

Notes to the Accounts

1. Principal Accounting Policies

The principal accounting policies adopted in the preparation of these accounts are set out below.

(a) Basis of preparation

The accounts have been prepared under the historical cost convention in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has early adopted in advance of the effective date the following new HKFRSs that are believed to have the most material effect on the Group's accounts for the year ended 31st March 2005:

Hong Kong Financial Reporting Standard 3 (new "HKFRS 3")	Business Combinations
Hong Kong Accounting Standard 31 (revised "HKAS 31")	Interests in Joint Ventures
Hong Kong Accounting Standard 36 (revised "HKAS 36")	Impairment of Assets
Hong Kong Accounting Standard 38 (revised "HKAS 38")	Intangible Assets

The key impact to the accounts of the Group on adopting these new HKFRSs is as follows:

- (i) proportionate consolidation method under HKAS 31 was applied for accounting the Group's investment in a jointly controlled entity;
- (ii) amortisation of negative goodwill ceased from 1st April 2004; and
- (iii) negative goodwill as at 1st April 2004 has been derecognised and credited to equity.

HKAS 31 has been adopted retrospectively, as required under the standard. As a result, the comparative figures for the consolidated balance sheet as at 31st March 2004 and the consolidated profit and loss account and consolidated cash flow statement for the year ended 31st March 2004 have been restated but the change has no effect on the reserves of the Group as at 31st March 2004.

Notes to the Accounts

1. Principal Accounting Policies *(Continued)***(a) Basis of preparation** *(Continued)*

HKFRS 3, HKAS 36 and HKAS 38 have been applied prospectively in accordance with the transitional provisions in the respective standards. In particular, negative goodwill arising on acquisition as at 1st April 2004 has been derecognised in accordance with the transitional provision of HKFRS 3, resulting in an increase in reserves of HK\$4,854,000 and a decrease in negative goodwill of the same amount.

HKFRS 3 permits to apply the requirements of the standard from any date before the effective date, provided:

- (i) the valuations and other information needed to apply the HKFRS to past business combinations were obtained at the time those combinations were initially accounted for; and
- (ii) the entity also applies the revised versions of HKAS 36 and HKAS 38 prospectively from that same date, and the valuations and other information needed to apply those Standards from that date were previously obtained by the entity so that there would be no need to determine estimates that would need to have been made at a prior date.

However, HKAS 36 and HKAS 38 do not have impact to the Group.

The Group has not early adopted the other new HKFRSs except for those mentioned above in the accounts for the year ended 31st March 2005. The Group has already commenced an assessment of the impact of the other new HKFRSs and considered that the following new HKFRSs may have an impact to the Group's results of operations and financial position:

HKFRS 2	Share – based payment
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 39	Financial Instruments: Recognition and Measurement

The Directors however consider that, apart from HKFRS 2, the impact of those new HKFRSs would not be significant.

(b) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the company.

1. Principal Accounting Policies *(Continued)*

(b) Basis of consolidation (Continued)

The consolidated accounts also include the Group's attributable share of post-acquisition results and reserves of its jointly controlled entity and associated company.

Results attributable to subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date on which control is transferred to the Group or up to the date that control ceases, as applicable.

The profit or loss on disposal of subsidiaries is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill or negative goodwill, which remains unamortized and any related accumulated exchange reserve.

All significant inter-company transactions and balances between group companies are eliminated.

(c) Goodwill

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the Group's share of the identifiable net assets of the acquired subsidiaries, jointly controlled entity and associated company at the effective date of acquisition. Goodwill on acquisition is included in the balance sheet as a separate asset and is tested annually for impairment and provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature.

Where the fair values ascribed to the identifiable net assets exceed the cost of acquisition, such differences are recognised as income in the year of acquisition.

In previous years, goodwill on acquisition is amortised using the straight-line method over its estimated useful life of not more than twenty years. In addition, where the fair values ascribed to the identifiable net assets exceeded the cost of acquisition, such differences were recognised as income in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired. The Directors are of the view that the revised standard can more fairly reflect the result of the business acquisitions and disposals undertaken by the Group. As explained in note (a) above, this change in accounting policy has been applied prospectively, resulting in an increase in reserves of HK\$4,854,000 as at 1st April 2004.

Notes to the Accounts

1. Principal Accounting Policies *(Continued)*

(d) Jointly controlled entity

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating parties and whereby the Group together with the parties undertake an economic activity which is subject to joint control and none of the parties has unilateral control over the economic activity.

A jointly controlled entity is accounted for using the proportionate consolidation method under which the share of individual assets and liabilities, income and expenses and cash flows of jointly controlled entity is included in the relevant components of the consolidated accounts.

In previous years, jointly controlled entity was accounted for under the equity method whereby the Group's share of results was included in the consolidated profit and loss account and the Group's share of net assets was included in the consolidated balance sheet. The Directors are of the view that proportionate consolidation method under HKAS 31 fairly reflects the substance and economic reality of the arrangement for the jointly controlled entity and therefore the financial performance and position of the Group. As explained in note 1(a) above, this change in accounting policy has been applied retrospectively and the comparative figures for the previous year have been restated.

(e) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management. An associated company is accounted for under the equity method whereby the Group's share of results is included in the consolidated profit and loss account and the Group's share of net asset is included in the consolidated balance sheet.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and provision for significant impairment in values.

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, held for their long-term investment potential and are not occupied by the Group. Investment properties are carried at fair values, representing their open market value determined annually based on professional valuation. A deficit in valuation is charged to the profit and loss account; an increase is first credited to the profit and loss account to the extent of valuation deficit previously charged and thereafter is credited to the investment properties revaluation reserve. Upon the disposal of an investment property, any relevant revaluation surplus realised is transferred to the profit and loss account.

Notes to the Accounts

1. Principal Accounting Policies *(Continued)***(f) Property, plant and equipment** *(Continued)*

No depreciation is provided for investment properties held under leases of more than twenty years. Other assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal estimated useful lives are as follows:

Buildings	50 years or over the unexpired period of leases
Leasehold land	Over the unexpired period of leases
Leasehold improvements, furniture and equipment	5 to 20 years
Computer and special equipment	2 to 10 years
Motor vehicles	5 to 10 years

Major costs incurred in restoring assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group. The carrying amounts of assets are reviewed regularly. Where the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts.

