

Notes to the Accounts

For the year ended 31st March, 2003

I Principal accounting policies

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

(a) Basis of preparation

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention as modified by the revaluation of properties as described in note 1(c).

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

The adoption of these new/revised standards has no significant financial impact to the accounts except for presentational changes.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

I Principal accounting policies (continued)**(b) Group accounting (continued)****(i) Consolidation (continued)**

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activities.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill on acquisition, net of accumulated amortisation.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(iii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets/liabilities of the associated companies and goodwill/negative goodwill on acquisition, net of accumulated amortisation. The share of net liabilities of associated companies is accounted for to the extent of the Group's commitment to the associated companies.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Accounts

For the year ended 31st March, 2003

I Principal accounting policies (continued)

(b) Group accounting (continued)

(iv) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/jointly controlled entity/associated company at the date of acquisition. Goodwill on acquisitions occurring on or after 1st January, 2001 is capitalised and amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1st January, 2001 was written off against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions on or after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. Negative goodwill, not exceeding the fair values of non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of these assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately. For acquisition prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

(v) Gain or loss on disposal of subsidiaries, jointly controlled entities and associated companies

The gain or loss on disposal of a subsidiary, a jointly controlled entity or an associated company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

(c) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited.

I Principal accounting policies (continued)**(c) Fixed assets (continued)****(i) Investment properties (continued)**

Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) Freehold and leasehold land and buildings

Freehold land is stated at cost less accumulated impairment losses and is not depreciated.

Leasehold land and buildings are stated at valuation less accumulated depreciation. Valuations are determined by the directors based on independent valuations which are performed regularly. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. In the intervening years, the directors review the carrying value of the leasehold land and buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Leasehold land and buildings are depreciated over the shorter of the unexpired period of leases of land or 50 years.

Upon the disposal of leasehold land and buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is recognised as a movement of reserves.

Notes to the Accounts

For the year ended 31st March, 2003

I Principal accounting policies (continued)

(c) Fixed assets (continued)

(iii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Other fixed assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements, furniture, fixtures and equipment	5%-20%
Computers and software	20%-50%
Motor vehicles	10%-20%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets other than investment properties and leasehold land and buildings are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset other than investment properties and leasehold land and buildings is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) Investment and other securities

Investment and other securities are stated at cost less any provision for impairment losses.

The carrying amounts of securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities is reduced to its fair value. The impairment loss, equivalent to the amount of the reduction, is recognised as an expense in the profit and loss account.

I Principal accounting policies (continued)**(e) Inventories**

Inventories comprise general merchandise and are stated at the lower of cost and net realisable value. Cost, calculated using the first-in, first-out basis, comprises all costs of purchase and other direct costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Long-term contracts

When the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable that the costs will be recoverable. Contract costs are recognised when incurred.

When the outcome of a long-term contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to the terms of the contracts with respect to the delivery of goods and services. When it is probable that the total contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits, less recognised losses, exceed progress billings, the balance is shown as long-term contracts work in progress, under current assets. Where progress billings exceed costs incurred plus recognised profits, less recognised losses, the balance is shown as due to customers on long-term contracts, under current liabilities.

(g) Trade receivables

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

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

Notes to the Accounts

For the year ended 31st March, 2003

I Principal accounting policies (continued)

(i) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(j) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and other accumulating compensated absences are recognised when they accrue to employees. A provision is made for the estimated liability for accumulating compensated absences as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to non-accumulating compensated absences are not recognised until the time of leave.

(ii) Retirement benefit obligations

The Group participates in defined contribution retirement schemes in Hong Kong and the People's Republic of China ("PRC"). The assets of these schemes are held separately from the Group's assets. The retirement benefit schemes are generally funded by payments from employees and by relevant companies of the Group.

The Group's contributions to these schemes are expensed as incurred.

(k) Contingent liabilities

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

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

I Principal accounting policies (continued)

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Translation of foreign currencies

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

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the profit and loss account of foreign enterprises was translated at closing rate. This is a change in accounting policy. However, the translation of the profit and loss of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

(n) Revenue recognition

Revenue from the sale of merchandise is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from long-term contracts is recognised based on the percentage of completion of the contract work by reference to the terms of the contracts with respect to the delivery of goods and services.

Operating lease rental income is recognised on a straight line basis over the lease term.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Notes to the Accounts

For the year ended 31st March, 2003

I Principal accounting policies (continued)

(o) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated results represent corporate income and expenses. Segment assets consist primarily of properties and other operating assets, and exclude investments in other securities and corporate bank balances and cash. Segment liabilities comprise operating liabilities and borrowings, and exclude accruals on corporate expenses and taxation payable. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, turnover, results, total assets and capital expenditure are based on the place in which the assets are located.

(q) Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

2 Turnover and revenues

The Group is principally engaged in system integration and software development, property investment and holding, telecommunications and internet-related business, multi-media business and dairy farm operation. Revenues recognised during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
System integration and software development contract revenue	5,035	—
Operating lease rental income	5,316	7,361
Sales of dairy products	249	3,103
	<u>10,600</u>	<u>10,464</u>
Other revenues		
Interest income	596	1,519
Dividend income	—	19
	<u>596</u>	<u>1,538</u>
Total revenues	<u><u>11,196</u></u>	<u><u>12,002</u></u>

3 Segment information

The Group's major business segments and their corresponding places of operations are summarised below:

Business segments

System integration and software development
 Property investment and holding
 Telecommunications and internet-related business
 Multi-media business
 Dairy farm operation

Places of operations

Hong Kong and PRC
 Hong Kong and PRC
 Hong Kong
 PRC
 New Zealand

There were no sales or other transactions between the business and geographical segments.

