

Notes to the Financial Statements

For the year ended 31 March 2004



1. GENERAL

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

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 28.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in the light of the net current liabilities of HK\$119,094,000 as at 31 March 2004. On 29 March 2004, the Company entered into a conditional agreement with Paul Y.-ITC Construction Holdings Limited ("Paul Y") in relation to a Restructuring Proposal (the "Proposal"). The Proposal involves (i) a capital reorganisation which includes: (a) the cancellation of HK\$0.018 of the paid-up capital from the issued shares of the Company and reduction in the nominal value of each issued share from HK\$0.02 to HK\$0.002; (b) the cancellation of the entire amount standing to the credit of the share premium account of the Company; (c) the subdivision of each authorised but unissued share into 10 reduced shares of HK\$0.002 each; (d) the consolidation of every 10 reduced shares of HK\$0.002 each into one consolidated share of HK\$0.02; and (e) the increase in the authorised share capital of the Company from HK\$140,000,000 to HK\$400,000,000 by the creation of an additional 13,000,000,000 consolidated shares of HK\$0.02 each; (ii) an open offer to allow the shareholders of the Company to participate in the restructuring of the Group, the Company will make the open offer whereby qualifying shareholders will be offered five offer shares for every two consolidated shares on an assured basis held on the Record Date at HK\$0.04 per offer share; (iii) to acquire from Paul Y the entire issued share capital of, and shareholder's loans to, Paul Y. - ITC Construction Holdings (B.V.I.) Limited at a total consideration of HK\$400,000,000, to be satisfied by the issue of the consideration shares at HK\$0.04 per consolidated share; (iv) Paul Y conditionally agreed to acquire the entire issued share capital of Hidden Advantage Investments Limited ("Hidden") together with the outstanding shareholder's loan from Wellington Equities Inc. for a total consideration of HK\$30,000,000, of which HK\$10,000,000 will be paid in cash and the remaining HK\$20,000,000 will be satisfied by the issue of 500,000,000 consolidation shares out of the Hidden consideration shares. To retire the Group's obligation in relation to the Lombard Asian Private Investment Company LDC ("Lombard") Claim and to retire the Group's outstanding obligations under the Hidden Prior Agreements, the Company agreed to acquire from Paul Y the Hidden Interest at HK\$113.6 million which will be settled by the issue of the Hidden consideration shares at HK\$0.04 per consolidated share to Paul Y. Details of the Proposal are set out in the joint announcements dated 4 June 2004 and 25 June 2004 issued by the Company, Paul Y and ITC Corporation Limited.

The Proposal is expected to be completed by September 2004. Provided that the Proposal can be successfully completed, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group’s share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group’s share of the net assets of the associates.

Revenue recognition

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

Service income is recognised when services are provided.

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

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For the year ended 31 March 2004



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

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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the 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 Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Notes to the Financial Statements

For the year ended 31 March 2004



4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

5. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers less discounts allowed and goods returned, and revenue arising on provision of installation services for marble and granite products during the year.

	2004 HK\$'000	2003 HK\$'000
Wholesaling of marble and granite products and marble fittings	415	10,877
Installation services for marble and granite products	<u>1,096</u>	<u>40,489</u>
	<u>1,511</u>	<u>51,366</u>

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three main operating divisions, namely wholesaling, installation services and IT services. These divisions are the bases on which the Group reports its primary segment information.

Principal activities are as follows:

- Wholesaling – wholesaling of marble and granite products and marble fittings
- Installation services – provision of installation services for marble and granite products
- IT services – provision of IT services

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For the year ended 31 March 2004



6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses for the years ended 31 March 2004 and 2003 is presented below.

Income statement for the year ended 31 March 2004

	Wholesaling HK\$'000	Installation services HK\$'000	IT services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	415	1,096	–	–	1,511
RESULT					
Segment result and loss before tax	(8,974)	153	(2,319)	–	(11,140)
Income taxes					(394)
Loss before minority interests					(11,534)

Balance sheet as at 31 March 2004

	Wholesaling HK\$'000	Installation services HK\$'000	IT services HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	–	–	3	3
Unallocated corporate assets				17
Consolidated total assets				20
Liabilities				
Segment liabilities	850	–	106,678	107,528
Unallocated corporate liabilities				11,586
Consolidated total liabilities				119,114

Other information for the year ended 31 March 2004

	Wholesaling HK\$'000	Installation services HK\$'000	IT services HK\$'000	Consolidated HK\$'000
Bad debt recovered	96	146	–	242

Notes to the Financial Statements

For the year ended 31 March 2004



6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Income statement for the year ended 31 March 2003

