

Notes to the Financial Statements

For the year ended 31st March, 2004

1. GENERAL

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

The Company is an investment holding company and provides corporate management services.

The activities of the Company's principal subsidiaries are set out in note 34.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted, for the first time, Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" under Hong Kong Financial Reporting Standard ("HKFRS") 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 implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying 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 or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

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

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

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

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.

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 valuation at the balance sheet date. Any revaluation surplus or deficit 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 deficit on a portfolio basis, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit 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 term of the relevant lease is twenty years or less.

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

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

Fixtures	15% or over the terms of the relevant lease, whichever is shorter.
Computer equipment	33 ¹ / ₃ %
Motor vehicles	30%
Others	15%

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 securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Intangible asset

Intangible asset is measured initially at purchase cost and amortised on a straight line basis over its estimated useful life.

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

For properties which are held for resale, revenue is recognised on the execution of a binding sales agreement.

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

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

Sales of investments in securities are recognised on a trade date basis.

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

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 as no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Operating leases

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

Retirement benefits scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the year to the Group's Mandatory Provident Fund ("MPF") scheme.

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. All exchange differences arising on translation are dealt with in reserves.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

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

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

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

Notes to the Financial Statements

For the year ended 31st March, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

4. TURNOVER

Turnover represents the net amounts received and receivable from sales of securities, sales of properties, interest income from provision of finance and notes receivable, property rentals and dividend income during the year, and is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Sales of securities	801	2,959
Sales of properties	–	30,000
Interest income from provision of finance and notes receivable	22,475	15,607
Property rentals	–	2,919
Dividend income from investments in securities		
– Hong Kong listed shares	29	8
	23,305	51,493

Notes to the Financial Statements

For the year ended 31st March, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

During the year, the Group was organised into four main operating segments: provision of finance, trading of securities, property holding and investment and investment activities.

These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

Business segments

	For the year ended 31st March, 2004				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
SEGMENT REVENUE	22,475	830	–	–	23,305
SEGMENT RESULTS	21,898	(1,563)	(1,823)	(23,931)	(5,419)
Unallocated corporate expenses					(11,652)
Loss from operations					(17,071)
Interest on bank and other borrowings wholly repayable within five years					(78)
Gain on disposal of subsidiaries					95
Loss before taxation					(17,054)
Taxation					–
Loss before minority interests					(17,054)
Minority interests					4,316
Net loss for the year					(12,738)

Notes to the Financial Statements

For the year ended 31st March, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Continued)

Business segments (Continued)

	At 31st March, 2004				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
ASSETS					
Segment assets	369,443	426	6,827	87,624	464,320
Unallocated corporate assets					4,910
Consolidated total assets					<u>469,230</u>
LIABILITIES					
Segment liabilities	30	5	1,223	25	1,283
Unallocated corporate liabilities					1,264
Consolidated total liabilities					<u>2,547</u>

	For the year ended 31st March, 2004				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
OTHER INFORMATION					
Allowance for other receivables	-	-	415	-	415
Capital additions	-	-	-	131	131
Depreciation	-	-	55	583	638
Deficit arising on valuation of investment properties	-	-	100	-	100
Impairment loss recognised in respect of intangible asset	-	-	-	11,321	11,321
Impairment loss recognised in respect of investment securities	-	-	-	11,000	11,000

Notes to the Financial Statements

For the year ended 31st March, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	For the year ended 31st March, 2003				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
SEGMENT REVENUE	<u>15,528</u>	<u>2,959</u>	<u>32,919</u>	<u>87</u>	<u>51,493</u>
SEGMENT RESULTS	<u>14,415</u>	<u>(177)</u>	<u>1,704</u>	<u>(47,753)</u>	<u>(31,811)</u>
Unallocated corporate expenses					<u>(11,275)</u>
Loss from operations					(43,086)
Interest on bank and other borrowings wholly repayable within five years					<u>(598)</u>
Loss before taxation					(43,684)
Taxation					<u>–</u>
Loss before minority interests					(43,684)
Minority interests					<u>–</u>
Net loss for the year					<u>(43,684)</u>

Notes to the Financial Statements

For the year ended 31st March, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Continued)

