

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

The Company is an exempted company incorporated in the Cayman Islands with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company and provides corporate management services.

The activities of the Company's principal subsidiaries are set out in note 31.

2. 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 ("HKAS(s)") and Hong Kong Financial Reporting Standards ("HKFRS(s)") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore HKFRS 3 did not have any impact on the Group for the year ended 31st March, 2005.

The Group has considered the potential impact of these new HKFRSs and the effect on how the results of operations and financial positions of the Group are prepared and presented as described below:

HKFRS 2 "Share-based Payment"

HKFRS 2 Share-based Payment which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

NOTES TO THE FINANCIAL STATEMENTS

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS *(Continued)*

HKAS 32 "Financial Instruments: Disclosure and Presentation"

HKAS 39 "Financial Instruments: Recognition and Measurement"

HKAS 39 requires all financial assets to be reclassified into held-to-maturity financial assets, available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value, with changes in fair values recognised in equity and profit or loss respectively. Held-to-maturity financial assets and loans and receivables are measured at amortised cost using the effective interest method. Currently, the Group's investments in securities are classified as investment securities or other investments which are measured at cost less impairment loss or at fair value respectively. The Group's long-term and short-term loans receivables are carried at cost less impairment loss. An adjustment to the carrying amounts of these assets at 1st April, 2004 is required to be made to the Group's accumulated losses.

HKAS 40 "Investment Properties"

HKAS 40 requires all revaluation gains or losses of investment properties to be taken directly to the income statement. Investment property revaluation reserve brought forward should be transferred to retained earnings.

Currently, investment properties are measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. As the Group does not maintain any revaluation surplus at both 1st April, 2004 and 2003, the adoption of HKAS 40 will not have any impact on the Group's results and financial position.

In relation to other new HKFRSs, the Group does not expect that the adoption will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Investments in subsidiaries

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

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.

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 based on independent professional valuation at the balance sheet date. Any revaluation surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation deficit on a portfolio basis, in which case the excess of the revaluation deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

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 twenty years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Fixtures	15% or over the terms of the relevant lease, whichever is shorter
Computer equipment	33 ¹ / ₃ %
Motor vehicles	30%
Others	15%

The gain or loss arising on 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.

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 net profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

Sales of investments in securities are recognised on a trade date basis.

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but 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.

Operating leases

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

Retirement benefit costs

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the year to the Group's Mandatory Provident Fund ("MPF") scheme.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

On consolidation, the assets and liabilities of the Group's operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

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 as 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 items that are never taxable or deductible.

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 assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

4. TURNOVER

Turnover represents the net amounts received and receivable from sales of goods, sales of securities, interest income from provision of finance and dividend income during the year, and is analysed as follows:

	2005	2004
	HK\$'000	HK\$'000
Sales of goods	40,018	–
Sales of securities	–	801
Interest income from provision of finance	32,219	22,475
Dividend income from investments in securities		
– Hong Kong listed shares	1	29
	72,238	23,305

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION

During the year, the Group was organised into five (2004: four) main operating segments: sale of goods, provision of finance, trading of securities, property holding and investment and investment activities.

During the year, a wholly-owned subsidiary of the Company, Hansom Eastern International Trading (Group) Limited, is engaged in sale of electronic products and results in a new business segment for the year.

These divisions are the basis on which the Group reports its primary segment information.

NOTES TO THE FINANCIAL STATEMENTS

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below:

Business segments

	For the year ended 31st March, 2005					Consolidated HK\$'000
	Sale of goods HK\$'000	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
SEGMENT REVENUE	40,018	32,219	1	-	-	72,238
SEGMENT RESULTS	358	29,996	(75)	(133)	(274)	29,872
Unallocated corporate expenses						(11,593)
Profit from operations						18,279
Gain on disposal of subsidiaries						50
Share of results of an associate	-	-	-	-	494	494
Profit before taxation						18,823
Taxation						(2,504)
Net profit for the year						16,319

NOTES TO THE FINANCIAL STATEMENTS

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION *(Continued)* **Business segments** *(Continued)*

	At 31st March, 2005					Consolidated HK\$'000
	Sale of goods HK\$'000	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
ASSETS						
Segment assets	27,951	425,658	211	5,777	42,141	501,738
Interest in an associate	-	-	-	-	3,614	3,614
Unallocated corporate assets						4,634
Consolidated total assets						<u>509,986</u>
LIABILITIES						
Segment liabilities	76	30	5	329	5	445
Unallocated corporate liabilities						2,821
Consolidated total liabilities						<u>3,266</u>

