ended 31 March 2004

5. SEGMENT INFORMATION *(continued)*

Business Segments (continued)

	Sales of goods HK$'000	Property investment HK$'000	Investments holding HK$'000	Consolidated HK$'000
As at 31 March 2003				
Balance sheet				
Assets				
Segment assets	79,576	152,894	315,641	548,111
Consolidated total assets				548,111
Liabilities				
Segment liabilities	37,365	31,225	10,214	78,804
Unallocated corporate liabilities				290,842
Consolidated total liabilities				369,646

Geographical Segments

The Group's operations are located in Mainland China, Taiwan and Hong Kong of the People's Republic of China (the "PRC"). The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services:

	Turnover by geographical market Year ended 31 March	
	2004	2003
	HK$'000	*HK$'000*
Mainland China	**119,893**	81,713
Hong Kong	**55,157**	12,373
Taiwan	**–**	14,296
	175,050	108,382

5. SEGMENT INFORMATION *(continued)*

Geographical Segments (continued)

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

	As at 31 March	
	2004	2003
	HK$'000	*HK$'000*
Carrying amount of segment total assets		
Mainland China	**507,156**	462,520
Hong Kong	**26,517**	85,591
	533,673	548,111

	Year ended 31 March	
	2004	2003
	HK$'000	*HK$'000*
Additions to property, plant and equipment		
Mainland China	**5,551**	3,252
Hong Kong	**1,159**	94
	6,710	3,346

For the year ended 31 March 2004

6. PROFIT FROM OPERATIONS

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
The profit from operations is arrived at after charging:		
Auditors' remuneration		
Current year provision	**821**	976
Prior year under provision	**418**	64
	1,239	1,040
Depreciation and amortisation of property, plant and equipment	**5,626**	7,664
Loss on disposal of investment properties	**–**	1,698
Loss on disposal of property, plant and equipment	**652**	–
Minimum lease payments in respect of rented premises	**1,572**	2,625
Allowance of amount due from an associate	**166**	256
Contributions to retirement benefits schemes	**1,630**	1,753
Other staff costs (including directors' emoluments)	**18,354**	24,352
after crediting:		
Gross rental income from investment properties	**3,646**	5,076
Less: Outgoings	**(3,454)**	(2,816)
	192	2,260
Gain on disposal of property, plant and equipment	**–**	289
Interest income	**39**	5

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Fees	**3,786**	1,124
Other emoluments	**650**	4,140
Contributions to retirement benefits schemes	**65**	23
	4,501	5,287

Directors' fees include HK$900,000 (2003: HK$228,000) payable to independent non-executive directors during the year. No other emoluments are payable to independent non-executive directors in both years.

There were no arrangements under which a director waived or agreed to waive any emolument in respect of the years ended 31 March 2004 and 2003.

Emoluments of the directors were within the following bands:

	THE GROUP	
	2004	2003
	Number of directors	Number of directors
HK$nil to HK$1,000,000	**9**	15
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	1
	10	17

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one director (2003: three) of the Company whose emoluments are included in note 7(a) above. The emoluments of the remaining four (2003: two) individuals were as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Salaries and other benefits	**2,716**	1,609
Contributions to retirement benefits schemes	**136**	81
	2,852	1,690

Emoluments of the highest paid individuals were within the following bands:

	THE GROUP	
	2004	2003
	Number of employees	Number of employees
HK$nil to HK$1,000,000	**4**	2

8. FINANCE COSTS

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Interest on:		
Bank loans and overdrafts wholly repayable within five years	**2,621**	2,691
Other loans	**1,936**	4,187
	4,557	6,878

9. TAXATION

Hong Kong Profits Tax is provided at 17.5% (2003: 16%) on the estimated assessable profits for the year. PRC Enterprise Income Tax is provided at 24% (2003: 24%) on the estimated assessable profits for the year.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

During the year ended 31 March 2004, 50% reduction on the PRC Enterprise Income Tax was obtained. No provision for PRC Enterprise Income Tax has been made in prior year financial statements as the PRC subsidiaries were exempted from PRC Enterprise Income Tax in that year.

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
The taxation credit comprises:		
Current tax:		
Hong Kong	**570**	–
PRC	**2,218**	–
	2,788	–
Under (over) provision in prior year:		
Hong Kong	**430**	(64)
	3,218	(64)
Deferred taxation *(note 26)*	**(5,970)**	–
Taxation credit for the year	**(2,752)**	(64)

9. TAXATION *(continued)*

A statement of reconciliation of taxation is as follows:

