

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. The Company's ultimate holding company is Chevalier International Holdings Limited ("CIHL"), a limited liability company incorporated in Bermuda. Both CIHL's and the Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company are investment holding whereas those of the subsidiaries are set out in pages 53 and 54.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year and also incorporate the Group's interests in associates on the basis set out in (d) below.

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

(b) Goodwill/negative goodwill on consolidation

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate. Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised on a straight-line basis over its estimated useful life. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income statement at the time of disposal of the relevant subsidiary or associate.

Negative goodwill arising on acquisitions after 1st April, 2001 is presented as deduction from assets and will be released to income statement based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of the associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

(c) Subsidiaries

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

2. PRINCIPAL ACCOUNTING POLICIES – continued

(d) Interests in associates

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

(e) Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value and are revalued annually by independent professional valuers. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance of the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

(f) Property, plant and equipment

(i) Properties

Properties held for own use are stated at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation, less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that would be determined using fair values at the balance sheet date. Any revaluation increase arising on revaluation of such properties is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on the revaluation of a property is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that property. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus is transferred to retained profits.

No depreciation is provided on freehold land. Depreciation is provided on leasehold land over the remaining terms of the respective leases. Depreciation is provided on the cost of the buildings on a straight-line basis over their estimated useful lives of 20 to 50 years or the remaining terms of the respective leases, whichever is the shorter.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

2. PRINCIPAL ACCOUNTING POLICIES – continued

(f) Property, plant and equipment – continued

(ii) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and 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.

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives after taking into account their estimated residual values, on the reducing balance basis, at the following rates per annum:

	Initial charge upon purchase	Annual charge
Computer equipment	20%	40%
Others	20%	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

(g) Properties for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of acquisition of properties and other direct costs. Net realisable value is estimated by management based on prevailing market conditions or when a binding sales agreement is executed, by reference to the agreed selling prices.

(h) Inventories

Inventories represent general merchandise and consumable stores. General merchandise are stated at the lower of cost and net realisable value whereas consumable stores are stated at cost less allowance. Cost is calculated using weighted average method.

(i) Investments in securities

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

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

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

Other investments are measured at fair value, with unrealised gains and losses included in income statement for the period.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

2. PRINCIPAL ACCOUNTING POLICIES – continued

(j) Installation contracts

When the outcome of an installation contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of an installation contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Contracts in progress are recorded in the balance sheet at the contract costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as “amounts due from customers for contract work” (as an asset) or “amounts due to customers for contract work” (as a liability), where applicable. Amounts received before the related work is performed are included in the balance sheet as a liability. Amounts billed for work performed on a contract but not yet paid by the customers are included in the balance sheet under “debtors, deposits and prepayments”.

(k) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

(l) Revenue recognition

Income from sale of goods is recognised when goods are delivered and title of the goods has passed to the customer. Revenue is arrived at after deduction of any sales returns and discounts.

Income from rendering of services is recognised at the time when services are rendered. Receipts in advance of provision of services are accounted for as deferred service income.

When the outcome of an installation contract can be estimated reliably, revenue is recognised using the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. When the outcome of an installation contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

2. PRINCIPAL ACCOUNTING POLICIES – continued

(l) Revenue recognition – continued

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

Income from sale of securities is recognised on a trade-date basis.

Rental income and other earnings under operating leases are recognised on a straight-line basis over the term of the respective lease.

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

(m) Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessors are accounted for as operating leases. Payments on assets leased by the Group and income on property, plant and equipment of the Group leased to third parties are dealt with in the income statement on a straight-line basis over the terms of the relevant lease.

(n) Retirement benefit costs

The retirement benefit costs charged in the income statement represent the contributions paid and payable in respect of the current year to the Group's defined contribution schemes.

(o) Foreign currency translation

The accounting records of the Group, other than those subsidiaries not operating in Hong Kong, are maintained in Hong Kong dollars. Transactions denominated in foreign currencies during the year are translated at the rates of exchange ruling on the dates of transactions or on the contracted settlement date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated into Hong Kong dollars at the rates of exchange ruling on that date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the subsidiaries and associates operating outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to exchange fluctuation reserve. Such translation differences are recognised as income or as expenses in the year in which the subsidiary or associate is disposed of.