Notes to the Accounts

For the year ended 31st March, 2003

3 Segment information (continued)

(a) Primary reporting format - business segments

	System integration and software development		Property investment and holding		Telecommunications and internet-related business		Multi-media business		Dairy farm operation		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	5,035	—	5,316	7,361	—	—	—	—	249	3,103	10,600	10,464
Segment results	(6,620)	—	6,668	(35,855)	—	—	—	—	317	1,598	365	(34,257)
Net loss on discontinuing operations	—	—	(7,385)	—	—	—	(391)	—	1,484	—	(6,292)	—
Unallocated corporate income and expenses											(19,595)	(40,678)
Operating loss											(25,522)	(74,935)
Finance costs											(1,452)	(2,465)
Loss before taxation											(26,974)	(77,400)
Taxation											(82)	—
Loss after taxation											(27,056)	(77,400)
Minority interests											2	—
Loss attributable to shareholders											(27,054)	(77,400)
Segment assets	59,915	—	39,241	109,627	—	—	—	—	—	9,332	99,156	118,959
Investments in												
- a jointly controlled entity	—	—	—	—	—	—	—	32,025	—	—	—	32,025
- an associated company	—	—	—	—	(883)	(883)	—	—	—	—	(883)	(883)
Unallocated assets											77,486	21,671
Total assets											175,759	171,772
Segment liabilities	(53,727)	—	(2,973)	(31,923)	—	—	—	—	—	(2,559)	(56,700)	(34,482)
Unallocated liabilities											(16,940)	(19,847)
Total liabilities											(73,640)	(54,329)
Allocated capital expenditure	8	—	—	5	—	—	—	—	—	104	8	109
Unallocated capital expenditure											50	1,309
											58	1,418
Allocated depreciation	200	—	37	119	—	—	—	—	—	53	237	172
Unallocated depreciation											725	714
											962	886
Deficit arising on revaluation of leasehold land and buildings	—	—	—	476	—	—	—	—	—	—	—	476
Deficit arising on revaluation of investment properties	—	—	—	40,646	—	—	—	—	—	—	—	40,646

3 Segment information (continued)

(b) Secondary reporting format - geographical segments

	Turnover		Segment results		Total assets		Capital expenditure	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong	3,723	5,761	5,803	(22,882)	72,779	101,903	50	82
PRC	6,628	1,600	(2,588)	(16,135)	102,775	29,395	8	1,232
New Zealand	249	3,103	317	1,598	1,088	9,332	—	104
	<u>10,600</u>	<u>10,464</u>	<u>3,532</u>	<u>(37,419)</u>	<u>176,642</u>	<u>140,630</u>	<u>58</u>	<u>1,418</u>
Net loss on discontinuing operations			(6,292)	—				
Unallocated corporate income and expenses			<u>(22,762)</u>	<u>(37,516)</u>				
Operating loss			<u>(25,522)</u>	<u>(74,935)</u>				
Investments in								
- a jointly controlled entity					—	32,025		
- an associated company					<u>(883)</u>	<u>(883)</u>		
Total assets					<u>175,759</u>	<u>171,772</u>		

4 Discontinuing operations

	2003 HK\$'000	2002 HK\$'000
Gain on disposal of dairy farm operation (note (a))	1,484	—
Loss on liquidation of multi-media business (note (b))	(391)	—
Loss on disposal of property investment and holding business in Hong Kong (note (c))	<u>(7,385)</u>	<u>—</u>
Net loss on discontinuing operations	<u>(6,292)</u>	<u>—</u>

Notes to the Accounts

For the year ended 31st March, 2003

4 Discontinuing operations (continued)

(a) Disposal of dairy farm operation

On 1st November, 2001, the Group entered into a conditional sale and purchase agreement to dispose of the dairy farm business in New Zealand. The transaction was completed in July 2002 at a consideration of approximately HK\$10,455,000. HK\$2,041,000 of the proceeds was applied to discharge a bank loan secured by the farm property in New Zealand.

The turnover, results, cash flows and the net assets of the dairy farm operation prior to its disposal were as follows:

	Period from 1st April, 2002 to the date of disposal HK\$'000	Year ended 31st March, 2002 HK\$'000
Turnover	249	3,103
Other revenue	31	90
Other operating income/costs and expenses, net	12	(1,791)
	<hr/>	<hr/>
Profit before taxation	292	1,402
Taxation	(194)	—
	<hr/>	<hr/>
Profit after taxation	98	1,402
	<hr/>	<hr/>
Net operating cash inflow	349	577
Net investing cash inflow/(outflow)	125	(263)
Net financing cash inflow/(outflow)	25	(85)
	<hr/>	<hr/>
Total net cash inflow	499	229
	<hr/>	<hr/>

4 Discontinuing operations (continued)

(a) Disposal of dairy farm operation (continued)

	At date of disposal HK\$'000	At 31st March, 2002 HK\$'000
Fixed assets	5,614	5,229
Investment securities	1,052	979
Inventories	1,882	2,084
Other assets	48	522
	<hr/>	<hr/>
Total assets	8,596	8,814
Total liabilities	(9,223)	(9,223)
	<hr/>	<hr/>
Net assets	(627)	(409)
	<hr/>	<hr/>

Assets sold:

Fixed assets	5,614
Investment securities	1,052
Inventories	1,882
	<hr/>
	8,548
Net proceeds from sale	10,032
	<hr/>
Gain on disposal of dairy farm operation	1,484
	<hr/>

Notes to the Accounts

For the year ended 31st March, 2003

4 Discontinuing operations (continued)

(b) Liquidation of multi-media business

The Group had interests in two jointly controlled entities, namely, Beijing 21CN Liyang Advertising Agency Limited ("Advertising JV") and Beijing 21CN Liyang Internet Technology Service Company Limited ("Net-tech JV"), both of which were engaged in the Group's multi-media business. Due to changes of the business environment, all the joint venture partners unanimously agreed in March 2001 to terminate the investments. Advertising JV had never commenced operations and Net-tech JV had remained inactive with no operating loss shared by the Group since April 2001 and was liquidated during the year.

