

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

1. GENERAL

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

During the year, the Group was principally engaged in manufacturing, sourcing and distribution of electronic parts and components and investment holdings. In February 2004, the Group ceased its business of manufacturing of electronic parts and components as set out in note 5.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on a going concern basis. The continuation of the Group’s business depends upon future profitable operation of the Group and the success of obtaining additional outside financing to meet its future working capital and financial requirements.

The accounting policies used in the preparation of the financial statements are consistent with the previous year except that the Group has adopted the following revised Hong Kong Statement of Standard Accounting Practice (“SSAP”) which became effective for the current financial year.

SSAP 12 (revised): Income taxes

The principal effect of the implementation of the revised statement is in relation to deferred tax. In previous years partial provision was made for deferred tax using income statement liability method, that is, a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. The revised statement 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 transitional requirements, the new accounting policy has been adopted retrospectively, but the adoption of the standard has not had any material effect on the results for the current year or prior accounting periods.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) **Basis of consolidation**

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

A subsidiary is an entity in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less impairment losses, if any. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) **Goodwill**

Goodwill arising on acquisition represents the excess of the cost of investments over the Group's interest in the fair value of identifiable net assets of subsidiaries and associates when acquired, and is amortised on a straight line basis over its useful economic life of five to ten years.

(c) **Associate**

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The Group's investments in associates include the Group's share of the net assets of the associates (plus the premium paid/less any discount on acquisition in so far as it has not already been written off or amortised). The Group's share of post-acquisition profits or losses of associates is included in the consolidated income statement.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) *Associate (cont'd)*

In the Company's balance sheet the investments in associates are stated at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

(d) *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 stated at cost less impairment losses, if any. The carrying amounts of individual investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment securities is reduced to its fair value. The amount of the reduction is recognised as an expense in the income statement. The reduction is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Other investments are carried at fair value. At each balance sheet date the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(e) *Impairment*

The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the carrying amount of the asset to its recoverable amount. Such impairment losses are recognised as an expense in the income statement immediately.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) *Impairment (cont'd)*

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.

(f) *Plant and equipment*

Plant and equipment are stated at cost less accumulated depreciation and any impairment losses and are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20%
Motor vehicles	30%

The gain or loss on disposal of plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(g) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is 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.

(h) *Cash and cash equivalents*

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity at acquisition.

(i) *Finance leases*

Leases where substantially transfer to the Company all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At inception finance lease is capitalised at the lower of the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) **Finance leases (cont'd)**

Lease payments are allocated between the capital and finance charges. The corresponding rental obligations, net of finance charges, are recorded as obligations under finance leases. Finance charges are charged to the income statement in proportion to the capital balances outstanding.

(j) **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease term.

(k) **Foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling on the balance sheet date. Gains and losses resulting from this translation policy are recognised in the income statement.

(l) **Employee benefits**

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the income statement as incurred.

(m) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) *Taxation*

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(o) *Revenue recognition*

Revenue from the sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Trading of securities are recognised when the relevant transaction is executed.

Dividend income is recognised when the right to receive payment is established.

Interest income is accrued on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(p) *Discontinuing operations*

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENTAL INFORMATION

For management purposes, the Group is currently organised into two operating divisions – sourcing and distribution of electronic parts and components and investment holding and its business of manufacture of electronic parts and components was discontinued during the year as set out in note 5. These divisions are the basis on which the Group reports its primary segment information.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENTAL INFORMATION (CONT'D)

BUSINESS SEGMENTS

An analysis of the Group's revenue, results, certain asset, liability and expenditure information by business segments is as follows:

Income statement

For the year ended 31 March 2004

	Continuing operations		Discontinued operations	Consolidated HK\$'000
	Sourcing and distribution of electronic parts and components HK\$'000	Investment holding HK\$'000	Manufacturing of electronic parts and components HK\$'000	
Segment revenue	<u>93,753</u>	<u>–</u>	<u>129,044</u>	<u>222,797</u>
Segment results	<u>(11,196)</u>	<u>(21,923)</u>	<u>(9,210)</u>	(42,329)
Other operating income				140
Unallocated corporate expenses				(28,123)
Gain on disposal of discontinued operations				14,923
Gain on disposal of subsidiaries				<u>5,676</u>
Loss from operations				(49,713)
Finance costs				<u>(2,523)</u>
Loss before taxation				(52,236)
Taxation				<u>–</u>
Loss before minority interest				(52,236)
Minority interest				<u>189</u>
Loss for the year				<u>(52,047)</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENTAL INFORMATION (CONT'D)

BUSINESS SEGMENTS (CONT'D)

Income statement (cont'd)

For the year ended 31 March 2003

	Continuing operations		Discontinued operations	Consolidated HK\$'000
	Sourcing and distribution of electronic parts and components HK\$'000	Investment holding HK\$'000	Manufacturing of electronic parts and components HK\$'000	
Segment revenue	15,205	–	230,168	245,373
Segment results	(2,110)	(31,329)	(5,437)	(38,876)
Other operating income				4,356
Unallocated corporate expenses				(25,045)
Loss from operations				(59,565)
Finance costs				(3,815)
Loss before taxation				(63,380)
Taxation				–
Loss for the year				(63,380)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENTAL INFORMATION (CONT'D)

BUSINESS SEGMENTS (CONT'D)

Balance sheet

At 31 March 2004

	Continuing operations		Discontinued operations	Consolidated HK\$'000
	Sourcing and distribution of electronic parts and components HK\$'000	Investment holding HK\$'000	Manufacturing of electronic parts and components HK\$'000	
ASSETS				
Segment assets	17,620	43,073	–	60,693
Unallocated corporate assets				97,635
Consolidated total assets				<u>158,328</u>
LIABILITIES				
Segment liabilities	4,116	3,000	–	7,116
Unallocated corporate liabilities				28,597
Consolidated total liabilities				<u>35,713</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENTAL INFORMATION (CONT'D)

BUSINESS SEGMENTS (CONT'D)

Balance sheet (cont'd)

At 31 March 2003

	Continuing operations		Discontinued operations	Consolidated HK\$'000
	Sourcing and distribution of electronic parts and components HK\$'000	Investment holding HK\$'000	Manufacturing of electronic parts and components HK\$'000	
ASSETS				
Segment assets	4,357	53,526	77,806	135,689
Unallocated corporate assets				55,415
Consolidated total assets				<u>191,104</u>
LIABILITIES				
Segment liabilities	5,672	8,000	78,264	91,936
Unallocated corporate liabilities				39,168
Consolidated total liabilities				<u>131,104</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENTAL INFORMATION (CONT'D)

BUSINESS SEGMENTS (CONT'D)