Business segments (Continued)

	At 31st March, 2003				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
ASSETS					
Segment assets	263,107	2,520	38,968	197,024	501,619
Unallocated corporate assets					1,819
Consolidated total assets					<u>503,438</u>
LIABILITIES					
Segment liabilities	45	1,106	1,870	590	3,611
Unallocated corporate liabilities					1,659
Consolidated total liabilities					<u>5,270</u>

	For the year ended 31st March, 2003				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
OTHER INFORMATION					
Capital additions	–	–	–	34,103	34,103
Depreciation	–	–	208	606	814
Deficit arising on valuation of investment properties	–	–	200	–	200
Impairment loss recognised in respect of investment securities	–	–	–	45,000	45,000

Notes to the Financial Statements

For the year ended 31st March, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's operations are mainly located in Hong Kong and the People's Republic of China, other than Hong Kong (the "PRC").

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods and services:

	Sales revenue by geographical market		Loss from operations	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	22,941	18,474	(1,943)	(43,809)
The PRC	364	33,019	(15,128)	723
	23,305	51,493	(17,071)	(43,086)

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible asset	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	422,404	284,959	131	141
The PRC	46,826	218,479	–	33,962
	469,230	503,438	131	34,103

Notes to the Financial Statements

For the year ended 31st March, 2004

6. INVESTMENT INCOME

	2004 HK\$'000	2003 <i>HK\$'000</i>
Interest income from:		
Banks	634	344
Others	199	2,497
	833	2,841

7. OTHER OPERATING EXPENSES

	2004 HK\$'000	2003 <i>HK\$'000</i>
Included in other operating expenses are:		
Impairment loss recognised in respect of intangible asset	(11,321)	–
Impairment loss recognised in respect of investment securities	(11,000)	(45,000)
Deficit arising on valuation of investment properties	(100)	(200)
Allowance for amount due from an associate	(2)	(17)
Allowance for other receivables	(415)	–

Notes to the Financial Statements

For the year ended 31st March, 2004

8. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging:		
Staff costs, including directors' emoluments (<i>note 9(a)</i>):		
Salaries and other benefits	6,491	7,666
MPF contributions, net of forfeited contributions HK\$134,000 (2003: Nil)	100	254
	6,591	7,920
Auditors' remuneration:		
Current year	901	903
Underprovision in prior year	-	435
	901	1,338
Depreciation	638	814
Loss on disposal of property, plant and equipment	69	-
Unrealised loss on other investments	-	231
and after crediting:		
Property rental income, net of outgoings (2003: outgoings of HK\$313,000)	-	2,606
Unrealised gain on other investments	43	-

Notes to the Financial Statements

For the year ended 31st March, 2004

9. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Particulars of the emoluments of the directors and the five highest paid individuals are as follows:

(a) Directors' emoluments

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	240	240
	240	240
Other emoluments:		
Executive directors		
Salaries and other benefits	4,273	4,450
MPF contributions	137	166
Independent non-executive directors	–	–
	4,410	4,616
	4,650	4,856

The emoluments of the directors are within the following bands:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	4	6
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	1

Notes to the Financial Statements

For the year ended 31st March, 2004

9. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) Emoluments of the five highest paid individuals

The emoluments of the five highest paid individuals of the Group for the year included four (2003: four) directors of the Company, whose emoluments are included in (a) above. The aggregate emoluments of the remaining individual (2003: one) are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	300	645
MPF contributions	15	20
	315	665

During the years ended 31st March, 2004 and 2003, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

In addition, during the years ended 31st March, 2004 and 2003, no directors waived any emoluments.

10. TAXATION

No provision for Hong Kong Profits Tax has been made as neither the Company nor its subsidiaries had any assessable profit for the year.

The Hong Kong Profits Tax rate has been increased from 16% to 17.5% with effect from 2003/2004 year of assessment.