	2004	2003
	HK$'000	*HK$'000*
Profit before taxation	**30,822**	85,345
Tax at the PRC Enterprise Income Tax rate of 24% (2003: 24%)	**7,397**	20,483
Tax effect of share of results of associates	**(2,211)**	–
Tax effect of expenses not deductible for tax purposes	**3,903**	2,111
Tax effect of income not taxable for tax purposes	**(6,202)**	(19,743)
Tax effect of tax losses not recognised	**3,394**	5,317
Tax effect on utilisation of tax losses previously not recognised	**(808)**	(233)
Effect of tax exemption granted to the PRC subsidiaries	**(2,217)**	(1,480)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(6,431)**	(6,412)
Under(over)provision in prior year	**430**	(64)
Others	**(7)**	(43)
Taxation credit for the year	**(2,752)**	(64)

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Net profit for the year and earnings for the purposes of basic and diluted earnings per share	**44,392**	93,079
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,685,896,751**	1,501,669,626
Effect of dilutive potential ordinary shares in respect of share options	**312,734**	303,811
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,686,209,485**	1,501,973,437

11. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the ORSO Scheme) and a Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. All employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were required to switch to the MPF Scheme, whereas all new employees joining the Group on or after December 2000 are required to join the MPF Scheme. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute 29% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

For the year ended 31 March 2004, contributions totalling HK$1,630,000 (2003: HK$1,760,000) were paid by the Group.

12. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land use rights HK$'000	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST							
At 1 April 2003	2,058	80,024	80,847	16,178	8,820	–	187,927
Additions	–	–	13	1,189	1,355	4,153	6,710
Transfers	–	394	571	244	–	(1,209)	–
Disposals	–	–	–	(2,081)	(2,720)	–	(4,801)
At 31 March 2004	2,058	80,418	81,431	15,530	7,455	2,944	189,836
ACCUMULATED DEPRECIATION, AMORTISATION AND IMPAIRMENT							
At 1 April 2003	2,058	28,452	58,046	14,138	8,820	–	111,514
Provided for the year	–	2,598	2,428	478	122	–	5,626
Eliminated on disposals	–	–	–	(905)	(2,720)	–	(3,625)
At 31 March 2004	2,058	31,050	60,474	13,711	6,222	–	113,515
NET BOOK VALUES							
At 31 March 2004	–	49,368	20,957	1,819	1,233	2,944	76,321
At 31 March 2003	–	51,572	22,801	2,040	–	–	76,413

The directors of the Company have met the county government of Wen Ting County, Suzhou, the PRC and obtained written notice for the usage right of a piece of land located at Wen Ting County. However, the State Land Bureau has yet to give its approval to the Group's title to this piece of land, held through a 71% subsidiary (with the remaining 29% held by a PRC joint venture partner), on which buildings with net book value of HK$45,949,000 (cost of HK$70,577,000, less accumulated depreciation of HK$24,628,000) have been erected. It is the responsibility of the PRC joint venture partner to ensure that the appropriate land use right certificate is obtained and they have confirmed to the Group that they are in the process of obtaining the land use right certificate from the State Land Bureau.

12. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The leasehold land and buildings are situated outside Hong Kong and are held under long leases.

Certain plant and machinery with an aggregate net book value of HK$20,957,000 (2003: HK$19,915,000) have been pledged as securities for the Group's bank loans.

THE COMPANY

	Furniture and equipment
	HK$'000
COST	
At 1 April 2003 and 31 March 2004	353
ACCUMULATED DEPRECIATION	
At 1 April 2003	221
Provided for the year	25
At 31 March 2004	246
NET BOOK VALUE	
At 31 March 2004	107
At 31 March 2003	132

13. INVESTMENT PROPERTIES

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
At 1 April	**146,568**	230,521
Acquisition of a subsidiary	**105,000**	–
Revaluation surplus	**6,228**	5,894
Disposals	**(63,000)**	(89,600)
Exchange realignment	**–**	(247)
At 31 March	**194,796**	146,568
Analysed by lease term and geographical location:		
Medium term leasehold properties situated in Hong Kong	**–**	82,000
Medium term leasehold properties situated outside Hong Kong	**91,132**	–
Long term leasehold properties situated outside Hong Kong	**103,664**	64,568
	194,796	146,568

The investment properties were revaluated at their open market value at 31 March 2004 by S.H. Ng & Co., Ltd., an independent property valuer. The valuation gave rise to a revaluation surplus of HK$6,228,000 which has been credited to the income statement during the year.

At 31 March 2003, investment properties in Hong Kong and overseas with an aggregate carrying value of HK$82,000,000 and HK$3,928,000, respectively have been pledged as securities for the Group's bank loans and facilities. No investment property have been pledged as at 31 March 2004.

14. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
At 1 April and 31 March	**41,469**	41,469
Less: Impairment loss	**(41,469)**	(41,469)
	–	–

Property under development related to the Waterfront Project in Panyu, the PRC (the "Waterfront Project"). The Waterfront Project have been suspended since late 2000. Due to the difficulties in obtaining further financing and the possession orders charged by the creditors against the land use right of Waterfront Project in respect of certain bank loans and other payables, the directors decided to suspend the development of the project and an impairment loss was recognised for all costs incurred up to 31 March 2002. There is no progress with respect to the property under development for both years.