Other information

For the year ended 31 March 2004

	Continuing operations		Discontinued operations	Unallocated corporate assets	Consolidated
	Sourcing and distribution of electronic parts and components	Investment holding	Manufacturing of electronic parts and components		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to plant and equipment	10	-	-	112	122
Provision for doubtful debts	-	5,598	-	5,000	10,598
Amortisation of goodwill	-	1,591	-	-	1,591
Depreciation	2	-	556	1,164	1,722
Impairment losses recognised in respect of investments in securities	-	8,053	-	-	8,053

For the year ended 31 March 2003

Additions to plant and equipment	-	-	83	107	190
Provision for doubtful debts	-	18,829	-	-	18,829
Depreciation	-	-	708	2,367	3,075
Impairment losses recognised in respect of investments in securities	-	7,500	-	-	7,500

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

4. SEGMENTAL INFORMATION (CONT'D)

GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's turnover by geographical markets, irrespective of the origin of the goods:

	Turnover	
	2004 HK\$'000	2003 HK\$'000
Hong Kong and PRC	187,959	202,024
Other Asian countries	31,481	31,704
United States of America	159	5,221
Europe and others	3,198	6,424
	<u>222,797</u>	<u>245,373</u>

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

	Carrying amount of segment assets		Additions to plant and equipment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong and PRC	152,828	187,207	122	190
Other Asian countries	4,167	2,799	-	-
United States of America	1,333	493	-	-
Europe and others	-	605	-	-
	<u>158,328</u>	<u>191,104</u>	<u>122</u>	<u>190</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

5. DISCONTINUED OPERATIONS

During the year, the Group decided to focus on expanding its business in medical, pharmaceutical and healthcare sectors while streamlining its resources on sourcing and distribution of electronic parts and components by outsourcing the manufacturing process to out-side sub-contractor. Accordingly, on 16 February 2004, the Company entered into a sale and purchase agreement to dispose of its entire 100% equity interest in Honko International Holdings Limited (“Honko”) and Honko’s subsidiaries (collectively “Honko Group”) to Excel Technology Holdings Limited, a third party to the Group, for a consideration of HK\$1. Honko Group was engaged in the whole of the Group’s manufacturing business and part of the Group’s sourcing and distribution business of electronic parts and components. Upon completion of the disposal of Honko Group, the Group discontinued its business of manufacturing of electronic parts and components. Further details of the disposals are set out in note 30 to the financial statements.

The results of the Honko Group’s manufacturing business for the period from 1 April 2003 to 31 January 2004 which have been included in the consolidated financial statements are as follows:

	Period ended 31/01/2004 HK\$'000	Year ended 31/03/2003 HK\$'000
Turnover	129,044	230,168
Cost of sales	(125,853)	(217,339)
Gross profit	3,191	12,829
Administrative expenses	(12,401)	(18,266)
Loss before taxation	(9,210)	(5,437)
Taxation	–	–
Net loss from ordinary activities attributable to shareholders	(9,210)	(5,437)

A profit of HK\$14,923,000 arose on the disposal of discontinued operation, being the proceeds of disposal less the carrying amount of the subsidiaries’ net liabilities. No tax charge or credit arose from the transaction.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

5. DISCONTINUED OPERATIONS (CONT'D)

The carrying amounts of the Honko Group's assets and liabilities relating to the manufacturing business as at 31 January 2004 and 31 March 2003 are as follows:

	31/01/2004 HK\$'000	31/03/2003 <i>HK\$'000</i>
Total assets	52,602	77,806
Total liabilities	67,525	78,264
Net liabilities	(14,923)	(458)

The net cash flows attributable to the Honko Group's manufacturing business for the current and previous period included in the consolidated cash flow statements are as follows:

	Period ended 31/01/2004 HK\$'000	Year ended 31/03/2003 <i>HK\$'000</i>
Operating activities	5,255	1,898
Investing activities	-	(83)
Net cash inflows	5,255	1,815

The net loss of the Honko Group other than the manufacturing business for the period from 1 April 2003 to 31 January 2004 dealt with in the consolidated financial statements was HK\$1,509,000 (2003: HK\$1,450,000).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

6. REVENUE AND TURNOVER

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of goods	222,797	245,373
Other operating income		
Gain on disposal of other investments	–	38
Interest income on bank deposits and loan receivables	81	1,455
Provision for doubtful debts written back	–	577
Sundry income	59	2,286
	140	4,356
Total revenue	222,937	249,729

7. LOSS FROM OPERATIONS

Loss from operations is stated after charging the following:

	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration		
Current year	700	760
Underprovision in prior years	540	60
	1,240	820
Depreciation		
Owned assets	1,107	1,896
Assets held under finance leases	615	1,179
	1,722	3,075
Exchange losses	285	–
Loss on disposal of plant and equipment	442	344
Operating lease payments in respect of:		
Land and buildings	2,922	4,136
Motor vehicles	230	276
Plant and machinery	–	1,350
	3,152	5,762
Provision for obsolete inventories	1,498	–
Staff costs:		
Staff costs (including directors' emoluments)	27,423	37,376
Contributions to retirement benefit scheme	386	450
	27,809	37,826

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

8. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank loans and overdrafts	38	38
Bonds	461	34
Convertible bonds	382	61
Obligations under finance leases	202	511
Other borrowings wholly repayable within five years	344	488
Promissory note	1,096	–
Premium on redemption of bonds	–	2,683
	<hr/> 2,523 <hr/>	<hr/> 3,815 <hr/>

9. DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' fees	–	–
Other emoluments		
Salaries and other benefits		
– current year	7,543	6,924
– underprovision in prior years	1,623	–
Contributions to retirement benefit scheme	36	37
	<hr/> 9,202 <hr/>	<hr/> 6,961 <hr/>

No directors' fees are payable to independent non-executive directors in both years.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

9. DIRECTORS' EMOLUMENTS (CONT'D)

The emoluments of the directors for the current year were within the following bands:

	2004	2003
	Number of directors	Number of directors
Nil – HK\$1,000,000	2	6
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	1	2
HK\$2,000,001 – HK\$2,500,000	2	–
	<hr/>	<hr/>
	6	10
	<hr/> <hr/>	<hr/> <hr/>

The under-provided directors' emoluments in respect of prior years amounting to HK\$1,623,000 have not been considered in the above disclosure of the directors' current year emoluments within the bands and the comparative figures have not been revised to reflect the underprovision.

