

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties and in conformity with Hong Kong Financial Reporting Standards.

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

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the company.

The consolidated accounts also include the Group's attributable share of post-acquisition results and reserves of its jointly controlled entities and associated companies.

Results attributable to subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date on which control is transferred to the Group or up to the date that control ceases, as applicable.

The profit or loss on disposal of subsidiaries is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill or negative goodwill, which remains unamortised.

All significant inter-company transactions and balances between group companies are eliminated.

(b) Goodwill

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the Group's share of the identifiable net assets of the acquired subsidiaries, jointly controlled entities and associated companies at the effective date of acquisition. Goodwill on acquisition is included in the balance sheet as a separate asset and amortised using the straight-line method over its estimated useful life of not more than twenty years.

Where the fair values ascribed to the identifiable net assets exceed the cost of acquisition, such differences are recognised as income in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired.

The carrying amount of goodwill is reviewed annually and provision is made when, in the opinion of the Directors, there is impairment in value other than temporary in nature.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. Jointly controlled entities are accounted for under the equity method whereby the Group's share of results is included in the consolidated profit and loss account and the Group's share of net assets is included in the consolidated balance sheet.

(d) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management. Associated companies are accounted for under the equity method whereby the Group's share of results is included in the consolidated profit and loss account and the Group's share of net asset is included in the consolidated balance sheet.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and provision for significant impairment in values.

Investment properties are interests in land and buildings in respect of which construction work and development have been completed, held for their long-term investment potential and are not occupied by the Group. Investment properties are carried at fair values, representing their open market value determined annually based on professional valuation. A deficit in valuation is charged to the profit and loss account; an increase is first credited to the profit and loss account to the extent of valuation deficit previously charged and thereafter is credited to the investment properties revaluation reserve. Upon the disposal of an investment property, any relevant revaluation surplus realised is transferred to the profit and loss account.

No depreciation is provided for investment properties held under leases of more than twenty years. Other assets are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The principal estimated useful lives are as follows:

Buildings	50 years or over the unexpired period of leases
Leasehold land	Over the unexpired period of leases
Leasehold improvements, furniture and equipment	5 to 20 years
Computer equipment	2 to 5 years
Motor vehicles	5 to 10 years

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Property, plant and equipment (continued)

Major costs incurred in restoring 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. The carrying amounts of assets are reviewed regularly. Where the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts.

Profits or losses on disposal are determined as the difference between the net disposal proceeds and the carrying amount of the assets, and are dealt with in the profit and loss account. Upon disposal of revalued assets, any revaluation reserve is transferred directly to accumulated loss.

(f) Investments

Investments intended to be held for long-term are included in the balance sheet under non-current assets and are carried at cost less provision. The carrying amounts of individual investments are reviewed 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 investment will be reduced to its fair value. The impairment is recognised as an expense in the profit and loss account and is written back to profit and loss account when the circumstances and events that led to the write-downs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) Inventories and contracts in progress

Inventories are stated at the lower of cost and net realisable value. Cost calculated using first-in, first-out basis, comprises all cost of purchase and other direct costs. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Contracts in progress are stated at cost plus an appropriate proportion of attributable profit less provision for anticipated losses and progress payments. Contract costs are recognised when incurred. When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When the outcome of a contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses using the percentage of completion method measured by reference to the delivery of goods and services rendered. When it is probable that the total contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets relating to carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, joint controlled entities and associated companies, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In previous years, deferred taxation was provided at the current tax rate using the liability method in respect of all significant timing differences, principally accelerated allowances, which was expected to reverse in the foreseeable future. The accounting policy has been changed to conform with the revised Statement of Standard Accounting Practice No 12 "Income taxes" issued by the Hong Kong Society of Accountants. This change however does not have any significant effect to the accounts.

(j) Debtors

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits with banks repayable within three months from the date of placement, net of bank overdrafts and loans repayable within three months from the date of advancement.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) 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 legal title has passed. Revenue from system contracts is recognised based on the percentage of completion of the contract by reference to the delivery of goods and services rendered. 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.

(m) Operating leases

Leases where substantially all the risk and rewards of ownership are retained by the lessors are accounted for as operating leases. Rentals payable, net of incentives received from the lessors, under operating leases are charged to the profit and loss account on a straight-line basis over the lease terms.

(n) Employee benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Contributions to defined contribution retirement schemes are charged to the profit and loss account in the year to which the contributions relate.

Provision for bonus plans due wholly within twelve months after balance sheet date are recognised when there is a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(o) Borrowing costs

Interest and related costs on borrowings directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to complete and prepare for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Foreign currencies

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

Profit and loss accounts of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the weighted average exchange rates for the year and balance sheets are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of net investments in these subsidiaries, jointly controlled entities and associated companies are taken directly to reserves.

(q) 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, they will then be recognised as a provision.

2 SEGMENT INFORMATION

The principal activities of the Group are telecommunications valued-added services, system integration and software development. The Group has terminated its activities in property investment, telecommunication, multi-media and dairy farm operation during the year or last year, details of these discontinuing operations are set out in note 5 below.