(p) Taxation

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

2. PRINCIPAL ACCOUNTING POLICIES – continued

(p) Taxation – continued

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

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

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

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

Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005 and any business combinations for which the agreement date is on or after 1st January 2005 under HKFRS 3 “Business Combinations”. The Group has not early adopted the new HKFRSs applicable to financial statements for the year ending 31st March 2006 in the financial statements for current year or entered into any business combination for which the agreement date is on or after 1st January 2005. Therefore the new HKFRS 3 did not have any impact on the Group for the year ended 31st March 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

3. TURNOVER

Turnover represents the net amount received and receivable for goods sold, provision of services and income from investments. An analysis of the Group's turnover by business and geographical segment is set out in note 21.

	2005 HK\$'000	2004 <i>HK\$'000</i>
Sales of computer and business machines	474,243	426,348
Provision of maintenance services	100,617	119,758
Sales of investments in securities	101,988	117,217
Interest income from debt securities and other deposits	10,260	7,260
	<u>687,108</u>	<u>670,583</u>

4. GAIN ON DISCONTINUED OPERATIONS

Credit in last year mainly represents over-accrual of staff redundancy cost and operating lease charges and related outgoings made in prior years on termination of the Group's operations in trading of general merchandise of HK\$68,000 and retailing of telecommunication equipment and provision of telecommunication agency services of HK\$948,000.

The results of operation and the carrying amounts of assets and liabilities of the discontinued business included in last years' consolidated financial statements are as follows:

	Retailing of telecommunication equipment and provision of telecommunication agency services <i>HK\$'000</i>	Trading of general merchandise <i>HK\$'000</i>
Turnover	994	–
Other operating income	3,180	–
Operating costs	(1,394)	–
Profit from operations	<u>2,780</u>	<u>–</u>
Total assets	<u>2,492</u>	<u>27</u>
Total liabilities	<u>2,853</u>	<u>992</u>

The retailing of telecommunication equipment and provision of telecommunication agency services contributed HK\$4,504,000 to the Group's last year's net operating cash flows, contributed HK\$159,000 in respect of last year's investing activities and used up HK\$4,877,000 in respect of last year's financing activities.

The trading of general merchandise used up HK\$1,203,000 of the Group's last year's net operating cash flows and contributed HK\$1,202,000 in respect of last year's financing activities.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

5. PROFIT BEFORE TAXATION

	2005 HK\$'000	2004 HK\$'000
Profit before taxation has been arrived at after charging:		
Auditors' remuneration		
Current year	830	889
Overprovision for prior year	–	(288)
	<u>830</u>	<u>601</u>
Depreciation on property, plant and equipment	4,681	4,803
Loss on disposal of property, plant and equipment	450	58
Operating lease payments in respect of renting of premises	8,457	10,592
Staff costs (<i>note</i>)	78,763	80,392
Net realised and unrealised holding loss on other investments	8,271	–
Impairment loss on investment securities included in cost of sales	560	–
Interest on bank overdrafts	1	22
	<u>830</u>	<u>601</u>
and crediting:		
Gross rental income from properties of HK\$383,000 (2004: HK\$586,000) less outgoings	275	420
Gross earnings from leasing of assets other than properties of HK\$4,795,000 (2004: HK\$4,051,000) less outgoings	4,358	3,425
Net realised and unrealised holding gain on other investments	–	6,595
Interest income from bank deposits	269	2,523
Exchange gain	971	4,035
Surplus on revaluation of properties for own use	2,293	828
	<u>2,293</u>	<u>828</u>

Note: Details of directors' emoluments included in staff costs are disclosed in note 22. Staff costs include an amount of HK\$729,000 (2004: HK\$1,056,000) in respect of staff redundancy payments.

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Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

6. TAXATION

	2005 HK\$'000	2004 HK\$'000
Current taxation		
Company and subsidiaries		
Hong Kong	228	748
Overseas	410	430
	<u>638</u>	<u>1,178</u>
Deferred taxation		
Hong Kong (<i>note 18</i>)	(299)	379
	<u>339</u>	<u>1,557</u>

Provision for Hong Kong Profits Tax is calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits less available tax relief for losses brought forward.

Provision for overseas taxation is calculated based on the rates applicable to the relevant local legislation on the estimated assessable profits.