10. EMPLOYEES' EMOLUMENTS

Of the five highest paid employees in the Group, four (2003: four) were directors of the Company whose emoluments are included in note 9 above. The emoluments of the remaining individual in 2003 and 2004 were as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other benefits	822	960
Contributions to retirement benefit scheme	5	12
	<hr/>	<hr/>
	827	972
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

II. TAXATION

- (a) No provision for Hong Kong Profits Tax has been made in the financial statements as the Group has no assessable profit for the year.
- (b) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Group as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Loss before taxation	<u>(52,236)</u>	<u>(63,380)</u>
Tax at the domestic income tax rate of 17.5% (2003:16%)	(9,141)	(10,141)
Tax effect of income that is not taxable in determining taxable profit	(3,666)	(163)
Tax effect of expenses that are not deductible in determining taxable profit	10,882	9,387
Tax effect of tax losses not recognised due to uncertainty on future profit streams	1,757	935
Tax effect of utilisation of tax losses not previously recognised	-	(206)
Tax effect of difference on depreciation between tax and accounting purposes	<u>168</u>	<u>188</u>
Taxation charge	<u>-</u>	<u>-</u>

12. LOSS PER SHARE

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

	2004 HK\$'000	2003 <i>HK\$'000</i>
Net loss from ordinary activities attributable to shareholders	<u>(52,047)</u>	<u>(63,380)</u>
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>142,057,905</u>	<u>71,926,360</u>

No diluted loss per share have been presented for both years as there are no dilutive potential ordinary shares in issue for the years and the exercise of the Company's outstanding convertible bonds and options are not assumed since their exercise would decrease the loss per share.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

13. PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
THE GROUP					
Cost					
At 1 April 2003	9,386	51,204	7,713	4,815	73,118
Additions	–	–	122	–	122
Disposals/write off	(1,407)	–	(85)	(2,070)	(3,562)
Disposals of subsidiaries	(7,979)	(51,204)	(7,158)	(857)	(67,198)
At 31 March 2004	–	–	592	1,888	2,480
Accumulated depreciation					
At 1 April 2003	7,639	50,780	7,489	3,000	68,908
Provided for the year	586	287	30	819	1,722
Elimination on disposals/ write off	(796)	–	(81)	(1,451)	(2,328)
Elimination on disposals of subsidiaries	(7,429)	(51,067)	(7,158)	(810)	(66,464)
At 31 March 2004	–	–	280	1,558	1,838
Net book value					
At 31 March 2004	–	–	312	330	642
At 31 March 2003	1,747	424	224	1,815	4,210

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

13. PLANT AND EQUIPMENT (CONT'D)

	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
Cost			
At 1 April 2003 and 31 March 2004	93	1,430	1,523
Accumulated depreciation			
At 1 April 2003	34	751	785
Provided for the year	18	429	447
At 31 March 2004	52	1,180	1,232
Net book value			
At 31 March 2004	41	250	291
At 31 March 2003	59	679	738

At 31 March 2004, the net book value of furniture, fixtures and equipment and motor vehicles held under finance leases by the Group amounted to HK\$Nil (2003: HK\$65,000) and HK\$250,000 (2003: HK\$1,377,000) respectively and by the Company amounted to HK\$Nil (2003: HK\$59,000) and HK\$250,000 (2003: HK\$679,000) respectively.

14. GOODWILL

	<i>HK\$'000</i>
THE GROUP	
Cost	
Arising on acquisition of subsidiaries and at 31 March 2004	14,880
Amortisation	
Provided for the year and at 31 March 2004	1,591
Net book value	
At 31 March 2004	13,289
At 31 March 2003	–

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

15. INVESTMENTS IN SUBSIDIARIES

	2004	2003
	HK\$'000	HK\$'000
THE COMPANY		
Unlisted investment, at cost	19	1,909
Amounts due from subsidiaries	200,968	219,976
	200,987	221,885
Impairment losses	(19)	(1,909)
Provision for non-recovery	(150,453)	(165,021)
	50,515	54,955

The amounts due from subsidiaries are unsecured and interest free. In the opinion of the directors, no repayment will be demanded within the next twelve months and accordingly, the amounts are shown as non-current.

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

Name of company	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Percentage of interest in ownership		Principal activities
				Directly	Indirectly	
Card Symbols Limited	British Virgin Islands	US\$1	Ordinary	–	100%	Investment holding
Fullway Technology Limited	British Virgin Islands	US\$100	Ordinary	–	51%	Investment holding
New Access Co., Limited	British Virgin Islands	US\$1,000	Ordinary	–	100%	Dormant
TechCap BioTech Holdings Limited	British Virgin Islands/ Hong Kong	US\$1,000	Ordinary	100%	–	Investment holding
TechCap Electronics Limited	Hong Kong	HK\$2	Ordinary	–	100%	Subcontracting of electronic parts and components
TechCap Holdings (Hong Kong) Limited	Hong Kong	HK\$10,000	Ordinary	100%	–	Investment holding

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

15. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Particulars of the subsidiaries of the Company as at 31 March 2004 are as follows: (cont'd)

Name of company	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Percentage of interest in ownership		Principal activities
				Directly	Indirectly	
TechCap Investment Holdings Limited	British Virgin Islands/ Hong Kong	US\$100	Ordinary	100%	–	Investment holding
Wisdom Profit Investment Limited	Hong Kong	HK\$10,000	Ordinary	–	100%	Investment holding and money lending
Young Honest Limited	Hong Kong	HK\$10,000	Ordinary	–	100%	Dormant

None of the subsidiaries had issued any debt securities at the end of the year.

16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	<u><u>1</u></u>	<u><u>–</u></u>

Particulars of the associate of the Group as at 31 March 2004 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and paid-up capital	Class of shares held	Percentage of interest in ownership		Principal activities
				Directly	Indirectly	
Moment Touch Management Limited	British Virgin Islands/ Hong Kong	US\$100	Ordinary	–	40%	Not yet commenced business

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

17. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Equity securities:				
Unlisted investments	31,336	46,526	9,000	–
Impairment losses	(8,053)	(7,500)	(7,667)	–
	23,283	39,026	1,333	–

- (a) Included in the cost of the unlisted investments as at 31 March 2004 is an investment in Hamilton Apex Technology Ventures, L.P. (the "Partnership"), a Delaware Limited Partnership formed in California, amounting to US\$2.7 million (equivalent to HK\$21,026,000) (2003: HK\$21,026,000). The Partnership is licensed under the Small Business Investment Act of 1958, as amended, as a Small Business Investment Company for the purpose of investing in debt or equity securities of companies in United States of America. As at 31 March 2002, the Group committed to contribute additional capital of US\$12.3 million (equivalent to HK\$95,940,000) to the Partnership upon the request by the general partners of the Partnership. However, the Group failed to meet capital calls during the year ended 31 March 2003 and the general partners declared that the Group was in default. Under the Partnership agreement, the general partners have the right to seek replacement investors until the Group's investments are fully replaced and forfeited. During the year ended 31 March 2003, the general partners have taken action to transfer a portion of the Group's investment in the Partnership with a capital value of approximately HK\$639,000 (equivalent to US\$82,000) to other investors without paying any consideration to the Group and another portion of capital contribution to the Partnership with capital value of HK\$7,371,000 (equivalent to US\$945,000) to another investor procured by the Group at a consideration to be received upon the liquidation of the Partnership, which is determined by the lesser of (i) the attributable portion of proceeds generated from the transferred portion of its investment in the Partnership upon liquidation; and (ii) HK\$7,371,000 (equivalent to US\$945,000) plus an annual interest of 8% accruing from date of transfer.