The net assets in respect of the multi-media business carried in the Group's balance sheet prior to the liquidation of Net-tech JV were as follows:

	At date of liquidation HK\$'000	At 31st March, 2002 HK\$'000
Share of net assets	40,277	40,277
Amount due to Net-tech JV (note (i))	(7,380)	(8,252)
	<hr/>	<hr/>
Net assets	32,897	32,025
	<hr/>	<hr/>
		2003 HK\$'000
Net assets sold		32,897
Net proceeds from sale		32,506
		<hr/>
Loss on liquidation of multi-media business		(391)
		<hr/>

- (i) The amount due to Net-tech JV was unsecured, interest free and was settled upon its liquidation.

4 Discontinuing operations (continued)

(c) Disposal of property investment and holding business in Hong Kong

During the year, all of the Group's investment properties in Hong Kong were disposed of at a consideration, net of selling expenses, of HK\$55,815,000. The net book value of investment properties disposed of was HK\$63,200,000. Part of the sale proceeds was used to repay all the related outstanding bank borrowings in Hong Kong and the remaining balance was used as the Group's working capital.

The turnover, results, cash flows and the net assets of the property investment and holding business in Hong Kong prior to its discontinuance were as follows:

	Period from 1st April, 2002 to the date of disposal HK\$'000	Year ended 31st March, 2002 HK\$'000
Turnover	3,723	5,761
Other revenue	94	42
Operating costs and expenses	(6,550)	(43,408)
Profit before taxation	(2,733)	(37,605)
Taxation	—	—
Profit after taxation	(2,733)	(37,605)
Net operating cash inflow	3,190	14,733
Net investing cash inflow	—	20,380
Net financing cash outflow	(1,182)	(29,175)
Total net cash inflow	2,008	5,938

Notes to the Accounts

For the year ended 31st March, 2003

4 Discontinuing operations (continued)

(c) Disposal of property investment and holding business in Hong Kong (continued)

	At date of disposal HK\$'000	At 31st March, 2002 HK\$'000
Total assets	75,755	73,902
Total liabilities	(26,816)	(39,437)
Net assets	48,939	34,465
	2003 HK\$'000	2002 HK\$'000
Net book value of investment properties/properties held for sale	63,200	20,380
Net proceeds from sale	55,815	20,380
Loss on disposal of property investment and holding business in Hong Kong	(7,385)	—

5 Other operating expenses less income

	2003 HK\$'000	2002 HK\$'000
Impairment loss of goodwill	(3,167)	—
Deficit arising on revaluation of investment properties	—	(40,646)
Deficit arising on revaluation of leasehold land and buildings	—	(476)
Write-down of inventories	—	(2,147)
Gain on disposal of a property under development	—	1,369
	(3,167)	(41,900)

6 Operating loss

Operating loss is stated after charging/(crediting) the following:

Auditors' remuneration

- current year

- (over)/under provision in prior years

Cost of inventories sold and services provided

Depreciation of fixed assets

Doubtful debt provision written back

Loss on disposal of fixed assets

Outgoings in respect of investment properties

Operating lease rentals in respect of land and buildings

Provision for doubtful debts

Research and development cost

Staff costs, including directors' emoluments (*note 11*) and of which HK\$200,000 (2002: Nil) has been included in cost of services provided

2003 HK\$'000	2002 HK\$'000
769	730
(47)	227
4,358	1,092
962	886
(479)	—
450	317
453	2,339
1,804	2,068
—	681
340	—
12,822	23,439

47

7 Finance costs

Interest expenses on:

- bank loans wholly repayable within five years
and bank overdrafts

- bank loans not wholly repayable within five years

- loan from a related company repayable on demand

2003 HK\$'000	2002 HK\$'000
1,182	1,993
25	196
245	276
1,452	2,465

Notes to the Accounts

For the year ended 31st March, 2003

8 Taxation

Hong Kong profits tax has not been provided for in the accounts as the Group had no estimated assessable profits for the year (2002: Nil).

PRC enterprise income tax and overseas profits tax have been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the places in which the Group operates.

The amount of taxation (charged)/credited to the consolidated profit and loss account represents:

	2003 HK\$'000	2002 HK\$'000
Current year:		
- PRC enterprise income tax	(72)	—
- Overseas taxation	(194)	—
Deferred taxation	184	—
	<u> </u>	<u> </u>
	(82)	—
	<u> </u>	<u> </u>

Deferred tax credit/(charge) has not been recognised in respect of the following:

	2003 HK\$'000	2002 HK\$'000
Tax losses	3,522	(4,953)
Timing differences on depreciation allowances	280	(4)
	<u> </u>	<u> </u>
	3,802	(4,957)
	<u> </u>	<u> </u>

9 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$26,846,000 (2002: HK\$80,806,000).

10 Loss per share

The calculation of loss per share is based on the Group's loss attributable to shareholders of HK\$27,054,000 (2002: HK\$77,400,000) and on the weighted average of 3,100,910,000 (2002: 3,059,266,000) shares in issue during the year.

The outstanding share options of the Company do not result in any dilution effect on the loss per share in respect of the years ended 31st March, 2003 and 2002.

