CHINA SCI-TECH HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

Stock Code: 985

2007 annual report

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chiu Kong *(Chairman)*
Mr. Kwan Kam Hung, Jimmy
Mr. Hui Richard Rui
Mr. Tsui Ching Hung
Mr. Chung Nai Ting
Ms. Chiu Si Mary

Independent Non-executive Directors

Mr. Chan Shek Wah
Mr. Yu Pan
Ms. Tong So Yuet

COMPANY SECRETARY

Mr. Chow Kim Hang

REGISTERED OFFICE

Ground Floor
Caledonian House
Mary Street
P.O. Box 1043
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PR INCIPAL PLACE OF BUSINESS IN HONG KONG

Room 4504-05, 45th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

AUDITORS

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

RINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Harbour Trust Company Limited
One Regis Place
P.O. Box 1787
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Management Discussion and Analysis

The Company and its subsidiaries (the “Group”) recorded a turnover of approximately HK$6.66 million for the year ended 31 March 2007. Compared with last year, there was an increase by an amount of approximately HK$0.54 million. The increase is mainly attributable to the increase of dividend income from investments in listed securities and rental income from PRC properties. Compared to previous year, the revenue from the investments in financial instruments segment and the property investments segment have increased approximately 141% and 11% respectively. With a stable occupancy rate, the rental income will continue to provide a steady cashflow to the Group in the coming year. Although volatility of the market gave pressure on the performance of the Group’s securities investments, the overall improvement of the market sentiment during the year improved the performance of the securities investments. For the year ended 31 March 2007, the Group recorded approximately HK6.24 million gain arising from fair value changes of investments held for trading. In preceding year, loss arising from fair value changes of investments held for trading was approximately HK$3.99 million. It is expected that certain issues will lead to the fluctuation of the market such as the performance of the PRC stock markets, macro economic control policy in PRC and movement of the exchange rate of RMB, all of which can affect the market sentiment. The Group also recorded an impairment loss of available-for-sale investment in an amount of approximately HK$0.98 million. Since the last financial year, the Group adopted the new Hong Kong Accounting Standard (“HKAS”) 39 and HKAS 32 in relation to recording convertible loan notes at fair value. Under the new accounting treatment, the Group had a loss on redemption of convertible notes of approximately HK$6.71 million and a loss arising from fair value changes of derivative financial instruments in the amount of approximately HK$11.02 million. During the year, the Group no longer held its interest in its associate company, Shijiazhuang Shuanghuan Automobile Co. Ltd (石家莊雙環汽車有限公司 (“Shuanghuan”)) as a result of enforcement of security by a lender in relation to a HK$60 million loan. Details of which were disclosed in the Company’s announcements dated 11 January 2007, 24 January 2007 and 2 April 2007 respectively. Thus, the Group recorded a loss on transfer of subsidiaries in the amount of approximately HK$38.92 million for the year ended 31 March 2007. During the year, the Group did not share any result of Shuanghuan. Overall, the net loss for the year was approximately HK$63.05 million as compared to the net gain of approximately HK$25.50 million in the preceding year.

As at 31 March 2007, the Group had bank balance and cash of HK$42.42 million. Fair value of investments held for trading was in an amount of approximately HK$318.31 million. During the year, the Company obtained a HK$60,000,000 loan from an independent third party. The loan was secured by the equity shares of a subsidiary of the Company and bore an annual interest rate at 5%. The loan was settled during the year as a result of enforcing the securities by the lender. Details of which were disclosed in the Company’s announcements dated 11 January 2007, 24 January 2007 and 2 April 2007 respectively. As at 31 March 2007, the Group had three unsecured convertible notes originally issued on 31 January 2005, 31 March 2005 and 22 September 2006 with outstanding principal amount of HK$16.2 million, HK$4.80 million and 49.8 million respectively. The first two convertible notes bear 3% interest rate per annum and the last convertible notes bear 5% interest rate per annum .All such convertible notes are in Hong Kong dollars and mature on the third anniversary of date of issue. All the outstanding convertible notes were converted at HK$0.37 per Share, HK$0.40 per Share and HK$0.145 per Share respectively during the period from May 2007 to July 2007. A total of 399,232,056 Shares was issued subsequent to those conversions. As at 31 March 2007, the liability component of the convertible notes was approximately HK$60.98 million. Save for the abovementioned convertible notes, the Group had no borrowing and loan from banks or financial institutions as at 31 March 2007. The gearing ratio as at 31 March 2007 was approximately 20.39% based on the liability component of the convertible notes in the amount of approximately HK$60.98 million and the equity attributable to equity holders in the amount of approximately HK$299.13 million.

The Group had 4 staff as at 31 March 2007. The staff costs (excluding directors' emoluments) was around HK$1.77 million for the year. Staff remuneration package are normally reviewed annually. The Group has participated in Mandatory Provident Fund Scheme. In addition, the Group provides other staff benefits which include double pay and medical benefits. The Group has no share option scheme during the year.

On 20 April 2006, the Company entered into a placing agreement with Taifook Securities Company Limited ("Taifook"), pursuant to which, Taifook agreed to place, on a best effort basis, the convertible notes in an aggregate principle amount of HK$49.80 million with interest at a rate of 5% per annum. The convertible notes would carry a right to convert into new share of HK$0.10 each in the capital of the Company (the "Share(s)") at the conversion price of, subject to adjustment, HK$0.145 per Share from the date of issue of the convertible notes to the date immediately before the first anniversary of the date of issue of the convertible notes, HK$0.160 per Share from the first anniversary of the date of issue of the convertible notes to the date immediately before the second anniversary of the date of issue of the convertible notes, HK$0.176 per Share from the second anniversary of the date of issue of the convertible notes to the date immediately before the third anniversary of the date of issue of convertible notes which is the maturity date of the convertible notes. The placing was completed on 22 September 2006. Details of the placing of the convertible notes were disclosed in the Company's announcements dated 21 April 2006 and dated 20 September 2006. The net proceeds of approximately HK$48.7 million of placing such convertible notes was utilized for partial redemption of the convertible notes of the Company issued on 31 March 2005 whereas the net proceeds was originally intended to be used as general working capital of the Company.

In October 2006, the Company redeemed HK$55,200,000 of the HK$60,000,000 convertible notes (the "HK$60 million CN") which were issued on 31 March 2005 for the three years with an interest at of 3% per annum. The outstanding balance of the HK$60 million CN is HK$4,800,000.

On 16 March 2007, the Company entered into a placing agreement with Taifook, pursuant to which, Taifook agreed to place, on a fully written basis, 343,496,000 new Share at HK$0.10 per Share. The net proceeds from the placing was approximately 33.34 million. The placing of Shares was completed on 4 April 2007. Details of the placing were disclosed in the Company's announcement dated 23 March 2007. As at the date of this annual report, approximately HK$23 million was utilized for investment in securities issued by listed companies and approximately HK$3.61 million was used as the Group's general working capital. The remaining net proceeds of approximately HK6.73 million is not utilized yet.