The directors consider that the Group's investment position in the Partnership is and will be basically preserved and the Group's investment position in the Partnership will generate positive return in the future, which will compensate for the dilution of the Group's interest in the Partnership as mentioned above. Accordingly, the directors determined that the recoverable amount of the investment in the Partnership will not be less than the carrying amount of HK\$21,026,000 and no disposal nor impairment loss has been recognised in respect of the investment in the Partnership.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

17. INVESTMENTS IN SECURITIES (CONT'D)

- (b) The cost of the unlisted investments as at 31 March 2003 included an investment in 100% interest of Global Med China & Asia Limited ("GMCAL") amounting to HK\$8 million. Pursuant to a cancellation agreement between the Group and Global Med International Limited ("Global Med"), the acquisition of GMCAL was cancelled during the year. The details are set out in note 31(a) below.
- (c) During the year and subsequent to the restructuring of the debts owing by GMCAL to Global Med, the Company entered into a share purchase agreement on 29 August 2003 with Global Med to acquire 2% equity interest in GMCAL for a consideration of HK\$9 million which was satisfied by the execution of a promissory note of HK\$9 million ("Promissory Note II") by the Company in favour of Global Med. The Promissory Note II has been fully settled by the Company during the year.

18. LOAN RECEIVABLES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Secured term loans	21,026	31,135
Unsecured term loans	400	3,971
	21,426	35,106
Less: Amount due within one year shown under current assets	(21,426)	(13,905)
Amount due after one year	–	21,201

- (a) The secured term loan as at 31 March 2004 amounting to HK\$21,026,000 (2003: HK\$21,026,000) bears interest at 2% over Hong Kong prime rates and is repayable in a lump sum on 29 September 2004. The loan is secured by the borrower's investments in the Partnership (see note 17(a) above). However, the borrower had failed to meet the capital calls and the general partners also declared that the borrower was in default during the year ended 31 March 2003. Under the Partnership agreement, the general partners have the right to seek replacement investors until the borrower's investments are fully replaced and forfeited. During the year ended 31 March 2003, the general partners had taken action to transfer a portion of the borrower's investment in the Partnership with a capital value of approximately HK\$639,000 (equivalent to US\$82,000) to other investors without paying any consideration to the borrower and another portion of the capital contribution to the Partnership with a capital value of HK\$7,371,000 (equivalent to US\$945,000) to another investor procured by the borrower at a consideration to be received upon the liquidation of the Partnership, which determined by the lesser of (i) the attributable portion of proceeds generated from the transferred portion of its investment in the Partnership upon liquidation; and (ii) HK\$7,371,000 (equivalent to US\$945,000) plus an annual interest of 8% accruing from date of transfer.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

18. LOAN RECEIVABLES (CONT'D)

The directors consider that the borrower's investment position in the Partnership is and will be basically preserved and the Partnership will generate a positive return in the future, which will compensate for the dilution of the borrower's interest in the Partnership mentioned above. Accordingly, the directors determined that the recoverable amount of the loan receivable will not be less than the carrying amount of HK\$21,026,000 and no provision for the loan receivable has been made in the financial statements.

- (b) The unsecured term loans advanced to a corporate shareholder as at 31 March 2004 totalling HK\$400,000 bear interest at 3% per annum. HK\$200,000 is repayable on or before 28 December 2004 and another HK\$200,000 is repayable on or before 14 March 2005.

19. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 <i>HK\$'000</i>
Raw materials	–	30,704
Work in progress	–	5,615
Finished goods	2,206	9,867
	2,206	46,186

Included in above are work in progress of HK\$Nil (2003: HK\$5,615,000) and finished goods of HK\$Nil (2003: HK\$9,833,000) which are carried at net realisable value.

20. TRADE RECEIVABLES

The Group allows a credit period of 60 to 90 days to its customers. The aged analysis of the Group is as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Current	4,799	25,081
Overdue 1 – 30 days	9,370	5,473
Overdue 31 – 60 days	715	2,136
Overdue 61 – 90 days	478	983
Overdue over 90 days	44	1,479
Total	15,406	35,152

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

21. TRADE PAYABLES

The aged analysis of the Group is as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Not yet due to overdue 30 days	2,912	31,760
Overdue 31 – 60 days	795	12,948
Overdue 61 – 90 days	157	4,654
Overdue over 90 days	252	16,953
	<hr/>	<hr/>
Total	4,116	66,315
	<hr/> <hr/>	<hr/> <hr/>

22. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 <i>HK\$'000</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
Amounts payable under finance leases:				
Within one year	68	3,123	67	2,885
In the second year	–	2,083	–	1,975
In the third to fifth year inclusive	–	2,160	–	2,138
	<hr/>	<hr/>	<hr/>	<hr/>
	68	7,366	67	6,998
Less: future finance charges	(1)	(368)	–	–
	<hr/>	<hr/>	<hr/>	<hr/>
Present value of lease obligations	67	6,998	67	6,998
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Less: Amount due for settlement within 12 months (shown under current liabilities)			(67)	(2,885)
			<hr/>	<hr/>
Amount due for settlement after 12 months			–	4,113
			<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

22. OBLIGATIONS UNDER FINANCE LEASES (CONT'D)

THE COMPANY

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts payable under finance leases:				
Within one year	68	281	67	261
In the second year	–	68	–	67
	68	349	67	328
Less: future finance charges	(1)	(21)	–	–
Present value of lease obligations	67	328	67	328
Less: Amount due for settlement within 12 months (shown under current liabilities)			(67)	(261)
Amount due for settlement after 12 months			–	67

It is the Group's policy to lease certain of its fixtures and equipment and motor vehicles under finance leases with an average lease term of 3 years. For the year ended 31 March 2004, the average effective borrowing rate was approximately 5.5% (2003: 5%). Interest rates are fixed at the contract date. All leases have fixed repayment schedules and no arrangements have been entered into for contingent rental payments.

23. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

24. BONDS

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
At 1 April	5,460	39,000
Redeemed during the year	(5,460)	(33,540)
	<hr/>	<hr/>
At 31 March	–	5,460
	<hr/> <hr/>	<hr/> <hr/>

The bonds carry interest at 12% per annum. At any time on or before the maturity date of 30 August 2003, the Company is entitled to redeem the bonds at 108% of face value of the bonds without interest. In addition, at any time on or after 30 August 2002 and up to the maturity date, the bond holders may require the Company to redeem the whole principal amount of the bonds at 100% of face value of the bonds without interest.