The taxation for the year can be reconciled to the profit before taxation per the income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	4,103	24,420
Less: Share of result of an associate	826	77
	<u>4,929</u>	<u>24,497</u>
Tax at the domestic income tax rate of 17.5% (2004: 17.5%) (<i>note</i>)	863	4,287
Tax effect of expenses not deductible for tax purpose	1,935	356
Tax effect of income not taxable for tax purpose	(2,208)	(2,192)
Tax effect of tax losses not recognised	2,368	1,282
Tax effect of utilisation of tax losses previously not recognised	(1,468)	(3,092)
Tax effect on other deductible temporary differences not recognised	(1,296)	868
Effect of different tax rates of subsidiaries operating in other jurisdictions	139	195
Others	6	(147)
Tax expenses of the Company and subsidiaries for the year	<u>339</u>	<u>1,557</u>

Note: The domestic tax rate in the jurisdiction where the operations of the Group is substantially based.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

7. DIVIDEND

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interim dividend paid HK\$0.01 (2004: HK\$0.02) per share on 171,355,871 shares	1,714	3,427
Proposed final dividend HK\$0.01 (2004: HK\$0.03) per share on 171,355,871 shares	1,713	5,141
	<u>3,427</u>	<u>8,568</u>

The final dividend of HK\$0.01 (2004: HK\$0.03) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

8. EARNINGS PER SHARE

Basic earnings per share is calculated based on the profit for the year of HK\$3,764,000 (2004: HK\$22,863,000) and on the number of ordinary shares of 171,355,871 (2004: 171,355,871) in issue during the year.

9. INVESTMENT PROPERTIES

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Properties situated in the Mainland China, held under medium-term leases	<u>5,160</u>	<u>5,160</u>

Investment properties were revalued on an open market value basis on 31st March, 2005 by independent professional valuer, DTZ Debenham Tie Leung Limited.

Gross rental income derived from renting of investment properties under operating leases during the year amounted to HK\$190,000 (2004: HK\$419,000).

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FOR THE YEAR ENDED 31ST MARCH, 2005

10. PROPERTY, PLANT AND EQUIPMENT

	Properties for own use						Furniture, fixtures, office equipment and motor vehicles		Total	
	Hong Kong	Overseas		The Mainland China		Transmitters and telecom- munication equipment	Machinery, tools and equipment	for own use		for lease
	under medium- term lease	under short- term lease	under long-term lease	under medium- term lease	under medium- term lease					
	HK\$'000	freehold HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
THE GROUP										
AT COST OR VALUATION										
At 1st April, 2004	4,800	8,565	437	1,680	1,710	131	13,008	16,480	7,700	54,511
Additions	-	-	-	-	-	2	461	529	5,071	6,063
Disposals	-	-	-	(630)	-	-	(3,869)	(4,069)	(876)	(9,444)
Surplus on revaluation	1,800	40	197	300	-	-	-	-	-	2,337
Exchange adjustments	-	56	3	-	-	-	28	51	21	159
At 31st March, 2005	6,600	8,661	637	1,350	1,710	133	9,628	12,991	11,916	53,626
ACCUMULATED DEPRECIATION										
At 1st April, 2004	-	-	-	-	-	93	10,785	12,642	1,949	25,469
Charge for the year	111	270	119	18	123	8	996	946	2,090	4,681
Eliminated on disposals	-	-	-	-	-	-	(3,523)	(3,652)	(219)	(7,394)
Eliminated on revaluation	(111)	(270)	(119)	(18)	(123)	-	-	-	-	(641)
Exchange adjustments	-	-	-	-	-	-	35	50	21	106
At 31st March, 2005	-	-	-	-	-	101	8,293	9,986	3,841	22,221
NET BOOK VALUES										
At 31st March, 2005	6,600	8,661	637	1,350	1,710	32	1,335	3,005	8,075	31,405
At 31st March, 2004	4,800	8,565	437	1,680	1,710	38	2,223	3,838	5,751	29,042

An analysis of cost or valuation of the property, plant and equipment is as follows:

At cost	-	-	-	-	-	133	9,628	12,991	11,916	34,668
At 2005 professional valuation	6,600	8,661	637	1,350	1,710	-	-	-	-	18,958
	6,600	8,661	637	1,350	1,710	133	9,628	12,991	11,916	53,626

Properties were revalued on an open market value basis on 31st March, 2005 based on existing use by independent professional valuers. Properties in Hong Kong were revalued by Messrs. Knight Frank. Overseas properties were revalued by Sallmanns (Far East) Limited. Properties in the Mainland China were revalued by DTZ Debenham Tie Leung Limited.