On 16 March 2007, the Company also entered into a placing agreement with Taifook, pursuant to which, Taifook agreed to place, on a best effort basis, the convertible notes in an aggregate principle amount of HK$165 million with interest at a rate of 4% per annum. The convertible notes would carry a right to convert into new Shares at the conversion price of, subject to adjustment, HK$0.11 per Share from the date of issue of the convertible notes to 29 February 2008, HK$0.12 per Share from 1 March 2008 to 28 February 2009, and HK$0.13 per Share from 1 March 2009 to 28 February 2010 which is the maturity date of the convertible notes. The placing of the convertible notes was completed on 3 July 2007. The net proceeds of approximately HK$161.45 million from the placing of convertible notes has not been utilized. The 165 million convertible notes were fully converted in July 2007 and 1,499,999,996 Shares were issued. Details of the placing of the convertible notes were disclosed in the Company's announcements dated 23 March 2007 and 3 July 2007 and the Company's circular dated 24 April 2007.

On 4 June 2007, the Company entered into a placing agreement with Kingston Securities Limited ("Kingston"), pursuant to which, Kingston agreed to place, on a fully written basis, 436,000,000 new Shares at HK$0.45 per Share. The net proceeds from the placing was approximately 191 million. The placing of Shares was completed on 21 June 2007. Approximately HK$2.01 million of the net proceeds was deposited into an escrow account to be used as compensation for obtaining mining licence in respect of the S&P Agreement mentioned below. Details of the placing were disclosed in the Company's announcement dated 5 June 2007.

On 20 June 2007, Power East Investments Inc., an indirect wholly owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Qian Mingjin (錢銘今) as vendor and Wang Liang (王亮) as guarantor (the "S&P Agreement") to acquire all the issued shares in and a shareholder loan of Front Wave Group Limited ("Front Wave") at the total consideration of RMB199,500,000 to be satisfied partially by the allotment and issue of 113,183,5632 fully paid Shares at HK$0.46 per Share. Upon completion of the S&P Agreement, Front Wave will have 95% equity interest in Xing City Hong Ji Mining Industry Company Limited (興城市宏基礦業有限公司) which will have the exploration right to and mining licence for the Liaoning Province Xing City Guojiazhen Renhe Molybdenum Mine (遼寧省興城市郭家鎮任合鉬礦) then. Details of the acquisition were disclosed in the Company's announcement dated 4 July 2007.

With stable occupancy rate of the Group's investment properties, it will be expected to bring steady rental income to the Group and thus will continue to contribute cashflow to the Group. It is expected that the market will still fluctuate as many issues such as performance of the PRC stock markets, macro economic control policy in PRC and movement of the exchange rate of RMB can affect the market sentiment. The lost of interest in Shuanghuan does not have material impact on the operation of the Group as Shuanghuan is just an associate company of Group. In view of the increase in demand for natural resources and energy in the world and the increase in the prices of metals over the past years, the Group are optimistic about the future prospect of the demand for natural resources and the energy industry taking into account that the sustainable economic growth of the PRC and the national consumption of the metal. Entering into the S&P Agreement allows the Group to diversify its business into the mining industry. The Group will continue to explore potential business opportunities in order to improve its earning capacity and diversify the market risk that the Group will confront in long run.

CORPORATE GOVERNANCE PRACTICES

The Company aims to achieve good standard of corporate governance and believes that sound corporate governance principles, increased transparency and independency of corporate operation and an effective shareholder communication mechanism will promote the health growth of the Company and in the best interest of its shareholders as a whole.

During the year ended 31 March 2007, the Company complied with most of the code provisions ("Code Provisions") by following those Code Provisions as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") which was applicable to the Company in respect of the year under review. Any deviation of the Code Provisions is explained in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding director's securities transactions. Having made specific enquiry of all directors of the Company ("Director(s)"), all Directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 March 2007.

Code Provision A.5.4 also requires written guidelines (the "Written Guidelines") which should be established on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company. Written Guidelines were established in 2005.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises nine Directors, of which six were executive Directors namely Mr. Chiu Kong (Chairman), Mr. Kwan Kam Hung, Jimmy, Mr. Hui Richard Rui (General Manager), Mr. Tsui Ching Hung, Mr. Chung Nai Ting and Ms. Chiu Si Mary, and three were independent non-executive Directors namely Mr. Yu Pan, Ms. Tong So Yuet and Mr. Chan Shek Wah. One of the independent non-executive Directors possesses the requisite appropriate professional qualification required under the Listing Rules 3.10 (2). Biographical details of all Directors are disclosed on page 11 to page 12 of this Annual Report.

Statistics of Directors' attendance of 17 board of Directors' meetings during the year ended 31 March 2007 are as follows:

Name	Attended
Executive Directors	
Mr. Chiu Kong	4
Mr. Kwan Kam Hung, Jimmy	17
Mr. Wang Guangtian	1
Mr. Hui Richard Rui	17
Independent non-executive Directors	
Mr. Miu Frank H.	4
Mr. Yu Pan	2
Ms. Tong So Yuet	4

The Board is the mastermind of the Company. It provides the leadership to the Company and oversees the Group's strategic decisions, business development and performances and all business affairs. With the authorization and delegation from the Board, the management are responsible for the management and administration of the Company and the Group.

Each of our independent non-executive Directors has presented an annual confirmation of independence to the Company in accordance with the requirement of the Listing Rules. The Company considered that all of the independent non-executive Directors to be independent.

None of the Directors has any financial, business, family or other material/relevant relationship(s) with each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The fiduciary duties of the chairman (the "Chairman") of and chief executive officer (hereinafter refer to the "General Manager" as it is the official title used by the Company) of the Company are segregated and not exercised by the same individual. Mr. Chiu Kong is the Chairman who is responsible for the leadership of the Board and overall business directions of the Group. Mr. Hui Richard Rui is the General Manager who is responsible for the execution of business strategies, day-to-day operation and management of the Group.

NON-EXECUTIVE DIRECTORS

The non-executive Directors are not appointed for a specific term. Thus the Company has deviated from Code Provision A.4.1. However, non-executive directors are subject to retirement by rotation at the Company's annual general meeting as specified by the articles of association of the Company.

REMUNERATION OF DIRECTORS

Code Provision B.1.1 requires setting up of the remuneration committee. The Company has deviated from the requirement and the remuneration committee has not been set up yet. The Company is in the process of establishing a remuneration committee as more time is needed for determining details appropriate and beneficial to the Company including the composition and terms of reference.

The Directors are remunerated with reference to their responsibility with the Company, their qualifications, experiences and past remuneration, the Company's performance and current market situation. A board meeting was held during the year to discuss and determine the remuneration of the directors. Mr. Chiu Kong, Mr. Hui Richard Rui, Mr. Miu Frank H. and Ms. Tong So Yuet attended the meeting.