The property under development is held under a lease of over 50 years in the PRC.

15. INTANGIBLE ASSETS

	THE GROUP
	HK$'000
COST	
At 1 April 2003	519,999
Settlement by the transfer of interest of Merry World Associates Limited ("Merry World")	(519,999)
At 31 March 2004	–
ACCUMULATED AMORTISATION	
At 1 April 2003	440,539
Settlement by the transfer of interest of Merry World	(440,539)
At 31 March 2004	–
NET BOOK VALUE	
At 31 March 2004	–
At 31 March 2003	79,460

15. INTANGIBLE ASSETS *(continued)*

In 1998, the Group entered into an agreement with Trade Sense International Limited, a company incorporated in the British Virgin Islands ("BVI") with limited liability, a wholly-owned subsidiary of China Huatong Distribution & Industry Development Corp. ("China Huatong'), a state-owned enterprise incorporated in Beijing, the PRC under which the Group acquired a 75% interest in the issued share capital of Galaxy Gain Limited ("Galaxy"). Galaxy's wholly-owned subsidiary, Ocean-Land Heat Supply Limited ("Ocean-Land Heat"), was appointed under an agreement for the provision of technical services relating to the supply, installation and management of heating systems to Huatong Heat Energy Technique Company Limited ("Huatong Heat") in the Mainland China on an exclusive basis ("Heat Supply Project"). Huatong Heat was to pay Ocean-Land Heat an annual fee, calculated in accordance with the total areas of heating systems to be installed by Huatong Heat plus a 55% share of its net profit after tax, for a minimum period of 20 years. The principal asset acquired by the Group was effectively an intangible asset which represents the fair value of future distributions. The consideration for the acquisition was capitalised and amortised over the minimum useful life of the asset of 20 years.

However, China Huatong had defaulted payments subsequently. On 8 April 2003, the Company announced that it had entered into a settlement agreement (the "Settlement Agreement") with China Huatong and its subsidiaries (collectively referred as the "Huatong Group") pursuant to which, among other matters, the Company agreed, subject to the satisfaction of certain conditions, to reduce the amount claimed against Huatong Group by HK$105,000,000 under disputed claims, in consideration of China Huatong agreeing to (i) release and procure Huatong Heat Technique Company Limited, a wholly-owned subsidiary of China Huatong Heat Technique Company Limited, a 75% subsidiary of the Company, from any claims which they may have under a heat supply project; and (ii) procure Huatong Group Holdings Limited ("Hong Kong Huatong"), a wholly owned subsidiary of China Huatong, and assign the shareholder's loan due from Merry World to the Company at a consideration which was determined after arm's length negotiation, free from all encumbrances. The Settlement Agreement was approved by the shareholders of the Company in an Extraordinary General Meeting held on 24 June 2003.

Hong Kong Huatong was the sole beneficial shareholder of Merry World and the sole beneficial owner of the entire unsecured and interest-free shareholder's loan due from Merry World (the "Merry World Debt") which amounted to HK$93,623,000 as at 28 February 2003. The only asset of Merry World is investment properties in Guangzhou which were revalued at their open market value at 20 March 2003 amounted to HK$105,000,000 by S.H. Ng & Co., Ltd., an independent property valuer.

15. INTANGIBLE ASSETS *(continued)*

The net effect of the acquisition of Merry World amounted to a reversal of impairment loss recognised in respect of intangible assets of HK$79,460,000 which was credited to the income statement for the year ended 31 March 2003. This amount represented the aggregate of the net liabilities of Merry World as at 28 February 2003 in amount of HK$14,163,000 and the gain in net tangible assets due to assignment of the Merry World Debt as at 28 February 2003 in amount of HK$93,623,000 to the Group. As at 31 March 2003, the Group treated the net book value of intangible assets being used to exchange for the net tangible assets (less the liabilities) from Merry World.

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1,001**	1,001
Less: Impairment loss	**(1,000)**	(1,000)
	1	1
Amounts due from subsidiaries	**1,786,508**	1,786,612
Less: Allowance for doubtful receivables	**(1,615,519)**	(1,615,519)
	170,989	171,093
	170,990	171,094