In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Unallocated results represent corporate income and expenses. Segment assets consist primarily of property, plant and equipment, inventories, contracts in progress, debtors and prepayments and mainly exclude investments, cash and bank balances. Segment liabilities comprise mainly creditors and accruals. Total assets and capital expenditure are where the assets are located. There were no sales or trading transactions between the business segments.

2 SEGMENT INFORMATION (continued)

A summary of the business segments is set out as follows:

	System integration and software development HK\$'000	Telecom- munications value-added services HK\$'000	Property investment HK\$'000	Telecom- munication HK\$'000	Corporate HK\$'000	Total HK\$'000
Year ended 31st March 2004						
Turnover	137,228	—	2,226	—	—	139,454
Segment results	1,428	—	918	—	(8,273)	(5,927)
Net profit/(loss) on discontinuing operations	—	—	(533)	1,436	—	903
Operating loss						(5,024)
Share of profit of a jointly controlled entity	—	4,685	—	—	—	4,685
Finance costs						(330)
Loss before taxation						(669)
Taxation						(1,371)
Loss after taxation						(2,040)
Minority interests	5	—	—	—	—	5
Loss attributable to shareholders						(2,035)
Segment assets						
Jointly controlled entity	—	39,346	—	—	—	39,346
Other assets	130,140	—	—	—	—	130,140
Unallocated assets						137,514
Total assets						307,000
Segment liabilities						
Minority interests	(80)	—	—	—	—	(80)
Other liabilities	(78,211)	—	—	—	—	(78,211)
Unallocated liabilities						(10,626)
Total liabilities						(88,917)
Capital expenditure	429	—	—	—	74	503
Depreciation	1,171	—	23	—	343	1,537

2 SEGMENT INFORMATION (continued)

	System integration and software development HK\$'000	Property Investment HK\$'000	Telecom- munication HK\$'000	Multi-media HK\$'000	Dairy farm operation HK\$'000	Corporate HK\$'000	Total HK\$'000
Year ended 31st March 2003							
Turnover	5,035	5,316	—	—	249	—	10,600
Segment results	(6,620)	6,668	—	—	317	(19,595)	(19,230)
Net profit/(loss) on discontinuing operations	—	(7,385)	—	(391)	1,484	—	(6,292)
Operating loss							(25,522)
Finance costs							(1,452)
Loss before taxation							(26,974)
Taxation							(82)
Loss after taxation							(27,056)
Minority interests	2	—	—	—	—	—	2
Loss attributable to shareholders							(27,054)
Segment assets							
Associated company	—	—	(883)	—	—	—	(883)
Other assets	59,915	39,241	—	—	—	—	99,156
Unallocated assets							77,486
Total assets							175,759
Segment liabilities							
Minority interest	(85)	—	—	—	—	—	(85)
Other liabilities	(53,727)	(2,973)	—	—	—	—	(56,700)
Unallocated liabilities							(16,940)
Total liabilities							(73,725)
Capital expenditure	8	—	—	—	—	50	58
Depreciation	200	—	37	—	—	725	962

2 SEGMENT INFORMATION (continued)

A summary of the geographical segments is set out as follows:

	Turnover HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Year ended 31st March 2004				
Hong Kong	29,624	(6,845)	140,580	429
Mainland China	<u>109,830</u>	<u>918</u>	<u>166,420</u>	<u>74</u>
	<u>139,454</u>	<u>(5,927)</u>	<u>307,000</u>	<u>503</u>
Year ended 31st March 2003				
Hong Kong	3,723	(24,344)	71,896	50
Mainland China	6,628	(2,979)	102,775	8
New Zealand	<u>249</u>	<u>1,801</u>	<u>1,088</u>	<u>—</u>
	<u>10,600</u>	<u>(25,522)</u>	<u>175,759</u>	<u>58</u>

3 TURNOVER

	2004 HK\$'000	2003 HK\$'000
Computer system integration and software development	137,228	5,035
Operating lease rental	2,226	5,316
Sales of dairy products	<u>—</u>	<u>249</u>
	<u>139,454</u>	<u>10,600</u>

4 OTHER REVENUES

	2004 HK\$'000	2003 HK\$'000
Bad debts recovered (<i>note 20</i>)	7,000	479
Provision for litigation written back (<i>note 29</i>)	6,868	—
Interest	<u>282</u>	<u>596</u>
	<u>14,150</u>	<u>1,075</u>

5 DISCONTINUING OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Net profit/(loss) on disposal of the following discontinuing operations:		
Telecommunication (<i>note a</i>)	1,436	—
Property investment (<i>note b</i>)	(533)	(7,385)
Dairy farm operation (<i>note c</i>)	—	1,484
Multi-media (<i>note d</i>)	—	(391)
	<u>903</u>	<u>(6,292)</u>

(a) Telecommunication

The telecommunication business was carried out by Wanbao Telecom (H.K.) Company, Limited ("Wanbao"), in which the Group had a 36% equity interest. On 31st March 2004, the Group entered into agreements with the other shareholders of Wanbao, under which the Group terminated its commitment in respect of Wanbao and dispose of all its interest in Wanbao. Details of the Group's interest in Wanbao were as follows:

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	—	553
Share of losses	—	(1,436)
	<u>—</u>	<u>(883)</u>
Net liabilities	<u>—</u>	<u>(883)</u>
Net liabilities sold	(883)	—
Profit on disposal	<u>1,436</u>	<u>—</u>
	<u>553</u>	<u>—</u>
Net proceeds	<u>553</u>	<u>—</u>

There was no cash inflow or outflow in relation to the investment in Wanbao for both years.