NOMINATION OF DIRECTORS

The nomination of directors should be taken into consideration of the nominee's qualification, experience, ability and potential contributions to the Company. As no new director was appointed to the Board during the year, no meeting was held during the year by the Board for nomination of new director. The Company understands the importance of having a nomination committee and will consider the feasibility of setting up a nomination committee.

Code Provision A.4.2 requires every director should be subject to retirement by rotation at least once every three years (the "Rotation Period Restriction"). The Company amended the articles of association of the Company to comply with this Code Provision at the annual general meeting of the Company held on 28 September 2006.

AUDITORS' REMUNERATION

During the year ended 31 March 2007, fees paid to the Company's external auditors for non-audit related activities amounted to approximately HK$1.10 million which taxation service was approximately HK$0.06 million and work done relating to the proposed increase of capital in Shijiazhuang Shuanghuan Automobile Company Limited was approximately HK$1.04 million.

Audit fee for the year ended 31 March 2007 is approximately HK$0.80 million.

AUDIT COMMITTEE

For the year ended 31 March 2007, the Audit Committee was composed of three independent non-executive Directors namely Mr. Miu Frank H. (Chairman of the Committee), Mr. Yu Pan and Ms. Tong So Yuet. Two of the members possess appropriate professional accounting qualification, while the another member is an experienced senior executive who served in various multi-national companies. Code Provision C.3.3 requires the terms of reference of the audit committee should include certain minimum duties. On 28 December 2005, the terms of reference of the audit committee were revised to include all the duties set out in the Code Provisions C.3.3 of which among other things include reviewing financial statements of the Company.

The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee. It is also authorized to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

The members and attendance of the 2 audit committee's meetings during the year ended 31 March 2007 are as follows:

Name	Attended
Mr. Miu Frank H.	2
Mr. Yu Pan	2
Ms. Tong So Yuet	2

During these meetings, the Audit Committee reviewed reports from external auditors regarding their audit on annual financial statements and review on interim financial results.

OTHER MATTERS

The Directors are responsible for the preparation of financial statements. The Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements. Also, the internal control system of internal control of the Company and its subsidiaries has been reviewed during the year.

Code Provision E1.2 requires the Chairman of the board to attend annual general meeting of the Company. Mr Chin Kong did not attend the 2006 annual general meeting as he was not in Hong Kong on that day.

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Independent Auditor's Report on page 15 of this annual report.

Directors' Report

The directors of the Company present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 27 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 17.

The directors do not recommend the payment of a dividend.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of movements during the year in the investment properties of the Group are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 22 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Chiu Kong - Chairman	
Mr. Kwan Kam Hung, Jimmy	
Mr. Hui Richard Rui	
Mr. Tsui Ching Hung	(appointed on 2 May 2007)
Mr. Chung Nai Ting	(appointed on 2 May 2007)
Ms. Chiu Si Mary	(appointed on 22 June 2007)
Mr. Wang Guangtian	(resigned on 11 October 2006)

Independent non-executive directors:

Mr. Yu Pan	
Ms. Tong So Yuet	
Mr. Chan Shek Wah	(appointed on 1 June 2007)
Mr. Miu Frank H.	(resigned on 30 June 2007)

Executive directors:

Mr. Chiu Kong, aged 50, was appointed as the Chairman of the Company in June 2003. He has over 15 years of experience in import and export trading, and business development.

Mr. Kwan Kam Hung, Jimmy, aged 45, was appointed as director of the Company in November 2002. He has over 10 years of experience in the management of finance and accounting.

Mr. Hui Richard Rui, aged 39, was appointed as director of the Company in August 2004. He graduated from University of Technology, Sydney of Australia with a bachelor degree in mechanical engineering. He has over 10 years of experience in management positions of companies in Australia, Hong Kong and the People's Republic of China.

Mr. Tsui Ching Hung, aged 54, was appointed as director of the Company in May 2007. He holds a Master of Science degree in Polymer Science and a Master of Business Administration degree obtained from the University of Aston and University of Warwick in United Kingdom respectively. He has over 10 years of experience in senior management positions of several multinational corporations in Hong Kong.

Mr. Chung Nai Ting, aged 51, was appointed as director of the Company in May 2007. He has over 20 years of experience in the trading business.

Ms. Chiu Si Mary, aged 25, was appointed as director of the Company in June 2007, she holds a Bachelor of Arts degree in Economics and Philosophy from University of Toronto in Canada. She has developed considerable experience in corporate management, fund operation and marketing management by serving key management positions of several corporations in Hong Kong.

Independent Non-executive Directors:

Mr. Yu Pan, aged 52, was appointed in September 2004. He has over 15 years of experience in management positions of multinational trading companies in Hong Kong and the Mainland China.

Ms. Tong So Yuet, aged 35, was appointed in February 2006. She graduated from Hong Kong Polytechnic University with a bachelor degree in accountancy. Ms. Tong is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries, the Institute of Chartered Secretaries and Administrators and a Certified Public Accountant (Practising). Prior to joining the Group, Ms. Tong has over 10 years of experience in auditing and accounting sector.

Mr. Chan Shek Wah, aged 43, was appointed in June 2007. He has more than 20 years of professional experiences in the financial services industry. He has been engaged in the sales, proprietary trading, structuring of equity derivatives and equity capital market products as well as the provision of corporate finance advisory services to listed issuers. He was the senior management and the executive directors in several international financial institutions. Mr. Chan is currently an independent non-executive director of Innovo Leisure Recreation Holdings Limited, which shares are listed on The Stock Exchange of Hong Kong Limited.

In accordance with article 91 and 99 of the Company's Articles of Association, Mr. Tsui Ching Hung, Mr. Chung Nai Ting, Ms. Chiu Si Mary, Mr. Chan Shek Wah, Mr. Chiu Kong and Mr. Hui Richard Rui retire, and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors, are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2007, none of the directors nor chief executives had any interests or short positions in any shares of the Company or any of its associated corporation which are required (a) to be recorded in the register kept by the Company under Section 352 of the Securities and Futures Ordinance (the "SFO"); or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or its subsidiaries, were a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31 March 2007, the register of substantial shareholders maintained under Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name	Number of issued ordinary shares held	Percentage of the issued share capital of the Company	Notes
Kaison Limited	294,741,400	17.16%	1
Radford Capital Investment Limited	112,506,200	6.55%	2
Dr. Ho Hung Sun, Stanley	93,575,000	5.44%	

Notes:

1. Kaison Limited is beneficially owned by Mr. Zhao Zhigang and Ms. Guo Bingli as to 50% and 50% respectively.

2. Pursuant to the Corporate Substantial Shareholder Notice filed by Radford Capital Investment Limited dated 26 July 2006, the 112,506,200 shares of the Company were held by Winning Horsee Limited, a wholly owned subsidiary of Radford Capital Investment Limited which shares are listed on The Stock Exchange of Hong Kong Limited.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short position in issued share capital of the Company as at 31 March 2007.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confimation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

MAJOR CUSTOMERS AND SUPPLIERS

The Group has no major suppliers, as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Owing to the nature of its business, the Group has no major customers.