11 Staff costs, including directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	11,648	22,543
Unutilised annual leave	246	—
Termination benefits	483	656
Retirement benefit costs - defined contribution plans (note 12)	134	159
Other benefits and allowances	311	81
	<u>12,822</u>	<u>23,439</u>

12 Retirement benefit costs - defined contribution plans

	2003 HK\$'000	2002 HK\$'000
Contributions to:		
Mandatory provident fund scheme (the "MPF Scheme") (notes (a), (c))	106	141
Defined contribution schemes in the PRC (notes (b), (c))	28	18
	<u>134</u>	<u>159</u>

- (a) The Group has enrolled all employees in Hong Kong into the MPF Scheme. The MPF Scheme is a master trust scheme established under trust arrangement and governed by laws in Hong Kong. Under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), both the employer and employees are required to contribute 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month. The contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. There were no forfeited contributions under the MPF Scheme.
- (b) The Group also participates in the employees' pension schemes of the respective municipal government in various places in the PRC where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group.
- (c) There were no contributions payable as at 31st March, 2003 and 2002.

Notes to the Accounts

For the year ended 31st March, 2003

13 Directors' and senior management's emoluments

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	200	300
	<u>200</u>	<u>300</u>
	-----	-----
Other emoluments to executive directors:		
Salaries and other benefits in kind	2,604	4,288
Retirement benefit scheme contributions	12	20
Compensation for loss of office as directors	446	—
	<u>3,062</u>	<u>4,308</u>
	-----	-----
	<u>3,262</u>	<u>4,608</u>
	=====	=====

The emoluments of the directors fell within the following bands:

	Number of directors	
Emolument bands	2003	2002
Nil to HK\$1,000,000	9	3
HK\$1,000,001 to HK\$2,000,000	2	3
	<u>2</u>	<u>3</u>
	=====	=====

13 Directors' and senior management's emoluments (continued)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year included three (2002: one) directors, whose emoluments are set out in the analysis presented above. The emoluments paid and payable to an individual before his appointment as a director on 1st September, 2002 and to the remaining two individuals (2002: four individuals) during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits in kind	2,334	9,368
Retirement benefit scheme contributions	14	12
	<u>2,348</u>	<u>9,380</u>

The emoluments fell within the following bands:

	Number of individuals	
Emolument bands	2003	2002
Nil-HK\$1,000,000	3	—
HK\$1,000,001-HK\$2,000,000	—	1
HK\$2,000,001-HK\$3,000,000	—	3
	<u>3</u>	<u>4</u>

Notes to the Accounts

For the year ended 31st March, 2003

14 Fixed assets

Group	Investment properties HK\$'000	Freehold and leasehold land and buildings HK\$'000	Leasehold improvement, furniture, fixtures and equipment HK\$'000	Computers and software HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation						
At 1st April, 2002	98,200	7,669	856	1,511	929	109,165
Translation differences	—	469	30	—	—	499
Acquisition of subsidiaries	—	—	1,836	2,432	1,260	5,528
Additions	—	—	20	38	—	58
Disposals	(63,200)	(6,838)	(912)	(391)	(404)	(71,745)
At 31st March, 2003	35,000	1,300	1,830	3,590	1,785	43,505
Accumulated depreciation						
At 1st April, 2002	—	1,395	215	773	509	2,892
Translation differences	—	103	11	—	—	114
Acquisition of subsidiaries	—	—	774	1,094	379	2,247
Charge for the year	—	36	159	545	222	962
Disposals	—	(1,498)	(474)	(86)	(403)	(2,461)
At 31st March, 2003	—	36	685	2,326	707	3,754
Net book value						
At 31st March, 2003	35,000	1,264	1,145	1,264	1,078	39,751
At 31st March, 2002	98,200	6,274	641	738	420	106,273

14 Fixed assets (continued)

(a) The analysis of cost or valuation at 31st March, 2003 of the above assets is as follows:

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Computers and software HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	—	—	1,830	3,590	1,785	7,205
At valuation - 2002 (note (c))	—	1,300	—	—	—	1,300
At valuation - 2003 (note (d))	35,000	—	—	—	—	35,000
	<u>35,000</u>	<u>1,300</u>	<u>1,830</u>	<u>3,590</u>	<u>1,785</u>	<u>43,505</u>

The analysis of cost or valuation at 31st March, 2002 of the above assets is as follows:

	Investment properties HK\$'000	Freehold and leasehold land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers and software HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At cost	—	6,369	856	1,511	929	9,665
At valuation - 2002 (notes (c), (d))	98,200	1,300	—	—	—	99,500
	<u>98,200</u>	<u>7,669</u>	<u>856</u>	<u>1,511</u>	<u>929</u>	<u>109,165</u>

Notes to the Accounts

For the year ended 31st March, 2003

14 Fixed assets (continued)

- (b) The Group's interests in investment properties and freehold and leasehold land and buildings at their net book values are analysed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Held in Hong Kong:		
On leases of over 50 years	—	62,000
On leases of between 10 to 50 years	—	1,200
Held outside Hong Kong:		
Freehold	—	4,974
On leases of over 50 years	1,264	1,300
On leases of between 10 to 50 years	35,000	35,000
	<u>36,264</u>	<u>104,474</u>

- (c) Leasehold land and buildings were revalued by the directors at 31st March, 2002 on the open market value basis with reference to independent valuations. A revaluation deficit of HK\$476,000 was charged to the profit and loss account. At 31st March, 2003, the directors performed a review and considered that there had been no material change to their carrying values.
- (d) Investment properties were revalued at 31st March, 2003 on the open market value basis by RHL Appraisal Ltd., an independent professional property valuer. There were no surplus or deficit arising from the current revaluation. For the year ended 31st March, 2002, revaluation deficit of HK\$40,646,000 was charged to the profit and loss account.