Profits or losses on disposal are determined as the difference between the net disposal proceeds and the carrying amount of the assets, and are dealt with in the profit and loss account. Upon disposal of revalued assets, any revaluation reserve is transferred directly to accumulated loss.

(g) Investments

Investments intended to be held for long-term are included in the balance sheet under non-current assets and are carried at cost less provision. The carrying amounts of individual investments are reviewed 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 will be reduced to its fair value. The impairment is recognised as an expense in the profit and loss account and is written back to profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

1. Principal Accounting Policies *(Continued)***(h) Assets impairment**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(i) Inventories and contracts in progress

Inventories are stated at the lower of cost and net realisable value. Cost calculated using first-in, first-out basis, comprises all cost of purchase and other direct costs. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Contracts in progress are stated at cost plus an appropriate proportion of attributable profit less provision for anticipated losses and progress payments. Contract costs are recognised when incurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When the outcome of a contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses using the percentage of completion method measured by reference to the delivery of goods and services rendered. When it is probable that the total contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately.

(j) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Notes to the Accounts

1. Principal Accounting Policies *(Continued)*

(k) Deferred taxation

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entity and associated company, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Debtors

Provision is made against debtors to the extent they are considered to be doubtful. Debtors in the balance sheet are stated net of such provision.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits with banks repayable within three months from the date of placement, net of bank overdrafts and loans repayable within three months from the date of advance.

(n) Revenue recognition

Revenue from telecommunications value-added services is recognised when the services are provided to customers. Revenue from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and legal title has passed. Revenue from system contracts is recognised based on the percentage of completion of the contract by reference to the delivery of goods and services rendered. Operating lease rental income is recognised on a straight-line basis over the lease term. Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable. Dividend income is recognised when the right to receive payment is established.

(o) Operating leases

Leases where substantially all the risk and rewards of ownership are retained by the lessors are accounted for as operating leases. Rentals payable, net of incentives received from the lessors, under operating leases are charged to the profit and loss account on a straight line basis over the lease terms.

1. Principal Accounting Policies *(Continued)***(p) Employee benefits**

Employee entitlements to annual leave and long service leaves are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leaves as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

Contributions to defined contribution retirement schemes are charged to the profit and loss account in the year to which the contributions relate.

Provision for bonus plans due wholly within twelve months after balance sheet date are recognised when there is a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(q) Borrowing costs

Interest and related costs on borrowings directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to complete and prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Foreign currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising are dealt with in the profit and loss account.

Profit and loss accounts of subsidiaries, jointly controlled entity and associated company expressed in foreign currencies are translated at the weighted average exchange rates for the year and balance sheets are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of net investments in these subsidiaries, jointly controlled entity and associated company are taken directly to reserves.

1. Principal Accounting Policies *(Continued)*

(s) *Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2. Segment Information

The principal activities of the Group are telecommunications valued-added services, operation of platform for electronic customs processing and computer system integration and software development. In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segment and the secondary segment reporting is by geographical segment. Unallocated results represent corporate income and expenses and there were no sales or trading transactions between the business segments. Segment assets consist primarily of property, plant and equipment, inventories, contracts in progress, debtors and prepayments and mainly exclude investments, cash and bank balances. Segment liabilities comprise mainly creditors and accruals. All business segments are primarily carried out in Mainland China. Accordingly, a separate summary of geographical segment is therefore not presented.

Notes to the Accounts

2. Segment Information *(Continued)*

A summary of the business segments is set out as follows:

	Telecom- munications value-added services HK\$'000	Operation of a platform for electronic customs processing HK\$'000	System integration and software development HK\$'000	Corporate HK\$'000	Total HK\$'000
Year ended 31st March 2005					
Turnover	189,767	–	59,291	–	249,058
Segment results	25,358	19,215	1,151	(11,013)	34,711
Finance costs					(1,221)
Profit before taxation					33,490
Taxation					(5,231)
Profit after taxation					28,259
Minority interests	(2,842)	–	3	–	(2,839)
Profit for the year					25,420
Segment assets	129,654	–	114,603	–	244,257
Associated company	–	76,560	–	–	76,560
Unallocated assets					128,329
Total assets					449,146
Segment liabilities	(57,528)	–	(67,372)	–	(124,900)
Unallocated liabilities					(8,165)
Total liabilities					(133,065)
Capital expenditure	17,305	–	111	4,912	22,328
Depreciation	10,874	–	993	652	12,519

Notes to the Accounts

2. Segment Information (Continued)

	Telecom- munications value-added services HK\$'000	System integration and software development HK\$'000	Property investment HK\$'000	Telecom- munication HK\$'000	Corporate HK\$'000	Total HK\$'000
Year ended 31st March 2004, as restated						
Turnover	24,493	137,228	2,226	–	–	163,947
Segment results	4,224	1,428	918	–	(8,273)	(1,703)
(Loss)/gain on discontinuing operations	–	–	(533)	1,436	–	903
Operating loss						(800)
Finance costs						(578)
Loss before taxation						(1,378)
Taxation						(1,371)
Loss after taxation						(2,749)
Minority interests	709	5	–	–	–	714
Loss for the year						(2,035)
Segment assets	125,278	130,140	–	–	–	255,418
Unallocated assets						137,514
Total assets						392,932
Segment liabilities	(79,640)	(78,211)	–	–	–	(157,851)
Unallocated liabilities						(10,626)
Total liabilities						(168,477)
Capital expenditure	–	429	–	–	74	503
Depreciation	1,041	1,171	23	–	343	2,578

Notes to the Accounts

3. Turnover

	2005	As restated 2004
	HK\$'000	HK\$'000
Telecommunications value-added services	189,767	24,493
Computer system integration and software development	59,291	137,228
Operating lease rental	-	2,226
	249,058	163,947