At no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) has an interest in any of the Group's five largest suppliers or customers.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 26 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued share as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2007 with most of the Code Provisions (the "Code Provisions") in the Code of Corporate Governance Practice, as set out in Appendix 14 of the Listing Rules. Further information of the Company's corporate governance practice including any derivations from the Code Provisions is set out in the Corporate Governance Report on pages 6 to 9.

AUDITOR

Messrs. Deloitte Touche Tohmatsu will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Hui Richard Rui
DIRECTOR
Hong Kong, 27 July 2007

Independent Auditor's Report

TO THE MEMBERS OF CHINA SCI-TECH HOLDINGS LIMITED
中國科技集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Sci-Tech Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 56, which comprise the consolidated balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of qualified opinion

As more fully explained in notes 9 and 15 to the consolidated financial statements, the Group's interest in an associate was transferred to an independent third party on 9 January 2007. However, the Group was unable to obtain financial information of its associate from 1 April 2006 to 9 January 2007 (date of transfer) in order to equity account for the result of its associate, in accordance with the requirements of Hong Kong Accounting Standard ("HKAS ") 28 "Investment in Associates" issued by HKICPA, which requires the Group to account for its share of results of operations and net assets of its associate up to the date of transfer in the financial statements. We are unable to obtain sufficient information to quantify the impact of this departure from these requirements. Any adjustments found to be necessary would affect the share of result of an associate and loss on transfer of subsidiaries as disclosed in the consolidated income statement.

Qualified opinion arising from disagreement about accounting treatment

In our opinion, except for the effect on the financial statements of the matter described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of the Group's affairs as at 31 March 2007 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27 July 2007

Consolidated Income Statement

For the year ended 31 March 2007

	NOTES	2007 HK$'000	2006 HK$'000
Revenue		**6,661**	6,125
Other income		**1,750**	773
Administrative expenses		**(12,503)**	(13,560)
Gain (Loss) arising from fair value changes of investments held for trading		**6,244**	(3,995)
Impairment loss recognised in respect of available-for-sale investments		**(975)**	(4,125)
Gain (Loss) arising from fair value changes of investment properties		**1,573**	(800)
Gain arising from fair value changes of financial assets designated at fair value through profit or loss		**—**	118
Loss on redemption of convertible notes		**(6,710)**	(3,334)
(Loss) gain arising from fair value changes of derivative financial instruments		**(11,015)**	18,515
Finance costs	8	**(9,026)**	(10,774)
Loss on transfer of subsidiaries	9	**(38,918)**	—
Share of profit of an associate		**—**	36,671
(Loss) profit before taxation	10	**(62,919)**	25,614
Taxation	11	**(126)**	(115)
(Loss) profit for the year attributable to equity holders of the Company		**(63,045)**	25,499
(Loss) earnings per share	12		
- basic		**(3.67) cents**	1.48 cents

Consolidated Balance Sheet

At 31 March 2007

	NOTES	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	13	**17**	42
Investment properties	14	**22,373**	20,800
Interest in an associate	15	**—**	99,489
Available-for-sale investments	16	**—**	975
		22,390	121,306
Current assets			
Other receivables, deposits and prepayments		**21,618**	12,722
Investments held for trading	17	**318,314**	212,833
Derivative financial instruments	19	**278**	732
Bank balances and cash	18	**42,419**	83,646
		382,629	309,933
Current liabilities			
Other payables and accrued charges		**20,872**	2,067
Derivative financial instruments	19	**22,949**	1,892
Amounts due to directors	20	**300**	300
Taxation payable		**794**	714
		44,915	4,973
Net current assets		**337,714**	304,960
Total assets less current liabilities		**360,104**	426,266

	NOTES	2007 HK$'000	2006 HK$'000
Non-current liability			
Convertible notes	21	**60,976**	64,093
		299,128	362,173
Capital and reserves			
Share capital	22	**171,748**	171,748
Reserves		**127,380**	190,425
Equity attributable to equity holders of the Company		**299,128**	362,173

The financial statements on pages 17 to 56 were approved and authorised for issue by the Board of Directors on 27 July 2007 and are signed on its behalf by:

Hui Richard Rui	**Kwan Kam Hing, Jimmy**
DIRECTOR	**DIRECTOR**

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Attributable to equity holders of the Company						
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000 (note a)	**Other capital reserve** HK$'000 (note b)	**Exchange reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
At 1 April 2005	171,748	168,166	7,700	396,347	—	(408,157)	335,804
Exchange difference arising from translation of foreign operation recognised directly in equity	—	—	—	—	870	—	870
Profit for the year	—	—	—	—	—	25,499	25,499
Total recognised profit for the year	—	—	—	—	870	25,499	26,369
At 31 March 2006	171,748	168,166	7,700	396,347	870	(382,658)	362,173
Loss for the year	—	—	—	—	—	(63,045)	(63,045)
At 31 March 2007	171,748	168,166	7,700	396,347	870	(445,703)	(299,128)

(a) The capital reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange, in connection with the Group reorganisation completed in January 1994.

(b) The other capital reserve of the Group represents the balance of the credit arising from the cancellation of paid up capital in previous years.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(62,919)**	25,614
Adjustments for:		
Interest income	**(1,808)**	(3,475)
Interest expenses	**9,026**	10,774
Dividend income	**(3,546)**	(1,469)
Depreciation	**25**	74
(Gain) Loss arising on fair value changes of investments held for trading	**(6,244)**	3,995
Impairment loss recognised in respect of available-for-sale investments	**975**	4,125
(Gain) Loss arising from fair value changes of investment properties	**(1,573)**	800
Gain arising from Fair value changes of financial assets designated at fair value through profit or loss	**—**	(118)
Loss on redemption of convertible notes	**6,710**	3,334
Loss (gain) arising from fair value changes of outstanding derivative financial instruments	**12,294**	(18,515)
Loss on transfer of subsidiaries	**38,918**	—
Share of profit of an associate	**—**	(36,671)
Operating cash flows before movements in working capital	**(8,142)**	(11,532)
Increase in other receivables, deposits and prepayments	**(8,896)**	(4,557)
Increase in investments held for trading	**(99,237)**	(101,876)
Increase in other payables and accrued charges	**19,381**	266
Net cash used in operations	**(96,894)**	(117,699)
Interest received	**1,808**	3,475
Taxation arising from other jurisdictions paid	**(46)**	(33)
NET CASH USED IN OPERATING ACTIVITIES	**(95,132)**	(114,257)

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES		
Dividend received	**3,546**	1,469
Proceeds from redemption of financial assets designated at fair value through profit or loss	**—**	20,000
Purchase of property, plant and equipment	**—**	(7)
NET CASH FROM INVESTING ACTIVITIES	**3,546**	21,462
FINANCING ACTIVITIES		
Interest paid	**(3,240)**	(4,238)
Redemption of convertible notes	**(55,200)**	(33,750)
Net proceeds on issue of convertible notes	**48,804**	—
New loan raised	**60,000**	—
Repayment of loan	**(5)**	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**50,359**	(37,988)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(41,227)**	(130,783)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**83,646**	214,429
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, representing bank balances and cash	**42,419**	83,646

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The Company is an investment holding company and is engaged in investment in financial instruments and property investment. The principal activities of its principal subsidiaries are set out in note 27.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 23 (Revised)	Borrowing Costs[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - INT 8	Scope of HKFRS 2[3]
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transactions[6]
HK(IFRIC) - INT 12	Service Concession Arrangements[7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for the failure to equity accounted for its investment in an associate as required by HKAS 28 "Investments in Associates", and the investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

Interests in associates

Associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue

Revenue represents income from dividends arising from investments held for trading, interest income from a financial asset and rental income from properties letting under operating leases.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Dividend income from investments held for trading is recognised when the Group's rights to receive payment have been established.