Notes to the Financial Statements

For the year ended 31st March, 2004

10. TAXATION (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(17,054)	(43,684)
Tax at the domestic income tax rate of 17.5% (2003: 16%)	(2,984)	(6,989)
Tax effect of expenses not deductible for tax purpose	4,524	7,280
Tax effect of income not taxable for tax purpose	(183)	(402)
Tax effect of deferred tax assets not recognised	562	804
Tax effect of utilisation of tax loss not recognised	(1,919)	(693)
Tax charge for the year	-	-

Details of deferred tax are set out in note 24.

11. DIVIDEND

No dividend was proposed or paid by the Company during the year (2003: nil).

12. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the net loss for the year of HK\$12,738,000 (2003: HK\$43,684,000) and on weighted average of 3,186,028,417 (2003: 3,116,124,045) ordinary shares in issue.

Diluted loss per share for the year ended 31st March, 2004 has not been presented as the exercise of the Company's outstanding share options would result in a reduction in loss per share.

Notes to the Financial Statements

For the year ended 31st March, 2004

13. INVESTMENT PROPERTIES

	THE GROUP HK\$'000
VALUATION	
At 1st April, 2003	5,800
Deficit arising on valuation of investment properties	(100)
	<hr/>
At 31st March, 2004	5,700

The Group's investment properties, which are to be rented out under operating leases, are held under long-term land use rights in the PRC.

The Group's investment properties were revalued at 31st March, 2004 by RHL Appraisal Ltd., an independent firm of professional property valuers, on an open market value basis at HK\$5,700,000. The deficit arising on revaluation of HK\$100,000 was charged to the income statement.

Notes to the Financial Statements

For the year ended 31st March, 2004

14. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP			THE COMPANY	
	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Motor vehicles HK\$'000
COST					
At 1st April, 2003	1,330	467	1,172	2,969	543
Additions	6	–	125	131	125
Disposals	(133)	–	–	(133)	–
Disposal of subsidiaries	–	–	(460)	(460)	–
At 31st March, 2004	1,203	467	837	2,507	668
DEPRECIATION					
At 1st April, 2003	792	319	617	1,728	350
Provided for the year	109	126	403	638	318
Eliminated on disposals	(41)	–	–	(41)	–
Eliminated on disposal of subsidiaries	–	–	(230)	(230)	–
At 31st March, 2004	860	445	790	2,095	668
NET BOOK VALUES					
At 31st March, 2004	343	22	47	412	–
At 31st March, 2003	538	148	555	1,241	193

Notes to the Financial Statements

For the year ended 31st March, 2004

15. INTERESTS IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries, less allowances	461,517	462,469
	461,517	462,469

The amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Out of the balance at 31st March, 2004, an amount of HK\$369,413,000 (2003: HK\$229,757,000) bears interest at prevailing market rate and the remaining balance is interest-free. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current.

Details of the Company's principal subsidiaries at 31st March, 2004 are set out in note 34.

16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	–	–
Amount due from an associate, less allowances	–	–
	–	–

Details of the Group's associate at 31st March, 2004, which is held indirectly by the Company, are as follows:

Name of associate	Place of incorporation/operation	Attributable equity interest %	Principal activity
Triple Chain Limited	British Virgin Islands/ Hong Kong	50	Inactive

Notes to the Financial Statements

For the year ended 31st March, 2004

17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Non-current investments:		
Investment securities, at cost		
Overseas unlisted shares (<i>note i below</i>)	135,000	135,000
Less: Impairment losses recognised	(93,000)	(82,000)
	<u>42,000</u>	<u>53,000</u>
Current investments:		
Other investments, at market value		
Hong Kong listed shares (<i>note ii below</i>)	<u>272</u>	<u>2,519</u>

Notes:

i. The directors of the Company consider that the investment securities are held for long-term strategic purposes. Out of the cost of HK\$135,000,000 at 31st March, 2004:

- (a) an amount of HK\$50,000,000 which represents the Group's investment in an investee company, Hennabun Management Inc. ("HMI"). HMI acts as an investment holding company of companies engaged in the brokerage, commodity trading, margin financing, money lending, corporate finance advisory services and proprietary trading activities.

At 31st March, 2004, an impairment loss of HK\$48,000,000 (2003: HK\$37,000,000) had been recognised in the Group's investment in HMI to restate the carrying value of the investment to its estimated recoverable amount, with reference to the financial information of HMI at the balance sheet date.

