

Notes to the Condensed Financial Statements

For the six months ended 30th September, 2005

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. Principal accounting policies

The condensed financial statements have been prepared on the historical cost basis except for investment properties and financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2005, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Financial instruments

HKAS 32 “Financial Instruments: Disclosure and Presentation” requires retrospective application. The application of HKAS 32 has had no impact on the presentation of the financial instruments of the Group. HKAS 39 “Financial Instruments: Recognition and Measurement”, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects on the Group as a result of implementation of HKAS 32 and HKAS 39 are summarised below:

2. Principal accounting policies (Continued)

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Prior to 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice No. 24 “Accounting for Investments in Securities” issued by the HKICPA (“SSAP 24”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities” or “other investments” as appropriate. “Investment securities” are carried at cost less impairment losses while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively, unless the financial assets are equity instruments without a quoted market price in an active market and whose fair value cannot be reliably measured, in which case the financial assets are carried at cost less impairment. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method.

On 1st April, 2005, the Group classified and measured its debt and equity securities in accordance with the requirements of HKAS 39. Accordingly, investments in securities previously classified under non-current assets with an aggregate carrying amount of approximately HK\$42 million were reclassified to available-for-sale investments. These investments represent unlisted equity investments of which their fair value cannot be measured reliably and are therefore carried at cost less impairment loss. In addition, investments in securities held for trading purposes previously classified under current assets with market value of approximately HK\$0.2 million were accounted for as investments held for trading (see note 3 for the financial impact). This change in accounting policy has had no impact for the current and prior accounting periods.

3. Summary of the effects of the changes in accounting policies

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31.3.2005 (originally stated) HK\$'000	Effect of HKAS 39 adjustments HK\$'000	As at 1.4.2005 (restated) HK\$'000
Investments in securities	42,209	(42,209)	–
Available-for-sale investments	–	42,000	42,000
Investments held for trading	–	209	209
	<u> </u>	<u> </u>	<u> </u>

The application of the new HKFRSs has had no effect to the Group's equity at 1st April, 2005 and the results for the current and prior periods.

The HKICPA has issued the following standards and interpretations that are not yet effective. The Group has considered the following standards and interpretations but is not yet in a position to determine whether these standards and interpretations would have a significant impact on how the results of operations and financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intergroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC) – Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

4. Turnover

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

	For the six months ended 30th September,	
	2005	2004
	HK\$'000	HK\$'000
Sales of securities	608	–
Sales of goods	23,355	18,110
Interest income from provision of finance	14,008	15,997
Dividend income from investments in securities	–	1
	<u>37,971</u>	<u>34,108</u>

5. Segment information

The Group is organised into five (1.4.2004 to 30.9.2004: five) main operating segments: trading of electronic products, provision of finance, trading of securities, property holding and investment and investment activities.

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

5. **Segment information** (Continued)

Segment information about these businesses is presented below:

Business segments

	For the six months ended 30th September, 2005					Consolidated HK\$'000
	Trading of goods HK\$'000	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	
TURNOVER	<u>23,355</u>	<u>14,008</u>	<u>608</u>	<u>-</u>	<u>-</u>	<u>37,971</u>
SEGMENT RESULTS	<u>(888)</u>	<u>14,071</u>	<u>(32)</u>	<u>(83)</u>	<u>(6,084)</u>	6,984
Unallocated corporate expenses						<u>(6,688)</u>
Profit from operations						296
Finance costs						(13)
Share of results of an associate						<u>400</u>
Profit before taxation						683
Taxation						<u>(1,229)</u>
Net loss for the period						<u>(546)</u>

5. Segment information (Continued)

Business segments (Continued)

For the six months ended 30th September, 2004

	Trading of goods HK\$'000	Provision of finance HK\$'000	Trading of securities HK\$'000	Property holding and investment HK\$'000	Investment activities HK\$'000	Consolidated HK\$'000
TURNOVER	<u>18,110</u>	<u>15,997</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>34,108</u>
SEGMENT RESULTS	<u>324</u>	<u>14,826</u>	<u>(55)</u>	<u>(105)</u>	<u>(4)</u>	14,986
Unallocated corporate expenses						<u>(5,122)</u>
Profit from operations						9,864
Finance costs						(1)
Share of results of an associate						<u>114</u>
Profit before taxation						9,977
Taxation						<u>(919)</u>
Net profit for the period						<u>9,058</u>

6. Impairment loss recognised in respect of available-for-sale investments

At 30th September, 2005, an impairment loss of HK\$6,000,000 (1.4.2004 to 30.9.2004: nil) was recognised on the Group's investment in Xi'an Yizhiliu Pharmaceutical Co., Ltd. (西安一枝刘制药有限公司), a company established in the People's Republic of China (the "PRC"), to reflect the recoverable amount of the investment.

7. Profit from operations

	For the six months ended 30th September,	
	2005	2004
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Loss on change in fair value in investments held for trading	52	–
Unrealised loss on other investments	–	49
Depreciation of property, plant and equipment	164	89
Bank interest income	<u>(12)</u>	<u>–</u>

8. Taxation

The charge for the period represents Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the period.