14 Fixed assets (continued)

Company	Furniture, fixtures and equipment <i>HK\$'000</i>	Computers and software <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1st April, 2002	112	1,506	525	2,143
Additions	—	38	—	38
Disposals	—	(175)	—	(175)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2003	112	1,369	525	2,006
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1st April, 2002	38	773	105	916
Charge for the year	22	449	175	646
Disposals	—	(66)	—	(66)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2003	60	1,156	280	1,496
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31st March, 2003	52	213	245	510
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2002	74	733	420	1,227
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Accounts

For the year ended 31st March, 2003

15 Other non-current assets

	Group	
	2003	2002
	HK\$'000	HK\$'000
Goodwill (note (a))	—	—
Investment in an associated company (note (b))	(883)	(883)
Investment securities (note (c))	—	979
Other securities (note (d))	7,168	7,168
Deferred taxation (note 26(a))	183	—
	<u>6,468</u>	<u>7,264</u>

(a) Goodwill

	Group
	HK\$'000
At 1st April, 2002	—
Goodwill arising from acquisition of subsidiaries (note 25(b))	3,167
Impairment loss	(3,167)
	<u>—</u>
At 31st March, 2003	<u>—</u>

(b) Investment in an associated company

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	553	553
Share of losses	(1,436)	(1,436)
	<u>(883)</u>	<u>(883)</u>

15 Other non-current assets (continued)**(b) Investment in an associated company (continued)**

Details of the associated company at 31st March, 2003 are as follows:

Name	Place of incorporation and business	Principal activities	Particulars of issued shares held	Interest held indirectly
Wanbao Telecom (H.K.) Company, Limited ("Wanbao")	Hong Kong	Provision of telecommunications services	Ordinary shares of HK\$1 each	36%

The investment in Wanbao is held through a wholly-owned subsidiary of the Company, Problem-Solving International Limited ("PSIL"). On 17th July, 2002, the Board of Directors of the Company resolved to terminate its investment in and withdraw its commitment of further investing HK\$10,380,000 in form of shareholders' loans to Wanbao. However, as at 31st March, 2003, the Company's intention to terminate its investment in Wanbao and withdraw its commitment in respect of the shareholders' loans to Wanbao has been acknowledged only by Wanbao but has not been agreed with the other shareholders of Wanbao. The directors are of the opinion that the Group is capable of terminating its investment in Wanbao and withdrawing its commitment in respect of the shareholders' loans to Wanbao because the investment and the commitment to the shareholders' loans are undertaken by PSIL, which is an investment holding company and has no other assets except for the investment in Wanbao. Neither the Company nor any of its subsidiaries has given any guarantee to PSIL in respect of its commitment to the shareholders' loans to Wanbao.

(c) Investment securities

Investment securities were stated at cost and represented unlisted equity interests in a diary farm business in New Zealand. These securities were disposed of upon disposal of the diary farm operations (note 4(a)).

(d) Other securities

Other securities, which are stated at cost, represent a gold card membership in a golf club in the PRC.

Notes to the Accounts

For the year ended 31st March, 2003

16 Investments in subsidiaries

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost (note (a))	13,000	—
Amounts due from subsidiaries (note (b))	209,673	226,430
Amounts due to subsidiaries (note (b))	(5,398)	(2)
Less: impairment losses	(122,190)	(111,328)
	<u>95,085</u>	<u>115,100</u>

- (a) The cost of the unlisted shares of subsidiaries amounted to HK\$13,000,039 (2002: HK\$39).
- (b) The amounts due from and to subsidiaries were unsecured, interest free and have no fixed terms of repayment.
- (c) Particulars of principal subsidiaries are set out in note 32 to the accounts.

17 Inventories

	Group	
	2003	2002
	HK\$'000	HK\$'000
General merchandise	<u>268</u>	<u>2,084</u>

At 31st March, 2003, no inventories were carried at net realisable value (2002: Nil).

18 Long-term contracts work in progress

	Group	
	2003 HK\$'000	2002 HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	118,905	—
Less: progress billings to date	(86,418)	—
	<hr/>	<hr/>
Included in current assets under long-term contracts work in progress	32,487	—
	<hr/> <hr/>	<hr/> <hr/>

At 31st March, 2003, there were no retentions held by customers for contract work (2002: Nil).

At 31st March, 2003, no amounts were received in advance from customers for contract work (2002: Nil).

19 Trade and other receivables

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables (note (a))	15,530	937	—	—
Prepayments, deposits and other receivables (note (b))	5,444	2,757	967	1,291
	<hr/>	<hr/>	<hr/>	<hr/>
	20,974	3,694	967	1,291
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts

For the year ended 31st March, 2003

19 Trade and other receivables (continued)

- (a) Trade receivables comprise contract receivables and rental receivables. The terms of contract receivables are stated in the contracts and vary from one customer to another. Rental receivables, mostly covered by tenants' deposits, generally have credit terms of one month.

At 31st March, 2003, the ageing analysis of the trade receivables was as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
0-3 months	8	333	—	—
4-6 months	1,621	76	—	—
7-9 months	1,614	15	—	—
10-12 months	274	158	—	—
Over 12 months	12,013	355	—	—
	<u>15,530</u>	<u>937</u>	<u>—</u>	<u>—</u>
Total	<u>15,530</u>	<u>937</u>	<u>—</u>	<u>—</u>

- (b) At 31st March, 2003 and 2002, included in the Group's prepayments, deposits and other receivables was an amount of HK\$17,000,000 paid to former joint venture partners. The amount had been fully provided for since 2001 notwithstanding a guarantee provided by the Company's substantial shareholder, Uni-Tech International Group Limited, to reimburse any loss that the Group may suffer due to the non-repayment by the former joint venture partners.