Interest income from a financial asset is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income from properties letting under operating leases is recognised on a straight line basis over the term of relevant leases.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount) is included in the consolidated income statement in the year in which the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the income statement.

Financial assets

The Group's financial assets are mainly classified into financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables (including other receivables and bank balances) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Convertible notes

Convertible loan notes issued by the Group that contain both liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised a fair value.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Convertible notes (Continued)

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and conversation option components in proportion to the allocation of the proceeds. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Derivative financial instrument

Derivative financial instrument is initially measured at fair value on the contract date, and is remeasured to fair value at subsequent reporting dates.

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the host contracts are not measured at fair value through the consolidated income statement.

Other financial liabilities

Financial liabilities other than derivative financial instrument including other payables and accrued charges and amounts due to directors are measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities are derecognised, when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as expense when employees have rendered service entitling them to the contributions.

Operating leases

Leases are classified as operating leases whenever the terms of the lease do not transfer substantially all the risks and rewards of ownership to the leasee. All other leases are classified as operating lease.

The Group as lessor
Rental income from operating leases is recognized in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee
Rentals payable under operating leases are charged to the consolidated income statement on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumption concerning the future, and other key source of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Fair value of derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

The fair values of option, derivative are subject to the limitation of the Binominal model that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the Binominal model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

Income taxes

As at 31 March 2007, no deferred tax asset has been recognised on the tax losses of HK$245,303,000 due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such recognition takes place.

5. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include investments held for trading, available-for-sale investments, other receivables, derivative financial instruments, bank balances, other payables and accrued charges, amounts due to directors and convertible notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Cash flow interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short term bank deposits. Since the bank deposits are all short term in nature, any future variations in interest rates will not have a significant impact on the results of the Group.

5. FINANCIAL INSTRUMENTS *(Continued)*

a. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Fair value interest rate risk

The Group's fair value interest rate risk relates to fixed rate convertible notes. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates. The Group currently does not have an interest rate hedging policy. The management considered the risk is insignificant to the Group.

Price risk

The Group is exposed to equity security price risk through its investments in equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's principal financial assets which are exposed to credit risk are other receivables and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regard the director of the company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk on other receivables, with exposure spread over a number of counterparties.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

5. FINANCIAL INSTRUMENTS *(Continued)*

b. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference quoted market bids prices;

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

- The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in financial statements approximate to their fair values.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions (i) investments in financial instruments and (ii) property investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Investment in financial instruments	–	investment and trading of securities and commodity contracts
Property investment	–	rental income from the properties letting under operating lease

Segment information about these businesses is presented below.

	2007	2006
	HK$'000	HK$'000
Investment in financial instruments		
Dividend income	**3,546**	1,469
Interest income	**1,808**	3,475
	5,354	4,944
Rental income	**1,307**	1,181
	6,661	6,125

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below:

Income statement

	2007		
	Investments in financial instruments	**Property investment**	**Total**
	HK$'000	HK$'000	HK$'000
Revenue	**5,354**	**1,307**	**6,661**
Segment result	**12,370**	**(3,123)**	**9,247**
Unallocated corporate expenses			**(24,222)**
Finance costs			**(9,026)**
Loss on transfer of subsidiaries			**(38,918)**
Loss before taxation			**(62,919)**
Taxation			**(126)**
Loss for the year			**(63,045)**

	2006		
	Investments in financial instruments	Property investment	Total
	HK$'000	HK$'000	HK$'000
Revenue	4,944	1,181	6,125
Segment result	(9,642)	(269)	(9,911)
Unallocated corporate expenses			(8,155)
Unallocated corporate income			17,783
Finance costs			(10,774)
Share of profit of an associate			36,671
Profit before taxation			25,614
Taxation			(115)
Profit for the year			25,499

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Balance sheet

	2007		2006	
	Assets HK$'000	Liabilities HK$'000	Assets HK$'000	Liabilities HK$'000
Investments in financial instruments	318,592	19,358	226,805	170
Property investment	22,373	1,556	20,800	1,372
Segment assets/liabilities	340,965	20,914	247,605	1,542
Interest in an associate	—	—	99,489	—
Unallocated corporate assets/liabilities	64,054	84,977	84,145	67,524
	405,019	105,891	431,239	69,066

Other information

	Investment in financial instruments HK$'000	Property investment HK$'000	Total HK$'000
Year ended 31 March 2007			
Impairment loss recognised in respect of available-for-sale investments	975	—	975
Loss arising from fair value changes of derivative financial instruments	454	—	454
Year ended 31 March 2006			
Loss arising from fair value changes of investment properties	—	800	800
Impairment loss recognised in respect of available-for-sale investments	4,125	—	4,125
Loss arising from fair value changes of derivative financial instruments	732	—	732

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

A geographical breakdown of the Group's revenue by geographical market is as follows:

	Revenue	
	2007	2006
	HK$'000	HK$'000
The People's Republic of China (the "PRC"), other than Hong Kong	**1,307**	1,181
Hong Kong	**5,354**	4,944
	6,661	6,125

The following table provides an analysis of segment assets and additions to property, plant and equipment and investment properties, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment, and investment properties	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC, other than Hong Kong	**22,373**	20,800	**—**	—
Hong Kong	**318,592**	226,805	**—**	7
	340,965	247,605	**—**	7

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

The emoluments paid or payable to each of the seven (2006: seven) directors were as follows:

	Chiu Kong (Chairman) HK$'000	Kwan Kam Hung, Jimmy HK$'000	Wang Guangtian HK$'000	Hui Richard Rui HK$'000	Miu Frank H. HK$'000	Yu Pan HK$'000	Tong So Yuet HK$'000	2007 Total HK$'000
Fees	—	—	507	—	100	100	100	807
Other emoluments								
Salaries and other benefits	1,462	—	53	293	—	—	—	1,808
Contributions to retirement benefit schemes	12	—	—	12	—	—	—	24
	1,474	—	560	305	100	100	100	2,639

	Chiu Kong (Chairman) HK$'000	Kwan Kam Hung, Jimmy HK$'000	Wang Guangtian HK$'000	Hui Richard Rui HK$'000	Miu Frank H. HK$'000	Yu Pan HK$'000	Tong So Yuet HK$'000	2006 Total HK$'000
Fees	—	—	1,040	—	100	100	100	1,340
Other emoluments								
Salaries and other benefits	255	—	—	293	—	—	—	548
Contributions to retirement benefit schemes	12	—	—	12	—	—	—	24
Performance related incentive payments (Note)	50	—	200	—	—	—	—	250
	317	—	1,240	305	100	100	100	2,162

Note: The performance related incentive payments are determined with reference to the operating results, individual performance and comparable market statistics during year 2006.