	For the year ended 31st March, 2005					Consolidated HK\$'000
	Sale of goods HK\$'000	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
OTHER INFORMATION						
Unrealised loss on other investments	-	-	63	-	-	63

NOTES TO THE FINANCIAL STATEMENTS

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION *(Continued)*
Business segments *(Continued)*

	For the year ended 31st March, 2004				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
SEGMENT REVENUE	<u>22,475</u>	<u>830</u>	<u>–</u>	<u>–</u>	<u>23,305</u>
SEGMENT RESULTS	<u>21,898</u>	<u>(1,563)</u>	<u>(1,823)</u>	<u>(23,931)</u>	<u>(5,419)</u>
Unallocated corporate expenses					<u>(11,652)</u>
Loss from operations					(17,071)
Interest on bank overdrafts					(78)
Gain on disposal of subsidiaries					<u>95</u>
Loss before taxation					(17,054)
Taxation					<u>–</u>
Loss before minority interests					(17,054)
Minority interests					<u>4,316</u>
Net loss for the year					<u>(12,738)</u>

NOTES TO THE FINANCIAL STATEMENTS

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION (Continued)

Business segments (Continued)

	At 31st March, 2004				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
ASSETS					
Segment assets	369,443	426	6,827	87,624	464,320
Unallocated corporate assets					4,910
Consolidated total assets					<u>469,230</u>
LIABILITIES					
Segment liabilities	30	5	1,223	25	1,283
Unallocated corporate liabilities					1,264
Consolidated total liabilities					<u>2,547</u>

	For the year ended 31st March, 2004				Consolidated HK\$'000
	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
OTHER INFORMATION					
Allowance for other receivables	–	–	415	–	415
Capital additions	–	–	–	131	131
Depreciation	–	–	55	583	638
Deficit arising on valuation of investment properties	–	–	100	–	100
Impairment loss recognised in respect of intangible asset	–	–	–	11,321	11,321
Impairment loss recognised in respect of investment securities	–	–	–	11,000	11,000

NOTES TO THE FINANCIAL STATEMENTS

5. BUSINESS AND GEOGRAPHICAL SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's operations are mainly located in Hong Kong and the People's Republic of China, other than Hong Kong (the "PRC"). Over 90% of the Group's sales are in Hong Kong. Accordingly, no geographical analysis of sales is presented.

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

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	460,595	422,404	479	131
The PRC	45,777	46,826	–	–
	506,372	469,230	479	131

6. INVESTMENT INCOME

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest income from:		
Banks	–	634
Others	–	199
	–	833

NOTES TO THE FINANCIAL STATEMENTS

7. OTHER OPERATING EXPENSES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Included in other operating expenses are:		
Impairment loss recognised in respect of intangible asset	–	11,321
Impairment loss recognised in respect of investment securities	–	11,000
Unrealised loss on other investments	63	–
Deficit arising on valuation of investment properties	–	100
Allowance for amount due from an associate	–	2
Allowance for other receivables	–	415
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8. PROFIT (LOSS) FROM OPERATIONS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit (loss) from operations has been arrived at after charging:		
Staff costs, including directors' emoluments (note 9(a)):		
Salaries and other benefits	6,342	6,491
MPF contributions, net of forfeited contributions HK\$10,000 (2004: HK\$134,000)	220	100
	<hr/>	<hr/>
	6,562	6,591
	<hr/>	<hr/>
Auditors' remuneration:		
Current year	1,080	901
Underprovision in prior year	120	–
	<hr/>	<hr/>
	1,200	901
	<hr/>	<hr/>
Depreciation	186	638
Loss on disposal of property, plant and equipment	–	69
and after crediting:		
Gain on disposal of property, plant and equipment	12	–
Unrealised gain on other investments	–	43
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NOTES TO THE FINANCIAL STATEMENTS

9. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Particulars of the emoluments of the directors and the five highest paid individuals are as follows:

(a) Directors' emoluments

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	303	240
	303	240
Other emoluments:		
Executive directors		
Salaries and other benefits	3,500	4,273
MPF contributions	136	137
Independent non-executive directors	–	–
	3,636	4,410
	3,939	4,650

The emoluments of the directors are within the following bands:

	Number of directors	
	2005	2004
Nil to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	1	–

NOTES TO THE FINANCIAL STATEMENTS

9. EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(Continued)

(b) Emoluments of the five highest paid individuals

The emoluments of the five highest paid individuals of the Group for the year included three (2004: four) directors of the Company, whose emoluments are included in (a) above. The aggregate emoluments of the remaining two individuals (2004: one) are as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Salaries and other benefits	722	300
MPF contributions	16	15
	<u>738</u>	<u>315</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during the year.