Had these properties been carried at cost less accumulated depreciation, the carrying amount at 31st March, 2005 would have been HK\$20,168,000 (2004: HK\$22,286,000).

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10. PROPERTY, PLANT AND EQUIPMENT – continued

THE COMPANY

	Motor Vehicle <i>HK\$'000</i>
AT COST	
At 1st April, 2004 and 31st March, 2005	348
ACCUMULATED DEPRECIATION	
At 1st April, 2004	197
Charge for the year	30
At 31st March, 2005	227
NET BOOK VALUES	
At 31st March, 2005	121
At 31st March, 2004	151

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at costs less impairment loss	59,635	57,951
Amounts due from subsidiaries, net of allowances for doubtful amounts	29,590	42,282
	89,225	100,233

Particulars regarding the principal subsidiaries as at 31st March, 2005 are set out in pages 53 and 54.

The Directors are of the opinion that a complete list of all subsidiaries would be of excessive length and therefore, the subsidiaries as set out are those that principally affect the results or assets of the Group.

The amounts due from subsidiaries are unsecured and interest free. The balance is classified as non-current asset as the company has no intention to demand for repayment within one year.

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

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12. INTERESTS IN ASSOCIATE

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	–	24
Amount due from an associate, net of allowance for doubtful amount	379	2,215
	379	2,239

Particulars of the associate Guangzhou Chevalier iTech Limited, incorporated and is operating in the Mainland China, as at 31st March, 2005 are as follows:

Form of business structure:	Corporate
Effective % of registered capital held by a subsidiary:	24%
Principal activities:	Trading of office equipment and provision of maintenance services

13. INVESTMENTS IN SECURITIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Investment securities:		
Equity securities, unlisted	4,440	5,000
Other investments:		
Equity securities at market value, listed in Hong Kong	267	416
Equity securities, unlisted	–	2,976
Debt securities at market value, listed overseas	5,838	5,969
Debt securities, unlisted	85,355	108,054
Mutual fund, unlisted	19,355	35,354
	115,255	157,769
Carrying value analysed for reporting purposes are:		
Non-current	4,440	5,000
Current	110,815	152,769
	115,255	157,769

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

14. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Inventories held for resale	50,156	63,455
Consumable stores	5,106	3,614
	<u>55,262</u>	<u>67,069</u>

Included in the above are inventories held for resale of HK\$6,940,000 (2004: HK\$8,842,000) carried at net realisable value.

The cost of inventories recognised as an expense during the year was HK\$424,252,000 (2004: HK\$381,115,000).

15. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors of HK\$52,416,000 (2004: HK\$56,650,000). An aged analysis of trade debtors as at 31st March, 2005 is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 60 days	47,891	50,455
61 – 90 days	1,871	3,298
Over 90 days	2,654	2,897
	<u>52,416</u>	<u>56,650</u>

The Group has established different credit policies for customers in each of its core businesses. The average credit period granted to trade debtors was 60 days.

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FOR THE YEAR ENDED 31ST MARCH, 2005

16. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred	48,626	68,151
Recognised profits less losses	(6,492)	(6,633)
	<u>42,134</u>	<u>61,518</u>
Progress billings	(41,394)	(62,402)
	<u>740</u>	<u>(884)</u>
Represented by:		
Amounts due from customers included in current assets	939	438
Amounts due to customers included in current liabilities	(199)	(1,322)
	<u>740</u>	<u>(884)</u>

At 31st March, 2005, retentions held by customers for contract work amounted to HK\$2,305,000 (2004: HK\$4,909,000). No advance payments were received from customers for contract work.

17. CREDITORS, DEPOSITS AND ACCRUALS

Included in creditors, deposits and accruals are trade creditors of HK\$23,861,000 (2004: HK\$28,613,000). An aged analysis of the trade creditors as at 31st March, 2005 is as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 – 60 days	20,206	26,739
61 – 90 days	1,445	–
Over 90 days	2,210	1,874
	<u>23,861</u>	<u>28,613</u>

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FOR THE YEAR ENDED 31ST MARCH, 2005

18. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the year:

	THE GROUP			
	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Others HK\$'000	Total HK\$'000
At 1st April, 2003	–	–	–	–
Charge (credit) to income for the year	536	(107)	(50)	379
At 31st March, 2004	536	(107)	(50)	379
Charge (credit) to income for the year	388	(651)	(36)	(299)
	<u>924</u>	<u>(758)</u>	<u>(86)</u>	<u>80</u>

At 31st March, 2005, no deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$510,211,000 (2004: HK\$504,159,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK\$2,318,000 (2004: HK\$2,359,000) that will expire in 2010. Other tax losses may be carried forward indefinitely.

