

# NOTES TO FINANCIAL STATEMENTS

31 March 2005

## 1. CORPORATE INFORMATION

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 RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by the HKICPA, 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 FINANCIAL STATEMENTS

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### 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 2005. 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 under 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 and 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 FINANCIAL STATEMENTS

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### 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 rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Furniture, fixtures and office equipment	15% to 33 <sup>1</sup> / <sub>3</sub> %

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.

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

#### 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.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

## NOTES TO FINANCIAL STATEMENTS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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.

#### **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 have been 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.

## NOTES TO FINANCIAL STATEMENTS

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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.

#### **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.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Employee benefits

##### *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

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the investment holding segment engages in investments in equity investments; and
- (b) the marketing service segment engages in the provision of marketing services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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### 4. SEGMENT INFORMATION (continued)

#### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Investment holding		Marketing service		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Turnover	2,153	5,739	–	–	2,153	5,739
Other revenue	(1,237)	1,428	39,720	–	38,483	1,428
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>916</u>	<u>7,167</u>	<u>39,720</u>	<u>–</u>	<u>40,636</u>	<u>7,167</u>
Segment results	<u>(1,544)</u>	<u>4,553</u>	<u>11,138</u>	<u>–</u>	<u>9,594</u>	<u>4,553</u>
Unallocated gains					1	3,494
Corporate and						
other unallocated expenses					<u>(3,819)</u>	<u>(5,114)</u>
Profit before tax					5,776	2,933
Tax					<u>(2,873)</u>	<u>(246)</u>
Profit before minority interests					2,903	2,687
Minority interests					<u>(1)</u>	<u>(2)</u>
Net profit from ordinary activities						
attributable to shareholders					<u>2,902</u>	<u>2,685</u>



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## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

Group	Investment holding		Marketing service		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	178,556	172,471	8,209	–	186,765	172,471
Corporate and other unallocated assets					1,517	2,664
Total assets					188,282	175,135
Segment liabilities	1,612	753	8,146	–	9,758	753
Corporate and other unallocated liabilities					700	739
Total liabilities					10,458	1,492
Other segment information:						
Depreciation:						
Amounts allocated to segments	–	–	67	–	67	–
Unallocated amounts					122	400
					189	400
Capital expenditure:						
Amounts allocated to segments	–	–	848	–	848	–
Unallocated amounts					286	–
					1,134	–

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information of the Group's geographical segments.

Group	Hong Kong		Taiwan		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Turnover	1,800	5,738	353	1	2,153	5,739
Other revenue	(1,500)	3,134	39,984	1,788	38,484	4,922
	300	8,872	40,337	1,789	40,637	10,661
Other segment information:						
Segment assets	139,288	144,630	48,994	30,505	188,282	175,135
Capital expenditure	286	–	848	–	1,134	–

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### 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:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>		
Interest income	<b>1,883</b>	1,335
Gain on disposal of short term unlisted equity investments	<b>270</b>	4,404
	<b>2,153</b>	5,739
<b>Other revenue and gains</b>		
Unrealised gains/(losses) on revaluation of short term unlisted equity investments, net	<b>( 1,237)</b>	1,428
Consultancy service fee income	–	2,955
Rental income from operating leases	–	241
Marketing service fee income*	<b>39,720</b>	–
Gain on disposal of fixed assets	–	26
Others	<b>1</b>	272
	<b>38,484</b>	4,922

- \* In the opinion of the directors, the Group's marketing service activity during the year is not considered to be a principal activity because at this stage the continuation of the marketing service activity is uncertain.

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### 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived after charging:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Depreciation	<b>189</b>	400
Auditors' remuneration	<b>225</b>	214
Minimum lease payments under operating leases:		
Land and buildings	<b>2,259</b>	1,824
Equipment and motor vehicle	<b>34</b>	22
Staff costs (including directors' remuneration (note 7)):		
Salaries and other benefits	<b>9,204</b>	3,616
Pension scheme contributions	<b>24</b>	24
	<b>9,228</b>	3,640
Other operating expenses:		
Cost of marketing services*	<b>18,890</b>	—

\* Included staff costs of HK\$192,000 (2004: Nil) disclosed above.