5 DISCONTINUING OPERATIONS (continued)

(b) Property investment

During the year, the Group transferred all its investment properties and leasehold land and buildings in Mainland China to a wholly-owned subsidiary, which was then disposed of to two subsidiaries of CITIC Group, a substantial shareholder of the Company. Details of the property investment were as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	2,225	1,593
Other revenue	10	3
Operating costs and expenses	<u>(1,318)</u>	<u>(731)</u>
Profit for the year	<u>917</u>	<u>865</u>
Investment properties	35,000	35,000
Leasehold land and buildings	1,241	1,264
Computer equipment	5	5
Cash and bank balances	2,392	1,357
Other assets	111	104
Other liabilities	<u>(697)</u>	<u>(876)</u>
Net assets sold	38,052	<u>36,854</u>
Translation reserve realised	(859)	
Loss on disposal	<u>(533)</u>	
Net proceeds	36,660	
Cash and bank balances disposed	<u>(2,392)</u>	
Net cash inflow in respect of the disposal	<u>34,268</u>	

The property investment in Mainland China contributed net operating cash inflow of HK\$1,035,000 (2003: HK\$891,000) for the year.

5 DISCONTINUING OPERATIONS (continued)

(b) Property investment (continued)

During last year, the Group also disposed of its property investment in Hong Kong to third parties. Details of the property investment were as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	—	3,723
Other revenue	—	94
Operating costs and expenses	—	(6,550)
Profit for the year	—	(2,733)
Net operating cash inflow	—	3,190
Net financing cash outflow	—	(1,182)
Total net cash inflow	—	2,008
Investment properties sold	—	63,200
Loss on disposal	—	(7,385)
Net proceeds	—	55,815

5 DISCONTINUING OPERATIONS (continued)

(c) Dairy farm operation

On 1st November 2001, the Group entered into an agreement to dispose of its dairy farm operation in New Zealand. The sale was completed in July 2002 and details of this operation were as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover	—	249
Other revenue	—	31
Other operating income less expenses	<u>—</u>	<u>12</u>
Profit before taxation	—	292
Taxation	<u>—</u>	<u>(194)</u>
Profit for the year	<u>—</u>	<u>98</u>
Net operating cash inflow	—	349
Net investing cash inflow	—	125
Net financing cash inflow	<u>—</u>	<u>25</u>
Total net cash inflow	<u>—</u>	<u>499</u>
Property, plant and equipment	—	5,614
Investments	—	1,052
Inventories	<u>—</u>	<u>1,882</u>
Net assets sold	—	8,548
Profit on disposal	<u>—</u>	<u>1,484</u>
Net proceeds	<u>—</u>	<u>10,032</u>

5 DISCONTINUING OPERATIONS (continued)

(d) Multi-media

The multi-media business of the Group was carried out by two jointly controlled entities, namely Beijing 21CN Liyang Advertising Agency Limited and Beijing 21CN Liyang Internet Technology Service Company Limited. Due to changes in the business environment, all the joint venture partners agreed unanimously in March 2001 to terminate these investments. Both jointly controlled entities remained inactive since April 2001 and were liquidated in March 2003. Details of the Group's interests in these jointly controlled entities were as follows:

	2004 HK\$'000	2003 HK\$'000
Share of net assets	—	40,277
Amount payable	—	(7,380)
Net assets sold	—	32,897
Loss on liquidation	—	(391)
Net proceeds	—	32,506

There was no cash inflow or outflow in relation to the investments in the jointly controlled entities for both years.

6 OPERATING LOSS

	2004 HK\$'000	2003 HK\$'000
Operating loss is stated after charging the following:		
Auditors' remuneration	1,198	769
Cost of inventories sold and service provided	121,763	4,358
Depreciation	1,537	962
Impairment of goodwill	—	3,167
Loss on disposal of plant and equipment	—	450
Outgoings in respect of investment properties	303	453
Operating lease rental expense for land and buildings	1,409	1,804
Research and development costs	—	340
Staff costs (note 7)	19,691	12,822

7 STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	17,370	11,894
Other benefits and allowances	2,159	311
Retirement benefits on defined contribution plans	162	134
Termination benefits	—	483
	<u>19,691</u>	<u>12,822</u>

The Group has enrolled all employees in Hong Kong into the mandatory provident fund scheme (the "MPF Scheme"), which 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.