4. Other Revenues

	2005	As restated 2004
	HK\$'000	HK\$'000
Negative goodwill		
Acquisition of associated company (note 31(c))	19,215	-
Acquisition of additional interest in a jointly controlled entity (note 26(b))	491	-
Acquisition of subsidiaries by a jointly-controlled entity	697	-
Gain on disposal of subsidiaries	13,103	-
Bad debts recovered (note 19(b))	10,000	7,000
Write back of long outstanding payables	6,775	-
Interest	441	282
Provision for litigation written back (note 28)	-	6,868
	50,722	14,150

Notes to the Accounts

5. Net Profit on Discontinuing Operations

	2005 HK\$'000	2004 HK\$'000
Profit/(loss) on disposal of the following discontinuing operations		
Telecommunications (note a)	-	1,436
Property investment (note b)	-	(533)
	-	903

(a) Telecommunications

The telecommunications business was carried out by Wanbao Telecom (H.K.) Company, Limited ("Wanbao"), in which the Group had a 36% equity interest. On 31st March 2004, the Group entered into agreements with the other shareholders of Wanbao, under which the Group terminated its commitment in respect of Wanbao and disposed of all its interest in Wanbao. Details of the Group's interest in Wanbao were as follows:

	2005 HK\$'000	2004 HK\$'000
Net liabilities sold	-	(883)
Profit on disposal	-	1,436
Net proceeds	-	553

There was no cash inflow or outflow in relation to the investment in Wanbao in 2004.

Notes to the Accounts

5. Net Profit on Discontinuing Operations (Continued)

(b) Property investment

During the year ended 31st March 2004, the Group transferred all its investment properties and leasehold land and buildings in Mainland China to a wholly-owned subsidiary, which was then disposed of to two subsidiaries of CITIC Group, a substantial shareholder of the Company. Details of the property investment were as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover	-	2,225
Other revenue	-	10
Operating costs and expenses	-	(1,318)
Profit for the year	-	917
Investment properties	-	35,000
Leasehold land and buildings	-	1,241
Computer equipment	-	5
Cash and bank balances	-	2,392
Other assets	-	111
Other liabilities	-	(697)
Net assets sold	-	38,052
Translation reserve realised	-	(859)
Loss on disposal	-	(533)
Net proceeds	-	36,660
Cash and bank balances disposed	-	(2,392)
Net cash inflow in respect of the disposal	-	34,268

The property investment in Mainland China contributed net operating cash inflow of HK\$1,035,000 in 2004.

Notes to the Accounts

6. Operating Profit/(Loss)

	2005	As restated 2004
	HK\$'000	HK\$'000
Operating profit/(loss) is stated after crediting and charging the following:		
Crediting		
Amortisation of negative goodwill	–	1,213
Charging		
Cost of inventories sold and service provided	135,292	127,828
Depreciation	12,519	2,578
Staff costs (note 7)	52,160	23,257
Operating lease rental expense for land and buildings	6,377	1,917
Auditors' remuneration	4,290	1,198
Loss on disposal of plant and equipment	6	–
Outgoings in respect of investment properties	–	303
	–	303

7. Staff Costs, Including Directors' Emoluments

	2005	As restated 2004
	HK\$'000	HK\$'000
Wages and salaries	44,659	20,159
Other benefits and allowances	5,188	2,719
Retirement benefits on defined contribution plans	2,313	379
	52,160	23,257

The Group has enrolled all employees in Hong Kong into the mandatory provident fund scheme (the "MPF Scheme"), which is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), both the employer and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.

Notes to the Accounts

7. Staff Costs, Including Directors' Emoluments *(Continued)*

The Group (including its jointly controlled entity) also participates in the employees' pension schemes of the respective municipal government in various places in Mainland China where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions.

8. Emoluments of Directors and Senior Executives**(a) Directors**

The aggregate emoluments to the Directors of the Company during the year are as follows:

	2005 HK\$'000	2004 HK\$'000
Fees		
Executive Directors	-	-
Independent non-executive Directors	300	192
	300	192
Other emoluments to executive Directors		
Salaries and other benefits in kind	6,039	4,265
Retirement benefits	31	21
Compensation for loss of office as Directors	175	-
	6,245	4,286
	6,545	4,478

The emoluments of the Directors fall within the following bands:

Emolument bands	Number of Directors	
	2005	2004
Nil to HK\$1,000,000	9	10
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	3	1

Notes to the Accounts

8. Emoluments of Directors and Senior Executives *(Continued)***(b) Five highest pay individuals**

The five individuals whose emoluments were the highest in the Group for the year included four (2004: three) Directors, whose emoluments are set out above. The emoluments for the remaining one individual (2004: two individuals, including emoluments to an individual before his appointment as a Director on 12th March 2004) during the year are as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and other benefits in kind	736	2,359
Retirement benefits	12	23
	748	2,382

The emoluments of the individuals fall within the following bands:

Emolument bands	Number of Directors	
	2005	2004
Nil to HK\$1,000,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	1

9. Finance Costs

	2005	As restated 2004
	HK\$'000	HK\$'000
Interest expense		
Bank loans	1,097	331
Loan from a related company (note 22)	124	247
	1,221	578

Notes to the Accounts

10. Taxation

	2005 HK\$'000	As restated 2004 HK\$'000
Company and subsidiaries		
Mainland China (current)	(102)	359
Jointly controlled entity		
Mainland China (current)	5,333	1,012
	5,231	1,371

Income tax and profits tax have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the places in which the Group operates. These rates range from 15% to 33% in Mainland China and the rate applicable to Hong Kong profits tax is 17.5% (2004: 17.5%).

The taxation on the profit/(loss) before taxation of the Group differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2005 HK\$'000	As restated 2004 HK\$'000
Profit/(loss) before taxation	33,490	(1,378)
Tax liability/(asset) at the rate of 17.5% (2004: 17.5%)	5,861	(241)
Effect of different tax rates in other countries	635	492
Income not subject to taxation	(10,735)	(3,200)
Expenses not deductible for taxation purposes	8,184	4,580
Tax losses not recognised	1,286	25
Utilisation of previously unrecognised tax losses	-	(285)
Taxation charge	5,231	1,371

Deferred taxation assets of the Group amounting to HK\$22,064,000 (2004: HK\$17,388,000) arising from unused tax losses, have not been recognised in the accounts. Unused tax losses have no expiry date.