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

16. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration	Total paid-up and issued ordinary share/ registered capital	Equity interest owned by the Group		Principal activities
			2004	2003	
			%	%	
Directly held:					
Galactic Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	**100**	100	Investment holding
Merry World Associates Limited	BVI	1 ordinary share of US$1 each	**100**	nil	Property investment
Indirectly held:					
Boxhill Limited	BVI	1 ordinary share of US$1 each	**100**	100	Investment holding
Chengtong Hua Da Trading Limited (formerly known as Red Sail Telecom Network Limited)	Hong Kong	100 ordinary shares of HK$1 each	**51**	100	Trading
Come Ward Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Trading
Evolve Limited	Hong Kong	500 ordinary shares of HK$10 each	**100**	100	Property investment
Chengtong Trading (International) Limited (formerly known as Hong Kong Car Park Limited)	Hong Kong	500,000 ordinary shares of HK$10 each	**100**	100	Trading
Galawell Development Limited	Hong Kong	20,000 ordinary shares of HK$1 each	**88.24**	88.24	Investment holding

16. INTERESTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/ registration	Total paid-up and issued ordinary share/ registered capital	Equity interest owned by the Group 2004 %	2003 %	Principal activities
Indirectly held: (continued)					
Nardu Company Limited	Hong Kong	1,000,000 ordinary shares of HK$10 each	**51**	51	Investment holding
番禺福禺房地產開發有限公司# Panyu Lucky Rich Real-Estates Development Limited	PRC	RMB30,000,000	**51**	51	Property development
Price Sales Limited	Hong Kong	10,000 ordinary shares of HK$1 each	**100**	100	Investment holding
Sea-Land Mining Limited	Hong Kong	1,000,000 ordinary shares of HK$10 each	**100**	100	Investment holding
蘇州南達水泥有限公司* Suzhou Nanda Cement Company Limited	PRC	RMB101,262,000	**71.03**	71.03	Manufacture of cement
Tat Yeung Investments Limited	Hong Kong	10,100 ordinary shares of HK$100 each and 10,100 non-voting deferred shares of HK$100 each	**100**	100	Investment holding

The subsidiary was established in the PRC as a sino-foreign co-operative joint venture enterprise.

* The subsidiary was established in the PRC as a sino-foreign equity joint venture enterprise.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the assets and liabilities 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 subsisting at 31 March 2004 or at any time during the year.

17. INTEREST IN ASSOCIATES

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**525**	–
Amounts due from associates	**198,306**	194,408
Less: Allowance for doubtful receivables	**(1,086)**	(920)
	197,220	193,488
	197,745	193,488

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

Particulars of the Group's associates at the balance sheet date are as follows:

Name of company	**Class of shares held**	**Place of incorporation/ operation**	**Equity interest owned by the Group**		**Principal activity**
			2004	2003	
			%	%	
Goodwill (Overseas) Limited ("Goodwill")	Ordinary	BVI	**32**	32	Investment holding
Success Project Investments Ltd. ("Success Project")	Ordinary	BVI	**35**	nil	Investment holding

As at 31 March 2003, the Group's investment in Goodwill has been pledged to secure an other loan of HK$15,000,000 (note 23). Such loan was repaid during the year ended 31 March 2004.

17. INTEREST IN ASSOCIATES *(continued)*

On 28 January 2002, the Group disposed of its 35% interest in Success Project which holds a 52% interest in 蘇州金南房地產開發有限公司 ("Suzhou Jin Nan") that owns Shilu International Shopping Centre in Suzhou, the PRC, for HK$15,000,000. The Group had an option to repurchase the investment before the end of 2002 (subsequently extended to 17 April 2003) at HK$15,000,000, plus interest at 10% per annum thereon. On 17 April 2003, the Group exercised the option to repurchase the investment at a consideration of HK$16,866,000 that generated a negative goodwill of HK$13,488,000 in result. On 12 February 2004, Success Project disposed of its entire interest in Suzhou Jin Nan and the respective shareholders' loan to an independent third party at a consideration of approximately HK$101,780,000. Since the major assets of Success Project were disposed of during the year, the negative goodwill arising on the acquisition of Success Project was fully released to the income statement during the year.

Supplementary financial information relating to the Group's significant associate as required under SSAP 10 "Accounting for investments in associates" have been extracted from the financial statements of Goodwill as follows:

	2004	2003
	HK$'000	*HK$'000*
Non-current assets	**566,850**	592,741
Current assets	**24**	356
Current liabilities	**(564)**	(372)
Net current liabilities	**(540)**	(16)
Non-current liabilities		
Shareholders' loans	**569,705**	595,601
Net liabilities	**(3,395)**	(2,876)

In the Company's balance sheet, the amount due from an associate of HK$517,000 (2003: HK$332,000) is interest-free and has no fixed terms of repayment. In the opinion of the directors, the Company will not demand for the repayment within the next twelve months from the balance sheet date. Accordingly, the amount is shown as non-current.

18. INVENTORIES

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**9,763**	6,655
Work in progress	**2,435**	1,409
Finished goods	**2,227**	3,777
	14,425	11,841
Less: Allowance made	**(2,614)**	(4,281)
	11,811	7,560

At 31 March 2004, the amount of inventories carried at net realisable value amounted to nil (2003: HK$4,040,000).