The Group also participates in the employees' pension schemes of the respective municipal government in various places in Mainland China 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. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

8 EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES

(a) Emoluments of Directors

The aggregate emoluments to the Directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees		
Executive Directors	—	—
Independent Non-executive Directors	<u>192</u>	<u>200</u>
	<u>192</u>	<u>200</u>
Other emoluments to Executive Directors		
Salaries and other benefits in kind	4,265	2,604
Retirement benefits	21	12
Compensation for loss of office as Directors	<u>—</u>	<u>446</u>
	<u>4,286</u>	<u>3,062</u>
	<u>4,478</u>	<u>3,262</u>

The emoluments of the Directors fall within the following bands:

	Number of Directors	
	2004	2003
Emolument bands		
Nil to HK\$1,000,000	10	9
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>—</u>

8 EMOLUMENTS OF DIRECTORS AND SENIOR EXECUTIVES (continued)

(b) Emoluments of senior executives

The five individuals whose emoluments were the highest in the Group for the year included three (2003: three) Directors, whose emoluments are set out above. The emoluments for the remaining two individuals (2003: two individuals, including emoluments to an individual before his appointment as a Director on 1st September 2002) during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits in kind	2,359	2,334
Retirement benefits	<u>23</u>	<u>14</u>
	<u>2,382</u>	<u>2,348</u>

The emoluments of the individuals fall within the following bands:

	Number of individuals	
	2004	2003
Emolument bands		
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	—	—
HK\$1,500,001 to HK\$2,000,000	<u>1</u>	<u>—</u>

9 SHARE OF PROFIT OF A JOINTLY CONTROLLED ENTITY

The share of profit of a jointly controlled entity includes amortisation of negative goodwill amounting to HK\$1,213,000 (2003: nil).

10 FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest expense		
Bank loans	83	1,207
Loan from a related company (note 23)	<u>247</u>	<u>245</u>
	<u>330</u>	<u>1,452</u>

11 TAXATION

	2004 HK\$'000	2003 HK\$'000
Company and subsidiaries		
Current		
Mainland China	359	(112)
Overseas	—	194
Jointly controlled entities		
Current (Mainland China)	<u>1,012</u>	<u>—</u>
	<u>1,371</u>	<u>82</u>

Income tax and 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. These rates range from 15% to 33% and the rate applicable to Hong Kong profits tax is 17.5% (2003: 16%).

The taxation on the loss before taxation of the Group differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(669)</u>	<u>(26,974)</u>
Tax asset at the rate of 17.5% (2003: 16%)	(117)	(4,316)
Effect of different tax rates in other territories	105	46
Income not subject to taxation	(3,181)	(777)
Expenses not deductible for taxation purposes	4,824	5,563
Tax losses not recognised	25	288
Utilisation of previously unrecognised tax losses	<u>(285)</u>	<u>(722)</u>
Taxation charge	<u>1,371</u>	<u>82</u>

Deferred taxation assets of the Group amounting to HK\$17,388,000 (2003: HK\$17,504,000), arising from unused tax losses, have not been recognised in the accounts. Unused tax losses have no expiry date.

12 LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to shareholders of HK\$2,035,000 (2003: HK\$27,054,000) and on the weighted average of 3,139,568,795 (2003: 3,100,910,000) 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 2004.

13 PROPERTY, PLANT AND EQUIPMENT

Group	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improvement, furniture and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation						
At 31st March 2003	35,000	1,300	1,830	3,590	1,785	43,505
Additions	—	—	247	165	91	503
Disposal of a subsidiary	(35,000)	(1,300)	—	(5)	—	(36,305)
Disposals	—	—	—	(13)	—	(13)
At 31st March 2004	—	—	2,077	3,737	1,876	7,690
Accumulated depreciation						
At 1st March 2003	—	36	685	2,326	707	3,754
Charge for the year	—	23	454	785	275	1,537
Disposal of a subsidiary	—	(59)	—	—	—	(59)
Disposals	—	—	—	(13)	—	(13)
At 31st March 2004	—	—	1,139	3,098	982	5,219
Net book value						
At 31st March 2004	—	—	938	639	894	2,471
At 31st March 2003	35,000	1,264	1,145	1,264	1,078	39,751

Investment properties were held under medium-term leases outside Hong Kong and leasehold land and buildings were held under long-term leases outside Hong Kong.

Investment properties were revalued at 31st March 2003 on the open market value basis by RHL Appraisal Limited, an independent professional property valuer. Leasehold land and buildings were revalued by the Directors at 31st March 2002 on the open market value basis with reference to independent valuations. All other assets are carried at cost.