Notes to the Accounts

11. Earnings/(Loss) Per Share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$25,420,000 (2004: loss of HK\$2,035,000) and on the weighted average of 3,287,423,186 (2004: 3,139,568,795) shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31st March 2005 is based on the following:

	Number of shares
	<hr/>
Weighted average number of shares for calculating basic earnings per share	3,287,423,186
Effect of dilutive potential shares	
Share options	54,010,629
Warrants	–
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Weighted average number of shares for calculating diluted earnings per share	<u>3,341,433,815</u>

The diluted loss per share for the year ended 31st March 2004 was not presented as the exercise of the share options outstanding as at 31st March 2004 would not have a dilutive effect on the loss per share.

Notes to the Accounts

12. Property, Plant and Equipment

Group	Leasehold improvements,					Total
	Leasehold land and buildings	furniture and equipment	Computer and special equipment	Motor vehicles	Construction in progress	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost						
At 31st March 2004, as restated	1,154	3,531	63,074	5,716	4,936	78,411
Additions	-	5,260	7,855	1,973	7,240	22,328
Acquisition of additional interest in a jointly controlled entity	103	129	5,178	341	439	6,190
Disposal of subsidiaries	-	(1,076)	(1,340)	(477)	-	(2,893)
Disposals	-	-	(97)	(173)	-	(270)
At 31st March 2005	1,257	7,844	74,670	7,380	12,615	103,766
Accumulated depreciation						
At 31st March 2004, as restated	193	1,139	28,962	3,450	-	33,744
Charge for the year	40	2,174	9,284	1,021	-	12,519
Acquisition of additional interest in a jointly controlled entity	18	9	2,425	242	-	2,694
Disposal of subsidiaries	-	(770)	(1,151)	(238)	-	(2,159)
Disposals	-	-	(72)	(147)	-	(219)
At 31st March 2005	251	2,552	39,448	4,328	-	46,579
Net book value						
At 31st March 2005	1,006	5,292	35,222	3,052	12,615	57,187
At 31st March 2004, as restated	961	2,392	34,112	2,266	4,936	44,667

Leasehold land and buildings are held under medium leases outside Hong Kong.

Notes to the Accounts

12. Property, Plant and Equipment (Continued)

Company	Furniture and fixture	Computer equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 31st March 2004	134	1,421	525	2,080
Additions	18	34	–	52
At 31st March 2005	152	1,455	525	2,132
Accumulated depreciation				
At 31st March 2004	86	1,358	315	1,759
Charge for the year	29	41	105	175
At 31st March 2005	115	1,399	420	1,934
Net book value				
At 31st March 2005	37	56	105	198
At 31st March 2004	48	63	210	321

13. Subsidiaries

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	13,000	13,000
Amounts receivable	302,320	218,016
Amounts payable	(31,653)	(31,693)
Provision	(122,190)	(122,190)
	161,477	77,133

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

Particulars of principal subsidiaries are set out in note 31(a) to the accounts.

Notes to the Accounts

14. Negative Goodwill

	2005	As restated 2004
	HK\$'000	HK\$'000
At beginning of the year	4,854	–
Acquisition of a jointly controlled entity	–	6,067
Amortisation of negative goodwill	–	(1,213)
Derecognition (note 1(a))	(4,854)	–
At end of the year	–	4,854

15. Associated Company

	Group	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	57,345	–
Negative goodwill (note 31(c))	19,215	–
Share of results	–	–
Share of net assets	76,560	–

Particulars of the associated company are set out in note 31(c) to the accounts.

16. Other Investments

	Group	
	2005	As restated 2004
	HK\$'000	HK\$'000
Unlisted equity securities	560	28
Unlisted club debenture	7,168	7,168
	7,728	7,196

Club debenture represents membership in a golf club in Mainland China.

Notes to the Accounts

17. Other Non-current Assets

	Group	
	2005 HK\$'000	2004 HK\$'000
Restricted bank deposits (note 20)	1,057	–

18. Inventories and Contracts in Progress

	Group	
	2005 HK\$'000	As restated 2004 HK\$'000
Costs incurred plus attributable profits less foreseeable losses	29,924	146,900
Progress billings	(26,673)	(140,815)
Contracts in progress	3,251	6,085
General merchandise	703	403
	3,954	6,488

19. Debtors and Prepayments

	Group		Company	
	2005 HK\$'000	As restated 2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade debtors (note a)	123,938	95,621	–	–
Other debtors (note b)	5,009	8,471	–	–
Deposits and prepayments (note c)	37,196	9,118	2,324	1,008
	166,143	113,210	2,324	1,008

Notes to the Accounts

19. Debtors and Prepayments *(Continued)*

- (a) For contract receivables, the payment terms of which are stated in the contracts and vary from one customer to another. All other invoices billed are generally on credit terms of 90 days. The ageing analysis of trade debtors of the Group, net of provision for bad and doubtful debts and prepared based on due date according to terms of relevant contracts, is as follows:

	2005	As restated 2004
	HK\$'000	HK\$'000
Not yet due	9,228	17,411
Below 3 months	64,336	55,679
4 to 6 months	23,705	9,220
7 to 9 months	4,495	4,921
10 to 12 months	3,923	383
Over 12 months	18,251	8,007
	123,938	95,621

- (b) Other debtors of the Group in 2004 included a receivable of HK\$10,000,000 from a former joint venture partner. This receivable had been fully provided for since 2001 notwithstanding a guarantee provided by the Company's major shareholder, Uni-Tech International Group Limited, to reimburse any loss that the Group might suffer due to the non-repayment by the former joint venture partner. During the year, this amount was fully recovered from the joint venture partner.
- (c) Deposits and prepayments include deposits for the formation of a jointly controlled entity, CITIC Quality Supervision Information Technology Company Limited ("CITIC QSIT") amounting to HK\$28,302,000. The principal activities of CITIC QSIT are development, sales, maintenance and consultation of various information technology and telecommunications products. As of 4th July 2005, CITIC QSIT has not yet been established.