- (b) an amount of HK\$45,000,000 which represents the Group's investment in Auto System Limited ("Auto System"). Auto System develops software programme known as the "intelligent home" property management system. It is designed for large residential complex club house, shopping malls, entertainment and recreational centres.

At 31st March, 2004, an impairment loss of HK\$45,000,000 (2003: HK\$45,000,000) had been recognised in the Group's investment in Auto System.

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For the year ended 31st March, 2004

17. INVESTMENTS IN SECURITIES (Continued)

Notes: (Continued)

- (c) an amount of HK\$40,000,000 which represents the Group's investment in Xi'an Yizhiliu Pharmaceutical Co., Ltd. (西安一枝刘制藥有限公司) ("Xi'an Yizhiliu"), a company established in the PRC. The investment is a 22.5% holding of the registered capital of Xi'an Yizhiliu. Xi'an Yizhiliu is not regarded as an associate of the Group as the Group is not in a position to exercise significant influence over its affairs.
- ii. At 31st March, 2003, the Group had pledged its other investments with an aggregate carrying amount of HK\$2,519,000 to secure the other borrowings of HK\$1,101,000. The pledge had been released during the year ended 31st March, 2004.

18. LOANS RECEIVABLE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The loans receivable comprise:		
Unsecured long-term loans receivable	165,616	–
Unsecured short-term loans receivable	179,699	196,848
Secured short-term loan receivable (note below)	–	50,000
	345,315	246,848
Less: Amount due within one year shown under current assets	(179,699)	(246,848)
Amount due over one year	165,616	–

The loans receivable bear interest at prevailing market rate.

The Group negotiates credit period with borrowers according to the credit of individual borrower.

Note: At 31st March, 2003, the secured short-term loan receivable was secured by pledge of shares of property holding companies ("Property Companies") which were under the control of the borrowers. Pursuant to the agreement between the Group and the borrowers, the Group was granted a call option to require the borrowers to sell all of the shares of the Property Companies to the Group. The secured short-term loan receivable was fully repaid during the year.

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For the year ended 31st March, 2004

19. INTANGIBLE ASSET

	THE GROUP <i>HK\$'000</i>
COST	
At 1st April, 2003	33,962
Disposal of subsidiaries	(33,962)
	<hr/>
At 31st March, 2004	–
	<hr/>
IMPAIRMENT	
At 1st April, 2003	–
Impairment loss recognised	11,321
Eliminated on disposal of subsidiaries	(11,321)
	<hr/>
At 31st March, 2004	–
	<hr/>
NET BOOK VALUES	
At 31st March, 2004	–
	<hr/>
At 31st March, 2003	33,962
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The intangible asset of the Group represented the technology of Global Positioning Security System ("GPSS") and it was amortised over its estimated useful life of 3 years. The operation of the GPSS had not commenced since acquisition and, accordingly, no amortisation of the intangible asset had been recognised. In view of the unsatisfactory performance, an impairment loss of HK\$11,321,000 was recognised during the year.

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20. OTHER RECEIVABLES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Other receivables of the Group included:		
Proceeds from disposal of subsidiaries (<i>note i below</i>)	43,000	–
Proceeds from disposal of properties held for resale (<i>note ii below</i>)	–	28,000
Refundable deposit on the cancellation of acquisition of a subsidiary (<i>note ii below</i>)	–	28,843
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Notes:

- i. The amount represents the sales proceeds from disposal of two subsidiaries of the Company and is secured by the shares in one of these subsidiaries. It is due for full settlement in September 2004.
- ii. The amounts were fully settled during the year.

21. DEPOSITS MADE ON ACQUISITION OF A SUBSIDIARY

In March 2004, the Group entered into an agreement to acquire the entire equity interest in 深圳市方達電子產品有限公司 from two independent third parties, for an aggregate consideration of RMB3,500,000 (equivalent to HK\$3,285,000). A deposit of RMB2,500,000 (equivalent to HK\$2,342,000) has been paid by the Group. The remaining consideration of RMB1,000,000 (equivalent to HK\$943,000) was disclosed as capital commitment of the Group at 31st March, 2004 in note 31.