No deferred tax asset has been recognised in respect of tax losses due to the unpredictability of future profit streams. At 30th September, 2005, the Group has unused tax losses of HK\$31,163,000 (31.3.2005: HK\$44,002,000). The tax losses may be carried forward indefinitely.

9. Dividend

No dividend was paid by the Company during the period (1.4.2004 to 30.9.2004: nil).

10. (Loss) earnings per share

The calculation of the basic loss per share for the period is based on the net loss for the period of HK\$546,000 (1.4.2004 to 30.9.2004: profit of HK\$9,058,000) and on the weighted average of 205,755,656 (1.4.2004 to 30.9.2004: 182,711,940, adjusted for the effect of share consolidation) ordinary shares in issue.

Diluted loss per share has not been presented for the period ended 30th September, 2005 as the exercise of the Company's outstanding share options would result in a reduction in loss per share. Diluted earnings per share has not been presented for the period ended 30th September, 2004 as the exercise price of the Company's outstanding share options was higher than the average market price of the Company's shares for that period.

11. Investment properties and property, plant and equipment

During the period, the Group acquired property, plant and equipment with a carrying value of HK\$535,000 (1.4.2004 to 30.9.2004: HK\$44,000).

At 30th September, 2005, the directors have considered the carrying amount of the Group's investment properties and have estimated that the carrying amounts do not differ significantly from the fair value. Consequently, no gain or loss arising from changes in fair value of investment properties has been recognised in the current period.

12. Loans receivable

	30.9.2005	31.3.2005
	HK\$'000	HK\$'000
The loans receivable comprise:		
Unsecured long-term loans receivable	205,000	212,000
Unsecured short-term loans receivable	42,926	213,651
	247,926	425,651
Less: Amount due within one year shown under current assets	(42,926)	(213,651)
Amount due over one year	205,000	212,000

The loans receivable bear interest at prevailing market rates.

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

13. Trade and other receivables

The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	30.9.2005	31.3.2005
	HK\$'000	HK\$'000
Trade receivables		
0-30 days	6,468	21,907
Over 30 days	7,392	—
	13,860	21,907
Deposits paid and prepayment	220,596	6,000
Other receivables	608	555
	235,064	28,462

13. **Trade and other receivables** (Continued)

The deposits paid and prepayment as at 30th September, 2005 included an amount of HK\$212,596,000 (31.3.2005: nil) for the purchase of steel from a supplier in the PRC.

14. **Trade and other payables**

Included in trade and other payables are trade payables of approximately HK\$6,251,000 (31.3.2005: nil). At 30th September 2005, all trade payables of the Group are aged within 60 days.

15. **Share capital**

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1st April, 2005	200,000,000,000	2,000,000
Share consolidation	(190,000,000,000)	–
	<u>10,000,000,000</u>	<u>2,000,000</u>
Ordinary shares of HK\$0.20 each at 30th September, 2005	<u>10,000,000,000</u>	<u>2,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1st April, 2005	4,021,124,045	40,211
Share consolidation	(3,820,067,843)	–
Issue of new shares	20,000,000	4,000
	<u>221,056,202</u>	<u>44,211</u>
Ordinary shares of HK\$0.20 each at 30th September, 2005	<u>221,056,202</u>	<u>44,211</u>

15. Share capital (Continued)

Pursuant to ordinary resolutions passed on 4th August, 2005, the following changes in the Company's share capital took place:

- (i) a share consolidation on the basis that every twenty shares of HK\$0.01 each in the issued and unissued share capital of the Company being consolidated into one consolidated share of HK\$0.20 each ("Consolidated Share") was carried out ("Share Consolidation"). The authorised share capital of the Company remained at HK\$2,000,000,000, but was divided into 10,000,000,000 shares of HK\$0.20 each.
- (ii) the Company issued 20,000,000 Consolidated Shares of HK\$0.20 each after the Share Consolidation, on a fully underwritten basis to independent investors at a price of HK\$0.54 per share.

16. Post balance sheet events

- (i) On 13th June, 2005, the Company entered into the following transactions which have not yet been completed:
 - The completion date of the second placing agreement referred to in a circular issued by the Company dated 4th July, 2005 (the "Circular") for 40,000,000 Consolidated Shares at a price of HK\$0.54 per share was extended to on or before 31st January, 2006;
 - The completion date of the convertible notes placing agreement of aggregate principal amount of up to HK\$48,000,000 at a conversion price of HK\$0.60 per Consolidated Share referred to in the Circular is on or before 1st February, 2006; and
 - The completion date of the conditional subscription agreement for the issue of 35,000,000 Consolidated Shares at a price of HK\$0.58 per share referred to in the Circular was extended to on or before 1st February, 2006.
- (ii) On 1st December, 2005, the Company entered into a placing agreement with a placing agent on a fully underwritten basis for the placing of 44,000,000 ordinary shares at a price of HK\$0.67 per share. The placing price per share represented a discount of approximately 4.29% to the closing price of HK\$0.70 per share as quoted on the Stock Exchange on 1st December, 2005. This placing was completed on 12th December, 2005.