

NOTES TO THE FINANCIAL STATEMENTS

31 March 2004

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

In the opinion of the directors, the ultimate holding company is KG NextVision Corporation, which is incorporated in the British Virgin Islands.

During the year, the Group was involved in investment holding. Details of the principal activities of the principal subsidiaries are set out in note 13 to the financial statements.

2. IMPACT OF A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 9 to the financial statements and include a reconciliation between the accounting profit/(loss) and the tax expense for the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of debt and equity investments, as further explained below.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

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

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

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

Fixed assets and depreciation

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

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

Furniture, fixtures and office equipment	15% to 33- $\frac{1}{3}$ %
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The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Operating leases

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long term investments

Long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair values, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amounts previously charged.

Short term investments

Short term investments in unlisted equity and debt securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such unlisted securities are as estimated by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities. The gains or losses arising from changes in the fair values of such securities are credited or charged to the profit and loss account in the period in which they arise.

Related parties

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Income tax

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

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

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets are also recognised for the carryforward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the carryforward of the unused tax losses can be utilised.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

- (a) securities trading profits or losses, on the transaction dates when the relevant contract notes are exchanged;
- (b) from the rendering of services, as the underlying services are provided;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension scheme and other retirement benefits

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

Share option scheme

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

4. SEGMENT INFORMATION

During the year, the Group was solely engaged in investment holding. Accordingly, no analysis of segment information by business segment and geographical segment is presented.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents interest income received and receivable, and gain on disposal of short term unlisted equity investments. An analysis of turnover, other revenue and gains is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Interest income	1,335	2,363
Gain on disposal of short term unlisted equity investments	4,404	—
	5,739	2,363
Other revenue and gains		
Unrealised gains on revaluation of short term unlisted equity investments	1,428	—
Consultancy service fee income	2,955	1,660
Rental income from operating leases	241	1,445
Management service fee income	—	468
Gain on disposal of an associate	—	78
Gain on disposal of fixed assets	26	—
Others	272	661
	4,922	4,312

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived after charging:

	2004 HK\$'000	2003 HK\$'000
Depreciation	400	971
Auditors' remuneration	214	225
Minimum lease payments under operating leases:		
Land and buildings	1,824	3,845
Equipment and motor vehicle	22	206
Staff costs (including directors' remuneration in note 7):		
Salaries and other benefits	3,616	3,402
Pension scheme contributions	24	24
	3,640	3,426
Other operating expenses:		
Write-off of exchange fluctuation reserve of overseas subsidiaries	—	1,634
Unrealised losses on revaluation of short term equity investments, net	—	6,047
Loss on disposal of short term equity investments	—	346
	—	8,027

At 31 March 2004, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

7. DIRECTORS' REMUNERATION

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,134	1,560
Performance related bonuses	175	—
Pension scheme contributions	9	—
	<u>1,318</u>	<u>1,560</u>

There were no emoluments payable to the independent non-executive directors during the year (2003: Nil).

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

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	6	3
HK\$1,000,001 to HK\$1,500,000	—	—
HK\$1,500,001 to HK\$2,000,000	—	1
	<u>6</u>	<u>4</u>

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: one) directors, details of whose remuneration is set out in note 7 above. Details of the remuneration of the remaining two (2003: four) non-director, highest paid employees for the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries and allowances	1,692	1,842
Pension scheme contributions	12	24
	<u>1,704</u>	<u>1,866</u>

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2004	2003
Nil to HK\$1,000,000	1	3
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>2</u>	<u>4</u>

9. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2003: Nil). Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2004	2003
	HK\$'000	HK\$'000
Group :		
Current – elsewhere	<u>246</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

9. TAX (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the country in which the Company and its subsidiaries are domiciled to the tax expense for the year is as follows:

Group – 2004

	Hong Kong HK\$'000	Taiwan HK\$'000	Total HK\$'000
Profit before tax	<u>2,477</u>	<u>456</u>	<u>2,933</u>
Tax at the statutory tax rates	434	114	548
Income not subject to tax	(1,218)	(4)	(1,222)
Expenses not deductible for tax	209	136	345
Deferred tax assets related to tax losses carried forward not recognised	<u>575</u>	<u>–</u>	<u>575</u>
Tax expense for the year	<u>–</u>	<u>246</u>	<u>246</u>

