

Notes to Financial Statements 31 March 2005

1. GROUP REORGANISATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 4 December 2002 under the Companies Law (2002 Revision) of the Cayman Islands.

Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 25 July 2003, the Company became the holding company of the companies now comprising the Group on 24 April 2003. This was accomplished by acquiring the entire issued share capital of Sinopoint Corporation, the then holding company of the other subsidiaries set out in note 16 to the financial statements, in consideration of and in exchange for the allotment and issue of 999,999 ordinary shares of HK\$0.01 each of the Company, credited as fully paid, to the former shareholders of Sinopoint Corporation. Further details of the Group Reorganisation are set out in the Company's prospectus dated 15 July 2003.

2. CORPORATE INFORMATION

The registered office of the Company is located at P.O. Box 309 GT, Uglund House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies. The principal place of business of the Company is located at 3rd Floor, Caltex House, No. 258 Hennessy Road, Wanchai, Hong Kong.

During the year, the Group was involved in the provision of cleaning and related services and the provision of repair and maintenance services for external walls and buildings.

In the opinion of the directors, the ultimate holding company is The Lo's Family Limited, which is incorporated in the British Virgin Islands.

3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.



Notes to Financial Statements 31 March 2005

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The consolidated financial statements included the financial statements of the Company and its subsidiaries for the year ended 31 March 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

The Group Reorganisation during the year ended 31 March 2004 involved companies under common control. The consolidated financial statements for the year ended 31 March 2004 have therefore been prepared using the merger basis of accounting as a result of the completion of the Group Reorganisation on 24 April 2003. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of its acquisition of subsidiaries on 24 April 2003. Accordingly, the consolidated financial statements of the Group for the year ended 31 March 2004 include the results of the Company and its subsidiaries with effect from 1 April 2003 or since their respective dates of incorporation, where this is a shorter period.

In the opinion of the directors, the consolidated financial statements for the year ended 31 March 2004 prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

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

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of other investments, as further explained below.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Notes to Financial Statements 31 March 2005

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.



Notes to Financial Statements 31 March 2005

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates for this purpose are as follows:

Leasehold improvements	Over the lease terms
Furniture and equipment	20%
Motor vehicles	25%
Tools and machinery	10% – 33 $\frac{1}{3}$ %

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Other investments

Investments in listed securities held for trading purposes are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account in the period in which they arise.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Contract work in progress

Contract work in progress is stated at cost, plus attributable profits less provisions for any anticipated losses, and invoiced progress payments received and receivable.

Revenue from fixed price contracts is recognised when the construction works are completed under the terms of the relevant contracts.

A negative contract work in progress balance arises where the invoiced progress payments received and receivable plus provisions for any anticipated losses exceed the cost incurred to date plus attributable profits.

Notes to Financial Statements 31 March 2005

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss, while 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.



Notes to Financial Statements 31 March 2005

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the rendering of services, when the services are provided;
- (b) from construction contracts, on completion method, as further explained in the accounting policy for "Contract work in progress"; and
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Notes to Financial Statements 31 March 2005

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

A contingent liability is disclosed in respect of the full possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A full provision has not been recognised in respect of such possible payments as it is not considered probable that they will all result in a future outflow of resources from the Group.

Retirement benefits schemes

The Group operates a defined contribution staff retirement scheme (the "Scheme") for certain of its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. When an employee leaves the Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Employees have the option to join either one of the above schemes.



Notes to Financial Statements 31 March 2005

4. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Employee benefits** (continued)*Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

5. TURNOVER, OTHER REVENUE AND GAIN

Turnover represents the net invoiced value of services rendered. An analysis of the Group's turnover, other revenue and gain is as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Service fee income	178,285	217,072
Other revenue and gain		
Interest income	932	282
Management fee received	930	1,230
Gain on disposal of fixed assets	9	–
Sundry income	155	311
	2,026	1,823

6. SEGMENT INFORMATION

As the turnover and the net profit from ordinary activities of the Group for the year are wholly generated from the provision of cleaning and related services in Hong Kong, no analysis of segment information by business activity and geographical area is presented.