	Wholesaling HK\$'000	Installation services HK\$'000	IT services HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE					
External sales	<u>10,877</u>	<u>40,489</u>	<u>–</u>	<u>–</u>	<u>51,366</u>
RESULT					
Segment result	<u>(16,921)</u>	<u>109</u>	<u>(14,707)</u>	<u>–</u>	<u>(31,519)</u>
Finance costs					(1,728)
Gain on waiver of bank loans interest					7,135
Provision for guarantee to repay redemption sum of a subsidiary's preferred shares	–	–	(93,600)	–	(93,600)
Gain on disposal of subsidiaries					5,112
Share of loss of associates					<u>(415)</u>
Loss before tax					(115,015)
Income taxes					<u>–</u>
Loss before minority interests					<u>(115,015)</u>

Balance sheet as at 31 March 2003

	Wholesaling HK\$'000	Installation services HK\$'000	IT services HK\$'000	Consolidated HK\$'000
Assets				
Segment assets	731	–	1,057	1,788
Unallocated corporate assets				<u>158</u>
Consolidated total assets				<u>1,946</u>
Liabilities				
Segment liabilities	266	–	104,621	104,887
Unallocated corporate liabilities				<u>4,619</u>
Consolidated total liabilities				<u>109,506</u>

Notes to the Financial Statements

For the year ended 31 March 2004



6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Other information for the year ended 31 March 2003

	Wholesaling HK\$'000	Installation services HK\$'000	IT services HK\$'000	Consolidated HK\$'000
Depreciation of property, plant and equipment	2,563	–	541	3,104
Allowance for bad and doubtful debts	2,055	–	–	2,055
Impairment loss recognised on goodwill arising on acquisition of additional interests in a subsidiary	–	–	3,796	3,796
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Geographical segments

The Group's operations are located in Hong Kong and other regions of the People's Republic of China. More than 90% of the Group's sales are within Hong Kong.

7. COST OF SALES

Included in cost of sales is an amount of nil (2003: HK\$7,517,000) in respect of an allowance for obsolete finished goods and work in progress.

8. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Interest earned on bank deposits	–	43
Management fee income	–	1,318
Sundry income	134	1,087
	<u> </u>	<u> </u>
	<u>134</u>	<u>2,448</u>

Notes to the Financial Statements

For the year ended 31 March 2004



9. LOSS FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Loss from operations has been arrived at after charging (crediting):		
Staff costs		
– Directors' emoluments (note 11)	3,211	2,914
– Contributions to retirement benefits schemes, net of forfeiture of HK\$5,000 (2003: HK\$6,000)	19	34
– Others	703	1,334
	<u>3,933</u>	<u>4,282</u>
Auditors' remuneration		
– Current year	360	310
– Underprovision in prior years	158	834
	<u>518</u>	<u>1,144</u>
Depreciation	–	3,104
Net foreign exchange losses	–	2
Operating lease payments in respect of rented premises	393	2,394
Bad debt recovered	(242)	–

10. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans wholly repayable within five years	–	1,728

11. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' fees	–	–
Other emoluments – Executive:		
Salaries and other benefits	3,150	2,878
Contributions to retirement benefits schemes	61	36
	<u>3,211</u>	<u>2,914</u>
Total emoluments	<u>3,211</u>	<u>2,914</u>

Notes to the Financial Statements

For the year ended 31 March 2004



11. DIRECTORS' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	2004	2003
	No. of	No. of
	directors	directors
Nil to HK\$1,000,000	5	7
HK\$1,000,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	–	1
	<u>6</u>	<u>8</u>

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

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2003: four) were directors of the Company whose emoluments are included in the disclosures in note 11 above. The emoluments of the remaining two (2003: one) individuals were as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	455	253
Contributions to retirement benefits schemes	19	12
	<u>474</u>	<u>265</u>

The aggregate emoluments of each of the employees during the relevant periods were within the emoluments band ranging from nil to HK\$1,000,000.

13. RETIREMENT BENEFIT SCHEMES

	2004	2003
	HK\$'000	HK\$'000
The Company and subsidiaries		
Contributions	85	94
Less: Forfeited amount	(5)	(24)
	<u>80</u>	<u>70</u>

The Group has a defined contribution provident fund scheme for its Hong Kong employees. This is operated by CommServe Financial Limited (formerly known as CMG Asia Pensions and Retirement Limited) with Dexia Trust Services Hong Kong Limited as Trustees (the "ORSO Scheme").

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13. RETIREMENT BENEFIT SCHEMES (continued)

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

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

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

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

14. PROVISION FOR GUARANTEE TO REPAY REDEMPTION SUM OF A SUBSIDIARY'S PREFERRED SHARES

On 24 October 2002, a winding up petition ("Petition") was served on the Company by Lombard alleging the failure of the Company to cause Skynet Limited ("Skynet") to pay the redemption amount of HK\$93.6 million for the convertible cumulative redeemable participative preferred shares of Skynet held by Lombard. The Petition was scheduled to be heard on 18 December 2002. On 30 October 2002, Lombard informed the Company that it would seek leave to withdraw the Petition filed against the Company and served another winding up petition ("New Petition") alleging the same on the Company. The hearing of the New Petition was scheduled to be heard on 15 January 2003 and was subsequently dismissed by the court on 29 March 2004. The amount of HK\$93.6 million has been fully provided in the financial statements.