深圳市方達電子產品有限公司 is a limited liability company established in the PRC and principally engages in the marketing, promotion and sale of electronic products in the PRC.

Notes to the Financial Statements

For the year ended 31st March, 2004

22. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The bank and other borrowings, which are due within one year, comprise:				
Secured other borrowings	-	1,101	-	-
Unsecured bank overdrafts	58	479	58	479
	58	1,580	58	479

23. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary of the Company is unsecured, interest-free and has no fixed terms of repayment. Having agreed by the subsidiary, the amount will not be repayable within twelve months from the balance sheet date and is therefore shown as non-current.

24. DEFERRED TAX

At 31st March, 2004, the Group and the Company have unused tax losses of HK\$52,691,000 (2003: HK\$60,766,000) and HK\$3,563,000 (2003: HK\$14,316,000), respectively, available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Notes to the Financial Statements

For the year ended 31st March, 2004

25. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
Balance at 1st April, 2002, 31st March, 2003 and 31st March, 2004	<u>200,000,000,000</u>	<u>2,000,000</u>
<i>Issued and fully paid:</i>		
Balance at 1st April, 2002 and 31st March, 2003	3,116,124,045	31,161
Issue of shares	<u>365,000,000</u>	<u>3,650</u>
Balance at 31st March, 2004	<u>3,481,124,045</u>	<u>34,811</u>

During the year, the following changes in the share capital of the Company took place:

- (i) Pursuant to a placing agreement entered into on 18th December, 2003, the Company issued 215,000,000 ordinary shares of HK\$0.01 each at HK\$0.053 per share which represents a discount of approximately 7.02% to the closing price of HK\$0.057 per share on 18th December, 2003 as quoted on the Stock Exchange. The net proceeds of the placement of HK\$11,034,000 was used for additional working capital of the Group.
- (ii) Pursuant to another placing agreement entered into on 30th January, 2004, the Company issued 150,000,000 ordinary shares of HK\$0.01 each at HK\$0.055 per share which represents a discount of approximately 5.17% to the closing price of HK\$0.058 per share on 30th January, 2004 as quoted on the Stock Exchange. The net proceeds of the placement of HK\$7,955,000 was used for additional working capital of the Group.

These new ordinary shares issued during the year rank pari passu with the then existing ordinary shares of the Company in all respects.

These new ordinary shares were issued under the general mandate granted to the directors of the Company at the extraordinary general meeting held on 5th September, 2003.

Notes to the Financial Statements

For the year ended 31st March, 2004

26. SHARE OPTION SCHEME

The share option scheme of the Company approved and adopted by the shareholders at the extraordinary general meeting held on 23rd August, 2002 (the "2002 Scheme") shall be valid and effective for a period of 10 years commencing from 23rd August, 2002 ("the Adoption Date"). The primary purpose of the 2002 Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The categories of the participants under the 2002 Scheme are any directors (including executive directors, non-executive directors and independent non-executive directors) of the Company and its subsidiaries and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers to the Group who the Board of Directors of the Company (the "Board") considers, in its sole discretion have contributed or will contribute to the Group.

The Board may, at its absolute discretion, made an offer to any participant to take up share options. An offer is deemed to have been accepted and a share option is deemed to have been granted and accepted and shall take effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee and the remittance of HK\$1 by way of consideration for the grant thereof is received by the Company. Share options granted may be exercised during the period as notified by the Board to each grantee at the time of making the offer and shall be at any time from the date of grant to the tenth anniversary thereof.

The total number of shares which may be issued upon exercise of all share options granted under the 2002 Scheme and other share option scheme(s) of the Company (excluding share options lapsed) must not exceed 311,612,404 shares, being approximately 10% of the total number of the Company's shares in issue on the Adoption Date, except with prior approvals from the Company's shareholders. The maximum number of shares in respect of which share options may be granted to a specifically identified single grantee under the 2002 Scheme shall not (when aggregated with any shares subject to any other share option scheme(s) of the Company) in any 12-month period exceed 1% of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting.