13 PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Leasehold improvement, furniture and equipment HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost				
At 31st March 2003	112	1,369	525	2,006
Additions	<u>22</u>	<u>52</u>	<u>—</u>	<u>74</u>
At 31st March 2004	134	1,421	525	2,080
Accumulated depreciation				
At 31st March 2003	60	1,156	280	1,496
Charge for the year	<u>26</u>	<u>202</u>	<u>35</u>	<u>263</u>
At 31st March 2004	86	1,358	315	1,759
Net book value				
At 31st March 2004	48	63	210	321
At 31st March 2003	<u>52</u>	<u>213</u>	<u>245</u>	<u>510</u>

14 SUBSIDIARIES

	Company	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	13,000	13,000
Amounts receivable	218,016	209,673
Amounts payable	(31,693)	(5,398)
Provision	<u>(122,190)</u>	<u>(122,190)</u>
	<u>77,133</u>	<u>95,085</u>

The amounts receivable and payable are unsecured, interest free and have no fixed terms of repayment.

Particulars of principal subsidiaries are set out in note 31 to the accounts.

15 JOINTLY CONTROLLED ENTITY

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	44,200	—
Unamortised negative goodwill	<u>(4,854)</u>	<u>—</u>
	<u>39,346</u>	<u>—</u>

The investment represents 45% equity interests in Beijing Honglian 95 Information Industries Company Limited ("HL95"), a leading nationwide telecommunications value-added services company established and operating in Mainland China. On 13th February 2004, the Group entered into an agreement to acquire an additional 4% equity interest in HL95 at a consideration of HK\$3,028,000 from CITIC Guoan Informational Industries Company Limited, a related company. This acquisition was completed on 2nd June 2004 upon obtaining approvals from the relevant governmental authorities.

15 JOINTLY CONTROLLED ENTITY (continued)

A summary of the consolidated management financial information of the jointly controlled entity, which was acquired on 11th February 2004, for the year ended 31st March 2004 is set out as follows:

	HK\$'000
Results	
Turnover	<u>423,203</u>
Profit before taxation	47,855
Taxation	<u>(14,519)</u>
Profit after taxation	33,336
Minority interest	<u>(2,022)</u>
Profit for the year	<u>31,314</u>
Group's share of profit for the year	<u>2,460</u>
Net assets	
Property, plant and equipment	88,276
Other non-current assets	5,114
Current assets	195,671
Current liabilities	(176,856)
Minority interests	<u>(13,982)</u>
Shareholders' funds	<u>98,223</u>
Group's share of net assets	<u>44,200</u>

16 ASSOCIATED COMPANY

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares	—	553
Share of losses	—	(1,436)
	<hr/>	<hr/>
Share of net liabilities	—	(883)
	<hr/>	<hr/>

The investment represented 36% equity interest in Wanbao Telecom (H.K.) Company, Limited, incorporated in Hong Kong and engaged in the provision of telecommunication services. The investment was disposed of during the year (note 5(a)).

17 GOODWILL

	Group	
	2004	2003
	HK\$'000	HK\$'000
Balance brought forward	—	—
Goodwill arising from acquisition of subsidiaries	—	3,167
Impairment loss	—	(3,167)
	<hr/>	<hr/>
Balance carried forward	—	—
	<hr/>	<hr/>

18 OTHER INVESTMENT

Other investment is stated at cost and represents membership in a golf club in Mainland China.

19 INVENTORIES AND CONTRACTS IN PROGRESS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Costs incurred plus attributable profits less foreseeable losses	146,900	118,905
Progress billings	(140,815)	(86,418)
Contracts in progress	6,085	32,487
General merchandise	268	268
	<u>6,353</u>	<u>32,755</u>

There was no retention held by customers for contracts in progress (2003: nil).

20 DEBTORS AND PREPAYMENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade debtors	67,420	15,530	—	—
Other debtors	2,642	121	—	—
Prepayments and deposits	7,768	5,323	1,008	967
	<u>77,830</u>	<u>20,974</u>	<u>1,008</u>	<u>967</u>

Trade debtors represent contract receivables, the payment terms of which are stated in the contracts and vary from one customer to another. The ageing analysis of trade debtors of the Group, net of provision for bad and doubtful debts and prepared based on due date according to terms of relevant contracts, is as follows:

	2004	2003
	HK\$'000	HK\$'000
Not yet due	17,411	720
Below 3 months	31,474	8
4 to 6 months	6,426	1,621
7 to 9 months	4,252	1,428
10 to 12 months	47	38
Over 12 months	7,810	11,715
	<u>67,420</u>	<u>15,530</u>

20 DEBTORS AND PREPAYMENTS (continued)

Other debtors of the Group include a receivable of HK\$10,000,000 (2003: HK\$17,000,000) from a former joint venture partner. This receivable has been fully provided for since 2001 notwithstanding a guarantee provided by the Company's major 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 partner. During the year, HK\$7,000,000 (2003: nil) was recovered from the joint venture partner.

21 CASH AND BANK BALANCES

Bank balances of the Group include a deposit of HK\$7,000,000 (2003: nil) which has been pledged as securities for a short term bank loan (note 23).