20 Trade and other payables

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Due to minority shareholders (note(a))	2,028	—	—	—
Due to a related company (note (b))	1,540	—	—	—
Trade payables (note (c))	38,186	3,081	—	—
Litigation provision (note 30)	6,868	6,868	—	—
Accruals and other payables	19,827	9,311	1,451	1,057
	<u>68,449</u>	<u>19,260</u>	<u>1,451</u>	<u>1,057</u>

20 Trade and other payables (continued)

- (a) The amounts due to minority shareholders are unsecured, interest free and have no fixed terms of repayment.
- (b) The related company is a fellow subsidiary of a minority shareholder of a subsidiary of the Group. The amount due to the related company is unsecured, interest free and has no fixed terms of repayment.
- (c) At 31st March, 2003, the ageing analysis of the trade payables was as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
0-3 months	5,517	305	—	—
4-6 months	3,080	296	—	—
7-9 months	19,207	272	—	—
10-12 months	591	434	—	—
Over 12 months	9,791	1,774	—	—
	<u>38,186</u>	<u>3,081</u>	<u>—</u>	<u>—</u>

21 Loan from a related company

The related company is a company in which a shareholder of the Company has beneficial interests. The loan is unsecured, interest bearing at prime rate plus 2% per annum and is repayable on demand.

22 Share capital

	Ordinary shares of HK\$0.01 each	
	Number of shares	HK\$'000
Authorised:		
At 31st March, 2002 and 31st March, 2003	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st April, 2001 and 1st April, 2002	3,059,266,000	30,593
Issue of shares (note (a))	<u>50,000,000</u>	<u>500</u>
At 31st March, 2003	<u>3,109,266,000</u>	<u>31,093</u>

Notes to the Accounts

For the year ended 31st March, 2003

22 Share capital (continued)

- (a) During the year, 50,000,000 ordinary shares of HK\$0.01 each were issued at HK\$0.22 each to a related party as part of the consideration paid for the acquisition of subsidiaries (note 25(b)). The issue of shares resulted in a net premium of HK\$10,127,000, representing a share premium of HK\$10,500,000, less issue expenses of HK\$373,000.
- (b) The Company operates share option schemes to enable the Board of Directors to grant options to individuals as incentive or rewards for their contribution or potential contribution to the Group.

At the Annual General Meeting of the Company held on 30th August, 2002, a new share option scheme (the "New Scheme") was approved and adopted by the shareholders of the Company and the share option scheme approved at a Special General Meeting of the Company on 28th May, 1998 (the "Existing Scheme") was terminated on the same day. Notwithstanding the termination of the Existing Scheme, the outstanding options previously granted under the Existing Scheme shall remain valid and exercisable in accordance with the provisions of the Existing Scheme. The options are exercisable subject to the terms and conditions stipulated each time options are granted. All the options granted will expire at the end of ten years from the date of grant or the life of the scheme, whichever is earlier.

Details of share options granted by the Company pursuant to the share option schemes and the share options outstanding at 31st March, 2003 under the Existing Scheme are as follows:

Date of grant	Number of options held at 1st April, 2002	Number of options cancelled	Number of options held at 31st March, 2003	Exercise price HK\$
13th July, 2000	73,550,000	—	73,550,000	0.9900
20th November, 2000	8,000,000	—	8,000,000	0.7920
9th January, 2001	12,000,000	12,000,000	—	0.5660
20th March, 2001	6,100,000	—	6,100,000	0.3304

No share option was granted and exercised during the year ended 31st March, 2003 (2002: Nil). During the year, 12,000,000 (2002: 96,800,000) share options were cancelled.

23 Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange translation reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Group						
At 1st April, 2001	227,646	78,108	839	5,658	(149,027)	163,224
Exchange differences	—	—	1,026	—	—	1,026
Loss attributable to shareholders	—	—	—	—	(77,400)	(77,400)
At 31st March, 2002	<u>227,646</u>	<u>78,108</u>	<u>1,865</u>	<u>5,658</u>	<u>(226,427)</u>	<u>86,850</u>
Comprising:						
Company and subsidiaries	227,646	78,108	1,865	5,658	(221,495)	91,782
Jointly controlled entities	—	—	—	—	(3,496)	(3,496)
Associated companies	—	—	—	—	(1,436)	(1,436)
At 31st March, 2002	<u>227,646</u>	<u>78,108</u>	<u>1,865</u>	<u>5,658</u>	<u>(226,427)</u>	<u>86,850</u>
At 1st April, 2002	227,646	78,108	1,865	5,658	(226,427)	86,850
Premium on issue of shares	10,500	—	—	—	—	10,500
Share issue expenses	(373)	—	—	—	—	(373)
Exchange differences	—	—	1,018	—	—	1,018
Loss attributable to shareholders	—	—	—	—	(27,054)	(27,054)
At 31st March, 2003	<u>237,773</u>	<u>78,108</u>	<u>2,883</u>	<u>5,658</u>	<u>(253,481)</u>	<u>70,941</u>
Comprising:						
Company and subsidiaries	237,773	78,108	2,883	5,658	(252,045)	72,377
Associated companies	—	—	—	—	(1,436)	(1,436)
At 31st March, 2003	<u>237,773</u>	<u>78,108</u>	<u>2,883</u>	<u>5,658</u>	<u>(253,481)</u>	<u>70,941</u>

Notes to the Accounts

For the year ended 31st March, 2003

23 Reserves (continued)

	Share premium HK\$'000	Contributed surplus (note (a)) HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Company				
At 1st April, 2001	227,646	58,318	(117,498)	168,466
Loss for the year	—	—	(80,806)	(80,806)
At 31st March, 2002	227,646	58,318	(198,304)	87,660
At 1st April, 2002	227,646	58,318	(198,304)	87,660
Premium on issue of shares	10,500	—	—	10,500
Share issue expenses	(373)	—	—	(373)
Loss for the year	—	—	(26,846)	(26,846)
At 31st March, 2003	237,773	58,318	(225,150)	70,941

- (a) The Company's contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the net asset value of the subsidiaries acquired, and the surplus arising from the reduction of share capital.