25. CONVERTIBLE BONDS

	THE GROUP AND THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
At 1 April	1,975	–
Issued during the year	50,000	4,232
Converted during the year	(31,515)	(2,257)
	<hr/>	<hr/>
At 31 March	20,460	1,975
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

25. CONVERTIBLE BONDS (CONT'D)

- (a) Included in the convertible bonds as at 31 March 2004 is an amount of HK\$460,000 (2003: HK\$1,975,000) which matures on 6 November 2005 ("CB 2005"). CB 2005 carry interest at 6% per annum payable semi-annually in arrears with the first interest payment due on 30 June 2003 and the last interest payment due on 6 November 2005. Each CB 2005 entitles the holder to convert the bonds into new shares of the Company at a conversion price, subject to adjustment, of HK\$0.1 per share during the period from 28 November 2002 to 6 November 2005. In addition, if the CB 2005 remain outstanding on the maturity date, the Company will redeem the principal of the CB 2005 at 100% of face value of the bonds. During the year, certain holders have converted HK\$1,515,000 of CB 2005 into 15,150,000 shares of HK\$0.1 per share in the Company. Subsequent to the balance sheet date HK\$460,000 CB 2005 has been converted into 4,600,000 shares of HK\$0.1 per share in the Company.
- (b) Pursuant to a placing agreement entered into with Kingston Securities Limited ("Placing Agent") on 23 January 2003, the Company has issued unlisted convertible bonds ("CB 2004") totalling HK\$50,000,000 to seven independent subscribers on 27 June 2003. CB 2004 mature on 26 June 2004 and carry interest at 3% per annum payable monthly in arrears with the first interest payment due on 31 July 2003 and the last interest payment due on 26 June 2004. Each CB 2004 entitles the holder to convert the bonds into new shares of the Company at a conversion price, subject to adjustment, of HK\$1 per share during the period from 27 June 2003 to 26 June 2004. In addition, if CB 2004 remain outstanding on the maturity date, the Company will redeem the principal of CB 2004 at 100% of the face value of the bonds on or prior to the maturity date at its discretion. During the year, certain holders have converted HK\$30,000,000 CB 2004 into 30,000,000 shares of HK\$0.1 per share in the Company with the creation of HK\$27,000,000 share premium. As at 31 March 2004, the outstanding balance of CB 2004 is HK\$20,000,000. Subsequent to the balance sheet date HK\$2,700,000 CB 2004 has been converted into 2,700,000 shares of HK\$0.1 per share in the Company and the bond holders of the remaining HK\$17,300,000 CB 2004 have agreed to extend the maturity date by one year to 27 June 2005.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

26. SHARE CAPITAL

Ordinary shares

	Number of shares			Amount		
	at HK\$0.005 per share	at HK\$1 per share	at HK\$0.1 per share	at HK\$0.005 per share HK\$'000	at HK\$1 per share HK\$'000	at HK\$0.1 per share HK\$'000
Authorised:						
Balance at 1 April 2002	15,000,000,000	-	-	75,000	-	-
Increase in authorised share capital	85,000,000,000	-	-	425,000	-	-
Consolidation of shares of 200 into 1	(100,000,000,000)	500,000,000	-	(500,000)	500,000	-
Cancellation of shares on capital reduction	-	(424,839,473)	-	-	(424,839)	-
Effect on capital reduction	-	(75,160,527)	75,160,527	-	(75,161)	7,516
Increase in authorised share capital pursuant to capital reduction	-	-	4,924,839,473	-	-	492,484
Balance at 31 March 2003 and 2004	-	-	5,000,000,000	-	-	500,000
Issued and fully paid:						
Balance at 1 April 2002	10,282,106,000	-	-	51,411	-	-
Issue of shares on exercise of convertible notes	200,000,000	-	-	1,000	-	-
Issue of shares on exercise of share options	1,000,000,000	-	-	5,000	-	-
Issue of shares by private placements	3,550,000,000	-	-	17,750	-	-
Consolidation of shares of 200 into 1	(14,956,945,473)	-	-	-	-	-
Effect on consolidation of shares	(75,160,527)	75,160,527	-	(75,161)	75,161	-
Reduction of nominal value of the ordinary shares	-	(75,160,527)	75,160,527	-	(75,161)	7,516
Issue of shares on exercise of convertible bonds	-	-	22,571,050	-	-	2,257
Issue of shares on exercise of convertible notes	-	-	2,500,000	-	-	250
Balance at 31 March 2003	-	-	100,231,577	-	-	10,023
Issue of shares as consideration for the acquisition of investments in securities	-	-	12,300,000	-	-	1,230
Issue of shares on exercise of convertible bonds	-	-	45,150,000	-	-	4,515
Issue of shares on exercise of share options	-	-	7,500,000	-	-	750
Issue of shares by private placements	-	-	34,586,000	-	-	3,459
Balance at 31 March 2004	-	-	199,767,577	-	-	19,977

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

26. SHARE CAPITAL (CONT'D)

Non-voting preference shares of HK\$10 each

	Number of shares	Amount HK\$'000
Authorised:		
Balance at 1 April 2002	–	–
Creation during the year	100,000,000	1,000,000
	<u>100,000,000</u>	<u>1,000,000</u>
Balance at 31 March 2003 and 2004	<u>100,000,000</u>	<u>1,000,000</u>
Issued and fully paid at 31 March 2003 and 2004	<u>–</u>	<u>–</u>

Details of changes in the share capital of the Company are as follows:

Authorised:

- (a) On 6 September 2002, the authorised share capital of the Company was increased from HK\$75,000,000 divided into 15,000,000,000 ordinary shares of HK\$0.005 to HK\$1,500,000,000 divided into 100,000,000 non-voting preference shares of HK\$10 each and 100,000,000,000 ordinary shares of HK\$0.005 each by the creation of a further 85,000,000,000 ordinary shares of HK\$0.005 each, ranking pari passu with the existing share capital of the Company and 100,000,000 non-voting preference shares of HK\$10 each, which carry equal rights and rank pari passu with the existing ordinary share of HK\$0.005 each in the capital of the Company except for the priority of dividend and return of capital.
- (b) Pursuant to an ordinary resolution passed in a special general meeting of the Company held on 7 October 2002, the ordinary shares of the Company were consolidated on the basis that every 200 issued and unissued ordinary shares of HK\$0.005 each was consolidated into one ordinary share of HK\$1 each and rank pari passu in all respects.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

26. SHARE CAPITAL (CONT'D)

Authorised: (cont'd)

- (c) Pursuant to a special resolution passed in a special general meeting held on 2 December 2002:
- (i) the nominal value of all the issued ordinary shares of HK\$1 each was reduced from HK\$1 to HK\$0.1 each by the cancellation of HK\$0.9 of the paid-up capital on each issued ordinary share.
 - (ii) the existing authorised but unissued ordinary share capital of the Company were cancelled and the authorised share capital of the Company increased back to HK\$1,500,000,000 by the creation of an additional 4,924,839,473 ordinary shares of HK\$0.1 each and the maintaining of the 100,000,000 non-voting preference shares of HK\$10 each.

Issued and fully paid:

- (a) On 17 April 2002 and 17 May 2002, the Company had issued 200,000,000 ordinary shares of HK\$0.005 each at a conversion price of HK\$0.01 per share upon the conversion of the convertible notes totalling HK\$2,000,000.
- (b) On 29 July 2002, arrangements were made for a private placement of 1,850,000,000 ordinary shares of HK\$0.005 each in the Company held by certain shareholders of the Company, at a price of HK\$0.01 per share representing a discount of approximately 8.3% to the average closing market price of the Company's shares for the ten trading days ended 29 July 2002.