19. TRADE AND OTHER RECEIVABLES

		THE GROUP	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Trade receivables	*(a)*	**8,280**	10,043
Prepayments and deposits	*(b)*	**3,102**	1,966
Other receivables	*(c)*	**1,695**	1,094
		13,077	13,103

(a) ***Trade receivables***

The Group allows an average credit period of 30 days to its trade customers on open account credit terms. The ageing analysis of the trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Current	**2,187**	6,037
One to three months	**328**	956
Over three months	**5,765**	3,050
	8,280	10,043

19. TRADE AND OTHER RECEIVABLES *(continued)*

(b) *Prepayments and deposits*

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Prepayments and deposits	**247,257**	246,114
Less: Allowance made	**(244,155)**	(244,148)
	3,102	1,966

Included in prepayments and deposits is a deposit of HK$200,000,000 (2003: HK$200,000,000) paid by the Company to Sharp Class International Limited ("Sharp Class"), a company incorporated in the BVI, as collection agent, pursuant to the terms of a memorandum of understanding dated 28 February 2000 (the "MOU") made between the Company and China National Container Corporation ("CNCC"), an independent third party, incorporated in the PRC. As a result of the payment of this amount ("the earnest money"), the Company had the exclusive right to enter into negotiation with CNCC for the acquisition of a substantial stake in a logistics and distribution network joint venture in the PRC (the "CNCC Acquisition").

The completion of the CNCC Acquisition pursuant to the terms of an agreement dated 19 February 2001 was conditional upon fulfillment of certain conditions which include obtaining the approval from the relevant authorities and finalising of certain legal procedures in the PRC. The completion date of the acquisition was originally scheduled to take place on 2 May 2001 and it was extended six time until 31 March 2002. Since the conditions were not fulfilled by CNCC by 31 March 2002, the directors terminated the transaction on 2 April 2002 and demanded refund of the earnest money and the related interest at 7% per annum.

Also included in prepayments and deposits are interest receivable on the earnest money of HK$14,000,000 (2003: HK$14,000,000), a temporary advance of HK$13,000,000 (2003: HK$13,000,000) made to Epoch Development Holdings Limited (a related company of CNCC) and deferred expenses of HK$5,657,000 (2003: HK$5,657,000).

The Company has on 1 August 2002 received a letter from CNCC stating that it has not received the earnest money of HK$200,000,000 paid by the Group in March 2000 nor has CNCC authorised any person to receive such sum from the Group. After careful consideration, the directors decided to make a full provision of HK$232,657,000, including the earnest money of HK$200,000,000 paid to Sharp Class pursuant to the MOU, an advance of HK$13,000,000 to Epoch Development Holdings Limited, interest income accrued on the earnest money of HK$14,000,000 for the year ended 31 March 2001 and deferred expenses of HK$5,657,000.

19. TRADE AND OTHER RECEIVABLES *(continued)*

*(b) **Prepayments and deposits** (continued)*

The directors have instructed the legal advisers to the Group to take legal actions to recover the earnest money of HK$200,000,000 together with the interest accrued thereon and the advance of HK$13,000,000 to Epoch Development Holdings Limited. Up to the date of this financial statements, the legal proceedings are still in progress.

*(c) **Other receivables***

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Other receivables	**414,667**	414,066
Less: Allowance made	**(412,972)**	(412,972)
	1,695	1,094

Included in other receivables is a total sum of HK$358,445,000 (2003: HK$358,445,000) paid to Sharp Class (the "Receivable") out of the settlement in July 2001 of other receivables carried forward from 31 March 2001. In view of the lack of satisfactory documentation and adequate evidence to substantiate the nature, existence, substance and recoverability of the Receivable, the directors decided to make a full provision in respect of the Receivable in the financial statements during the year ended 31 March 2002. On 7 September 2002, the Group commenced legal actions against Sharp Class and Mr. Lo Chu Kong, the former chief executive officer and one of the authorised bank signatories of China-eND.com Limited, a 70% subsidiary of the Company, which made the payments totalling HK$308,445,000 to Sharp Class. On 4 November 2002, the Group also commenced legal actions against Sharp Class, Mr. Yuen Wai (the former Chairman of the Company) and Mr. Chung Ho (the former executive director of the Company) for the recovery of HK$50,000,000 advanced to Sharp Class. Up to the date of this financial statements, the legal proceedings are still in progress.

20. AMOUNT DUE FROM/TO A MINORITY INTEREST

The amount due from/to a minority interest is unsecured, interest-free and has no fixed terms for repayment.