Notes to Financial Statements 31 March 2005

7. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2005 HK\$'000	2004 HK\$'000
Cost of services rendered*	152,604	178,292
Auditors' remuneration	380	365
Minimum lease payments under operating leases in respect of land and buildings	1,317	1,182
Staff costs (including directors' remuneration (note 9)):		
Wages, salaries and other benefits	147,272	161,000
Retirement benefits scheme contributions	4,766	4,907
Forfeited contributions	(4,681)	(2,332)
Net retirement benefits scheme contributions	85	2,575
Provision for long service payments – net (note 23)	611	318
Provision for untaken paid leave	976	260
	148,944	164,153
Provision for doubtful debts and bad debts written off	228	133
Gain on disposal of fixed assets	(9)	–

* The cost of services rendered included staff costs of HK\$137,641,000 (2004: HK\$152,928,000) incurred for the provision of services which have been included in the staff costs above.

At 31 March 2005, the Group had forfeited contributions of HK\$242,000 available to reduce its contributions to the retirement benefits schemes in future years (2004: HK\$983,000).

Notes to Financial Statements 31 March 2005

8. FINANCE COSTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Interest on a bank loan wholly repayable within five years	190	–

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Fees	301	880
Other emoluments:		
Salaries and allowances	5,204	5,465
Retirement benefits scheme contributions	418	427
	5,622	5,892
	5,923	6,772

Fees include HK\$301,000 (2004: HK\$880,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2005	2004
Nil to HK\$1,000,000	6	5
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$2,000,001 to HK\$2,500,000	1	1
	9	8

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Notes to Financial Statements 31 March 2005

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2004: one) non-director, highest paid employee for the year are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Salaries and allowances	431	466
Retirement benefits scheme contributions	11	15
	442	481

The remuneration of the remaining non-director, highest paid individual fell within the band of nil to HK\$1,000,000.

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2005 HK\$'000	2004 HK\$'000
Group:		
Provision for the year	312	2,387
Underprovision/(overprovision) in prior years	22	(35)
Deferred (note 22)	(54)	199
Tax charge for the year	280	2,551



Notes to Financial Statements 31 March 2005

11. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Profit before tax	2,197	14,317
Tax at the statutory tax rate of 17.5% (2004: 17.5%)	384	2,505
Adjustments in respect of current tax of previous periods	22	(35)
Income not subject to tax	(173)	(51)
Expenses not deductible for tax	51	78
Others	(4)	54
Tax charge at the Group's effective rate of 12.7% (2004: 17.8%)	280	2,551

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company, was HK\$7,088,000 (2004: HK\$12,065,000) (note 26(b)).

13. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim – HK1 cent (2004: HK1.5 cents) per ordinary share	3,000	4,500
Interim dividends paid by a subsidiary of the Company to its then shareholders (Note)	–	34,798
Proposed final – HK1 cent (2004: HK2.5 cents) per ordinary share	3,000	7,500
	6,000	46,798

Note: During the year ended 31 March 2004, interim dividends of HK\$34,798,000 were paid by a subsidiary of the Company to its then shareholders prior to the listing of the Company's shares on the Stock Exchange as set out in note 1 to the financial statements. The rates of dividends and number of shares ranking for these dividends were not presented as the directors considered that such information was not meaningful for the purpose of these financial statements.

Notes to Financial Statements 31 March 2005

13. DIVIDENDS (continued)

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated net profit from ordinary activities attributable to shareholders for the year of HK\$1,917,000 (2004: HK\$11,766,000), and the weighted average of 300,000,000 (2004: 285,983,607) ordinary shares in issue during the year.

The weighted average number of shares used to calculate the basic earnings per share for the year ended 31 March 2004 included the pro forma issued share capital of the Company on the assumption that the Group Reorganisation and the capitalisation issue of 254,000,000 shares of the Company had been effective on 1 April 2003.

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the year (2004: Nil).