At 31st March, 2005, the Group had deductible temporary difference of HK\$31,616,000 (2004: HK\$38,162,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

19. SHARE CAPITAL

	2005 HK\$'000	2004 HK\$'000
Authorised: 240,000,000 (2004: 240,000,000) ordinary shares of HK\$0.50 (2004: HK\$0.50) each	<u>120,000</u>	<u>120,000</u>
Issued and fully paid: 171,355,871 (2004: 171,355,871) ordinary shares of HK\$0.50 (2004: HK\$0.50) each	<u>85,678</u>	<u>85,678</u>

There was no movement in share capital during the year ended 31st March, 2005. In the last financial year, three shares of HK\$0.10 each were allotted at HK\$0.464 on exercise of share options and every five issued and unissued ordinary shares of HK\$0.10 each were consolidated into one ordinary share of HK\$0.50.

Details of the share option scheme of the Company are set out in note 26.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

20. RESERVES

	Share premium HK\$'000	Capital reserve HK\$'000	Properties Capital redemption reserve HK\$'000	Properties for own use revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP								
At 1st April, 2003	223,434	18,231	14	1,526	2,358	-	32,993	278,556
Surplus on revaluation of properties	-	-	-	1,238	-	-	-	1,238
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	-	(1,322)	-	-	(1,322)
Profit for the year	-	-	-	-	-	-	22,863	22,863
Dividends	-	-	-	-	-	5,141	(8,568)	(3,427)
At 31st March, 2004	223,434	18,231	14	2,764	1,036	5,141	47,288	297,908
Final dividend for 2004 paid	-	-	-	-	-	(5,141)	-	(5,141)
Surplus on revaluation of properties	-	-	-	685	-	-	-	685
Exchange difference on translation of financial statements of overseas subsidiaries	-	-	-	-	(47)	-	-	(47)
Profit for the year	-	-	-	-	-	-	3,764	3,764
Dividends	-	-	-	-	-	1,713	(3,427)	(1,714)
At 31st March, 2005	223,434	18,231	14	3,449	989	1,713	47,625	295,455

Notes:

- (i) Reserves of the Group at the balance sheet date includes the Group's share of the post-acquisition loss sustained by an associate amounting to HK\$103,000 (2004: HK\$79,000).
- (ii) The capital reserve includes amounts of HK\$27,000 (2004: HK\$27,000) goodwill and HK\$198,000 (2004: HK\$198,000) negative goodwill on consolidation.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

20. RESERVES – continued

	Share premium HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY						
At 1st April, 2003	223,434	6,226	14	–	13,856	243,530
Profit for the year	–	–	–	–	3,260	3,260
Dividends	–	–	–	5,141	(8,568)	(3,427)
At 31st March, 2004	223,434	6,226	14	5,141	8,548	243,363
Final dividend for 2004 paid	–	–	–	(5,141)	–	(5,141)
Loss for the year	–	–	–	–	(2,158)	(2,158)
Dividends	–	–	–	1,713	(3,427)	(1,714)
At 31st March, 2005	<u>223,434</u>	<u>6,226</u>	<u>14</u>	<u>1,713</u>	<u>2,963</u>	<u>234,350</u>

Notes:

- (a) Contributed surplus represents the difference between the value of total net assets of subsidiaries acquired and the nominal amount of the Company's shares issued for the re-organisation in 1989, less dividends paid out of the contributed surplus subsequently. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders.
- (b) As at 31st March, 2005, the Company's reserves available for distribution to shareholders amounted to HK\$10,902,000 (2004: HK\$19,915,000).