For the year ended 31 March 2004

21. TRADE AND OTHER PAYABLES

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Trade payables	**25,465**	26,334
Deposits received, other payables and accruals	**70,239**	69,271
	95,704	95,605

The ageing analysis of the trade payables at the balance sheet date is as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Current	**4,044**	4,709
One to three months	**1,422**	2,394
Over three months	**19,999**	19,231
	25,465	26,334

22. LOAN FROM AN INTERMEDIATE CONTROLLING SHAREHOLDER

The loan from an intermediate controlling shareholder is unsecured and interest-free. The repayment date of the loan was originally scheduled on 9 January 2004 and it is extended to 9 January 2005.

23. OTHER LOANS

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Other loans are repayable as follows:		
Within one year	**7,827**	26,327
In the second to fifth years inclusive	**63,236**	63,236
	71,063	89,563
Current portion of other loans	**(7,827)**	(26,327)
	63,236	63,236

23. OTHER LOANS *(continued)*

As at 31 March 2003, a loan of HK$15,000,000 was secured against the Group's investment in an associate (note 17) and interest bearing at 10% per annum. Such loan was repaid during the year ended 31 March 2004.

The remaining other loans are unsecured and interest-free, except for a loan of HK$3,600,000 (2003: HK$3,600,000) which is interest bearing at 0.05% per day on a compound basis.

At 31 March 2003, included in other loan was an amount of HK$3,500,000 advanced from a related company which a director had beneficial interest. The advance was unsecured, interest-free and was repaid during the year ended 31 March 2004.

24. BANK LOAN, SECURED

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Bank loans are repayable as follows:		
Within one year	**20,840**	63,769
Current portion of bank loans	**(20,840)**	(63,769)
	–	–

For details of the securities to the bank loans, please refer to notes 12, 13 and 14 to the financial statements.

25. LOANS FROM MINORITY INTERESTS

Loans from minority interests are unsecured, interest-free and are not repayable in the next twelve months.

26. DEFERRED TAXATION

THE GROUP

The following are the major deferred tax liabilities accrued and movement thereon during both years:

	Revaluation of investment properties
	HK$'000
At 1 April 2002 and at 31 March 2003	–
Acquisition of a subsidiary	16,210
Credit to income for the year	(5,970)
At 31 March 2004	10,240

26. DEFERRED TAXATION *(continued)*

THE GROUP (continued)

The Group has deductible temporary differences not recognised in the financial statements are as follows:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Accelerated depreciation allowances	**11**	(7,576)
Tax losses	**(160,796)**	(146,018)
Revaluation deficit of investment properties	**(275,868)**	(305,027)
Impairment losses and allowance made on assets	**(52,875)**	(53,205)
	(489,528)	(511,826)

No deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised. The tax losses may be carried forward indefinitely.

THE COMPANY

At 31 March 2004, the Company has unused tax losses of HK$54,789,000 (2003: HK$43,103,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profits streams. The tax losses may be carried forward indefinitely.

27. SHARE CAPITAL

	2004		2003	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
At 1 April 2002, 31 March 2003 and 31 March 2004	**5,000,000**	**500,000**	5,000,000	500,000
Issued and fully paid:				
At beginning of year	**1,684,405**	**168,440**	1,463,705	146,370
Exercise of options	**2,700**	**270**	1,700	170
Conversion of convertible note shares	**–**	**–**	219,000	21,900
At end of the year	**1,687,105**	**168,710**	1,684,405	168,440

27. SHARE CAPITAL *(continued)*

(a) Increase in issue and paid-up capital

The following changes in the Company's share capital took place:

(i) On 12 June 2002, the subscription rights attaching to 1,700,000 share options were exercised at the subscription price of HK$0.1491 per share, resulting in the issue of 1,700,000 shares of HK$0.1 each for a total cash consideration, before expenses, of approximately HK$253,000.

(ii) On 30 January 2003, the holder of mandatory convertible note converted its note into 219,000,000 shares in the Company.

(iii) On 8 April 2003, 15 September 2003, 3 October 2003, 31 October 2003 and 6 January 2004, the subscription rights attaching to 550,000, 700,000, 200,000, 1,000,000 and 250,000 share options, respectively, were exercised at the subscription price of 0.1491 per share, resulting in the issue of 2,700,000 shares of HK$0.1 each for HK$402,570.

All the shares issued by the Company during the year rank pari passu with the existing shares in issue in all respects.

(b) Share options

The Company adopted a share option scheme at the Annual General Meeting held on 22 September 1998 (the "Old Scheme") under which the directors may, at their discretion, grant options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The maximum number of shares issued upon exercise of options granted under the Old Scheme is not to exceed 10% of the share capital of the Company in issue from time to time (excluding the shares issued upon exercise of options granted pursuant to the Old Scheme). The Old Scheme remains in force for a period of ten years from 22 September 1998 to 21 September 2008 unless terminated earlier.