15. FIXED ASSETS

Group

	Leasehold improvements HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Tools and machinery HK\$'000	Total HK\$'000
Cost:					
At beginning of year	1,088	11,387	1,944	5,226	19,645
Additions	26	643	153	5	827
Disposals	(15)	(103)	(160)	–	(278)
At 31 March 2005	1,099	11,927	1,937	5,231	20,194
Accumulated depreciation:					
At beginning of year	1,070	7,926	1,850	4,099	14,945
Provided during the year	13	1,074	39	121	1,247
Disposals	(9)	(57)	(160)	–	(226)
At 31 March 2005	1,074	8,943	1,729	4,220	15,966
Net book value:					
At 31 March 2005	25	2,984	208	1,011	4,228
At 31 March 2004	18	3,461	94	1,127	4,700

Notes to Financial Statements 31 March 2005

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	59,521	59,521
Due from subsidiaries	23,051	17,625
	82,572	77,146

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

Particulars of the subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued and paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sinopoint Corporation	British Virgin Islands/ Hong Kong	US\$100 Ordinary	100	–	Investment holding
Lo's Cleaning Services Limited	Hong Kong	HK\$100 Ordinary HK\$26,768,000 Non-voting deferred	–	100	Provision of cleaning and related services
Lo's Airport Cleaning Services Limited	Hong Kong	HK\$10,000 Ordinary	–	100	Provision of cleaning and related services
Yangi Construction & Engineering Limited	Hong Kong	HK\$100 Ordinary	–	100	Provision of external wall repair and maintenance services
Best Crown International Limited*	British Virgin Islands/ Hong Kong	US\$100 Ordinary	–	60	Investment holding

Notes to Financial Statements 31 March 2005

16. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation and operations	Nominal value of issued and paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Mak Tai Construction & Engineering Limited*	Hong Kong	HK\$10,000 Ordinary	–	60	Provision for building maintenance and renovation services

* Incorporated during the year.

17. OTHER INVESTMENTS

	Group	
	2005 HK\$'000	2004 HK\$'000
Listed equity investments in Hong Kong, at market value	142	142

18. CONTRACT WORK IN PROGRESS

	Group	
	2005 HK\$'000	2004 HK\$'000
Contract costs incurred	1,569	–
Less: Progress billings receivable	(598)	–
	971	–



Notes to Financial Statements 31 March 2005

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 30 days, although an extension of the credit period up to 90 days is not uncommon for customers with a long term relationship. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management.

An aged analysis of the trade receivables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	14,364	15,483
31 – 60 days	4,562	6,841
61 – 90 days	2,268	3,155
91 – 120 days	458	1,012
Over 120 days	2,135	1,353
	23,787	27,844
Less: Provision for doubtful debts	(99)	(100)
	23,688	27,744

20. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	38,017	31,678	1,339	5,017
Time deposits	27,578	38,999	50	5,051
	65,595	70,677	1,389	10,068
Less: Pledged short term time deposits for banking facilities (note 27)	(18,995)	(19,865)	–	–
Pledged long term time deposits for banking facilities (note 27)	–	(3,883)	–	–
Cash and cash equivalents	46,600	46,929	1,389	10,068

Notes to Financial Statements 31 March 2005

21. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	1,296	1,226
31 – 60 days	43	337
61 – 90 days	45	45
91 – 120 days	10	33
Over 120 days	137	–
	1,531	1,641

22. DEFERRED TAX

	Group	
	2005 HK\$'000	2004 HK\$'000
At beginning of the year	324	125
Charge/(credit) for the year (note 11)	(54)	199
At end of year	270	324

The principal component of the provision for deferred tax liabilities calculated at 17.5% (2004: 17.5%) on the cumulative temporary differences at the balance sheet date is accelerated depreciation allowances.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

23. PROVISION FOR LONG SERVICE PAYMENTS

	Group	
	2005 HK\$'000	2004 HK\$'000
At beginning of the year	1,949	4,658
Provision for long service payments – net (note 7)	611	318
Amounts utilised during the year	(928)	(3,027)
At end of year	1,632	1,949



Notes to Financial Statements 31 March 2005

23. PROVISION FOR LONG SERVICE PAYMENTS (continued)

The Group provides for the probable future long service payments expected to be made to employees under the Employment Ordinance, as further explained under the heading "Employee benefits" in note 4 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