24 Long-term bank loans

	Group 2003 HK\$'000	2002 HK\$'000
Bank loans - secured and not wholly repayable within five years	—	30,415
Less: current portion	—	(1,535)
Long-term portion	—	28,880

At 31st March, 2002, the long-term bank loans were secured by two investment properties in Hong Kong with an aggregate carrying amount of HK\$62,000,000 and freehold land and buildings outside Hong Kong with a carrying amount of HK\$4,974,000.

24 Long-term bank loans (continued)

The Group's bank loans were repayable as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within one year	—	1,535
In the second year	—	1,512
In the third to fifth year inclusive	—	5,090
After the fifth year	—	22,278
	<hr/>	<hr/>
	—	30,415
	<hr/>	<hr/>

25 Notes to consolidated cash flow statement**(a) Reconciliation of operating loss to net cash outflow generated from operations**

	2003 HK\$'000	2002 HK\$'000
Operating loss	(25,522)	(74,935)
Interest income	(596)	(1,519)
Dividend income	—	(19)
Depreciation of fixed assets	962	886
Deficit arising on revaluation of investment properties	—	40,646
Deficit arising on revaluation of leasehold land and buildings	—	476
Loss on disposal of investment properties	7,385	—
Loss on disposal of other fixed assets	450	317
Gain on disposal of property under development	—	(1,369)
Gain on disposal of dairy farm operation	(1,484)	—
Impairment loss of goodwill	3,167	—
Loss on liquidation of a jointly controlled entity	391	—
Write-down of inventories	—	2,147
	<hr/>	<hr/>
Operating loss before working capital changes	(15,247)	(33,370)
Decrease in amount due to a jointly controlled entity	(811)	—
Decrease/(increase) in inventories	87	(1,038)
Decrease in long-term contracts work in progress	9,976	—
Decrease in trade and other receivables	5,984	2,715
Decrease in trade and other payables	(24,321)	(2,160)
Effect of foreign exchange rate changes	600	8
	<hr/>	<hr/>
Net cash outflow generated from operations	(23,732)	(33,845)
	<hr/>	<hr/>

Notes to the Accounts

For the year ended 31st March, 2003

25 Notes to consolidated cash flow statement (continued)

(b) Acquisition of subsidiaries

On 3rd April, 2002, the Group entered into an acquisition agreement with Mr. Chen Wen Xin (the "Vendor"), a brother of Ms. Chen Xiao Ying, who is the Chairman and a substantial shareholder of the Company. Pursuant to the acquisition agreement, the Company acquired the entire issued share capital of Joy Heaven Inc. ("Joy Heaven") and the rights to a shareholder's loan made by the Vendor to Joy Heaven. The consideration was a cash payment of HK\$2,000,000 and an issue of 50,000,000 shares at an issue price of HK\$0.30 per share as set out in the Company's circular dated 29th April, 2002. However, the cost of acquisition was accounted for at HK\$13,000,000 as the consideration shares issued were accounted for at HK\$0.22 per share, being the closing market price of the shares on the date of completion of the sale and purchase agreement, in accordance with the provisions of SSAP 30 "Business combinations". The acquisition was effectively completed in piecemeal on 11th December, 2002 and 6th March, 2003, at which dates transfers of the shareholdings of certain subsidiaries of Joy Heaven were formally completed.

	HK\$'000
Net assets acquired:	
Fixed assets	3,281
Long-term contracts work in progress	42,463
Trade and other receivables	23,217
Taxation recoverable	195
Bank balances and cash	14,782
Amount due to the Company	(3,674)
Trade and other payables	(69,758)
Taxation payable	(585)
Deferred taxation	(1)
Minority interest	(87)
	<hr/> 9,833
Goodwill	3,167
	<hr/>
Total cost of acquisition	13,000
	<hr/> <hr/>
Satisfied by:	
Cash consideration	2,000
Issue of shares	11,000
	<hr/> 13,000
	<hr/> <hr/>
Analysis of the net cash inflow in respect of the acquisition of subsidiaries:	
Cash consideration	(2,000)
Share issue expenses	(373)
Bank balances and cash acquired	14,782
	<hr/>
Net cash inflow in respect of the acquisition of a subsidiaries	12,409
	<hr/> <hr/>

The subsidiaries acquired during the year formed the Group's system integration and software development segment, the results of which is disclosed in note 3(a). The segment utilised HK\$10,362,000 of the Group's net operating cash flows and HK\$8,000 for investing activities.

25 Notes to consolidated cash flow statement (continued)

(c) Analysis of changes in financing during the year

	Share capital, premium and contributed surplus HK\$'000	Bank loans HK\$'000	Minority interests HK\$'000	Loan from a related company HK\$'000
At 1st April, 2001	336,347	57,450	—	4,359
Translation difference	—	132	—	—
Repayment of bank loans	—	(56,167)	—	—
New bank loan raised	—	29,000	—	—
Interest payable	—	—	—	276
	<u>336,347</u>	<u>30,415</u>	<u>—</u>	<u>4,635</u>
At 31st March, 2002	336,347	30,415	—	4,635
At 1st April, 2002	336,347	30,415	—	4,635
Translation difference	—	150	—	—
Issue of shares as non-cash consideration for acquisition of subsidiaries	10,627	—	—	—
Repayment of bank loans	—	(30,565)	—	—
Interest payable	—	—	—	245
Minority interests' share of profits and exchange reserves	—	—	85	—
	<u>346,974</u>	<u>—</u>	<u>85</u>	<u>4,880</u>
At 31st March, 2003	346,974	—	85	4,880

Notes to the Accounts

For the year ended 31st March, 2003

26 Deferred taxation

- (a) Deferred tax assets of HK\$183,000 (2002: Nil) have been recognised in the accounts in respect of timing differences in the recognition of revenues and expenses for taxation purposes by the Group's subsidiaries in the PRC.
- (b) At 31st March, 2003, the potential deferred tax assets/(liabilities) that have not been recognised in the accounts on the basis that there is no reasonable certainty of crystallisation in the foreseeable future amounted to:

	Group	
	2003 HK\$'000	2002 HK\$'000
Tax losses	39,722	36,200
Timing differences on depreciation allowances	(85)	(365)
	<u>39,637</u>	<u>35,835</u>

At 31st March, 2003, the Company had no material unrecognised deferred tax (2002: Nil).