22 CREDITORS AND ACCRUALS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade creditors	43,310	38,186	—	—
Other creditors	16,892	9,228	—	—
Payable to minority shareholders	4,185	2,028	—	—
Payable to a related company	1,857	1,540	—	—
Accrued expenses	10,675	17,467	1,695	1,451
	76,919	68,449	1,695	1,451

The amounts payable to minority shareholders are unsecured, interest free and have no fixed terms of repayment. The amount payable to related company, which is a fellow subsidiary of a minority shareholder of a subsidiary of the Company, is unsecured, interest free and has no fixed terms of repayment.

22 CREDITORS AND OTHER ACCRUALS (continued)

The ageing analysis of the trade creditors of the Group, prepared in accordance with the date of invoices, is as follows:

	2004 HK\$'000	2003 HK\$'000
Below 3 months	18,916	5,517
4 to 6 months	1,286	3,080
7 to 9 months	1,275	19,207
10 to 12 months	1,041	591
Over 12 months	20,792	9,791
	<u>43,310</u>	<u>38,186</u>

23 SHORT-TERM LOANS

	Group 2004 HK\$'000	2003 HK\$'000
Bank loan	6,594	—
Other loan	5,127	4,880
	<u>11,721</u>	<u>4,880</u>

The bank loan is secured by a bank deposit (note 21), carries interest at prevailing market rate and is repayable within one year.

The other loan is payable to a related company, unsecured, carries interest at 2% per annum above prime rate and is repayable on demand.

24 SHARE CAPITAL

	Shares of HK\$0.01 each	HK\$'000
Authorised:		
At 31st March 2003 and 2004	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 31st March 2002	3,059,266,000	30,593
Issue of new shares	<u>50,000,000</u>	<u>500</u>
At 31st March 2003	3,109,266,000	31,093
Issue of new shares	172,500,000	1,725
Exercise of share options	<u>540,000</u>	<u>5</u>
At 31st March 2004	<u>3,282,306,000</u>	<u>32,823</u>

In May 2002, 50,000,000 shares of HK\$0.01 each were issued to a related party as part of the consideration for the acquisition of subsidiaries (note 27(b)).

On 7th November 2003 and 30th March 2004, the Company allotted and issued 75,000,000 and 97,500,000 new shares of HK\$0.01 each at the issue price of HK\$0.60 and HK\$0.80 per share, respectively, to provide for additional working capital to the Group. All new shares rank pari passu with the existing shares.

24 SHARE CAPITAL (continued)

The Company operates share option schemes under which options are granted 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, the shareholders of the Company approved and adopted a new share option scheme (the "Scheme") and termination of the then existing scheme which was approved at a Special General Meeting of the Company on 28th May 1998. Under the Scheme, the Directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed, in nominal amount, ten per cent of the issued share capital of the Company at the adoption date of the Scheme excluding for this purpose shares issued upon the exercise of any options granted under the Scheme. All outstanding options granted under the previous scheme remain valid and exercisable in accordance with their terms of issue. Movements in the number of share options during the year are as follows:

	2004	2003
At beginning of the year	87,650,000	99,650,000
Granted (<i>note a</i>)	265,000,000	—
Lapsed	(15,000,000)	(12,000,000)
Exercised (<i>note b</i>)	<u>(540,000)</u>	<u>—</u>
At end of the year (<i>note c</i>)	<u>337,110,000</u>	<u>87,650,000</u>

(a) Options granted

Date of grant	Exercise price HK\$	Number of shares
Directors (24th June 2003)	0.3220	176,080,000
Employees (24th June 2003)	0.3220	<u>88,920,000</u>
		<u>265,000,000</u>

Consideration of HK\$178,000 (2003: nil) was received in respect of the share options granted during the year.

24 SHARE CAPITAL (continued)

(b) Options exercised

Exercise date	Exercise price HK\$	Number of shares
20th October 2003	0.3304	<u>540,000</u>

(c) Outstanding options

Exercise period	Exercise price HK\$	Number of shares	
		2004	2003
Directors			
13th January 2001 to 27th May 2008	0.9900	21,000,000	21,000,000
13th July 2001 to 27th May 2008	0.9900	21,000,000	21,000,000
13th July 2002 to 27th May 2008	0.9900	28,000,000	28,000,000
10th September 2004 to 23rd June 2013	0.3220	30,000,000	—
10th March 2005 to 23rd June 2013	0.3220	30,000,000	—
10th September 2005 to 23rd June 2013	0.3220	30,000,000	—
24th June 2004 to 23rd June 2013	0.3220	28,693,332	—
24th December 2004 to 23rd June 2013	0.3220	28,693,332	—
24th June 2005 to 23rd June 2013	0.3220	28,693,336	—
Employees			
13th January 2001 to 27th May 2008	0.9900	1,065,000	1,065,000
13th July 2001 to 27th May 2008	0.9900	1,065,000	1,065,000
13th July 2002 to 27th May 2008	0.9900	1,420,000	1,420,000
20th November 2001 to 27th May 2008	0.7920	2,400,000	2,400,000
20th November 2002 to 27th May 2008	0.7920	2,400,000	2,400,000
20th November 2003 to 27th May 2008	0.7920	3,200,000	3,200,000
13th January 2003 to 27th May 2008	0.3304	60,000	1,830,000
13th July 2003 to 27th May 2008	0.3304	60,000	1,830,000
13th January 2004 to 27th May 2008	0.3304	440,000	2,440,000
24th June 2004 to 23rd June 2013	0.3220	26,306,667	—
24th December 2004 to 23rd June 2013	0.3220	26,306,667	—
24th June 2005 to 23rd June 2013	0.3220	26,306,666	—
		<u>337,110,000</u>	<u>87,650,000</u>