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Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

21. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into four operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

TURNOVER AND RESULTS

Year ended 31st March, 2005

	Continuing operations				Total HK\$'000
	Computer and business machines HK\$'000	Network solution & telecom- munication systems HK\$'000	Technical and maintenance services HK\$'000	Investment in securities and others HK\$'000	
TURNOVER					
Total sales	453,141	109,362	42,829	112,248	717,580
Inter-segment sales	(21,372)	(2,065)	(7,035)	–	(30,472)
External sales	<u>431,769</u>	<u>107,297</u>	<u>35,794</u>	<u>112,248</u>	<u>687,108</u>
RESULTS					
Segment results	<u>1,609</u>	<u>513</u>	<u>2,388</u>	<u>1,349</u>	5,859
Interest income					269
Unallocated corporate income					302
Unallocated corporate expenses					(1,500)
Profit from operations					4,930
Finance costs					(1)
Share of result of an associate	(826)	–	–	–	(826)
Profit before taxation					4,103
Taxation					(339)
Profit for the year					<u>3,764</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

21. SEGMENT INFORMATION – continued

Business segments – continued

TURNOVER AND RESULTS

Year ended 31st March, 2004

	Continuing operations			Discontinued operations		Total HK\$'000	
	Computer and business machines HK\$'000	Network solution & telecom- munication systems HK\$'000	Technical and maintenance services HK\$'000	Investment in securities and others HK\$'000	General merchandise trading HK\$'000		Telecom- munication services and retailing HK\$'000
TURNOVER							
Total sales	433,462	121,109	46,560	124,477	–	1,818	727,426
Inter-segment sales	(48,723)	(1,850)	(5,446)	–	–	(824)	(56,843)
External sales	<u>384,739</u>	<u>119,259</u>	<u>41,114</u>	<u>124,477</u>	<u>–</u>	<u>994</u>	<u>670,583</u>
RESULTS							
Segment results	<u>720</u>	<u>(1,668)</u>	<u>2,717</u>	<u>13,856</u>	<u>–</u>	<u>2,780</u>	18,405
Interest income							2,523
Unallocated corporate income							4,152
Unallocated corporate expenses							(1,577)
Profit from operations							23,503
Finance costs							(22)
Share of result of an associate	(77)	–	–	–	–	–	(77)
Gain on discontinued operations	–	–	–	–	68	948	1,016
Profit before taxation							24,420
Taxation							(1,557)
Profit for the year							<u>22,863</u>

Note: Inter-segment sales are charged at prices determined by management with reference to market prices.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

21. SEGMENT INFORMATION – continued

Business segments – continued

BALANCE SHEET

As at 31st March, 2005

	Continuing operations				Total HK\$'000
	Computer and business machines HK\$'000	Network solution & telecom- munication systems HK\$'000	Technical and maintenance services HK\$'000	Investment in securities and others HK\$'000	
ASSETS					
Segment assets	89,683	46,312	13,015	238,064	387,074
Interests in an associate	379	–	–	–	379
Unallocated corporate assets					75,774
Consolidated total assets					<u>463,227</u>
LIABILITIES					
Segment liabilities	35,776	25,227	9,477	–	70,480
Unallocated corporate liabilities					11,439
Consolidated total liabilities					<u>81,919</u>

As at 31st March, 2004

	Continuing operations				Discontinued operations		Total HK\$'000
	Computer and business machines HK\$'000	Network solution & telecom- munication systems HK\$'000	Technical and maintenance services HK\$'000	Investment in securities and others HK\$'000	General merchandise trading HK\$'000	Telecom- munication services and retailing HK\$'000	
ASSETS							
Segment assets	112,672	42,292	10,872	159,530	27	2,492	327,885
Interests in an associate	2,239	–	–	–	–	–	2,239
Unallocated corporate assets							142,821
Consolidated total assets							<u>472,945</u>
LIABILITIES							
Segment liabilities	40,470	28,068	5,711	–	992	2,853	78,094
Unallocated corporate liabilities							11,091
Consolidated total liabilities							<u>89,185</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

21. SEGMENT INFORMATION – continued

Business segments – continued

OTHER INFORMATION

Year ended 31st March, 2005

	Continuing operations				Total HK\$'000
	Computer and business machines HK\$'000	Network solution & telecom- munication systems HK\$'000	Technical and maintenance services HK\$'000	Investment in securities and others HK\$'000	
Capital additions	5,340	310	14	399	6,063
Depreciation	3,156	711	341	473	4,681
Realised and unrealized loss on other investment	-	-	-	8,271	8,271
Impairment loss on investment securities	-	-	-	560	560
Loss on disposal of property, plant and equipment	450	-	-	-	450