Pursuant to a subscription agreement of the same date, the aforesaid shareholders subscribed for 1,750,000,000 new ordinary shares of HK\$0.005 each in the Company at a subscription price of HK\$0.01 per share. The proceeds were used to reduce borrowings and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 27 August 2001 and rank *pari passu* with the existing shares in issue in all respects.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

26. SHARE CAPITAL (CONT'D)

Issued and fully paid: (cont'd)

- (c) On 27 September 2002, another arrangement was made for a private placement of 1,800,000,000 ordinary shares of HK\$0.005 each in the Company held by certain shareholders of the Company, at par value per share representing a discount of approximately 50% to the closing market price of the Company's shares on 27 September 2002.

Pursuant to a subscription agreement of the same date, the aforesaid shareholders subscribed for 1,800,000,000 new ordinary shares of HK\$0.005 each in the Company at par value per share. The proceeds were used to reduce borrowings and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 19 August 2002 and rank *pari passu* with the existing shares in issue in all respects.

- (d) On 5 March 2003, the Company further issued 2,500,000 ordinary shares of HK\$0.1 each at a conversion of HK\$0.2 per share upon the conversion of convertible notes amounting to HK\$500,000.
- (e) During the year ended 31 March 2003, the Company had issued a total of 22,571,050 ordinary shares of HK\$0.1 each in the Company at a conversion price of HK\$0.1 per share upon the conversion of HK\$2,257,000 CB 2005. In respect of issue of shares during the year ended 31 March 2004, details of the conversion are set out in note 25 above.
- (f) Pursuant to the sale and purchase agreement of 3 July 2003 in relation to the acquisition of 35% equity interest in Global United Holdings Limited ("Global United") as mentioned in note 34, the Company issued and allotted 12,300,000 new ordinary shares of HK\$0.1 each in the Company at an issue price of HK\$0.85 per share representing a premium of approximately 1.55% to the average closing market price of the Company's shares for the ten trading days ended 3 July 2003. These new shares were issued under the specific mandate granted to the directors at the special general meeting of the Company held on 20 August 2003 and rank *pari passu* with the existing shares in issue in all respects.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

26. SHARE CAPITAL (CONT'D)

Issued and fully paid: (cont'd)

- (g) On 30 September 2003, the Company has entered into a subscription agreement with Guo Kang Pharmaceutical & Medical Supplies Ltd ("Guo Kang") in relation to the subscription by Guo Kang and the allotment by the Company of 17,000,000 new ordinary shares of HK\$0.1 each in the Company at a subscription price of HK\$0.85 per share. The proceeds were intended to be used for investments in medical, pharmaceutical and healthcare related projects. These new shares were issued under the specific mandate granted to the directors at the special general meeting of the Company held on 27 November 2003 and rank pari passu with the existing shares in issue in all respects.

- (h) On 27 January 2004, an arrangement was made for a private placement of 17,586,000 ordinary shares of HK\$0.1 each in the Company held by certain shareholders of the Company, at a price of HK\$3.0 per share representing a discount of approximately 3.23% to the average closing market price of the Company's shares for the ten trading days ended 27 January 2004.

Pursuant to a subscription agreement of the same date, the aforesaid shareholders subscribed for 17,586,000 new ordinary shares of HK\$0.1 each in the Company at a subscription price of HK\$3.0 per share. The proceeds were intended to be used for investments in medical, pharmaceutical and healthcare related projects. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 30 September 2003 and rank pari passu with the existing shares in issue in all respects.

- (i) Details of issue of ordinary shares upon exercise of share options in both years are set out in note 36.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

27. RESERVES

Details of the movements in the reserves of the Group are set out in Consolidated Statement of Changes in Equity on page 27.

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY				
At 1 April 2002	102,810	–	(113,331)	(10,521)
Share premium cancellation	(102,810)	102,810	–	–
Elimination of accumulated losses	–	(113,331)	113,331	–
Shares issued at premium	56,000	–	–	56,000
Share issue expenses	(469)	–	–	(469)
Transferred from capital reduction	–	67,645	–	67,645
Loss for the year	–	–	(87,465)	(87,465)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2003	55,531	57,124	(87,465)	25,190
Shares issued at premium	106,724	–	–	106,724
Share issue expenses	(2,469)	–	–	(2,469)
Loss for the year	–	–	(67,517)	(67,517)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	<u>159,786</u>	<u>57,124</u>	<u>(154,982)</u>	<u>61,928</u>

The contributed surplus of the Company which arose during the year ended 31 March 2003 represented the net effect of the capital reduction, the share premium cancellation and the elimination with the accumulated losses of the Company as at 31 March 2002.

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.

In the opinion of the directors, as at 31 March 2004, the Company did not have any reserve available for distribution to shareholders.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

28. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$67,517,000 (2003: HK\$87,465,000).

29. ACQUISITION OF SUBSIDIARIES

On 30 January 2004 and 2 October 2003, the Group acquired the entire interest in Card Symbols Limited and 51% interest in Fullway Technology Limited for a consideration of HK\$13,850,000 and HK\$1,698,000 respectively.

HK\$'000

Net assets acquired:

Interest in an associate	1
Investments in securities	1,310
Other payables and accrued liabilities	(1)
Minority interests	(642)

	668
Goodwill on acquisition	14,880

15,548

Satisfied by:

Cash	10,548
Assignment of loan receivables	5,000

15,548

Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

Cash consideration	<u>(10,548)</u>
--------------------	-----------------

The subsidiaries acquired during the year acted as investment holding companies and have not generated any turnover and profit or loss after tax for the period from the dates of acquisition to the balance sheet date.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

30. DISPOSALS OF SUBSIDIARIES

On 16 February 2004, the Group disposed of Honko Group for a consideration of HK\$1 as detailed in note 5. The net liabilities of Honko Group at 31 January 2004 were as follows:

	<i>HK\$'000</i>
Net liabilities disposed of:	
Plant and equipment	734
Inventories	36,018
Trade receivables	20,953
Prepayments, deposits and other receivables	667
Bank balances and cash	763
Trade payables	(61,011)
Other payables and accrued liabilities	(14,444)
Interest bearing borrowings	(4,279)
Amounts due to group companies	(67,733)
	<hr/>
	(88,332)
Waiver of amounts due to group companies	67,733
	<hr/>
	(20,599)
Gain on disposal of subsidiaries	5,676
Gain on disposal of discontinued operation	14,923
	<hr/>
Total consideration, satisfied by cash	<u><u>–</u></u>
Analysis of the net cash outflow of cash and cash equivalents in respect of the disposal of subsidiaries:	
Bank balances and cash disposed of	<u><u>(763)</u></u>

The subsidiaries disposed of during the year contributed approximately HK\$142,842,000 to the Group's turnover and HK\$10,719,000 to the Group's loss after tax.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