Group – 2003

	Hong Kong HK\$'000	Taiwan HK\$'000	Total HK\$'000
Profit/(loss) before tax	<u>(12,128)</u>	<u>2,120</u>	<u>(10,008)</u>
Tax at the statutory tax rates	(1,940)	530	(1,410)
Income not subject to tax	(595)	(551)	(1,146)
Expenses not deductible for tax	1,499	21	1,520
Deferred tax assets related to tax losses carried forward not recognised	<u>1,036</u>	<u>–</u>	<u>1,036</u>
Tax expense for the year	<u>–</u>	<u>–</u>	<u>–</u>

The Group has tax losses arising in Hong Kong of HK\$36,439,000 (2003: HK\$32,889,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

10. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2004 dealt with in the financial statements of the Company was HK\$8,351,000 (2003: HK\$11,661,000).

11. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net profit attributable to shareholders for the year of HK\$2,685,000 (2003: net loss for the year of HK\$10,004,000), and the weighted average number of 2,400,002,000 (2003: 2,400,002,000) ordinary shares in issue during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 March 2004 and 2003 have not been disclosed, as the options outstanding during these years had no dilutive effect on the basic earnings/(loss) per share for these years.

12. FIXED ASSETS

Group

	Furniture, fixtures and office equipment HK\$'000
Cost:	
At beginning of year	2,835
Disposals/write-off	(1,172)
	<hr/>
At 31 March 2004	1,663
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Accumulated depreciation:	
At beginning of year	2,399
Provided during the year	400
Disposals/write-off	(1,146)
	<hr/>
At 31 March 2004	1,653
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Net book value:	
At 31 March 2004	10
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At 31 March 2003	436
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

13. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	10,150	10,150
Due from subsidiaries	23,225	21,603
	33,375	31,753
Provision for impairment	(8,272)	(14,000)
	25,103	17,753

The amounts due from subsidiaries are unsecured, interest-free and are not repayable within 12 months from the balance sheet date.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company				Principal activities
			Direct		Indirect		
			2004	2003	2004	2003	
Affinity Marketing Group, Inc.	Cayman Islands/ Hong Kong	US\$2,000,000	–	–	100	100	Investment holding
Affinity Marketing Group, Inc.	Taiwan	NTD17,000,000	–	–	99.65	99.65	Investment holding
Pyxis Management Limited (Formerly KG NextVision Management Limited)	Hong Kong	HK\$2	–	–	100	100	Provision of consultancy services

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

13. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company				Principal activities
			Direct		Indirect		
			2004	2003	2004	2003	
Pyxis Frontiers Limited (Formerly KG NextVision Frontiers Limited)	British Virgin Islands/ Hong Kong	US\$1	100	100	–	–	Investment holding
SungTeh Investment Company Limited	Taiwan	NTD50,000,000	100	99.99	–	–	Investment holding
CRM Marketing Services, Inc.*	Taiwan	NTD99,783,000	–	–	100	–	Investment holding

* Incorporated during the year.

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

14. LONG TERM INVESTMENT

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Overseas unlisted equity investment, at cost	–	6,449	–	6,449
Provision for impairment	–	(6,449)	–	(6,449)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

14. LONG TERM INVESTMENT (continued)

Due to the continuing non-performance of the long term investment, the directors considered that the carrying amount of the long term investment exceeded its carrying amount and the investment was fully provided for and written off in prior years and during the year, respectively.