25 RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange translation reserve HK\$'000	General reserve HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
Group						
At 31st March 2002	227,646	78,108	1,865	5,658	(226,427)	86,850
Change in exchange rates	—	—	1,018	—	—	1,018
Issue of new shares	10,500	—	—	—	—	10,500
Share issue expenses	(373)	—	—	—	—	(373)
Loss for the year	—	—	—	—	(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>
Retained by:						
Company and subsidiaries	237,773	78,108	2,883	5,658	(252,045)	72,377
Associated company	—	—	—	—	(1,436)	(1,436)
	<u>237,773</u>	<u>78,108</u>	<u>2,883</u>	<u>5,658</u>	<u>(253,481)</u>	<u>70,941</u>
At 31st March 2003	237,773	78,108	2,883	5,658	(253,481)	70,941
Change in exchange rates	—	—	241	—	—	241
Realised upon disposal of a subsidiary	—	—	(859)	—	—	(859)
Issue of new shares	121,448	—	—	—	—	121,448
Share issue expenses	(4,476)	—	—	—	—	(4,476)
Loss for the year	—	—	—	—	(2,035)	(2,035)
At 31st March 2004	<u>354,745</u>	<u>78,108</u>	<u>2,265</u>	<u>5,658</u>	<u>(255,516)</u>	<u>185,260</u>
Retained by:						
Company and subsidiaries	354,745	78,108	2,197	5,658	(259,189)	181,587
Jointly controlled entity	—	—	68	—	3,673	3,673
	<u>354,745</u>	<u>78,108</u>	<u>2,265</u>	<u>5,658</u>	<u>(255,516)</u>	<u>185,260</u>
Company						
At 31st March 2002	227,646	58,318	—	—	(198,304)	87,660
Issue of shares	10,500	—	—	—	—	10,500
Share issue expenses	(373)	—	—	—	—	(373)
Loss for the year	—	—	—	—	(26,846)	(26,846)
At 31st March 2003	<u>237,773</u>	<u>58,318</u>	<u>—</u>	<u>—</u>	<u>(225,150)</u>	<u>70,941</u>
Issue of new shares	121,448	—	—	—	—	121,448
Share issue expenses	(4,476)	—	—	—	—	(4,476)
Loss for the year	—	—	—	—	(19,267)	(19,267)
At 31st March 2004	<u>354,745</u>	<u>58,318</u>	<u>—</u>	<u>—</u>	<u>(244,417)</u>	<u>168,646</u>

25 RESERVES (continued)

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. Under the Companies Act of Bermuda and the Bye-laws of the Company, the contributed surplus is distributable to shareholders. The Company has no distributable reserves at 31st March 2004.

26 COMMITMENTS

(a) Capital commitment

The Group has entered into an agreement to acquire an additional 4% equity interest in Beijing Honglian 95 Information Industries Company Limited, a jointly controlled entity, at the consideration of HK\$3,028,000 (2003: nil). The acquisition was completed on 2nd June 2004.

(b) Operating lease commitments

The future aggregate minimum lease rental expense under non-cancellable operating leases in respect of land and buildings is payable in the following years:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	1,433	2,079	797	1,243
Two to five years	272	2,107	—	1,088
	<u>1,705</u>	<u>4,186</u>	<u>797</u>	<u>2,331</u>

(c) Operating lease rental receivable

The future aggregate minimum lease rental income under non-cancellable operating leases in respect of investment properties is receivable in the following years:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	—	1,786
Two to five years	—	1,654
	<u>—</u>	<u>3,440</u>

27 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to net cash used in operations

	2004 HK\$'000	2003 HK\$'000
Operating loss	(5,024)	(25,522)
Interest income	(282)	(596)
Depreciation	1,537	962
Loss on sale of a subsidiary	533	—
Profit on sale of an associated company	(1,436)	—
Loss on sale of investment properties	—	7,385
Loss on sale of plant and equipment	—	450
Profit on sale of dairy farm operation	—	(1,484)
Impairment of goodwill	—	3,167
Loss on liquidation of jointly controlled entities	—	391
Operating loss before working capital changes	(4,672)	(15,247)
Decrease in amount due to a jointly controlled entity	—	(811)
Decrease in inventories and contracts in progress	26,402	10,063
(Increase)/decrease in debtors and prepayments	(56,965)	5,984
Increase/(decrease) in creditors and accruals	9,081	(24,566)
Changes in exchange rates	3	600
Net cash used in operations	(26,151)	(23,977)