Notes to the Financial Statements

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15. INCOME TAXES

The tax charge for the year represented an underprovision of Hong Kong Profits Tax in prior years.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for the year.

At the balance sheet date, the Group has unused tax losses of approximately HK\$424,266,000 (2003: HK\$413,687,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit stream.

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

	2004 HK\$'000	2003 HK\$'000
Loss before tax	<u>(11,140)</u>	<u>(115,015)</u>
Tax at the Hong Kong Profits Tax rate of 17.5% (2003: 16%)	(1,950)	(18,402)
Tax effect of expenses not deductible for tax purpose	–	17,194
Tax effect of income not taxable for tax purpose	(42)	(633)
Tax effect of share of loss of associates	–	66
Tax effect of tax losses not recognised	1,992	1,775
Underprovision in respect of prior years	<u>394</u>	<u>–</u>
Tax charge for the year	<u>394</u>	<u>–</u>

16. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of HK\$11,534,000 (2003: HK\$96,916,000) and 4,507,099,957 (2003: 4,507,099,957) ordinary shares in issue during the year.

No diluted loss per share for both years have been presented as the exercise of the potential ordinary shares would result in a reduction in loss per share.

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17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	220,802	220,802
Impairment loss recognised	(220,802)	(220,801)
	<u> </u>	<u> </u>
	-	1

Details of the Company's principal subsidiaries are set out in note 28.

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	<u> </u>	<u> </u>
	-	-

At 31 March 2004, the Group had interests in the following principal associate:

Name of entity	Place of incorporation	Principal place of operation	Class of shares held	Proportion of nominal value of issued capital held by the Company indirectly %	Nature of business
Cyber On-Air Group Company Limited ("COA")	Cayman Islands	Hong Kong	Ordinary	27.50	Investment holding and its subsidiaries are principally engaged in sales of telecommunications products, provision of network installation and engineering services

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18. INTERESTS IN ASSOCIATES (continued)

The following details have been extracted from the audited financial statements of the Group's significant associate.

	2004 HK\$'000	COA 2003 HK\$'000
Results for the year		
Turnover	16,131	38,877
Loss from ordinary activities before tax	35,553	22,837
Financial position		
Non-current assets	7,949	71,853
Current assets	7,294	9,805
Current liabilities	(44,958)	(38,420)
Non-current liability	(42,600)	(80,000)
Net liabilities	(72,315)	(36,762)
Net assets attributable to the Group	-	-

19. AMOUNTS DUE FROM SUBSIDIARIES

	2004 HK\$'000	THE COMPANY 2003 HK\$'000
Amounts due from subsidiaries	503,680	504,554
Less: Allowances	(503,680)	(504,554)
	-	-

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

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20. TRADE DEBTORS

The Group does not define a fixed credit policy.

The following is an aged analysis of trade debtors at the reporting date:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Over 90 days	<u>-</u>	<u>100</u>

21. AMOUNTS DUE TO ASSOCIATES

The amounts are in the nature of current accounts which are interest-free, unsecured and have no fixed repayment terms.

22. SHARE CAPITAL

	Number of shares 2004 & 2003	Share capital 2004 & 2003 HK\$'000
Authorised:		
At 1 April 2002, 31 March 2003 and 31 March 2004		
Ordinary shares of HK\$0.02 each	<u>7,000,000,000</u>	<u>140,000</u>
Issued and fully paid:		
At 1 April 2002, 31 March 2003 and 31 March 2004		
Ordinary shares of HK\$0.02 each	<u>4,507,099,957</u>	<u>90,142</u>

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23. SHARE OPTIONS

The Company's share option scheme ("Scheme") was adopted pursuant to a resolution passed on 1 April 1996 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 1 April 2006. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including any executive director of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares of the Company in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the issued share capital of the Company on the date of the proposed grant less the aggregate of (i) the number of shares of the Company which would be issued on the exercise in full of the options granted but not exercised on that date and (ii) the number of shares of the Company which have been issued and allotted pursuant to the exercise of any option already granted on such date. As at the date of this report, the total number of shares of the Company in respect of which options may be granted under the Scheme was 60,709,995 shares (representing approximately 1.35% of the shares of the Company in issue at that date), after deducting options in respect of 228,200,000 shares that had been lapsed in accordance with the terms of the Scheme. No option shall be granted to any employee if the number of shares of the Company the subject of such option when added to the number of shares of the Company which have been subscribed on exercise of any option granted to him under the Scheme and the number of shares of the Company for which the employee is entitled to subscribe under any outstanding option would exceed 25% of the maximum aggregate number of shares of the Company subject to the Scheme.