10. TAXATION

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax of the Company and its subsidiaries	<u>2,504</u>	<u>–</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

No provision for Hong Kong Profits Tax has been made for the year ended 31st March, 2004, as neither the Company nor its subsidiaries has any assessable profits for that year.

Details of deferred taxation are set out in note 22.

NOTES TO THE FINANCIAL STATEMENTS

10. TAXATION *(Continued)*

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

	2005	2004
	HK\$'000	HK\$'000
Profit (loss) before taxation	18,823	(17,054)
Tax at domestic income tax rate of 17.5%	3,294	(2,984)
Tax effect of expenses not deductible for tax purposes	17	4,524
Tax effect of income not taxable for tax purposes	(41)	(183)
Tax effect of results of an associate	(87)	–
Tax effect of tax losses not recognised	105	–
Tax effect of deferred tax assets not recognised	9	562
Utilisation of tax losses previously not recognised	(793)	(1,919)
Tax charge for the year	2,504	–

11. DIVIDEND

No dividend was proposed or paid by the Company for both years.

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share for the year is based on the net profit for the year of HK\$16,319,000 (2004: loss of HK\$12,738,000) and on the weighted average of 3,741,014,456 (2004: 3,186,028,417) ordinary shares in issue.

Diluted earnings per share for the year ended 31st March, 2005 has not been presented as the exercise price of the Company's outstanding share options was higher than the average market price for shares.

Diluted loss per share for the year ended 31st March, 2004 has not been presented as the exercise of the Company's outstanding share options would result in a reduction in loss per share.

NOTES TO THE FINANCIAL STATEMENTS

13. INVESTMENT PROPERTIES

THE GROUP

HK\$'000

VALUATION

At 31st March, 2004 and 31st March, 2005

5,700

The Group's investment properties, which are to be rented out under operating leases, are held under long-term land use rights in the PRC.

The Group's investment properties were revalued at 31st March, 2005 by RHL Appraisal Ltd., an independent firm of professional property valuers, on an open market value basis at HK\$5,700,000.

14. PROPERTY, PLANT AND EQUIPMENT

THE

THE GROUP

COMPANY

	Furniture, fixtures and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Motor vehicles HK\$'000
COST					
At 1st April, 2004	1,203	467	837	2,507	668
Additions	388	91	–	479	–
Disposals	(728)	(111)	(169)	(1,008)	–
At 31st March, 2005	863	447	668	1,978	668
DEPRECIATION					
At 1st April, 2004	860	445	790	2,095	668
Provided for the year	126	30	30	186	–
Eliminated on disposals	(649)	(108)	(152)	(909)	–
At 31st March, 2005	337	367	668	1,372	668
NET BOOK VALUES					
At 31st March, 2005	526	80	–	606	–
At 31st March, 2004	343	22	47	412	–

NOTES TO THE FINANCIAL STATEMENTS

15. INTERESTS IN SUBSIDIARIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted shares, at cost	–	–
Amounts due from subsidiaries, less allowances	502,145	461,517
	502,145	461,517

The amounts due from subsidiaries are unsecured and have no fixed terms of repayment. Out of the balance at 31st March, 2005, an amount of HK\$426,336,000 (2004: HK\$369,413,000) bears interest at prevailing market rate and the remaining balance is interest-free. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown as non-current.

Details of the Company's principal subsidiaries at 31st March, 2005 are set out in note 31.

16. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Share of net assets	494	–
Amount due from associate, less allowances	3,120	–
	3,614	–

Details of the Group's associate at 31st March, 2005, which is held indirectly by the Company, are as follows:

Name of associate	Form of business structure	Place of incorporation	Attributable equity interest %	Principal activity
Equity Concept Investments Limited	Incorporated	British Virgin Islands ("BVI")	40	Securities investment

NOTES TO THE FINANCIAL STATEMENTS

17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Non-current investments:		
Investment securities, at cost		
Overseas unlisted shares (<i>notes</i>)	90,000	135,000
Less: Impairment losses recognised	(48,000)	(93,000)
	<u>42,000</u>	<u>42,000</u>
Current investments:		
Other investments, at market value		
Hong Kong listed shares	209	272
	<u>209</u>	<u>272</u>

Notes:

The directors of the Company consider that the investment securities are held for long-term strategic purposes. Out of the cost of HK\$90,000,000 at 31st March, 2005:

- (a) an amount of HK\$50,000,000 represents the Group's investment in an investee company, Hennabun Management International Limited ("HMI") (formerly known as Hennabun Management Inc.). HMI acts as an investment holding company of companies engaged in the brokerage, commodity trading, margin financing, money lending, corporate finance advisory services and proprietary trading activities.

At 31st March, 2005, an impairment loss of HK\$48,000,000 (2004: HK\$48,000,000) had been recognised in the Group's investment in HMI to restate the carrying value of the investment to its estimated recoverable amount.

- (b) the other amount of HK\$40,000,000 represents the Group's investment in Xi'an Yizhiliu Pharmaceutical Co., Ltd. (西安一枝刘制药有限公司) ("Xi'an Yizhiliu"), a company established in the PRC. The investment is a 22.5% holding of the registered capital of Xi'an Yizhiliu. Xi'an Yizhiliu is not regarded as an associate of the Group as the Group is not in a position to exercise significant influence over its affairs.

NOTES TO THE FINANCIAL STATEMENTS

18. LOANS RECEIVABLE

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
The loans receivable comprise:		
Unsecured long-term loans receivable	212,000	165,616
Unsecured short-term loans receivable	213,651	179,699
	<u>425,651</u>	<u>345,315</u>
Less: Amount due within one year shown under current assets	(213,651)	(179,699)
	<u>212,000</u>	<u>165,616</u>

The loans receivable bear interest at prevailing market rate.

The Group negotiates credit period with borrowers according to the credit of individual borrower.

19. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Trade receivables (<i>note i</i>)	21,907	–
Deposit paid	6,000	–
Proceeds from disposal of subsidiaries (<i>note ii</i>)	–	43,000
Other receivables	555	1,971
	<u>28,462</u>	<u>44,971</u>

Notes:

- i. The Group allows an average credit period of 30 days to its trade customers. At 31st March, 2005, all trade receivables of the Group are aged within 30 days.
- ii. The amount was fully settled during the year.

NOTES TO THE FINANCIAL STATEMENTS

20. DEPOSIT MADE ON ACQUISITION OF A SUBSIDIARY

In March 2004, the Group entered into an agreement to acquire the entire equity interest in 深圳市方達電子產品有限公司 from two independent third parties, for an aggregate consideration of RMB3,500,000 (equivalent to approximately HK\$3,285,000). A deposit of RMB2,500,000 (equivalent to approximately HK\$2,342,000) had been paid by the Group at 31st March, 2004.

During the year, the agreement was terminated and the deposit was fully refunded.

21. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary of the Company is unsecured, interest-free and has no fixed terms of repayment. Having agreed with the subsidiary, the amount will not be repayable within twelve months from the balance sheet date and is therefore shown as non-current.

22. DEFERRED TAX

At 31st March, 2005, the Group has unused tax losses of HK\$44,002,000 (2004: HK\$51,729,000) available for offset against future profits. At 31st March, 2004, the Company had unused tax losses of HK\$3,563,000 available for offset against future profits and has been applied to set off against assessable profit for the current year. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

23. SHARE CAPITAL

	Number of ordinary shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
Balance at 1st April, 2003, 31st March, 2004 and 31st March, 2005	200,000,000,000	2,000,000
Issued and fully paid:		
Balance at 1st April, 2003	3,116,124,045	31,161
Issue of shares	365,000,000	3,650
Balance at 31st March, 2004	3,481,124,045	34,811
Issue of shares	540,000,000	5,400
Balance at 31st March, 2005	4,021,124,045	40,211

NOTES TO THE FINANCIAL STATEMENTS

23. SHARE CAPITAL *(Continued)*

During both years, the following changes in the share capital of the Company took place:

- (i) Pursuant to a placing agreement entered into on 18th December, 2003, the Company issued 215,000,000 ordinary shares of HK\$0.01 each at HK\$0.053 per share which represents a discount of approximately 7.02% to the closing price of HK\$0.057 per share on 18th December, 2003 as quoted on the Stock Exchange. The net proceeds of the placement of HK\$11,034,000 was used for additional working capital of the Group.
- (ii) Pursuant to a placing agreement entered into on 30th January, 2004, the Company issued 150,000,000 ordinary shares of HK\$0.01 each at HK\$0.055 per share which represents a discount of approximately 5.17% to the closing price of HK\$0.058 per share on 30th January, 2004 as quoted on the Stock Exchange. The net proceeds of the placement of HK\$7,955,000 was used for additional working capital of the Group.
- (iii) Pursuant to a placing agreement entered into on 5th May, 2004, the Company issued 240,000,000 ordinary shares of HK\$0.01 each at HK\$0.052 per share which represents a discount of approximately 1.89% to the closing price of HK\$0.053 per share on 5th May, 2004 as quoted on the Stock Exchange. The net proceeds of the placement of HK\$12,093,000 was used for additional working capital of the Group.
- (iv) Pursuant to a placing agreement entered into on 7th January, 2005, the Company issued 300,000,000 ordinary shares of HK\$0.01 each at HK\$0.040 per share which represents a discount of approximately 11.11% to the closing price of HK\$0.045 per share on 6th January, 2005 as quoted on the Stock Exchange. The net proceeds of the placement of HK\$11,625,000 was used for additional working capital of the Group.

These new ordinary shares issued during the year rank *pari passu* with the then existing ordinary shares of the Company in all respects.

The new ordinary shares issued during the year were under the general mandates granted to the directors of the Company at the extraordinary general meeting held on 5th September, 2003 and the annual general meeting held on 9th September, 2004.

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE OPTION SCHEME

The share option scheme of the Company was approved and adopted by the shareholders at the extraordinary general meeting held on 23rd August, 2002 (the "2002 Scheme"). The 2002 Scheme shall be valid and effective for a period of 10 years commencing from 23rd August, 2002 ("the Adoption Date"). The primary purpose of the 2002 Scheme is to provide 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 categories of the participants under the 2002 Scheme are any directors (including executive directors, non-executive directors and independent non-executive directors) of the Company and its subsidiaries and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers to the Group who the Board of Directors of the Company (the "Board") considers, in its sole discretion have contributed or will contribute to the Group.

The Board may, at its absolute discretion, made an offer to any participant to take up share options. An offer is deemed to have been accepted and a share option is deemed to have been granted and accepted and shall take effect when the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee and the remittance of HK\$1 by way of consideration for the grant thereof is received by the Company. Share options granted may be exercised during the period as notified by the Board to each grantee at the time of making the offer and shall be at any time from the date of grant to the tenth anniversary thereof.

The total number of shares which may be issued upon exercise of all share options granted under the 2002 Scheme and other share option scheme(s) of the Company (excluding share options lapsed) must not exceed 311,612,404 shares, being approximately 10% of the total number of the Company's shares in issue on the Adoption Date, except with prior approvals from the Company's shareholders. The maximum number of shares in respect of which share options may be granted to a specifically identified single grantee under the 2002 Scheme shall not (when aggregated with any shares subject to any other share option scheme(s) of the Company) in any 12-month period exceed 1% of the Company's shares in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in advance in a general meeting.

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE OPTION SCHEME *(Continued)*

The subscription price for shares on the exercise of share options under the 2002 Scheme shall be determined by the Board in its absolute discretion but in any event shall not be less than the greatest of: (i) the closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange on the date on which a share option is granted; (ii) the average closing price of the Company's shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date on which a share option is granted; and (iii) the nominal value of the Company's share.

The 2002 Scheme will expire on 22nd August, 2012.

At 31st March, 2005, share options in respect of a total of 60,000,000 shares had been granted to the directors of the Company under the 2002 Scheme, representing approximately 1.49% of the issued share capital of the Company at that date and 22nd July, 2005, respectively. There were no share options granted to employees of the Group.

There were 60,000,000 outstanding share options as at 31st March, 2004 and 31st March, 2005 and all of them were granted to directors of the Company.

A summary of movements of share options held by the directors of the Company is as follows:

Date of grant	Exercisable period	Subscription price per share HK\$	Number of share options				
			Outstanding at 1.4.2003	Granted during the year	Outstanding at 31.3.2004	Granted during the year	Outstanding at 31.3.2005
16.1.2004	16.1.2004 to 15.1.2009	0.06*	–	60,000,000	60,000,000*	–	60,000,000*

* *These share options were held by the relevant directors as beneficial owners.*

During both years, no share options were exercised, cancelled or lapsed under the 2002 Scheme.