27 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Property, plant and equipment	—	3,281
Contracts in progress	—	42,463
Debtors and prepayments	—	23,217
Cash and bank balances	—	14,782
Amount due to the Company	—	(3,674)
Creditors and accruals	—	(69,758)
Taxation payable	—	(391)
Minority interest	—	(87)
	<u>—</u>	<u>—</u>
	—	9,833
Goodwill	<u>—</u>	<u>3,167</u>
Purchase consideration	—	13,000
Issue of new shares as consideration	<u>—</u>	<u>11,000</u>
Cash consideration	—	2,000
Share issue expenses	—	373
Cash and bank balances acquired	<u>—</u>	<u>(14,782)</u>
Net cash inflow on acquisition of subsidiaries	<u>—</u>	<u>(12,409)</u>

The subsidiaries acquired utilised HK\$10,362,000 of the Group's net operating cash flows and HK\$8,000 for investing activities.

27 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Analysis of changes in financing

	Share capital, premium and contributed surplus HK\$'000	Long-term bank loans HK\$'000	Minority interests HK\$'000	Short term loans HK\$'000
At 31st March 2002	336,347	30,415	—	4,635
Changes in exchange rates	—	150	83	—
Issue of shares for acquisition of subsidiaries	10,627	—	—	—
Minority interests' share of profit	—	—	2	—
Net cash (used in)/from financing	—	(30,565)	—	245
At 31st March 2003	346,974	—	85	4,880
Minority interests' share of profit	—	—	(5)	—
Net cash from financing	118,702	—	—	6,594
At 31st March 2004	465,676	—	80	11,474

28 RELATED PARTY TRANSACTIONS

The following is a summary of the significant related party transactions carried out in the normal course of the business activities of the Group during the year:

	2004 HK\$'000	2003 HK\$'000
Purchase of a jointly controlled entity (<i>note 15</i>)	12,837	—
Purchase of a subsidiary (<i>note 27(b)</i>)	—	13,000
Sale of a subsidiary (<i>note 5(b)</i>)	36,660	—
Sale of an associated company (<i>note 5(a)</i>)	553	—
Interest expense (<i>note 10</i>)	247	245
Computer system integration and software development income	2,439	—

- (a) The computer system integration and software development income from a minority shareholder was conducted at terms as set out in the agreements entered into between the Group and the minority shareholder.
- (b) In addition to the above, a substantial shareholder has provided a guarantee to the Group for the reimbursement of any loss that the Group may suffer due to the non-repayment by the former joint venture partner (*note 20*).

29 LITIGATION

In March 1998 and May 1999, two third parties commenced legal proceedings against Rheingold (Hong Kong) Limited ("Rheingold") and Easy Department Store Limited ("Easy Department Store"), both are wholly owned subsidiaries, in respect of alleged breaches of the terms of their respective operating lease agreements. Having sought independent legal advice, provisions in the aggregate of HK\$6,868,000 were made by Rheingold and Easy Department Store for their estimated liabilities under the claims. Rheingold and Easy Department Store have since then ceased operations and proposed to commence liquidation proceedings in the near future. Both subsidiaries have no meaningful assets and therefore do not have the ability to pay these claims should they become liable. No other company within the Group is liable to the liabilities of these subsidiaries and the rest of the Group will not provide funds to them to satisfy such liabilities in question. In view of the foregoing, the Directors are of the opinion that the Group would not pay any of these claims and therefore it is appropriate to write back such provisions in the accounts.

30 APPROVAL OF FINANCIAL STATEMENTS

The accounts were approved by the Board of Directors on 20th July 2004.

31 PARTICULARS OF SUBSIDIARIES

The following is a list of the major subsidiaries as at 31st March 2004 which, in the opinion of the Directors, principally affect the results and assets of the Group:

Name	Place of incorporation/ operations	Particulars of issued/ paid-up capital	Effective percentage of interest held	Principal activities
Held directly:				
21CN Advertising Agency Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100	Investment holding
Easy Concepts (BVI) Limited	British Virgin Islands/ Hong Kong	1 share of US\$1	100	Investment holding
Held indirectly:				
Brightown (Hong Kong) Limited	Hong Kong	10 shares of HK\$1 each	100	Sales of data communication network systems
Cattsoft Technology Company Limited	Hong Kong	10 shares of HK\$1 each	70	Sales of data communication network systems and related services
Easy Concepts Limited	Hong Kong	64,797,832 shares of HK\$1 each	100	Investment holding

31 PARTICULARS OF SUBSIDIARIES (continued)

Name	Place of incorporation/ operations	Particulars of issued/ paid-up capital	Effective percentage of interest held	Principal activities
Grand Cycle International Limited	Hong Kong	1,000,000 shares of HK\$1 each	100	Sales of data communication network systems
Guangdong Kai Tong Software Development Company Limited	Mainland China	RMB1,000,000	70	Telecommunications software development
Guangdong Tian Tu Technology Company Limited*	Mainland China	HK\$5,000,000	100	Sales of data communication network systems

* This subsidiary is a wholly foreign owned enterprise established in Mainland China with operating life of 50 years expiring in December 2052.