27 Commitments

(a) Capital commitments

At 31st March, 2003, the Group and the Company had no significant capital commitments (2002: Nil).

(b) Commitments under operating leases

At 31st March, 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2003 HK\$'000	2002 HK\$'000
Not later than one year	2,079	—
Later than one year and not later than five years	2,107	—
	<u>4,186</u>	<u>—</u>

27 Commitments (continued)**(c) Future operating lease receivables**

At 31st March, 2003, the Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	2003 HK\$'000	2002 HK\$'000
Not later than one year	1,786	3,413
Later than one year and not later than five years	1,654	1,558
	<u>3,440</u>	<u>4,971</u>

The Group's operating leases are for terms ranging from one to three years.

28 Contingent liabilities

69

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given in lieu of utility deposits	200	200	—	—
Corporate guarantees given to banks in respect of credit facilities granted to subsidiaries	—	—	—	28,374
	<u>200</u>	<u>200</u>	<u>—</u>	<u>28,374</u>

29 Related party transactions

Save as disclosed in notes 4(b), 7, 13, 19(b), 20(b), 21 and 25(b), the Group did not carry out any other significant related party transactions during the year (2002: Nil).

Notes to the Accounts

For the year ended 31st March, 2003

30 *Litigation*

At 31st March, 2003, the Group had the following pending legal litigation:

- (a) In March 1998, litigation was brought by Kadoorie Estate Limited ("Kadoorie"), a third party, against Rheingold (Hong Kong) Limited ("Rheingold"), a wholly owned subsidiary of the Company. Kadoorie claimed damages totalling HK\$2.2 million in respect of alleged breaches of the terms of the operating lease agreement previously entered into between the two parties; and
- (b) In May 1999, another litigation was commenced by Wai Fung Plaza Limited ("Wai Fung"), a third party, against Easy Department Store Limited ("Easy Department Store"), a wholly owned subsidiary of the Company. Wai Fung claimed damages amounting to approximately HK\$9.3 million in respect of alleged breaches of the terms of the operating lease agreement previously entered into between Wai Fung and Easy Department Store.

The directors, having sought independent legal advice, made a provision of HK\$2.2 million to cover the entire claim from Kadoorie and a provision of HK\$4.6 million for the claim from Wai Fung in prior years. These provision amounts were included in accruals and other payables. The directors are of the opinion that the provisions made in prior years in the respective cases are adequate and no further provision is required.

31 *Approval of financial statements*

The financial statements were approved by the Board of Directors on 11th July, 2003.

32 Particulars of subsidiaries

The following is a list of the major subsidiaries as at 31st March, 2003 which, in the opinion of the directors, principally affect the results and assets of the Group:

Name	Place of incorporation/ establishment and operations	Particulars of issued share capital/ paid-up capital	Group's equity interest	Principal activities
Held directly:				
21CN Advertising Agency Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1	100%	Investment holding
Easy Concepts (BVI) Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1	100%	Investment holding
Pioneer Venture Global Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1	100%	Investment holding
Held indirectly:				
Brightown (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$1 each	100%	Sales of data communication network systems
Cattsoft Technology Co., Limited	Hong Kong	10 ordinary shares of HK\$1 each	70%	Sales of data communication network systems and provision of related installation and testing services
Easy Concepts China Investment Company Limited	Hong Kong	2 ordinary shares of HK\$10 each	100%	Property investment
Easy Concepts (China) Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding

Notes to the Accounts

For the year ended 31st March, 2003

32 Particulars of subsidiaries (continued)

Name	Place of incorporation/ establishment and operations	Particulars of issued share capital/ paid-up capital	Group's equity interest	Principal activities
Easy Concepts Limited	Hong Kong	64,797,832 ordinary shares of HK\$1 each	100%	Investment holding
Easy Concepts (Shanghai) International Trading Co., Ltd. (note (a))	PRC	US\$1,610,000	100%	Property investment
Easy Investments Limited	Hong Kong	50,000 ordinary shares of HK\$100 each	100%	Investment holding
Easy Properties Limited	Hong Kong	10,000 ordinary shares of HK\$10 each	100%	Property investment
Grand Cycle International Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	Sales of data communication network systems
Guangdong Kai Tong Software Development Company Limited	PRC	RMB1,000,000	70%	Telecommunications software development
Guangdong Tian Tu Technology Company Limited (note (a))	PRC	HK\$5,000,000	100%	Sales of data communication network systems
Modern View Investment Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	Property investment

32 Particulars of subsidiaries (continued)

Name	Place of incorporation/ establishment and operations	Particulars of issued share capital/ paid-up capital	Group's equity interest	Principal activities
Rheingold (Hong Kong) Limited	Hong Kong	50,000 ordinary shares of HK\$100 each	100%	Investment holding
Swing Stores, Limited	Hong Kong	500,000 ordinary shares of HK\$1 each	100%	Property investment

- (a) The following subsidiaries are wholly foreign owned enterprises ("WFOE") established in the PRC with their respective details of duration of operation as below:

Name of WFOE	Operating life	Expiring in
Easy Concepts (Shanghai) International Trading Co., Ltd.	50 years	May 2043
Guangdong Tian Tu Technology Company Limited	50 years	December 2052