No charge was recognised in the income statement of the Company in respect of share options granted. Share options granted are not recognised in the financial statements until such options are exercised. Upon exercise of share options, the shares issued by the Company will be recorded as additional share capital at the nominal value of such shares and the excess of the subscription price over the nominal value of the shares issued is recorded in the Company's share premium account.

NOTES TO THE FINANCIAL STATEMENTS

24. SHARE OPTION SCHEME *(Continued)*

The total consideration received during the year ended 31st March, 2004 for the share options granted was HK\$2.

25. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000 <i>(note b)</i>	Distributable reserve HK\$'000 <i>(note c)</i>	Accumulated losses HK\$'000	Total HK\$'000
THE COMPANY						
At 1st April, 2003	287,456	485	39,521	595,191	(493,421)	429,232
Issue of shares	15,995	–	–	–	–	15,995
Expenses incurred in connection with the issue of shares	(656)	–	–	–	–	(656)
Net loss for the year	–	–	–	–	(16,290)	(16,290)
At 31st March, 2004	302,795	485	39,521	595,191	(509,711)	428,281
Issue of shares	19,080	–	–	–	–	19,080
Expenses incurred in connection with the issue of shares	(762)	–	–	–	–	(762)
Net profit for the year	–	–	–	–	15,485	15,485
At 31st March, 2005	321,113	485	39,521	595,191	(494,226)	462,084

NOTES TO THE FINANCIAL STATEMENTS

25. RESERVES *(Continued)*

Notes:

- (a) The special reserve of the Group represents the difference between the aggregate amount of the share capital and share premium account of a company which was the former holding company of the Group and the nominal value of the Company's shares issued pursuant to the group reorganisation in 1992.
- (b) The contributed surplus of the Company represents the difference between the nominal value of the share capital issued by the Company and the underlying net tangible asset value net of pre-acquisition dividends and realised pre-acquisition investment property revaluation reserve of subsidiaries which were acquired by the Company pursuant to the group reorganisation in 1992.
- (c) The distributable reserve of the Group and the Company represents the aggregate of the credit arising from the following:
 - (i) the reduction of nominal value of the shares from HK\$0.10 each to HK\$0.002 each by cancelling HK\$0.098 paid up on each issued share and the cancellation of share premium account as at 31st October, 1998, after a transfer of HK\$607,193,000 towards the elimination of the accumulated losses of the Company at 31st October, 1998; and
 - (ii) Capital reduction during the year ended 31st March, 2002.

NOTES TO THE FINANCIAL STATEMENTS

26. DISPOSAL OF SUBSIDIARIES

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	–	230
Intangible asset	–	22,641
Short-term loans receivable	–	23,949
Bank balances and cash	–	82,452
Other payables	–	(2,717)
Minority interests	–	(33,420)
	<hr/>	<hr/>
Net assets	–	93,135
Gain on disposal of subsidiaries	50	95
	<hr/>	<hr/>
	50	93,230
	<hr/>	<hr/>
Satisfied by:		
Cash consideration received	50	50,230
Other receivables	–	43,000
	<hr/>	<hr/>
	50	93,230
	<hr/>	<hr/>
Analysis of net inflow (outflow) of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	50	50,230
Bank balances and cash disposed of	–	(82,452)
	<hr/>	<hr/>
Net inflow (outflow) of cash and cash equivalents in connection with the disposal of subsidiaries	50	(32,222)
	<hr/>	<hr/>

During the year, the Group's profit (loss) from operations included a loss of HK\$4,000 (2004: loss of HK\$12,655,000) in respect of the disposed subsidiaries up to their disposal date.

NOTES TO THE FINANCIAL STATEMENTS

27. OPERATING LEASE COMMITMENTS**The Group as lessee**

	2005	2004
	HK\$'000	HK\$'000
Minimum lease payments paid by the Group under operating leases in respect of rented premises during the year	692	818

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK\$'000	HK\$'000
Within one year	256	612
In the second to fifth year inclusive	404	–
	660	612

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

The Company did not have any significant operating lease commitments at the balance sheet date.

28. CAPITAL COMMITMENTS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of a subsidiary	–	943

The Company did not have any significant capital commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

29. PENSION SCHEME

The Group has operated a MPF scheme for all employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the scheme. The assets of the scheme are held separately from those of the Group in independently-administered funds. The Group's contributions are contributed into the scheme in accordance with the rules of the scheme.