Notes to the Financial Statements

For the year ended 31st March, 2004

26. SHARE OPTION SCHEME (Continued)

The subscription price for shares on the exercise of share options under the 2002 Scheme shall be determined by the Board in its absolute discretion but in any event shall not be less than the greatest of: (i) the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the date on which a share option is granted; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date on which a share option is granted; and (iii) the nominal value of the Company's share.

The 2002 Scheme will expire on 22nd August, 2012.

At 31st March, 2004, share options in respect of a total of 60,000,000 shares had been granted to the directors of the Company under the 2002 Scheme, representing approximately 1.72% and 1.61% of the issued share capital of the Company at that date and 23rd July, 2004, respectively. There were no share options granted to employees of the Group.

A summary of movements of share options held by the directors of the Company during the year ended 31st March, 2004 is as follows:

Date of grant	Exercisable period	Subscription price per share HK\$	Number of share options		
			Outstanding at 1.4.2003	Granted during the year	Outstanding at 31.3.2004
16.1.2004	16.1.2004 to 15.1.2009	0.06	–	60,000,000	60,000,000

During the year, no share options were exercised, cancelled or lapsed under the 2002 Scheme.

No share options were granted or outstanding at any time during the year ended 31st March, 2003.

No charge was recognised in the income statement of the Company in respect of the share options granted. Share options granted are not recognised in the financial statements until such options are exercised. Upon exercise of share options, the shares issued by the Company are recorded as additional share capital at the nominal value of such shares and the excess of the subscription price over the nominal value of the shares issued is recorded in the Company's share premium account.

The total consideration received during the year for the share options granted was HK\$2.

Notes to the Financial Statements

For the year ended 31st March, 2004

27. RESERVES

	Capital					Total HK\$'000
	Share premium HK\$'000	redemption reserve HK\$'000	Contributed surplus HK\$'000 <i>(note b)</i>	Distributable reserve HK\$'000 <i>(note c)</i>	Accumulated losses HK\$'000	
THE COMPANY						
At 1st April, 2002	287,456	485	39,521	595,191	(431,512)	491,141
Net loss for the year	–	–	–	–	(61,909)	(61,909)
At 31st March, 2003	287,456	485	39,521	595,191	(493,421)	429,232
Issue of shares	15,995	–	–	–	–	15,995
Expenses incurred in connection with the issue of shares	(656)	–	–	–	–	(656)
Net loss for the year	–	–	–	–	(16,290)	(16,290)
At 31st March, 2004	302,795	485	39,521	595,191	(509,711)	428,281

Notes:

- (a) The special reserve of the Group represents the difference between the aggregate amount of the share capital and share premium account of a company which was the former holding company of the Group and the nominal value of the Company's shares issued pursuant to the group reorganisation in 1992.
- (b) The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the underlying net tangible asset value net of pre-acquisition dividends and realised pre-acquisition investment property revaluation reserve of subsidiaries which were acquired by the Company pursuant to the group reorganisation in 1992.
- (c) The distributable reserve of the Group and the Company represents the aggregate of the credit arising from the following:
- (i) the reduction of nominal value of the consolidated shares from HK\$0.10 each to HK\$0.002 each by cancelling HK\$0.098 paid up on each issued share and the cancellation of share premium account as at 31st October, 1998, after a transfer of HK\$607,193,000 towards the elimination of the accumulated losses of the Company at 31st October, 1998; and
 - (ii) Capital reduction during the year ended 31st March, 2002.

Notes to the Financial Statements

For the year ended 31st March, 2004

28. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	230	–
Intangible asset	22,641	–
Short-term loans receivable	23,949	–
Bank balances and cash	82,452	–
Other payables	(2,717)	–
Minority interests	(33,420)	–
	<hr/>	<hr/>
Net assets	93,135	–
Gain on disposal of subsidiaries	95	–
	<hr/>	<hr/>
	93,230	–
	<hr/>	<hr/>
Satisfied by:		
Cash consideration received	50,230	–
Other receivables	43,000	–
	<hr/>	<hr/>
	93,230	–
	<hr/>	<hr/>
Analysis of net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	50,230	–
Bank balances and cash disposed of	(82,452)	–
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in connection with the disposal of subsidiaries	(32,222)	–
	<hr/>	<hr/>

The Group's loss from operations included HK\$12,655,000 in respect of the disposed subsidiaries up to their disposal day.