27. SHARE CAPITAL *(continued)*

(b) *Share options (continued)*

The movements in the number of options outstanding during the year which have been granted to the directors of the Company and employees of the Group under the Old Scheme were as follows:

	Exercisable period	Exercise price	Outstanding at 1.4.2002	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2003 and 1.4.2003	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2004	Number of underlying shares
Directors	1.7.2001 to 30.6.2004	0.1491	6,000,000	–	(6,000,000)	–	–	–	–	–
	1.10.2001 to 30.9.2004	0.1491	14,500,000	–	(14,500,000)	–	–	–	–	–
	31.3.2002 to 30.3.2005	0.1491	2,000,000	–	(2,000,000)	–	–	–	–	–
			22,500,000	–	(22,500,000)	–	–	–	–	–
Other employees	1.7.2001 to 30.6.2004	0.1491	2,725,000	–	(1,750,000)	975,000	(975,000)	–	–	–
	1.10.2001 to 30.9.2004	0.1491	9,300,000	(850,000)	(6,900,000)	1,550,000	(1,350,000)	(150,000)	50,000	50,000
	31.3.2002 to 30.3.2005	0.1491	6,575,000	(850,000)	(5,150,000)	575,000	(375,000)	(150,000)	50,000	50,000
			18,600,000	(1,700,000)	(13,800,000)	3,100,000	(2,700,000)	(300,000)	100,000	100,000
Total			41,100,000	(1,700,000)	(36,300,000)	3,100,000	(2,700,000)	(300,000)	100,000	100,000

In accordance with the provisions of the Old Scheme, share options will lapse upon the grantee ceasing to be an employee (including a director) of the Company after one month following the date of such cessation.

27. SHARE CAPITAL *(continued)*

(b) *Share options (continued)*

The Company adopted a new share option scheme at an Extraordinary General Meeting held on 24 June 2003 (the "New Scheme") under which the directors may, at their discretion, grant options to eligible participants including any employee, executive or non-executive directors of the Group, any executives and employees of consultants, professional and other advisors to the Group, chief executive, substantial shareholder of the Company, associated companies of the Group, associates of director, chief executive and substantial shareholder of the Company, and employees of substantial shareholder. Subject to the requirements to the prevailing amended Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), the exercise price shall be such price determined by the board of directors at its discretion but subject to the requirements under the Listing Rules. The maximum entitlement of each participant under the scheme (including options to be granted to the directors, chief executive or substantial shareholder of the Company, or any of their respective associates) is equivalent to the maximum limit permitted under the Listing Rules. The New Scheme will remain in force for a period of 10 years from 24 June 2004 to 23 June 2013.

The movements in the number of options outstanding during the year which have been granted to the directors of the Company and employees of the Group under the New Scheme were as follows:

	Exercisable period	Exercise price	Granted during the year	Outstanding at 31.3.2004	Number of underlying shares
Directors	8.3.2005 to 7.3.2009	0.364	8,400,000	8,400,000	8,400,000
Other employees	8.3.2005 to 7.3.2009	0.364	16,750,000	16,750,000	16,750,000
Total			25,150,000	25,150,000	25,150,000

28. RESERVES

Details of changes in reserves of the Group are set out in the consolidated statements of changes in equity on page 29.

THE COMPANY

	Share premium	**Capital redemption reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2002	654,387	402	(998,893)	(344,104)
Issue of new shares upon exercise of options, net of expenses of $30,000	53	–	–	53
Issue of shares upon conversion of convertible note	284,700	–	–	284,700
Net loss for the year	–	–	(14,619)	(14,619)
At 31 March 2003 and 1 April 2003	939,140	402	(1,013,512)	(73,970)
Issue of new shares upon exercise of options	133	–	–	133
Net loss for the year	–	–	(11,710)	(11,710)
At 31 March 2004	939,273	402	(1,025,222)	(85,547)

29. PURCHASE OF A SUBSIDIARY

Pursuant to the Settlement Agreement as mentioned in note 15, on 24 June 2003, the Group acquired 100% of the issued share capital of Merry World, a company which is incorporated in the BVI. The acquisition has been accounted for using the acquisition method of accounting.

	2004	2003
	HK$'000	*HK$'000*
Net assets acquired:		
Investment properties	**105,000**	–
Other payables	**(9,330)**	–
Deferred tax liabilities	**(16,210)**	–
Net assets	**79,460**	–
Satisfied by:		
Transfer of intangible assets *(note 15)*	**79,460**	–

The investment properties acquired through the acquisition of Merry World were revalued at their open market value at 20 March 2003 by S.H. Ng & Co., Ltd., an independent property valuer.

During the year, a revaluation deficit of HK$13,868,000 in respect of these investment properties and a deferred taxation credit of HK$5,970,000 were charged/credited to the income statement.

Save as disclosed above, the subsidiary acquired during the year had no significant contribution to the Group's turnover and cash flows.