30. POST BALANCE SHEET EVENTS

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

- (i) On 13th June, 2005, the Company put forward a share consolidation proposal pursuant to which every twenty existing shares in the issued and unissued ordinary share capital of the Company of HK\$0.01 each (the "Existing Share") will be consolidated into one consolidated share of HK\$0.20 each (the "Consolidated Share");
- (ii) On 13th June, 2005, the Company entered into a first placing agreement with a placing agent (the "Placing Agent") on a fully underwritten basis for the placing of 20,000,000 Consolidated Shares at a price of HK\$0.54 per share. The placing price per share represents a discount of approximately 6.9% to the closing price of HK\$0.029 per Existing Share on 3rd June, 2005 as quoted on the Stock Exchange (on the basis that every twenty Existing Shares is equivalent to one Consolidated Share);
- (iii) On 13th June, 2005, the Company entered into a second placing agreement with the Placing Agent on a best efforts basis for the placing of 40,000,000 Consolidated Shares at a price of HK\$0.54 per share. The placing price per share represents a discount of approximately 6.9% to the closing price of HK\$0.029 per Existing Share on 3rd June, 2005 as quoted on the Stock Exchange (on the basis that every twenty Existing Shares is equivalent to one Consolidated Share);
- (iv) On 13th June, 2005, the Company entered into a convertible notes placing agreement with the Placing Agent on a best efforts basis for the placing of convertibles notes of aggregate principal amount of up to HK\$48,000,000 at a conversion price of HK\$0.60 per Consolidated Share. The conversion price per share represents a premium of approximately 3.45% to the closing price of HK\$0.029 per Existing Share on 3rd June, 2005 as quoted on the Stock Exchange (on the basis that every twenty Existing Shares is equivalent to one Consolidated Share);

NOTES TO THE FINANCIAL STATEMENTS

30. POST BALANCE SHEET EVENTS *(Continued)*

- (v) On 13th June, 2005, the Company entered in to a conditional subscription agreement for the issue of 35,000,000 Consolidated Shares at a price of HK\$0.58 per share to Goodnews Resources Limited which is wholly-owned by Ms. Yau Shum Tek, Cindy, a director and a substantial shareholder of the Company. The subscription price per share is equal to the closing price of HK\$0.029 per Existing Share on 3rd June, 2005 as quoted on the Stock Exchange (on the basis that every twenty Existing Shares is equivalent to one Consolidated Share); and

- (vi) On 20th June, 2005, the Company put forward a proposal to change its name from “HANSOM EASTERN (HOLDINGS) LIMITED 恒盛東方控股有限公司” to “INNER MONGOLIA DEVELOPMENT (HOLDINGS) LIMITED 內蒙發展(控股)有限公司”.

The estimated maximum net proceeds from (ii) to (v) above is approximately HK\$98,100,000 (assuming that all 40,000,000 Consolidated Shares in (iii) above and convertible notes of aggregate principal amount of HK\$48,000,000 in (iv) above are fully placed), the Company intends to utilize about half of the maximum net proceeds of approximately HK\$49,050,000 for investments and the remaining half for working capital.

All of the above events are subject to the passing of the relevant resolutions by the shareholders of the Company at the extraordinary general meeting of the Company to be held on 4th August, 2005.

NOTES TO THE FINANCIAL STATEMENTS

31. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued and fully paid ordinary share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly %	Indirectly %	
Asia Hunter Global Limited	BVI	US\$1	100	–	Investment holding
Eastern Sunny Limited	Hong Kong	HK\$2	–	100	Provision of management services
Equity Spin Investments Limited	BVI	US\$1	100	–	Investment holding
Far Hero Limited	Hong Kong	HK\$2	–	100	Property investment
Hansom Finance Limited	Hong Kong	HK\$2	–	100	Provision of finance
Longsun Ltd.	BVI	US\$1	100	–	Investment holding
Peking Bay Assets Limited	BVI	US\$1	–	100	Investment holding
Hansom Eastern International Trading (Group) Limited (formerly known as Progressive Company Limited)	Hong Kong	HK\$1,000	–	100	Sale of goods
Smart Jump Corporation	BVI	US\$1	–	100	Trading in securities
Win Advance Development Limited	Hong Kong	HK\$2	–	100	Property investment

NOTES TO THE FINANCIAL STATEMENTS

31. PRINCIPAL SUBSIDIARIES *(Continued)*

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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