Notes to the Accounts

20. Cash and Bank Balances

	Group	
	2005	As restated 2004
	HK\$'000	HK\$'000
Not restricted	131,266	218,586
Restricted	6,057	7,000
	137,323	225,586
Restricted bank deposit included in non-current assets (note 17)	(1,057)	–
	136,266	225,586

A restricted deposit of HK\$5,000,000 (2004: HK\$7,000,000), which has been pledged as securities for a short term bank loan (note 22), is not classified as a non-current asset.

21. Creditors and Accruals

	Group		Company	
	2005	As restated 2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors (note d)	75,691	59,940	–	–
Other creditors and accruals	36,823	49,243	5,635	1,695
Dividend payable (note a)	5,791	–	–	–
Payable to minority shareholders (note b)	–	4,185	–	–
Payable to a related company (note c)	–	1,857	–	–
	118,305	115,225	5,635	1,695

- (a) Dividend was payable to the former shareholders of a jointly controlled entity in respect of profits arising prior to the acquisition of the jointly controlled entity.
- (b) The amounts payable to minority shareholders were unsecured, interest free and had no fixed terms of repayment.

Notes to the Accounts

21. Creditors and Accruals *(Continued)*

- (c) The amount payable to related company, which was a fellow subsidiary of a minority shareholder of a subsidiary of the Company, was unsecured, interest free and had no fixed terms of repayment.
- (d) The ageing analysis of the trade creditors of the Group, prepared in accordance with the date of invoices, is as follows:

	2005	As restated 2004
	HK\$'000	HK\$'000
Below 3 months	43,280	32,203
4 to 6 months	3,352	3,111
7 to 9 months	1,937	1,817
10 to 12 months	352	1,247
Over 12 months	26,770	21,562
	75,691	59,940

22. Short-term Loans

	Group	
	2005	As restated 2004
	HK\$'000	HK\$'000
Bank loans	11,583	44,377
Other loan	-	5,127
	11,583	49,504

The bank loans are secured by a bank deposit (note 20) and corporate guarantee by another joint venture partner, carries interest at prevailing market rate and is repayable within one year.

The other loan was payable to a related company, unsecured, carried interest at 2% per annum above prime rate and was repayable on demand.

Notes to the Accounts

23. Share Capital

	Shares of	
	HK\$0.01 each	HK\$'000
<i>Authorised:</i>		
At 31st March 2004 and 31st March 2005	10,000,000,000	100,000
<i>Issued and fully paid:</i>		
At 31st March 2003	3,109,266,000	31,093
Issue of new shares	172,500,000	1,725
Exercise of share options	540,000	5
At 31st March 2004	3,282,306,000	32,823
Exercise of share options	22,069,996	221
At 31st March 2005	3,304,375,996	33,044

On 7th November 2003 and 30th March 2004, the Company allotted and issued 75,000,000 and 97,500,000 new shares of HK\$0.01 each at the issue price of HK\$0.60 and HK\$0.80 per share, respectively, to provide for additional working capital to the Group. All new shares rank pari passu with the existing shares.

On 25th February 2005, the Company issued 550,697,664 warrants at the issue price of HK\$0.10 per warrant on the basis of one warrant for every six existing shares held on that date. The warrants will mature in 18 months from the date of issue. Each warrant entitles the holder thereof to subscribe for one share of HK\$0.01 each at an exercise price of HK\$2.40 per share, payable in cash and subject to adjustment, at any time from 18th March 2005 to 17th September 2006. Consideration, net of transaction cost of HK\$52,450,308 (2004: nil) was received in respect of the warrants granted during the year.

During the year, none of the warrants has been exercised.

Notes to the Accounts

23. Share Capital *(Continued)*

The Company operates share option schemes under which options are granted to individuals as incentive or rewards for their contribution or potential contribution to the Group. At the annual general meeting of the Company held on 30th August 2002, the shareholders of the Company approved and adopted a new share option scheme (the "Scheme") and termination of the then existing scheme which was approved at a special general meeting of the Company on 28th May 1998. Under the Scheme, the Directors may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the Directors may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, ten per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued upon the exercise of any options granted under the Scheme. All outstanding options granted under the previous option scheme remain valid and exercisable in accordance with their terms of issue. Movements in the number of share options during the year are as follows:

	2005	2004
At beginning of the year	337,110,000	87,650,000
Granted (note a)	73,300,000	265,000,000
Lapsed	(118,640,000)	(15,000,000)
Exercised (note b)	(22,069,996)	(540,000)
At end of the year (note c)	269,700,004	337,110,000

Notes to the Accounts

23. Share Capital (Continued)

(a) Options granted

Date of grant	2005		2004	
	Exercise price HK\$	Number of shares	Exercise price HK\$	Number of shares
Directors				
24th June 2003	-	-	0.322	176,080,000
23rd March 2005	3.175	30,000,000	-	-
Employees and other eligible persons				
24th June 2003	-	-	0.322	88,920,000
22nd September 2004	1.230	24,000,000	-	-
1st February 2005	2.255	7,000,000	-	-
2nd March 2005	2.525	9,300,000	-	-
10th March 2005	2.925	2,000,000	-	-
23rd March 2005	3.175	1,000,000	-	-
		<u>73,300,000</u>		<u>265,000,000</u>

Notes to the Accounts

23. Share Capital (Continued)

(b) Options exercised

Exercise date	2005		2004	
	Exercise price HK\$	Number of shares	Exercise price HK\$	Number of shares
Employees				
20th October 2003	–	–	0.3304	540,000
24th September 2004	0.3304	560,000	–	–
24th September 2004	0.3220	666,666	–	–
7th October 2004	0.3220	1,666,000	–	–
8th November 2004	0.9900	2,130,000	–	–
23rd November 2004	0.3220	1,666,666	–	–
5th January 2005	0.9900	830,000	–	–
5th January 2005	0.3220	4,000,664	–	–
21st February 2005	0.3220	10,360,000	–	–
24th March 2005	0.9900	190,000	–	–
		22,069,996		540,000

Consideration of HK\$9,215,000 (2004: HK\$178,000) was received in respect of the share options exercised during the year.