At 31 March 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

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### 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:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	<b>2,744</b>	1,134
Performance related bonuses	<b>519</b>	175
Pension scheme contributions	<b>12</b>	9
	<u>3,275</u>	<u>1,318</u>

There were no emoluments payable to the independent non-executive directors during the year (2004: Nil).

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

	<b>Number of directors</b>	
	<b>2005</b>	2004
Nil to HK\$1,000,000	<b>4</b>	6
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	—
	<u>5</u>	<u>6</u>

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

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### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: three) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2004: two) non-director, highest paid employees for the year are as follows:

	<b>Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Basic salaries and allowances	<b>2,220</b>	1,692
Pension scheme contributions	<b>12</b>	12
	<u>2,232</u>	<u>1,704</u>

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

	<b>Number of employees</b>	
	<b>2005</b>	2004
Nil to HK\$1,000,000	<b>2</b>	1
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1
	<u>3</u>	<u>2</u>

## NOTES TO FINANCIAL STATEMENTS

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### 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 (2004: 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.

	<b>2005</b>	<b>2004</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Group:		
Current – elsewhere		
Charge for the year	<b>2,797</b>	246
Underprovision in prior years	<b>76</b>	–
	<b>2,873</b>	<b>246</b>

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

#### Group – 2005

	<b>Hong Kong</b>	<b>Taiwan</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit/(loss) before tax	<b>(5,329)</b>	<b>11,105</b>	<b>5,776</b>
Tax at the statutory tax rates	<b>( 933)</b>	<b>2,776</b>	<b>1,843</b>
Adjustments in respect of current			
tax of previous periods	<b>–</b>	<b>76</b>	<b>76</b>
Income not subject to tax	<b>(314)</b>	<b>(214)</b>	<b>(528)</b>
Expenses not deductible for tax	<b>266</b>	<b>75</b>	<b>341</b>
Deferred tax assets related to tax losses			
carried forward not recognised	<b>981</b>	<b>160</b>	<b>1,141</b>
Tax expense for the year	<b>–</b>	<b>2,873</b>	<b>2,873</b>

## NOTES TO FINANCIAL STATEMENTS

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### 9. TAX (continued)

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>

The Group has tax losses arising in Hong Kong of HK\$43,057,000 (2004: HK\$36,439,000) 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.

### 10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company, was HK\$2,565,000 (2004: HK\$8,351,000).

### 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$2,902,000 (2004: HK\$2,685,000), and the weighted average number of 2,400,002,000 (2004: 2,400,002,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the years ended 31 March 2005 and 2004 have not been disclosed, as the options outstanding during these years had an anti dilutive effect on the basic earnings per share for these years.

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### 12. FIXED ASSETS

#### Group

	Leasehold improvements HK\$'000	Furniture, fixtures and office equipment HK\$'000	Total HK\$'000
Cost:			
At beginning of year	–	1,663	1,663
Additions	598	536	1,134
	<hr/>	<hr/>	<hr/>
At 31 March 2005	598	2,199	2,797
	<hr/>	<hr/>	<hr/>
Accumulated depreciation:			
At beginning of year	–	1,653	1,653
Provided during the year	127	62	189
	<hr/>	<hr/>	<hr/>
At 31 March 2005	127	1,715	1,842
	<hr/>	<hr/>	<hr/>
Net book value:			
At 31 March 2005	471	484	955
	<hr/>	<hr/>	<hr/>
At 31 March 2004	–	10	10
	<hr/>	<hr/>	<hr/>



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## 13. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	10,150	10,150
Due from subsidiaries	23,339	23,225
	<u>33,489</u>	<u>33,375</u>
Provision for impairment	(8,272)	(8,272)
	<u>25,217</u>	<u>25,103</u>

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		
			2005	2004	2005	2004	
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
CRM Marketing Services, Inc.	Taiwan	NTD99,783,000	–	–	100	100	Provision of marketing services