31. MAJOR NON-CASH TRANSACTIONS

During the year, other than conversion of the convertible bonds into shares in the Company as set out in note 25 above, the Group had the following major non-cash transactions:

- (a) On 11 November 2002, the Group entered into a share purchase agreement with Global Med by which the Group agreed to acquire and Global Med agreed to dispose of the 100% interest in GMCAL, a wholly owned subsidiary of Global Med, for a consideration of HK\$8 million. The consideration was satisfied by the execution of a promissory note of HK\$8 million ("Promissory Note I") by the Group in favour of Global Med. As the Promissory Note I was not yet settled at 31 March 2003, the Group could not exercise control over the board of GMCAL and accordingly, the investment in Global Med was considered as investments in securities of HK\$8 million as at 31 March 2003. Pursuant to a cancellation agreement entered into between the Group and Global Med on 19 August 2003, the Group has agreed with Global Med to cancel the share purchase agreement and to release the obligation under the Promissory Note I with effect from 19 August 2003.
- (b) The Group acquired a 35% equity interest in Global United from Dinshing Industries Limited at the consideration of HK\$10,455,000 which was satisfied in full by the issue and allotment of 12,300,000 ordinary shares of the Company. The details are set out in note 34 below.
- (c) The Group acquired 100% equity interest in West Regent Property Limited ("West Regent") from Jung-I Development Limited ("Jung-I") at the consideration of HK\$26,500,000 which was partially settled by the transfer of 35% equity interest in Global United at HK\$6,500,000. The details are set out in note 34 below.
- (d) The Group entered into a settlement agreement with Star Gain Limited ("Star Gain") on 13 August 2003 in respect of the settlement of loan and interest receivables of HK\$10,109,000 and HK\$505,000 respectively, totalling HK\$10,614,000. Pursuant to the agreement, Star Gain fully settled the loan and interest receivables by the transfer of unlisted warrants of a Korean listed company ("Korean Warrants") to the Group. On 8 September 2003, the Group entered into a sale and purchase agreement with Star Gain where Star Gain agreed to repurchase the Korean Warrants at a consideration of HK\$10,614,000. During the year, HK\$3,900,000 has been settled and HK\$5,000,000 has been assigned to a third party in relation to the acquisition of a subsidiary as detailed in note 31(f).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

31. MAJOR NON-CASH TRANSACTIONS (CONT'D)

- (e) The Group entered into a settlement agreement with Smart Port Finance Limited (“Smart Port”) on 20 June 2003 in respect of the settlement of loan and interest receivables of HK\$3,609,000 and HK\$231,000 respectively, totalling HK\$3,840,000. Pursuant to the agreement, Smart Port fully settled the loan and interest receivables by the transfer of equity securities of a company listed on the Stock Exchange to the Group.
- (f) The Group acquired 100% equity interest in Card Symbols Limited from Grade Worth Securities Limited at the consideration of HK\$13,850,000 which has partially settled by the assignment of the receivable from Star Gain of HK\$5,000,000 as mentioned in note 31(d) above.

32. DEFERRED TAXATION

At the balance sheet date, the Group has unused tax losses arising in Hong Kong of HK\$20,736,000 (2003: HK\$64,786,000) that are available indefinitely for offsetting against future taxable profits of the company in which the losses arose. Deferred tax assets have not been recognised in respect of these losses due to unpredictability of future profit streams.

33. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bills discounted with recourse	-	1,336	-	-
Guarantees given to banks in respect of banking facilities utilised by the subsidiaries	-	-	-	339
	<u>-</u>	<u>1,336</u>	<u>-</u>	<u>339</u>

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FOR THE YEAR ENDED 31 MARCH 2004

34. CAPITAL COMMITMENTS

	2004 HK\$'000	2003 <i>HK\$'000</i>
Capital expenditure contracted but not provided for in the financial statements in respect of unpaid balance of consideration for the acquisition of a subsidiary	20,000	—

On 3 July 2003, TechCap Investment Holdings Limited (“TechCap Investment”), a wholly own subsidiary of the Company, has acquired 35% equity interest in Global United at a consideration of HK\$10,455,000 which was satisfied by the issuance of 12,300,000 Company’s shares. Global United is an investment holding company which owns 100% equity interest of Dinshing Biological Image Technology (Shanghai) Company Limited (“Dinshing Shanghai”), a company which is engaged in developing and manufacturing of medical diagnostic devices.

On 30 March 2004, TechCap Investment entered into another sale and purchase agreement with the Jung-I in relation to the acquisition of 100% equity interest of West Regent which indirectly owns 51% equity interest of Shanghai Haoyuan Biotech Company Limited (“Shanghai Haoyuan”), a PRC joint venture which is engaged in developing, producing and marketing NAT clinical reagent and related products. Pursuant to the agreement, the consideration of HK\$26,500,000 was agreed to be settled by the transfer of TechCap Investment’s 35% equity interest in Global United to Jung-I at a consideration of HK\$6,500,000 and the remaining balance of HK\$20,000,000 to be settled by cash payment or in form of the Company’s shares. At the balance sheet date, the 35% equity interest in Global United has been transferred to Jung-I and a loss on disposal of HK\$3,955,000 has been recognised and charged to the income statement. The remaining balance of HK\$20,000,000 has not been settled as at the balance sheet date.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

35. OPERATING LEASE COMMITMENTS

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
Land and buildings:		
Within one year	47	3,364
In the second to fifth year, inclusive	–	1,883
	<hr/> 47	<hr/> 5,247
Motor vehicle:		
Within one year	–	150
In the second to fifth year, inclusive	–	–
	<hr/> –	<hr/> 150
	<hr/> <hr/> 47	<hr/> <hr/> 150

The Company had no operating lease commitments at the balance sheet date.

36. SHARE OPTION SCHEMES

Pursuant to the share option scheme adopted by the Company in 2001 (the “Old Scheme”), the Company may grant options to any directors or full time employees of the Company or its subsidiaries to subscribe for shares in the Company at a subscription price which is the higher of 80% of the average closing price of the Company’s shares for the five trading days immediately preceding the date of grant or the nominal value of the Company’s shares. The Old Scheme was replaced by the Company’s existing share option scheme (the “New Scheme”) which was adopted pursuant to a resolution passed on 8 April 2002, and will expire on 7 April 2012. All outstanding options continue to be valid and exercisable in accordance with the terms of the Old Scheme.

Under the New Scheme, the Board of Directors of the Company may grant options to eligible officers and employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties who (i) have previously been and continue to be retained by the Group to provide business, legal or tax consultancy services or other professional services, whose expertise is valuable to the business development of the Group; or (ii) introduce investment opportunities to the Group; or (iii) contribute by way of introduction of new business to the Group.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

36. SHARE OPTION SCHEMES (CONT'D)

The maximum number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at the adoption date, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital in issue or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within the period as specified in the offer letter and no consideration of grant needs to be paid. Options may be exercised at any time from the date of grant to the expiry date of the New Scheme. The exercise price is determined by the directors of the Company, and shall be the highest of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares.