Notes to the Accounts

23. Share Capital (Continued)

(c) Outstanding options

Exercise period	Exercise price HK\$	Number of shares	
		2005	2004
Directors			
13th January 2001 to 27th May 2008	0.9900	21,000,000	21,000,000
13th July 2001 to 27th May 2008	0.9900	21,000,000	21,000,000
13th July 2002 to 27th May 2008	0.9900	28,000,000	28,000,000
10th September 2004 to 23rd June 2013	0.3220	30,000,000	30,000,000
10th March 2005 to 23rd June 2013	0.3220	30,000,000	30,000,000
10th September 2005 to 23rd June 2013	0.3220	30,000,000	30,000,000
24th June 2004 to 23rd June 2013	0.3220	11,666,666	28,693,332
24th December 2004 to 23rd June 2013	0.3220	11,666,666	28,693,332
24th June 2005 to 23rd June 2013	0.3220	13,333,336	28,693,336
23rd March 2006 to 23rd March 2015	3.1750	10,000,000	–
23rd March 2007 to 23rd March 2015	3.1750	10,000,000	–
23rd March 2008 to 23rd March 2015	3.1750	10,000,000	–
		226,666,668	246,080,000
Employees			
13th January 2001 to 27th May 2008	0.9900	–	1,065,000
13th July 2001 to 27th May 2008	0.9900	60,000	1,065,000
13th July 2002 to 27th May 2008	0.9900	340,000	1,420,000
20th November 2001 to 27th May 2008	0.7920	2,400,000	2,400,000
20th November 2002 to 27th May 2008	0.7920	2,400,000	2,400,000
20th November 2003 to 27th May 2008	0.7920	3,200,000	3,200,000
13th January 2003 to 27th May 2008	0.3304	–	60,000
13th July 2003 to 27th May 2008	0.3304	–	60,000
13th January 2004 to 27th May 2008	0.3304	–	440,000
24th June 2004 to 23rd June 2013	0.3220	2	26,306,667
24th December 2004 to 23rd June 2013	0.3220	2	26,306,667
24th June 2005 to 23rd June 2013	0.3220	2,333,332	26,306,666
22nd September 2005 to 22nd October 2005	1.2300	4,333,334	–
22nd September 2006 to 22nd October 2006	1.2300	4,333,334	–
22nd September 2007 to 22nd October 2007	1.2300	4,333,332	–

Notes to the Accounts

23. Share Capital (Continued)

(c) Outstanding options (Continued)

Exercise period	Exercise price HK\$	Number of shares	
		2005	2004
Employees (Continued)			
6th January 2006 to 31st January 2015	2.2550	1,333,333	–
6th January 2007 to 31st January 2015	2.2550	1,333,333	–
6th January 2008 to 31st January 2015	2.2550	1,333,334	–
5th January 2006 to 31st January 2015	2.2550	1,000,000	–
5th January 2007 to 31st January 2015	2.2550	1,000,000	–
5th January 2008 to 31st January 2015	2.2550	1,000,000	–
2nd September 2005 to 1st March 2015	2.5250	2,766,666	–
2nd September 2006 to 1st March 2015	2.5250	2,766,666	–
2nd September 2008 to 1st March 2015	2.5250	2,766,668	–
2nd March 2006 to 1st March 2015	2.5250	200,000	–
2nd March 2007 to 1st March 2015	2.5250	200,000	–
2nd March 2008 to 1st March 2015	2.5250	200,000	–
2nd March 2009 to 1st March 2015	2.5250	200,000	–
2nd March 2010 to 1st March 2015	2.5250	200,000	–
10th March 2006 to 9th March 2015	2.9250	1,000,000	–
10th March 2007 to 9th March 2015	2.9250	1,000,000	–
23rd March 2006 to 22nd March 2015	3.1750	200,000	–
23rd March 2007 to 22nd March 2015	3.1750	200,000	–
23rd March 2008 to 22nd March 2015	3.1750	200,000	–
23rd March 2009 to 22nd March 2015	3.1750	200,000	–
23rd March 2010 to 22nd March 2015	3.1750	200,000	–
		43,033,336	91,030,000
		269,700,004	337,110,000

Notes to the Accounts

24. Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group						
At 31st March 2003	237,773	78,108	2,883	5,658	(253,481)	70,941
Change in exchange rates	-	-	241	-	-	241
Realised exchange reserve on disposal of a subsidiary	-	-	(859)	-	-	(859)
Issue of new shares	121,448	-	-	-	-	121,448
Share issue expenses	(4,476)	-	-	-	-	(4,476)
Loss for the year	-	-	-	-	(2,035)	(2,035)
At 31st March 2004	354,745	78,108	2,265	5,658	(255,516)	185,260
Retained by:						
Company and subsidiaries	354,745	78,108	2,197	5,658	(259,189)	181,519
Jointly controlled entity	-	-	68	-	3,673	3,741
	354,745	78,108	2,265	5,658	(255,516)	185,260
At 31st March 2004	354,745	78,108	2,265	5,658	(255,516)	185,260
Negative goodwill derecognition (note 1(a))	-	-	-	-	4,854	4,854
Change in exchange rates	-	-	161	-	-	161
Realised reserves on disposal of a subsidiary	-	-	(1,332)	(65)	-	(1,397)
Issue of warrants	55,070	-	-	-	-	55,070
Warrant issue expenses	(2,620)	-	-	-	-	(2,620)
Issue of shares on exercise of share options	8,995	-	-	-	-	8,995
Transfer	-	-	-	3,543	(3,543)	-
Profit for the year	-	-	-	-	25,420	25,420
At 31st March 2005	416,190	78,108	1,094	9,136	(228,785)	275,743
Retained by:						
Company and subsidiaries	416,190	78,108	1,026	5,593	(269,982)	230,935
Jointly controlled entity	-	-	68	3,543	21,982	25,593
Associated company	-	-	-	-	19,215	19,215
	416,190	78,108	1,094	9,136	(228,785)	275,743