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### 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		
			2005	2004	2005	2004	
Pyxis Management Limited	Hong Kong	HK\$2	–	–	100	100	Provision of consultancy services
Pyxis Frontiers Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	–	–	Investment holding
SungTeh Investment Company Limited	Taiwan	NTD50,000,000	100	100	–	–	Investment holding

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. SHORT TERM INVESTMENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Unlisted equity investments, at fair value	40,711	37,585	–	–

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### 15. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSIT

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Time deposit	4,502	—	—	—
Cash and bank balances	134,189	137,160	131,580	134,303
	<u>138,691</u>	<u>137,160</u>	<u>131,580</u>	<u>134,303</u>
Less: – Pledged time deposit for bank guarantees	(4,502)	—	—	—
Cash and cash equivalents	<u>134,189</u>	<u>137,160</u>	<u>131,580</u>	<u>134,303</u>

At the balance sheet date, a time deposit of HK\$4,502,000 (2004: Nil) was pledged to a bank as security for bank guarantees given by such bank to certain counter-parties in relation to the provision of marketing services.

### 16. SHARE CAPITAL

	2005 HK\$'000	2004 HK\$'000
Authorised:		
5,000,000,000 ordinary shares of HK\$0.1 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
2,400,002,000 ordinary shares of HK\$0.1 each	<u>240,000</u>	<u>240,000</u>

### 17. SHARE OPTION SCHEME

The Company operates share option schemes 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 option schemes included the Company's directors, employees of the Group and other individuals as determined by the directors from time to time on the basis of their contribution to the success of the development and growth of the Group.

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### 17. SHARE OPTION SCHEME (continued)

In prior years, the Company operated a share option scheme (“the Old Scheme”) which became effective on 28 July 1992 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Old Scheme was terminated during the year ended 31 March 2003. Despite the fact that no further options shall be granted under the Old Scheme since then, the provisions of the Old Scheme remained in full force and effect in all other respects to govern all outstanding options granted prior to termination. All share options granted under the Old Scheme lapsed during the year. The movements of such share options during the year were as follows:

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 2004	Lapsed during the year	At 31 March 2005				
Director:							
Henry Hung CHEN	30,000,000	(30,000,000)	–	26-03-2001	27-09-2001 to 26-09-2004	0.32	0.395
Other employees:							
In aggregate	81,500,000	(81,500,000)	–	26-03-2001	27-09-2001 to 26-09-2004	0.32	0.395
	<u>111,500,000</u>	<u>(111,500,000)</u>	<u>–</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.

## 17. SHARE OPTION SCHEME (continued)

On 30 September 2004, the Company adopted a new option scheme (the “New Scheme”) which became effective on 28 October 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No share options have been granted under the New Scheme since the New Scheme became effective.

The maximum number of unexercised share options currently permitted to be granted under the New 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 New 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.

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 determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of the offer of the share options or the expiry date of the New Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a share.

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

Since there was no share option granted under the New Scheme during the year, no value of share options granted has been disclosed accordingly.

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 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 16 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 2003	112,550	51,061	(236,211)	(72,600)
Net loss for the year	—	—	(8,351)	(8,351)
At 31 March 2004 and at 1 April 2004	112,550	51,061	(244,562)	(80,951)
Net loss for the year	—	—	(2,565)	(2,565)
At 31 March 2005	<u>112,550</u>	<u>51,061</u>	<u>(247,127)</u>	<u>(83,516)</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 the Bermuda Company's Act 1981 (as amended), the contributed surplus of the Company is distributable to shareholders in certain circumstances.

## NOTES TO FINANCIAL STATEMENTS

31 March 2005

### 19. OPERATING LEASE ARRANGEMENTS

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

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	2,522	995
In the second to fifth years, inclusive	4,729	—
	<u>7,251</u>	<u>995</u>

At the balance sheet date, the Company had no operating lease commitment (2004: Nil).

### 20. RELATED PARTY AND CONNECTED TRANSACTION

The Group received consultancy fee income of HK\$1,671,000 from a related company, of which the chief operating officer of the Group is the president, during the year ended 31 March 2004 in respect of the provision of management advisory services. The consultancy fee income was charged on mutually agreed terms with reference to actual time and staff costs incurred.

### 21. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 14 July 2005.