Particulars of share options granted by the Company since the date of adoption of share option schemes up to 31 March 2004 are as follows:

Option type	Date of grant	Exercisable period		Exercise price before consolidation	Exercise price as adjusted for consolidation
		From	To	of shares HK\$	of shares HK\$
A	31 August 2001	31 August 2001	15 May 2011	0.043	8.6
B	11 October 2001	11 October 2001	15 May 2011	0.052	10.4
C	11 February 2002	11 February 2002	15 May 2011	0.046	9.2
D	15 February 2002	15 February 2002	15 May 2011	0.046	9.2
E	10 April 2002	10 April 2002	7 April 2012	0.051	10.2
F	27 November 2002	27 November 2002	7 April 2012	N/A	1.0
G	2 February 2004	2 February 2004	7 April 2012	N/A	3.4

The exercise price of the share options were adjusted with the effect for the consolidation of shares in previous year.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

36. SHARE OPTION SCHEMES (CONT'D)

The following tables summarise movements in the Company's share options during the year ended 31 March 2004:

Old Scheme

	Option Type	Number of share options		
		Outstanding at 1 April 2003	Reclassification upon resignation	Outstanding at 31 March 2004
Directors	A	500,000	(475,000)	25,000
Employees	A	600,000	(600,000)	–
Others	A	–	1,075,000	1,075,000
Total		<u>1,100,000</u>	<u>–</u>	<u>1,100,000</u>

At 31 March 2004, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 1,100,000 representing 0.6% of the shares of the Company in issue at that date.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

36. SHARE OPTION SCHEMES (CONT'D)

New Scheme

	Option Type	Number of share options			Outstanding at 31 March 2004
		Outstanding at 1 April 2003	Granted	Exercised	
Directors	F	900,000	–	(900,000)	–
	G	–	4,002,000	–	4,002,000
Total directors		900,000	4,002,000	(900,000)	4,002,000
Employees	F	850,000	–	(850,000)	–
	G	–	469,000	–	469,000
Total employees		850,000	469,000	(850,000)	469,000
Officer	G	–	1,500,000	–	1,500,000
Others	F	5,750,000	–	(5,750,000)	–
	G	–	10,546,000	–	10,546,000
Total others		5,750,000	10,546,000	(5,750,000)	10,546,000
Total		<u>7,500,000</u>	<u>16,517,000</u>	<u>(7,500,000)</u>	<u>16,517,000</u>

The weighted average closing prices of the Company's shares immediate before the dates of which the share options exercised during the year ended 31 March 2004 was HK\$0.97.

At 31 March 2004, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 16,517,000 representing 8.3% of the shares of the Company in issue at that date.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

36. SHARE OPTION SCHEMES (CONT'D)

The following tables summarise the movements in the Company's share options during the year ended 31 March 2003:

Old Scheme

	Option Type	Number of share options			Outstanding at 31 March 2003
		Outstanding at 1 April 2002	Lapsed	Adjustment due to consolidation of the Company's shares	
Directors	A	100,000,000	–	(99,500,000)	500,000
Employees	A	120,000,000	–	(119,400,000)	600,000
	B	6,000,000	(6,000,000)	–	–
Total employees		126,000,000	(6,000,000)	(119,400,000)	600,000
Total		226,000,000	(6,000,000)	(218,900,000)	1,100,000

At 31 March 2003, the number of shares in respect of which options had been granted and remained outstanding under the Old Scheme was 1,100,000, representing 1.1% of the shares of the Company in issue at that date.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

36. SHARE OPTION SCHEMES (CONT'D)

New Scheme

	Option Type	Number of share options			Outstanding at 31 March 2003
		Outstanding at 1 April 2002	Granted	Exercised	
Directors	F	–	900,000	–	900,000
Employees	E	–	200,000,000	(200,000,000)	–
	F	–	850,000	–	850,000
Total employees		–	200,850,000	(200,000,000)	850,000
Others	E	–	800,000,000	(800,000,000)	–
	F	–	5,750,000	–	5,750,000
Total others		–	805,750,000	(800,000,000)	5,750,000
Total		–	1,007,500,000	(1,000,000,000)	7,500,000

The weighted average closing prices of the Company's shares immediate before the dates of which the share options exercised during the year ended 31 March 2003 was HK\$0.05.

At 31 March 2003, the number of shares in respect of which options had been granted and remained outstanding under the New Scheme was 7,500,000, representing 7.5% of the shares of the Company in issue at that date.

No consideration was received during the year from any person for taking up the options granted and no charge was recognised in the income statement in respect of the value of options granted.

37. RETIREMENT BENEFITS SCHEME

The Group operates Mandatory Provident Fund Schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The retirement benefits cost charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2004

38. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following significant related party transactions:

- (a) The Group paid interest on an amount due to a related company, amounting to HK\$294,000 (2003: HK\$488,000). The amount due to the related company is unsecured, interest bearing at 12% per annum and has no fixed terms of repayment.

A director of the Company has beneficial interests in this related company.

- (b) During the year, two motor vehicles of the Group with net book value of HK\$619,000 (2003: HK\$240,000) was disposed to a former director of the Company with a gain of HK\$173,000 (2003: HK\$Nil).
- (c) The Group transferred certain investments in securities to a former director of the Company at a consideration of HK\$1,100,000 as part of the settlement of the amount due to the former director.

39. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

- (a) A total of 7,300,000 shares in the Company were issued and allotted to respective convertible bond holders. The details are set out in note 25 above.
- (b) On 18 February 2004, an arrangement was made for a private placement of 10,000,000 ordinary shares of HK\$0.1 each in the Company held by a corporate shareholder of the Company, at a price of HK\$3.6 per share representing a discount of approximately 6.6% to the average closing market price of the Company's shares for the ten trading days ended 16 February 2004.

Pursuant to a subscription agreement of the same date, the corporate shareholder subscribed for 10,000,000 new ordinary shares of HK\$0.1 each in the Company at a subscription price of HK\$3.6 per share. The proceeds were intended to be used for investments in medical, pharmaceutical and healthcare related projects and for general working capital purposes. These new shares were issued under the specific mandate granted to the directors at the special general meeting of the Company held on 2 April 2004 and rank pari passu with the existing shares in issue in all respects.

- (c) On 27 May 2004, the Group entered into a conditional sale and purchase agreement with Top Form Development Limited in relation to the acquisition of the entire issued share capital of Junghua Enterprises Holdings Limited ("JEHL") at a consideration of HK\$30 million to be satisfied by cash payment. JEHL is an investment holding company that holds 89.09% equity interests in China HealthCare Services Investment Limited which in turn holds 70% equity interests in Beijing Universal Medical Assistance Co. Ltd ("BUMA"). BUMA is a Sino-foreign joint venture company incorporated in the PRC to operate an exclusive national wide medical assistance services.