Notes to the Accounts

24. Reserves (Continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company				
At 31st March 2003	237,773	58,318	(225,150)	70,941
Issue of shares	121,448	–	–	121,448
Share issue expenses	(4,476)	–	–	(4,476)
Loss for the year	–	–	(19,267)	(19,267)
At 31st March 2004	354,745	58,318	(244,417)	168,646
Issue of shares on exercise of options	8,995	–	–	8,995
Issue of warrants	55,070	–	–	55,070
Warrant issue expenses	(2,620)	–	–	(2,620)
Loss for the year	–	–	(22,222)	(22,222)
At 31st March 2005	416,190	58,318	(266,639)	207,869

Contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the surplus arising from the reduction of share capital. Under the Companies Act of Bermuda and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. The Company has no distributable reserves at 31st March 2005.

25. Commitments

(a) Capital commitment

The Group entered into an agreement with Information Centre of General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China ("AQSIQ") and China Huaxin Telecom Economic Development Centre to form a jointly controlled entity, CITIC QSIT, with an intention to engage in, among others, the authentication service for products manufactured in Mainland China, of which the Group will hold 50% interest. The registered capital of CITIC QSIT will be RMB60,000,000 (equivalent to HK\$56,604,000), and the Group has contributed RMB30,000,000 (equivalent to HK\$28,302,000) (note 19(c)) as at 31st March 2005. The Group has also agreed with AQSIQ that the Group will make an interest free advance to AQSIQ in order for AQSIQ to meet its share of the capital contribution to CITIC QSIT amounting to RMB18,000,000 (equivalent to HK\$16,981,000). As at 31st March 2005, the advance has not yet been made.

Notes to the Accounts

25. Commitments (Continued)

(b) Operating lease commitments

The future aggregate minimum lease rental expense under non-cancellable operating leases in respect of land and buildings is payable in the following years:

	Group		Company	
	2005	As restated 2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	3,356	6,662	1,124	797
Two to five years	2,637	4,198	983	–
More than five years	–	1,789	–	–
	5,993	12,649	2,107	797

26. Notes to Consolidated Cash Flow Statement

(a) Reconciliation of operating profit/(loss) to net cash used in operations

	As restated	
	2005	2004
	HK\$'000	HK\$'000
Operating profit/(loss)	34,711	(800)
Negative goodwill	(20,403)	–
Gain on disposal of subsidiaries	(13,103)	–
Write back of long outstanding payables	(6,775)	–
Interest income	(441)	(274)
Depreciation	12,519	2,578
Loss on disposal of plant and equipment	6	–
Loss on sale of a subsidiary	–	533
Profit on sale of an associated company	–	(1,436)
Amortisation of negative goodwill	–	(1,213)
Operating profit/(loss) before working capital changes	6,514	(612)
Decrease in inventories and contracts in progress	2,474	26,402
Increase in debtors and prepayments	(52,964)	(60,771)
Increase in creditors and accruals	17,041	9,167
Net cash used in operations	(26,935)	(25,814)

Notes to the Accounts

26. Notes to Consolidated Cash Flow Statement (Continued)

(b) Acquisition of interest in a jointly controlled entity

	2005	As restated 2004
	HK\$'000	HK\$'000
Net assets acquired		
Properties, plant and equipment	3,496	43,237
Other investment	2	28
Inventories and contracts in progress	12	135
Debtors and prepayments	3,413	31,576
Cash and bank balances	4,657	52,393
Creditors and accruals	(3,638)	(38,306)
Taxation payable	(316)	(2,539)
Short term loans	(3,358)	(37,783)
Minority interest	(559)	(7,001)
Exchange reserve	-	(68)
	3,709	41,672
Negative goodwill	(491)	(6,067)
	3,218	35,605
Cash consideration	3,218	35,605
Cash and bank balances acquired	(4,657)	(52,393)
	(1,439)	(16,788)
Net cash inflow on acquisition	(1,439)	(16,788)

Notes to the Accounts

26. Notes to Consolidated Cash Flow Statement (Continued)

(c) Disposal of subsidiaries

	2005 HK\$'000	2004 HK\$'000
Net liabilities disposed of		
Properties, plant and equipment	734	–
Contracts in progress	72	–
Debtors and prepayments	3,444	–
Taxation recoverable	529	–
Cash and bank balances	250	–
Creditors and accruals	(10,824)	–
Short term loans	(5,250)	–
	(11,045)	–
Release of reserves		
Exchange reserve	(1,332)	–
General reserve	(65)	–
Gain on disposal	13,103	–
	661	–
Cash consideration	661	–
Cash and bank balances disposal of	(250)	–
	411	–
Net cash inflow on disposal of subsidiaries	411	–

Notes to the Accounts

26. Notes to Consolidated Cash Flow Statement (Continued)

(d) Analysis of changes in financing

	Share capital, premium and contributed surplus HK\$'000	Minority interests HK\$'000	Short term loans HK\$'000
At 31st March 2003	346,974	85	4,880
Acquisition of a jointly controlled entity	–	7,001	37,783
Minority interests' share of loss	–	(714)	–
Net cash from financing activities	118,702	–	6,841
At 31st March 2004, as restated	465,676	6,372	49,504
Minority interests' share of profit	–	2,839	–
Disposal of subsidiaries	–	–	(5,250)
Acquisition of interest in a jointly controlled entity	–	559	3,358
Acquisition of subsidiaries by a jointly controlled entity	–	(2,476)	–
Net cash from/(used in) financing activities	61,666	–	(36,029)
At 31st March 2005	527,342	7,294	11,583

Notes to the Accounts

27. Related Party Transactions

The following is a summary of the significant related party transactions carried out in the normal course of the business activities of the Group during the year:

	2005 HK\$'000	2004 HK\$'000
Purchase of further 4% interest of a jointly controlled entity (note a)	3,028	12,837
Purchase of 30% interest of an associated company (note 31(c))	56,636	–
Sale of a subsidiary (note 5(b))	–	36,660
Sale of an associated company (note 5(a))	–	553
Interest expense (note 9)	124	247
Computer system integration and software development income	–	2,439

- (a) The Group entered into an agreement on 13th February 2004 to acquire an additional 4% equity interest in Beijing Honglian 95 Information Industries Company Limited, a jointly controlled entity, from CITIC Guoan Information Industries Company Limited, a related company, at the consideration of HK\$3,028,000. The acquisition was completed on 2nd June 2004.
- (b) In addition to the above, as at 31st March 2004, a substantial shareholder had provided a guarantee to the Group for the reimbursement of any loss that the Group might suffer due to the non-repayment by the former joint venture partner (note 19(b)).