30. CONTINGENT LIABILITIES

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Litigation	**5,523**	4,844

30. CONTINGENT LIABILITIES *(continued)*

The litigation represented the maximum contingent liabilities of the Group estimated by the directors in respect of a claim lodged against subsidiaries of the Company. The directors, based on the advice of the Group's legal advisors, considered that the Group has a good defence against the alleged claim and accordingly did not make any provision for liabilities in respect of the claim as at the balance sheet date.

	THE COMPANY	
	2004	2003
	HK$'000	*HK$'000*
Guarantees for bank facilities granted to:		
– subsidiaries	**–**	141,750
– an investee company	**–**	24,960
	–	166,710

At 31 March 2003, the banking facilities amounting to HK$41,658,000 were utilised by subsidiaries that were guaranteed by the Company. Such bank borrowings were fully repaid and the related bank guarantees were released during the year ended 31 March 2004.

31. COMMITMENTS

(a) Capital commitments

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Contracted but not provided for	**2,256**	–

At the balance sheet date, the Company did not have any capital commitments.

(b) Operating lease commitments of leasee

At 31 March 2004, 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	2003
	HK$'000	*HK$'000*
Within one year	**2,120**	1,512
In the second to fifth years inclusive	**3,631**	–
	5,751	1,512

31. COMMITMENTS *(continued)*

(b) Operating lease commitments of leasee (continued)

Leases are negotiated for an average term of three years.

At the balance sheet date, the Company had no commitments under non-cancellable operating leases in respect of rented premises.

(c) Operating leases commitments of lessor

At 31 March 2004, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004	2003
	HK$'000	*HK$'000*
Within one year	**913**	2,900
In the second to fifth years inclusive	**1,597**	1,489
	2,510	4,389

Leases are negotiated for an average term of three years.

At the balance sheet date, the Company had not entered into any operating lease arrangement for rental income.

32. RELATED PARTY TRANSACTIONS

During the year, the Group received consultancy fee income of HK$515,000 (2003: HK$796,000) from an associate. The consultancy fee income received was determined with reference to the estimated market value for the services provided.

33. SIGNIFICANT POST BALANCE SHEET EVENTS

On 1 April 2004, the Company announced that it had entered into a share sale agreement (the "Share Sale Agreement") with China Chengtong Hong Kong Company Limited ("CCHK"), the substantial shareholder of the Company, pursuant to which the Company agreed to dispose of the Company's entire equity interests in Ocean-Land Management Limited and Tat Yeung Investments Limited (collectively as the "Disposal Companies"), both are wholly-owned subsidiaries of the Company, for a consideration of HK$72,836,000.

Upon completion of the Share Sale Agreement, the Company will cease to have any interest in Disposal Companies and both of them will cease to be subsidiaries of the Company.

33. SIGNIFICANT POST BALANCE SHEET EVENTS *(continued)*

Subject to the conditions stated below, part of the consideration for the disposal, HK$52,830,000, will be satisfied by a transfer of the entire equity of Talent Dragon Limited ("Beijing Holdco"), a wholly-owned subsidiary of CCHK incorporated in the BVI to the Company, and the balance of the consideration, HK$20,006,000, will be paid in cash. The acquisition of Beijing Holdco is subject to:

(1) the Company being satisfied with its due diligence review of Beijing Holdco including its interests in 中實投資有限責任公司, a limited liability company established under the laws of the PRC with a registered capital of RMB80 million (the "Beijing JV") and Beijing JV's interest in a site for development comprising villas nos. 9 and 11 at Baiwanzhuang Dajie, Xicheng District, Beijing, the PRC with a site area of about 7,200 sq.m. (the "Beijing Project"); and

(2) Beijing Holdco acquiring a 70% interest in the Beijing JV, the issue of a valuation report by an independent valuer confirming that the open market value of the Beijing Project is not less than RMB100 million (equivalent to about HK$94.34 million), the net tangible asset value of the Beijing JV not being less than RMB80 million (equivalent to about HK$75.47 million), and loan financing of not less than RMB131.4 million (equivalent to about HK$123.96 million) being made available to the Beijing JV for the development of the Beijing Project.

If the Company is not satisfied with it's due diligence review of the Beijing Holdco, or if Beijing Holdco fails to acquire a 70% interest in the Beijing JV as mentioned above, or if Beijing JV fails to secure loan financing of RMB131.4 million (equivalent to about HK$123.96 million) for the development of the Beijing Project as mentioned above, the full amount of the disposal consideration will be paid in cash to the Company on completion of the Share Sale Agreement.

The counterparty to the Share Sale Agreement is CCHK, an intermediate controlling shareholder of the Company. The Share Sale Agreement therefore also constitutes a connected transaction of the Company under the Listing Rules and thus, is subject to the approval of the independent shareholders at an Extraordinary General Meeting to be held on 26 July 2004. The details of such transactions are set out in the Company's circular to the shareholders dated 9 July 2004.