24. SHARE CAPITAL

	Company	
	2005 HK\$'000	2004 HK\$'000
Authorised: 1,000,000,000 (2004: 1,000,000,000) ordinary shares of HK\$0.01 each	10,000	10,000
Issued and fully paid: 300,000,000 (2004: 300,000,000) ordinary shares of HK\$0.01 each	3,000	3,000

During the period from 4 December 2002 (date of incorporation) to 31 March 2005, the movements in share capital were as follows:

- (i) On 4 December 2002 (date of incorporation), the authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which 1 share was allotted and issued for cash at par to the subscriber.
- (ii) Pursuant to a written resolution of the sole shareholder of the Company passed on 24 April 2003, the authorised share capital of the Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of 962,000,000 additional shares of HK\$0.01 each, ranking pari passu in all respects with the then existing share capital of the Company.
- (iii) Pursuant to a written resolution of the sole shareholder of the Company passed on 24 April 2003, 999,999 shares of HK\$0.01 each of the Company were issued and credited as fully paid at par in exchange for the acquisition by the Company of the entire issued share capital of Sinopoint Corporation, being the intermediate holding company of the companies comprising the Group.

Notes to Financial Statements 31 March 2005

24. SHARE CAPITAL (continued)

- (iv) Pursuant to a written resolution of the sole shareholder of the Company passed on 24 April 2003, conditional upon the share premium account of the Company being credited as a result of the issue of its new shares to the public, an aggregate of 254,000,000 shares were allotted and issued at par to the shareholders whose names appeared on the register of members of the Company at the close of business on 15 July 2003 in proportion to their then shareholdings in the Company, or as they may direct, by way of a capitalisation of a sum of HK\$2,540,000 standing credit of the share premium account of the Company.
- (v) Pursuant to the listing on the Stock Exchange on 25 July 2003, the Company issued 45,000,000 shares of HK\$0.01 each at a price of HK\$0.56 per share to the public.

A summary of transactions with reference to the above movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
Share allotted and issued at par	(i)	1	-	-	-
Shares issued as consideration for the acquisition of the entire issued share capital of Sinopoint Corporation	(iii)	999,999	10	-	10
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	(iv)	254,000,000	-	-	-
Pro forma share capital as at 31 March 2003 and 1 April 2003		255,000,000	10	-	10
Capitalisation of the share premium account as set out above	(iv)	-	2,540	(2,540)	-
Issue of shares	(v)	45,000,000	450	24,750	25,200
Share issue expenses		-	-	(5,072)	(5,072)
At 31 March 2004, 1 April 2004 and 31 March 2005		300,000,000	3,000	17,138	20,138

Notes to Financial Statements 31 March 2005

25. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme are the employees of the Group (including any executive director, non-executive director, independent non-executive director) or any consultant of the Group. The Share Option Scheme was adopted by the Company's shareholders on 24 April 2003 and, unless otherwise terminated or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of listing of the Company's shares on the Stock Exchange, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. Unless approved by the Company's shareholders, the maximum number of shares issuable upon exercise of share options granted to each eligible participant in the Share Option Scheme in any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit in the 12-month period up to and including the date of such further grant is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive director who is the grantee of the options). In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, is subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted by a participant within 30 days from the date upon which the offer letter is delivered to that participant, upon payment of a nominal consideration of HK\$10 in total by the participant. The exercise period of the share options granted is determined by the directors, save that such period shall not be more than 10 years from the date of the offer of the share options, subject to the provisions for early termination as set out in the Share Option Scheme. Unless otherwise determined by the directors of the Company at their absolute discretion, there is no requirement of a minimum period for which an option must be held before an option can be exercised. In addition, there is no performance target which must be achieved before any of the options can be exercised.

The exercise price of the share options is determined by the directors, but must not be less than the highest of (i) the closing price of a share of the Company as stated in the Stock Exchange's daily quotations sheet on the date of the offer of the share options; (ii) the average closing price of a share of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the offer, and (iii) the nominal value of a share of the Company.