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Information regarding employees' emoluments:

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are included in note 7(a). The emoluments of the remaining two (2006: two) individuals were as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**1,289**	1,269
Contributions to the retirement benefit schemes	**24**	24
	1,313	1,293

The emoluments of each of the two (2006: two) individuals were below HK$1,000,000.

8. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on borrowings wholly repayable within five years:		
Other borrowings	**(617)**	(1,632)
Convertible notes	**(8,409)**	(9,142)
	(9,026)	(10,774)

9. LOSS ON TRANSFER OF SUBSIDIARIES

	2007
	HK$'000
Net assets transfer of:	
Interest in an associate (see note 15)	99,489
Other payables and accrued charges	(576)
Cash and bank balances	5
	98,918
Loss on transfer of subsidiaries	(38,918)
Carrying value of secured other loan repaid	60,000

The subsidiaries transfer to an independent third party during the year did not contribute significantly to the Group's revenue and operating results for the year.

On 24 October 2006, Cyber Range Limited ("Cyber Range"), a wholly-owned subsidiary of the Company entered into a debenture with an independent third party, Greatvantage Limited ("Greatvantage"), pursuant to which a sum of HK$60,000,000 was lent to Cyber Range for a term of 3 months, repayable on 24 January 2007. Under the terms of the debenture, Cyber Range had charged to Greatvantage the entire issued share capital of Zeal Advance Limited ("Zeal Advance"), a wholly-owned subsidiary of Cyber Range, which holds the 25% registered capital in Shijizhuang Shuanghuan Automobile Co., Ltd. ("Shuanghuan"), an associate of the Company. The terms of the debenture granted the right to Greatvantage to take control of Zeal Advance if certain events of default were to occurr and if Cyber Range failed to comply with Greatvantage's demand for loan repayment.

On 4 January 2007, Greatvantage notified Cyber Range in writing of the event of default resulting from the fact that the Company and its subsidiaries, including Cyber Range, were unable to obtain the financial information of Shuanghuan for the period from 1 April 2006 to 30 September 2006. Accordingly, Greatvantage demanded Cyber Range to repay the loan of HK$60,000,000.

The Company replied to decline the alleged default as the Company did not considered there was an event of default and did not repay the loan within the specified period. On 9 January 2007, Greatvantage therefore enforced the charge under the debenture by transferring the entire share capital of Zeal Advance to Greatvantage and its nominees and Greatvantage was appointed as the director of Zeal Advance to replace the directors appointed by the Company.

On 12 January 2007, Cyber Range received a notice from Greatvantage that the loan of HK$60,000,000 was discharged and deemed to be fully repaid as a result of the transfer of the entire issued share capital of Zeal Advance.

10. (LOSS) PROFIT BEFORE TAXATION

	2007	2006
	HK$'000	HK$'000
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration (note 7(a))	**2,639**	2,162
Contributions to the Mandatory Provident Fund	**45**	53
Other staff costs	**1,733**	1,881
Total staff costs	**4,417**	4,096
Auditor's remuneration	**800**	850
Depreciation	**25**	74
Minimum lease payments under operating leases in respect of rented premises	**1,255**	725
Share of tax of an associate (included in share of result of an associate)	**—**	9,503
and after crediting:		
Dividend income	**3,546**	1,469
Gross rental income less direct operating expenses from investment properties that generated rental income during the year of HK$1,015,000 (2006: HK$328,000)	**1,307**	853
Interest income	**1,808**	3,475

11. TAXATION

No provision for Hong Kong Profits Tax has been made since the Group had no assessable profits for both years. The amount represents tax arising in other jurisdictions which is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	2007	2006
	HK$'000	HK$'000
(Loss) profit before taxation	**62,919**	25,614
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	**11,011**	(4,482)
Tax effect of share of result of an associate	**—**	6,417
Tax effect of expenses not deductible for tax purpose	**(12,406)**	(4,066)
Tax effect of income not taxable for tax purpose	**1,438**	4,351
Tax effect of tax losses not recognised	**(260)**	(2,445)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**94**	86
Others	**(3)**	24
Taxation charge for the year	**(126)**	(115)

At the balance sheet date, the Group had unused tax losses of approximately HK$245,303,000 (2006: HK$243,817,000) available to offset against future profits. No deferred taxation asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely. There were no other significant temporary differences arising during the year or at the balance sheet date.

12. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss for the year of HK$63,045,000 (2006: profit of HK$25,499,000) and 1,717,484,600 (2006: 1,717,484,600) shares in issue during the year.

No diluted (loss) earnings per share figures have been presented for 2007 and 2006 because the exercise prices of the convertible notes were higher than the average market price of the Company's shares in 2007 and 2006.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
COST			
At 1 April 2005	262	210	472
Additions	—	7	7
At 31 March 2006 and 2007	262	217	479
DEPRECIATION			
At 1 April 2005	215	148	363
Provided for the year	47	27	74
At 1 April 2006	262	175	437
Provided for the year	—	25	25
At 31 March 2007	262	200	462
NET BOOK VALUES			
At 31 March 2007	—	17	17
At 31 March 2006	—	42	42

The above items of property, plant and equipment are depreciated using straight line method at the following rates per annum:

Leasehold improvements	33%
Furniture and equipment	15-25%

14. INVESTMENT PROPERTIES

	2007 HK$'000	2006 HK$'000
FAIR VALUE		
At the beginning of the year	**20,800**	21,600
Gain (loss) arising from fair value recognised in the consolidated income statement	**1,573**	(800)
At the end of the year	**22,373**	20,800

The fair values of the Group's investment properties at both year ends have been arrived at on the basis of a valuation carried out on that day by Greater China Appraisal Limited, independent qualified professional valuers not connected with the Group. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All investment properties are situated in the PRC and held under medium term leases. The properties were rented out under operating leases.

15. INTEREST IN AN ASSOCIATE

	2007 HK$'000	2006 HK$'000
Cost of investment in an associate - unlisted	**—**	60,185
Share of post-acquisition profits, net of dividend	**—**	39,304
At the end of the year	**—**	99,489

15. INTEREST IN AN ASSOCIATE *(Continued)*

Included in the cost of investment in an associate is goodwill of HK$Nil (2006: HK$13,686,000) arising on acquisition of an associate. The movement of goodwill is set out below:

	HK$'000
Cost and carrying value	
At 1 April 2006	13,686
Transfer of associate to an independent third party	(13,686)
At 31 March 2007	—

At 31 March 2006, the Group had 25% equity interest in Shuanghuan, a sino-foreign joint venture established in the PRC and engaged in the manufacture and sales of motor vehicles.