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

The following table discloses details of the Company's share options held by a director and movements in such holdings during the year:

	Date granted	Exercise price per share HK\$	Exercisable period	At 1.4.2003	Lapsed during the year	At 31.3.2004
Director						
Lo Chi Ho, William	14 February 2001	0.039	15 February 2001 to 14 February 2004	<u>50,000,000</u>	<u>(50,000,000)</u>	<u>—</u>

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23. SHARE OPTIONS (continued)

The following table discloses details of the Company's share options held by a director and movements in such holdings during last year:

	Date granted	Exercise price per share HK\$	Exercisable period	At 1.4.2002	Lapsed during the year	At 31.3.2003
Director						
Lo Chi Ho, William	29 February 2000	0.304	1 March 2000 to 28 February 2003	45,000,000	(45,000,000)	–
	14 February 2001	0.039	15 February 2001 to 14 February 2004	50,000,000	–	50,000,000
Total				<u>95,000,000</u>	<u>(45,000,000)</u>	<u>50,000,000</u>

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

24. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY					
At 1 April 2002	488,643	180,801	255	(759,938)	(90,239)
Net loss for the year	–	–	–	(94,705)	(94,705)
At 31 March 2003	488,643	180,801	255	(854,643)	(184,944)
Net loss for the year	–	–	–	(6,620)	(6,620)
At 31 March 2004	<u>488,643</u>	<u>180,801</u>	<u>255</u>	<u>(861,263)</u>	<u>(191,564)</u>

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24. RESERVES (continued)

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the Group reorganisation prior to the listing of the Company's shares in 1996.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

There is no distributable reserve at both balance sheet dates.

25. DISPOSAL OF SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	–	21,137
Inventories	–	5,000
Trade creditors	–	(902)
Other creditors and accruals	–	(3,829)
	<hr/>	<hr/>
	–	21,406
Exchange reserve realised on disposal	–	(2,518)
Gain on disposal	–	5,112
	<hr/>	<hr/>
	–	24,000
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	–	24,000
	<hr/> <hr/>	<hr/> <hr/>
Net cash inflow arising on disposal of subsidiaries:		
Cash consideration	–	24,000
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries disposed of in prior year did not contribute significant cash flows or results to the Group.

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26. CONTINGENT LIABILITIES

- (a) A subsidiary of the Company is a defendant in a lawsuit brought during 2002 claiming approximately HK\$1,733,000 relating to the outstanding sum of the contract works done by a sub-contractor, Swee Kheng & Aster Marble Company Limited ("Swee Kheng"). The subsidiary filed a defence and counterclaim claiming payment from Swee Kheng of a sum of approximately HK\$162,000. The subsidiary has contested the claim vigorously and no provision has been made in the financial statements.
- (b) The Company has given certain undertakings to Hidden, a minority shareholder of a subsidiary of the Group, that the return of Hidden's investment in that subsidiary would not be less than US\$16,000,000. There is a shortfall in the return of Hidden's investment. The compensation to Hidden in accordance with the agreement is estimated to be approximately HK\$10,576,000. The directors considered that the likelihood of compensation is remote and no provision is made accordingly.

27. LEASE COMMITMENTS

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

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Within one year	–	1,214
In the second to fifth year	–	1,214
	<hr/>	<hr/>
	–	2,428
	<hr/> <hr/>	<hr/> <hr/>

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

Subsequent to 31 March 2003, all leases were terminated with landlord by early surrender of the premises and a compensation of approximately HK\$790,000.

Notes to the Financial Statements

For the year ended 31 March 2004



28. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place/ country of incorporation/ registration	Class of shares held	Paid up issued/ registered share capital	Proportion of nominal value of issued capital/ registered capital by the Company		Principal activities
				Directly %	Indirectly %	
Operate in Hong Kong:						
Companion Marble (BVI) Limited	The British Virgin Islands	Ordinary	HK\$40,000,000	100	–	Investment holding
Companion Marble Limited 友暉雲石有限公司	Hong Kong	Ordinary Non-voting deferred shares	HK\$2 HK\$15,000,000	– –	100 –	Wholesaling of marble and granite products and marble fittings, and provision of installation services for marble and granite products
Gold Cloud Agents Limited	The British Virgin Islands	Ordinary	US\$200	–	99	Investment holding
Qantex Limited 君達有限公司	Hong Kong	Ordinary	HK\$2	–	68.93	Investment holding
Saxophone Enterprises Limited	The British Virgin Islands	Ordinary	US\$100	100	–	Investment holding
SkyNET Limited	Hong Kong	Ordinary Preference	HK\$20,476,233 HK\$67,165	– –	68.93 –	Investment holding

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