Year ended 31st March, 2004

	Continuing operations				Discontinued operations		Total HK\$'000
	Computer and business machines HK\$'000	Network solution & telecom- munication systems HK\$'000	Technical and maintenance services HK\$'000	Investment in securities and others HK\$'000	General merchandise trading HK\$'000	Telecom- communication service and retailing HK\$'000	
Capital additions	4,558	486	226	925	-	-	6,195
Depreciation	2,262	896	969	676	-	-	4,803
Loss on disposal of property, plant and equipment	58	-	-	-	-	-	58

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

21. SEGMENT INFORMATION – continued

Geographical segments

The Group's operations in sales of computer and business machines and telecommunication systems, provision of technical and maintenance services and network solution services are carried out in Hong Kong, Thailand and the Mainland China. The discontinued operations, retailing of telecommunication equipment and provision of telecommunication agency services and trading of general merchandise were carried out in Hong Kong. The following table provides an analysis of the Group's turnover by geographical market:

	Turnover by geographical market			
	2005		2004	
	HK\$'000	%	HK\$'000	%
Hong Kong	607,118	88	516,689	77
Thailand	69,028	10	124,176	19
Others	10,962	2	29,718	4
	687,108	100	670,583	100

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

	Carrying amounts of segment assets				Additions to property, plant and equipment			
	2005		2004		2005		2004	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Hong Kong	401,617	87	392,870	83	5,036	82	3,182	51
Thailand	52,206	11	65,042	14	1,006	17	3,003	48
Others	8,451	2	12,307	3	21	1	10	1
	462,274	100	470,219	100	6,063	100	6,195	100

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

22. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments paid to the Directors of the Company are as follows:

	2005 HK\$'000	2004 HK\$'000
Fees	300	240
Salaries, allowances and benefits in kind	1,212	–
Retirement benefits scheme contributions	8	–
	<u>1,520</u>	<u>240</u>

Except for the directors' fees of HK\$300,000 (2004: HK\$240,000) paid to the Independent Non-executive Directors, no other emoluments were paid or are payable to the Independent Non-executive Directors during the two years ended 31st March, 2005.

The emoluments of the Directors fall within the following bands:

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	1	–
	<u>8</u>	<u>7</u>

In addition to the directors' emoluments disclosed above, four (2004: four) Directors received remuneration totalling HK\$16,621,000 (2004: HK\$15,259,000) from the Company's ultimate holding company in respect of their services to the ultimate holding company and its subsidiaries including the Group.

The amounts paid by the ultimate holding company have not been allocated between the services of the directors as Directors of the Company and its subsidiaries, and their services to the ultimate holding company and its other subsidiaries.

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Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

22. EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT - Continued

The five highest paid individuals included one (2004: nil) Director. The emoluments of the five (2004: five) highest paid individuals were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and benefits in kind	4,409	3,354
Retirement benefits scheme contributions	189	215
	<u>4,598</u>	<u>3,569</u>

The emoluments of these five (2004: five) highest paid individuals fall within the following bands:

Bands	Number of individuals	
	2005	2004
Nil – HK\$1,000,000	3	5
HK\$1,000,001 – HK\$1,500,000	<u>2</u>	<u>–</u>

23. CHARGE OF ASSETS

At 31st March, 2005, certain properties with an aggregate carrying value of HK\$8,163,000 (2004: HK\$8,070,000) were mortgaged to secure general banking facilities granted to an overseas subsidiary.

24. CONTINGENT LIABILITIES

At 31st March, 2005 the Company had contingent liabilities in respect of:

- (i) guarantees issued for banking facilities extended to its subsidiaries amounting to HK\$3,172,000 (2004: HK\$3,102,000); and
- (ii) guarantees issued for performance under contracts and rendering of services of certain subsidiaries amounting to HK\$650,000 (2004: HK\$2,053,000).

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Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

25. OPERATING LEASE

(a) The Group and the Company as lessees

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

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	3,655	3,356	–	92
In the second to fifth year inclusive	83	–	–	–
	<u>3,738</u>	<u>3,356</u>	<u>–</u>	<u>92</u>

Leases are negotiated and rentals are fixed for an average term of 2 years.

(b) The Group as lessors

All the investment properties were leased out for a period of one year and the Group did not have any renewal options given to the lessees. The future minimum lease payments receivable by the Group within one year under non-cancellable operating leases amounted to HK\$360,000 (2004: HK\$135,000).