As more fully set out in note 9, the Group has transferred the entire 25% equity interest in Shuanghuan to an independent third party during the year.

The consolidated financial statements of the Group for the period from 1 April 2006 to 31 March 2007 have not accounted for its share of result of the associate for the period from 1 April 2006 to 9 January 2007 (date of transfer) as the Group could not obtain the financial information of the associate for this period. As a result, the Group has not equity accounted for the result of its associate in accordance with the HKAS 28 "Investments in Associates". In order to obtain the financial information of the associate, the Group has already taken appropriate actions, including but not limited to any legal actions.

16. AVAILABLE-FOR-SALE INVESTMENTS

Details of available-for-sale investments as at 31 March 2007 are set out below:

	2007	2006
	HK$'000	HK$'000
Unlisted equity securities	**5,100**	5,100
Less: Impairment loss	**(5,100)**	(4,125)
	—	975

The unlisted investments represent approximately 1.6% investment in Hennabun Management International Limited ("Hennabun Management"), a company incorporated in the British Virgin Islands and engaged in securities trading, investment holding and provision of brokerage and financial services. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

In view of recurring operating losses incurred by Hennabun Management, the directors of the Company reviewed the carrying amount of the unlisted investment based on the present value of estimate future cash flows discounted at current market rate as at 31 March 2007. Accordingly, an impairment loss of HK$975,000 was identified and charged to the consolidated income statement.

17. INVESTMENTS HELD FOR TRADING

Investments held for trading as at 31 March are set out below:

	2007	2006
	HK$'000	HK$'000
Listed equity investments in Hong Kong	**318,314**	212,833

18. FINANCIAL ASSETS

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less at prevailing market interest rates. The effective interest rate ranges from 1% to 5% (2006: 1.1% to 4%).

19. DERIVATIVE FINANCIAL INSTRUMENTS

	2007		2006	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Forward commodity contracts (note a)	**278**	**—**	732	—
Conversion option derivatives (note b)	**—**	**22,949**	—	1,892
	278	**22,949**	732	1,892

Notes:

(a) The forward commodity contracts represent the trading of metals with maturity date in June 2007. All commodity contracts are normally settled other than by physical delivery of the underlying commodity and hence are classified as derivative financial instruments. On maturity, the contracted price is compared to the spot price and the differential is applied to the contracted quantity. A net amount is paid or received by the Group. The derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

(b) The derivative financial instruments represent conversion options that are embedded in the convertible notes issued by the Company during the years 2005 and 2006. (see Note 21) The Company issued convertible notes of HK$49,950,000 and HK$60,000,000 on 31 January 2005 and 31 March 2005, respectively (the "2005 Convertible Notes") and HK$49,800,000 on 22 September 2006 (the "2006 Convertible Notes").

The conversion option derivatives are carried at fair value at the balance sheet date. The fair value of the conversion option derivatives embedded in the 2005 Conversion Notes and 2006 Conversion Notes are approximately HK$1,179,000 (2006: HK$1,892,000) and HK$21,770,000 (2006: HK$nil) respectively, and are calculated using the Binominal model. Details of the variables and assumptions of the model are as follows:

	2005 Convertible Notes		2006 Convertible Notes
Date of issue	31 January 2005	31 March 2005	22 September 2006
Share price at date of issue	HK$0.290	HK$0.265	HK$0.105
Exercise price	HK$0.370	HK$0.40	HK$0.160/HK$0.176
Remaining life at 31 March 2007	10 months	1 year	2.5 years
Risk free interest rate	3.76%	3.76%	3.86%
Expected volatilty	81.94%	81.94%	73.66%
Expected dividend yield	0%	0%	0%

20. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and repayable on demand.

21. CONVERTIBLE NOTES

	HK$'000
Convertible notes	
At 1 April, 2005	84,995
Interest charged	9,142
Interest paid	(2,606)
Redeemed during the year	(27,438)
At 31 March 2006	64,093
Interest charged	8,409
Interest paid	(2,623)
Issued during the year	38,343
Redeemed during the year	(47,246)
At 31 March 2007	60,976

The 2005 Convertible Notes are unsecured, carry interest at 3% per annum and are repayable upon maturity 3 years from the date of issue. Holders of the 2005 Convertible Notes have the right to convert, on any business day, the 2005 Convertible Notes into ordinary shares of the Company during a period of 3 years from the date of issues of the 2005 Convertible Notes. An initial conversion price for the first year is HK$0.027 per share and HK$0.30 per share (subject to adjustment), respectively. The conversion prices of the 2005 Convertible Notes are subject to change from each anniversary of the issue date. The Company may redeem the 2005 Convertible Notes at par value to the extent of the entire principal amount outstanding at any time prior to maturity.

In the prior year, HK$33,750,000 was redeemed out of the convertible notes of HK$49,950,000. The principal amounts of the remaining notes outstanding is HK$16,200,000 as at 31 March 2007.

During the year, HK$55,200,000 was redeemed out of the convertible notes of HK$60,000,000. The principal amounts of the remaining notes outstanding is HK$4,800,000 as at 31 March 2007.

21. CONVERTIBLE NOTES *(Continued)*

The 2006 Convertible Notes are unsecured, carry interest of 5% per annum and are repayable upon maturity 3 years from the date of issue. Holders of the 2006 Convertible Notes have the right to convert, on any business day, the 2006 Convertible Notes into ordinary shares of the Company during the period of 3 years from the date of issues of the 2006 Convertible Notes. An initial conversion price for the first year is HK$0.145 per share and for second year is HK$0.16 per share, and for third year is HK$0.176 per share respectively. The Company may redeem the 2006 Convertible Notes at par value to the extent of the entire principal amount outstanding at any time prior to maturity.

As at the balance sheet date, none of the 2006 Convertible Notes has been redeemed.

According to HKAS 32, the conversion option should be classified as equity component only if the option can be converted by exchange a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. In the case that the conversion options are not settled by the exchange of a fixed amount for fixed number of equity instrument, the issuer recognises the compound financial instrument in the form of financial liability with embedded derivatives. HKAS 39 requires derivatives embedded in a non-derivative host contract to be accounted for separately when the economic risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. Upon application of HKAS 32 and HKAS 39, the Group has assessed the terms of the convertible notes and determined that the convertible notes do not contain any equity components because the conversion prices for the convertible notes are subject to change and the convertible notes cannot be converted into a fixed number of the Company's shares. Instead, the convertible notes contain derivatives whose economic risks and characteristics are not closely related to the host contract and are required to be separately accounted for under HKAS 39.