28. Litigation

In March 1998 and May 1999, two third parties commenced legal proceedings against Rheingold (Hong Kong) Limited (“Rheingold”) and Easy Department Store Limited (“Easy Department Store”), both were wholly owned subsidiaries of the Company, in respect of alleged breaches of the terms of their respective operating lease agreements. Having sought independent legal advice, provisions in the aggregate of HK\$6,868,000 were made by Rheingold and Easy Department Store for their estimated liabilities under the claims.

Rheingold and Easy Department Store had since then ceased operations. Both subsidiaries had no meaningful assets and therefore would not have the ability to pay these claims should they become liable. No other company within the Group was liable to the liabilities of these subsidiaries and the rest of the Group would not provide funds to them to satisfy such liabilities in question. In view of the foregoing, the Directors were of the opinion that the Group would not pay any of these claims and therefore it was appropriate to write back such provisions in the accounts for the year ended 31st March 2004. During the year, both Rheingold and Easy Department Store were disposed of with nominal considerations.

Notes to the Accounts

29. Subsequent Event

On 23rd May 2005, the Group entered into a memorandum of understanding with Hebei Board of Radio and Television in Mainland China regarding the formation of a joint venture with registered capital of RMB100,000,000 (equivalent to HK\$94,340,000). The joint venture will be engaged in (i) the development of digital television and multi services technology platform, (ii) visual, audio and data transmission business for the government, (iii) sales and leasing of set-top boxes and (iv) set up of program content library for digital television network in Hebei Province, Mainland China. The Group proposes to hold 49% interest in this new joint venture and as of 4th July 2005, the Group has not yet concluded any legal binding agreement for the formation of this proposed joint venture.

30. Approval of Financial Statements

The accounts were approved by the Board of Directors on 4th July 2005.

31. Subsidiaries, Jointly Controlled Entity and Associated Company

The following are major subsidiaries, jointly controlled entity and associated company as at 31st March 2005 which, in the opinion of the Directors, principally affect the results and assets of the Group.

(a) Subsidiaries

Name	Place of incorporation/ operations	Particulars of issued/paid-up capital	Effective percentage of interest held	Principal activities
<i>Held directly:</i>				
21CN Advertising Agency Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100	Investment holding
Easy Concepts (BVI) Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100	Investment holding

Notes to the Accounts

31. Subsidiaries, Jointly Controlled Entity and Associated Company (Continued)

(a) Subsidiaries (Continued)

Name	Place of incorporation/ operations	Particulars of issued/paid-up capital	Effective percentage of interest held	Principal activities
<i>Held indirectly:</i>				
Brightown (Hong Kong) Limited	Hong Kong	10 shares of HK\$1 each	100	Sales of data communication network systems
Cattsoft Technology Company Limited	Hong Kong	10 shares of HK\$1 each	70	Sales of data communication network systems and related services
Easy Concepts Limited	Hong Kong	64,797,832 shares of HK\$1 each	100	Investment holding
CITIC 21CN TELECOM COMPANY LIMITED (formerly known as Grand Cycle International Limited)	Hong Kong	1,000,000 shares of HK\$1 each	100	Sales of data communication network systems
Guangdong Tian Tu Technology Company Limited ⁽¹⁾	Mainland China	HK\$10,000,000	100	Sales of data communication network systems

(1) This subsidiary is a wholly foreign owned enterprise established in Mainland China with operating life of 50 years expiring in December 2052.

Notes to the Accounts

31. Subsidiaries, Jointly Controlled Entity and Associated Company (Continued)

(b) Jointly controlled entity

Name	Place of incorporation/ operations	Particulars of issued/paid-up capital	Effective percentage of interest held	Principal activities
<i>Held indirectly:</i>				
Beijing Honglian 95 Information Industries Company Limited	Mainland China	RMB60,000,000	49	Provision of telecommunications valued added services

(c) Associated company

Name	Place of incorporation/ operations	Particulars of issued/paid-up capital	Effective percentage of interest held	Principal activities
Dongfang Customs Technology Company Limited	Mainland China	RMB71,428,571	30	Operation of a platform for electronic customs processing

During the year, the Group acquired 30% equity interest in Dongfang Customs Technology Company Limited from CITIC Group, a substantial shareholder. The acquisition was completed on 31st March 2005 and details of net assets acquired and negative goodwill arising thereon are as follows:

	HK\$'000
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Purchase cost	
Cash consideration	56,636
Direct acquisition costs	709
	<hr/>
	57,345
Fair value of share of net assets	76,560
	<hr/>
Negative goodwill on acquisition	(19,215)
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Notes to the Accounts

31. Subsidiaries, Jointly Controlled Entity and Associated Company *(Continued)***(c) Associated company** *(Continued)*

The negative goodwill is mainly attributable to the fair value adjustment to the intangible assets and properties. A summary of the financial position of the associated company as at 31st March 2005 is set out as follows:

	Fair value	Carrying amount
	HK\$'000	HK\$'000
Net assets		
Property, plant and equipment	41,301	34,829
Intangible assets	61,736	–
Other non-current assets	1,386	1,386
Current assets	192,781	192,781
Current liabilities	(31,772)	(31,772)
Non-current liabilities	(10,231)	–
	<hr/>	<hr/>
Shareholders' funds	255,201	197,224
	<hr/>	<hr/>
Group's share of net assets	76,560	59,167
	<hr/>	<hr/>