Details of the long term investment written off during the year are as follows:

Name	Place of incorporation/ operations	Nominal value of issued ordinary share capital	Percentage of ownership interest		Principal activity
			attributable		
			to the Group		
			Direct	Indirect	
BeXcom Japan	Japan	¥499,750,000	8.99	7.99	Electronic commerce service provider

15. SHORT TERM INVESTMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Overseas unlisted equity investments, at fair value	37,585	17,106	—	—
Overseas unlisted debt investment, at fair value	—	38,922	—	38,922
	<u>37,585</u>	<u>56,028</u>	<u>—</u>	<u>38,922</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

16. SHARE CAPITAL

	2004	2003
	HK\$'000	HK\$'000
<i>Authorised:</i>		
5,000,000,000 ordinary shares of HK\$0.1 each	500,000	500,000
<i>Issued and fully paid:</i>		
2,400,002,000 ordinary shares of HK\$0.1 each	240,000	240,000

17. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the Scheme include the Company’s directors and employees of the Group. The Scheme became effective on 28 July 1992 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Scheme was terminated in the prior year. Despite the fact that no further options shall be granted under the Scheme, the provisions of the Scheme shall remain in full force and effect in all other respects to govern all outstanding options granted prior to termination.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

17. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is three years commencing on the expiry of six months after the date on which the share options are granted.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) a maximum 20% discount over the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

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

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's share at grant date of options*** HK\$
	At 1 April 2003	Lapsed during the year	At 31 March 2004				
Director (resigned during the year):							
Jeffrey John Leon KOO, Jr.	30,000,000	(30,000,000)	–	20-06-2000	21-12-2000 to 20-12-2003	1.17	1.55
Directors (appointed during the year):							
Wing Yau AU	750,000	(750,000)	–	20-06-2000	21-12-2000 to 20-12-2003	1.17	1.55
Henry Hung CHEN	30,000,000	–	30,000,000	26-03-2001	27-09-2001 to 26-09-2004	0.32	0.395

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

17. SHARE OPTION SCHEME (continued)

The following share options were outstanding under the Scheme during the year: (continued)

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's share at grant date of options*** HK\$
	At 1 April 2003	Lapsed during the year	At 31 March 2004				
Other employees:							
In aggregate	3,000,000	(3,000,000)	–	20-06-2000	21-12-2000 to 20-12-2003	1.17	1.55
	81,500,000	–	81,500,000	26-03-2001	27-09-2001 to 26-09-2004	0.32	0.395
	<u>84,500,000</u>	<u>(3,000,000)</u>	<u>81,500,000</u>				
	<u>145,250,000</u>	<u>(33,750,000)</u>	<u>111,500,000</u>				

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

At the balance sheet date, the Company had 111,500,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 111,500,000 additional ordinary shares of the Company and additional share capital of HK\$11,150,000 and share premium of HK\$24,530,000 (before issue expenses).

Since there was no share option granted under the Company's share option scheme during the year, no value of share options granted has been disclosed accordingly.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

18. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 17 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2002	112,550	51,061	(224,550)	(60,939)
Net loss for the year	<u>—</u>	<u>—</u>	<u>(11,661)</u>	<u>(11,661)</u>
At 31 March 2003 and at 1 April 2003	112,550	51,061	(236,211)	(72,600)
Net loss for the year	<u>—</u>	<u>—</u>	<u>(8,351)</u>	<u>(8,351)</u>
At 31 March 2004	<u>112,550</u>	<u>51,061</u>	<u>(244,562)</u>	<u>(80,951)</u>

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange therefor.

Under Bermuda Company Act 1981 (as amended), the contributed surplus of the Company is distributable to shareholders in certain circumstances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

19. OPERATING LEASE ARRANGEMENTS

The Group and the Company leases certain of its office properties, equipment, motor vehicles and a staff quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years, and those for office equipment for terms ranging between one to three years.

At 31 March 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	995	1,571	–	493
In the second to fifth years, inclusive	–	12	–	–
	<u>995</u>	<u>1,583</u>	<u>–</u>	<u>493</u>

20. RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these financial statements, the Group had the following significant related party transactions during the year.

	Notes	2004 HK\$'000	2003 HK\$'000
Consultancy fee income from a related company	(i)	1,671	1,660
Management service fee income from an associate	(ii)	–	468
Rental income from an associate	(iii)	–	155

Notes:

- (i) The consultancy fee received in respect of management advisory services from a related company, of which the chief operating officer of the Group is the president, was charged on mutually agreed terms with reference to actual time and staff costs incurred.
- (ii) The management service fee income related to the provision of administrative services for the liquidation process of an associate and was charged at a lump sum of US\$60,000.
- (iii) The rental income from an associate was charged based on open market rental.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31 March 2004

21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 July 2004.