Notes to the Financial Statements

For the year ended 31st March, 2004

29. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st March, 2003, the following major non-cash transactions took place:

- (a) The minority shareholder of a subsidiary injected an intangible asset of HK\$33,962,000 to the Group.
- (b) Reclassification of HK\$28,843,000 from deposits made on investments to other receivables.

30. OPERATING LEASE COMMITMENTS

- (a) The Group as lessee

	2004 HK\$'000	2003 HK\$'000
Minimum lease payments paid by the Group under operating leases in respect of premises during the year	818	1,012

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

	2004 HK\$'000	2003 HK\$'000
Within one year	612	857
In the second to fifth year inclusive	–	540
	612	1,397

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

Notes to the Financial Statements

For the year ended 31st March, 2004

30. OPERATING LEASE COMMITMENTS (Continued)

(b) The Group as lessor

	2004 HK\$'000	2003 <i>HK\$'000</i>
Property rental income earned during the year	–	2,919

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

	2004 HK\$'000	2003 <i>HK\$'000</i>
Within one year	–	2,341
In the second to fifth year inclusive	–	598
	–	2,939

At 31st March, 2003, the Group's properties were expected to generate rental yield of 9.7% on an ongoing basis. All of the properties held had committed tenants for an average of two years.

31. CAPITAL COMMITMENTS

	THE GROUP	
	2004 HK\$'000	2003 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of:		
Acquisition of property, plant and equipment	–	170,913
Acquisition of a subsidiary	943	–
	943	170,913

Notes to the Financial Statements

For the year ended 31st March, 2004

31. CAPITAL COMMITMENTS *(Continued)*

At 31st March, 2003, Sure Success Developments Limited ("SSD"), a wholly-owned subsidiary of the Company, had outstanding commitment of HK\$170,913,000 for the acquisition of properties in the PRC. SSD was disposed of by the Group on 12th May, 2003.

The Company did not have any significant capital commitments at the balance sheet date.

32. PENSION SCHEME

The Group has operated a MPF scheme for all employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in independently-administered funds. The Group's employer contributions are contributed into the scheme in accordance with the rules of the scheme.

33. POST BALANCE SHEET EVENT

On 5th May, 2004, an agreement was made with an independent third party for the placing and subscription of 240,000,000 new ordinary shares of HK\$0.01 each in the Company at HK\$0.052 per share which represents a discount of approximately 1.89% to the closing price of HK\$0.053 per share on 5th May, 2004 as quoted on the Stock Exchange. The net proceeds of the placing was used for additional working capital of the Group. The new shares were issued on 21st May, 2004.

Notes to the Financial Statements

For the year ended 31st March, 2004

34. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid ordinary share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Asia Hunter Global Limited	British Virgin Islands	US\$1	100	–	Investment holding
Brilliance Assets Limited	British Virgin Islands	US\$1	–	100	Investment holding
Eastern Sunny Limited	Hong Kong	HK\$2	–	100	Provision of management service
Equity Spin Investments Limited	British Virgin Islands	US\$1	100	–	Investment holding
Far Hero Limited	Hong Kong	HK\$2	–	100	Property investment
Genesis Sun Holdings Limited	Hong Kong	HK\$2	–	100	Investment holding
Hansom Finance Limited	Hong Kong	HK\$2	–	100	Provision of finance
Longsun Ltd.	British Virgin Islands	US\$1	100	–	Investment holding
Peking Bay Assets Limited	British Virgin Islands	US\$1	–	100	Investment holding
Progressive Company Limited	Hong Kong	HK\$1,000	–	100	Investment holding

Notes to the Financial Statements

For the year ended 31st March, 2004

34. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid ordinary share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Smart Jump Corporation	British Virgin Islands/ Hong Kong	US\$1	–	100	Trading in securities
Top Achievers Co., Ltd.	British Virgin Islands	US\$1	–	100	Investment holding
Win Advance Development Limited	Hong Kong	HK\$2	–	100	Property investment

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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