26. SHARE OPTION SCHEME

The Company's existing share option scheme (the "Scheme") was adopted by the shareholders pursuant to a resolution passed on 20th September, 2002 for the primary purpose of providing the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The Scheme will expire on 19th September, 2012.

The total number of shares in respect of which options may be granted under the Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's and CIHL's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors of the Company and CIHL. Where any grant of options to a substantial shareholder or any independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the Company's and CIHL's shareholders.

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

26. SHARE OPTION SCHEME – continued

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1 for each lot of options granted. An option may be exercised in accordance with the terms of the Scheme at any time during the effective period of the Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's share on the date of grant, the average closing price of the share on the Stock Exchange for the five business days immediately preceding the date of grant, and the nominal value.

No options were granted since the adoption of the Scheme.

27. RETIREMENT BENEFITS

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") for the benefits of the Hong Kong employees. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of the relevant payroll costs at a maximum of HK\$20,000 to the scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 7.5% of the employee's basic salary, depending on the length of services with the Group.

Where there are employees who leave the ORSO scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. The amount of forfeited contributions utilised in this manner during the year was HK\$206,000 (2004: HK\$569,000).

The total cost charged to income statement of HK\$3,711,000 (2004: HK\$3,682,000) represents contributions pay and payable to these schemes by the Group in respect of the current accounting period net of forfeited contributions. As at 31st March, 2005, contributions of HK\$272,000 (2004: HK\$250,000) due in respect of the reporting period had not been paid over to the schemes.

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Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH, 2005

28. RELATED PARTY TRANSACTIONS

The Company's ultimate holding company, CIHL and its subsidiaries, associates and jointly controlled entities are regarded as related parties for the purpose of Statement of Standard Accounting Practice 20 ("SSAP 20") issued by the HKICPA. Details of the material transactions with these companies are as follows:

- (a) On 28th March, 2004, the Company renewed the management agreement with Chevalier (HK) Limited ("CHKL"), a wholly-owned subsidiary of CIHL, for the provision of company secretarial, accounting, electronic data processing, personnel and property management services by CHKL to the Group in respect of the year ended 31st March, 2005 at a management fee calculated at the rate of 0.5% of the annual turnover of the Group excluding those of its overseas subsidiaries. Management fees paid to CHKL during the year under this agreement amounted to HK\$2,775,000 (2004: HK\$2,376,000). The management agreement expired on 28th March, 2005 and has been renewed for a further term of one year.
- (b) During the year, the Group sold computer equipment and business machines and provided maintenance services to wholly-owned subsidiaries of CIHL totalling HK\$10,241,000 (2004: HK\$4,492,000). The price is determined with reference to market prices.
- (c) During the year, the Group paid rentals determined with reference to market rates amounting to HK\$3,828,000 (2004: HK\$3,488,000) to wholly-owned subsidiaries of CIHL, for the use of their premises by the Group.
- (d) During the year, the Group paid storage and delivery charges amounting to HK\$2,054,000 (2004: HK\$4,167,000) and HK\$734,800 (2004: HK\$1,483,000), respectively, to a wholly-owned subsidiary of CIHL to cover its costs for services provided to the Group.

The outstanding balance due from the ultimate holding company arising from the above transactions and payment of recurrent expenses on behalf of the Group as at 31st March, 2005 amounted to HK\$711,000 (2004: HK\$245,000).

Apart from the above, the Group obtained repayment from the associate during the year and provision of approximately HK\$1,180,000 was made on the remaining amount due from it. The amount outstanding at 31st March, 2005 is HK\$1,000 (2004: HK\$2,215,000).

The balance with the associate has no fixed repayment terms, unsecured and interest-free. The balance with the associate is classified as non-current asset as the Company has no intention to demand for repayment within one year.

29. SUBSEQUENT EVENT

On 20th May, 2005, the Group acquired the entire issued share capital of Pacific Coffee (Holdings) Limited ("Pacific Coffee") at a consideration of HK\$205,000,000 of which HK\$60,000,000 was financed by bank borrowings. It is impracticable to disclose the amounts of assets, liabilities and contingent liabilities of Pacific Coffee at the acquisition date because management of the Group is in the process of determining such amounts.

Pacific Coffee is engaged in the business of trading and retailing of coffee products and operation of coffee shops.