Notes to Financial Statements 31 March 2005

25. SHARE OPTION SCHEME (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Subsequent to the balance sheet date, on 12 May 2005, a total of 15,660,000 share options were granted to certain directors of the Company and employees of the Group in respect of their services to the Group in the past year. These share options vested on 12 May 2005 and have an exercise price of HK\$0.55 per share and an exercise period from 22 April 2005 to 21 April 2015, both days inclusive. The closing price of the Company's shares immediately before the date of grant was HK\$0.54 per share. Saved as disclosed above, no share option has been granted/exercised up to the date of approval of these financial statements.

As at the date of this Annual Report, the total number of the Company's shares currently available for issue under the Share Option Scheme is 14,340,000 shares, being 4.78% of the existing issued share capital of the Company.

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

The Group's contributed surplus represents the differences between the nominal value of the shares of subsidiaries acquired pursuant to the Group Reorganisation set out in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor.



Notes to Financial Statements 31 March 2005

26. RESERVES (continued)**(b) Company**

	Notes	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
Shares issued as consideration for the acquisition of the entire issued share capital of Sinopoint Corporation		–	59,511	–	59,511
Issue of shares	24	24,750	–	–	24,750
Capitalisation of share premium	24	(2,540)	–	–	(2,540)
Share issue expenses	24	(5,072)	–	–	(5,072)
Net profit for the year		–	–	12,065	12,065
Interim 2004 dividend	13	–	–	(4,500)	(4,500)
Proposed final 2004 dividend	13	–	–	(7,500)	(7,500)
At 31 March 2004		17,138	59,511	65	76,714
Net profit for the year		–	–	7,088	7,088
Interim 2005 dividend	13	–	–	(3,000)	(3,000)
Proposed final 2005 dividend	13	–	–	(3,000)	(3,000)
At 31 March 2005		17,138	59,511	1,153	77,802

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group Reorganisation set out in note 1 to the financial statements, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law (2002 Revision) of the Cayman Islands, a company may make distributions to its members out of the contributed surplus in certain circumstances.

27. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by the following:

- (i) time deposits of the Group amounting to HK\$18,995,000 (2004: HK\$23,748,000) (note 20); and
- (ii) a corporate guarantee to the extent of HK\$21 million (2004: HK\$21 million) from the Company.

The facilities have not been utilised at the balance sheet date (2004: Nil).

Notes to Financial Statements 31 March 2005

28. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities as follows:

- (a) The Group has executed performance guarantees to the extent of an aggregate amount of HK\$7,118,000 (2004: HK\$10,300,000) in respect of certain services provided to various customers by the Group.
- (b) As at 31 March 2004, the Group has executed performance bonds to the extent of HK\$4,791,000 in respect of certain services provided to a customer by the Group. The performance bonds were cancelled during the year in April 2004.
- (c) The Group had a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of approximately HK\$3,035,000 as at 31 March 2005 (2004: HK\$3,600,000), as further explained under the heading "Employee benefits" in note 4 to the financial statements. The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision of HK\$1,632,000 (2004: HK\$1,949,000) in respect of such payments has been made in the consolidated balance sheet as at 31 March 2005.
- (d) During the ordinary course of its business, the Group may from time to time be involved in litigation concerning personal injuries sustained by its employees or third party claimants. The Group maintains insurance cover and, in the opinion of the directors, based on current evidence, any such existing claims should be adequately covered by the insurance as at 31 March 2004 and 2005.

29. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements, which are negotiated for terms ranging from one to five years.

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Within one year	517	614
In the second to fifth years, inclusive	1,584	–
	2,101	614

Notes to Financial Statements 31 March 2005

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related companies, of which certain directors of the Company are also directors, during the year. These related companies are owned by a discretionary trust of which the beneficiaries included the family members of Dr. Lo Kou Hong.

	Notes	2005 HK\$'000	2004 HK\$'000
Management fee income from related companies	(i)	600	900
Rental expenses paid to related companies	(ii)	480	464

Notes:

- (i) The management fee income for the provision of accounting and administrative services and the sharing of office space and facilities with the Group was charged at a lump sum annually with reference to the actual costs incurred.
- (ii) The rental expenses in relation to the storage unit and staff quarters were calculated with reference to the prevailing market rates and the area occupied.

The above transactions also constitute connected transactions as defined in Chapter 14A of the Listing Rules.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 12 July 2005.