Upon application of HKAS 39, the convertible notes were split between the liability and derivative components. The liability component is carried at amortised cost using the effective interest method at subsequent balance sheet date. The derivative component is carried at fair value, with changes in fair value recognised in profit or loss. The average effective interest rate of the liability component is approximately 12.29%. The fair value of the liability component of the convertible notes at 31 March 2007 which is determined based on the present value of the estimated future cash outflow discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date was HK$60,976,000.

22. SHARE CAPITAL

	Nominal value per share	Number of shares	Share capital
	HK$		HK$'000
Authorised:			
At 1 April 2005, 31 March 2006 and 31 March 2007	0.1	5,000,000,000	500,000
Issued and fully paid:			
At 1 April 2005, 31 March 2006 and 31 March 2007	0.1	1,717,484,600	171,748

23. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Mandatory Provident Fund Scheme is funded by monthly contribution from both employees and the Group at a rate of 5% of the employee's basic salary with maximum employee's contribution of not exceeding HK$1,000 a month.

The retirement benefit cost charged to the income statement of HK$69,000 (2006: HK$77,000) represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

24. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

	2007	2006
	HK$'000	HK$'000
In respect of rented premises:		
Within one year	**1,616**	1,136
In the second to fifth year inclusive	**1,066**	634
	2,682	1,770

Operating lease payments represent rentals payable by the Group rented premises. Leases are negotiated for an average term of two years.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007	2006
	HK$'000	HK$'000
Within one year	**700**	867
In the second to fifth year inclusive	**475**	87
	1,175	954

Leases are negotiated for an average term of two years.

25. CAPITAL COMMITMENTS

	2007	2006
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	**755**	—

26. POST BALANCE SHEET EVENTS

Details of significant events which took place subsequent to 31 March 2007 are set out as follows:

(i) Placing of 343,496,000 new shares (the "First Share Placing")

On 16 March 2007, the Company entered into a conditional placing agreement in relation to the share placing of 343,496,000 new shares, on a fully underwritten basis, to not less than six placees at a price of HK$0.10 per share. On 4 April 2007, the First Share Placing was completed. Net proceeds of approximately HK$33,340,000 were obtained from the First Share Placing.

(ii) Adoption of share option scheme (the "Share Option Scheme")

On 24 April 2007, the Company proposed the adoption of the Share Option Scheme, subjected to the approval of the shareholders and the Hong Kong Stock Exchange granting approval for the listing of and permission to deal in the shares to be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme.

On 11 May 2007, the resolution for approving, among other things, the adoption of the Share Option Scheme was duly passed by the shareholders of the Company at an extraordinary general meeting.

(iii) Placing of 436,000,000 new shares (the "Second Share Placing")

On 4 June 2007, the Company entered into a conditional placing agreement in relation to the share placing of 436,000,000 new shares, on a fully underwritten basis, to independent investors at a price of HK$0.45 per share. On 21 June 2007, the Second Share Placing was completed. Net proceeds of approximately HK$191,000,000 were obtained from the Second Share Placing.

26. POST BALANCE SHEET EVENTS *(Continued)*

(iv) Placing of convertible notes

On 3 July 2007, the Company has completed the placing of the HK$165,000,000 convertible notes. The principal amount of the convertible notes is HK$165,000,000, and bears an interest at a rate of 4% per annum on the principal amount of the convertible notes outstanding, payable semi-annually of each year. The convertible notes carry a right to convert into new shares of the Company at the initial conversion price of HK$0.11 per share from date of issue to 29 February 2008, HK$0.12 per share from 1 March 2008 to 28 February 2009, and HK$0.13 per share from 1 March 2009 to the maturity date on 28 February 2010.

(v) Very substantial acquisition in relation to acquisition of shares in Front Wave Group Limited ("Front Wave")

On 20 June 2007, an indirectly wholly-owned subsidiary of the Company has entered into a sales and purchase agreement (the "SP Agreement") with third parties, and has conditionally agreed to acquire the share capital and the shareholder loan owned by Front Wave to its shareholder at the date of the SP Agreement, at a consideration of RMB 199,500,000 to be satisfied partially by the allotment and issue of 113,183,532 fully-paid new shares of the Company at HK$0.46 per share with the remaining balance payable in cash.

Front Wave is a company incorporated in British Virgin Islands. Upon completion of the SP Agreement, Front Wave will have 95% equity interest in Xing City Hong Ji Mining Industry Company Limited which will have the exploration right to and mining licence for the Liaoning Province Xing City Guojiozhen Renhe Molybdenum Mine then. Front Wave will be engaged in mining, selecting and selling nonferrous metal ores, particularly mining and processing of molybdenum. At the date of approval of these financial statements, the transaction has not yet completed.

27. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2007 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered and paid-up capital	Proportion of nominal value of issued share capital/registered and paid-up capital held by the Company		Principal activities
			Directly	Indirectly	
China Sci-Tech Secretaries Limited	Hong Kong	HK$10,000	100%	—	Provision of secretarial services and investment holding
Cyber Range Limited	British Virgin Islands*	US$1	100%	—	Investment holding
Harbour Fair Overseas Limited	British Virgin Islands*	US$1	100%	—	Investment holding
Millennium Riders Limited	British Virgin Islands*	US$1	100%	—	Investment holding
Perfect Touch Technology Inc.	British Virgin Islands*	US$2	100%	—	Investment holding
Smart Ease Limited	Hong Kong	HK$2	100%	—	Investment holding
Kingarm Company Limited	Hong Kong	HK$2	—	100%	Property investment
Partner United Limited	British Virgin Islands*	US$1	—	100%	Investment holding

27. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered and paid-up capital	Proportion of nominal value of issued share capital/ registered and paid-up capital held by the Company		Principal activities
			Directly	Indirectly	
Skytop Technology Limited	Hong Kong	HK$3	—	100%	Securities investment
Unigolden Limited	Hong Kong	HK$2	—	100%	Property investment
Sky Falcon Investments Limited	British Virgin Islands*	US$1	100%	—	Investment holding

* These companies are engaged in investment business and have no specific principal place of operations.

In the opinion of the directors of the Company, the above companies will principally affect the operations of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities at 31 March 2007 or at any time during the year.

Financial Summary

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Restated)		
RESULTS					
(LOSS) PROFIT FOR THE YEAR	**(63,045)**	25,499	(10,090)	(60,534)	(46,335)

	At 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**405,019**	431,239	446,303	139,599	140,760
TOTAL LIABILITIES	**(105,891)**	(69,066)	(110,381)	(32,076)	(16,060)
NET ASSETS	**299,128**	362,173	335,922	107,523	124,700

Particulars of Properties Held by the Group

Location	Use	Lease term
Unit Nos. 1104-1107 and Unit Nos. 2501-2512 Oriental Building No. 39 Jianshe Road Luohu District Shenzhen Guangdong Province PRC	Commercial	Medium term lease
East Portion of level 18 and Unit No. 2601 and Carparking Space No. 20 an basement level Shartex Plaza No. 88 Zunyi South Road Changing District Shanghai PRC	Commercial	Medium term lease