



TAI SHING

Tai Shing International (Holdings) Limited
(incorporated in the Cayman Islands with limited liability)

2005 Annual Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on the GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Tai Shing International (Holdings) Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of given information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

	Page
Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	5
Directors and Senior Management Profile	8
Report of the Directors	10
Auditors' Report	20
Consolidated Income Statement	21
Consolidated Balance Sheet	22
Balance Sheet	23
Statements of Changes in Equity	24
Consolidated Cash Flow Statement	26
Notes to the Financial Statements	28
Five Year Summary	58

Corporate Information

EXECUTIVE DIRECTORS

Mr. Luk Yat Hung
Ms. Li Wenli

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Shui Ming, Timpson
Professor Ip Ho Shing, Horace
Mr. Yan Yonghong
Mr. Peng Lijun

COMPANY SECRETARY

Mr. Young Wai Ching, ACCA, AHKSA

QUALIFIED ACCOUNTANT

Mr. Luk Yat Hung, FCCA, FHKSA

COMPLIANCE OFFICER

Mr. Luk Yat Hung, FCCA, FHKSA

AUTHORIZED REPRESENTATIVES

Mr. Luk Yat Hung, FCCA, FHKSA
Mr. Young Wai Ching, ACCA, AHKSA

AUDIT COMMITTEE

Mr. Chung Shui Ming, Timpson
Professor Ip Ho Shing, Horace
Mr. Yan Yonghong
Mr. Peng Lijun

AUDITORS

CCIF CPA Limited
37/F, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

24th Floor
Prosperous Commercial Building
54-58 Jardine's Bazaar
Causeway Bay
Hong Kong

LEGAL ADVISER

P.C Woo & Co.
(as to Hong Kong Law)

Conyers Dill & Pearman
(as to Cayman Islands Law)

PRINCIPAL BANKERS

Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR

Butterfield Bank (Cayman) Limited
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

08103

WEBSITE

www.taishingintl.com

BUSINESS REVIEW

During the year under review, the Group recorded a consolidated turnover of approximately HK\$30 million which represented an increase of approximately 68% as compared with the comparative figures of the corresponding year in 2004. The increase is attributable to the consolidation of the results of Beijing Tongfang Electronic Science & Technology Company Limited (北京同方电子科技有限公司) ("Beijing Tongfang") for the period from 1 December 2004 to 31 March 2005, after the Group acquired an indirect 40% interest in it. Details of the acquisition and the subsequent share restructuring are disclosed in the section headed "Significant investments, material acquisitions and disposal of Subsidiaries" below.

Beijing Tongfang is principally engaged in research, development and provision of integrated management information system for power plants and for banks. During the period under review, its turnover as consolidated in the accounts of the Group amounted to HK\$18,318,000. Contracts completed included management information system provided to Shanxi Datong State Power Corporation, Heilongjiang State Grid Corporation, Shangdong Lineng Group, Zhuzhou Commercial Bank and Yunnan Power.

As reported in the 2004 third quarterly report, the Group was in negotiation to provide management support to a company for management fee. Unfortunately, we were unable to consummate the deal.

Our operation in Hong Kong sustained a 65% drop in turnover during the period under review. We will continue to review the existing operations and cost structure of the Group, with a view of expanding in growth area and further tightening our Hong Kong operation.

BUSINESS OUTLOOK

The recent power plant construction boom in the PRC has led to an increase in demand for management information system for power plants. As one of the major domestic providers of such system we have experienced a strong demand for our products in the past six months. Given the time lag between power plant site construction and the ordering of management information system, we believe this trend will continue for at least another year.

In response to demand in Southern China we established an office in Zhuhai in May 2005. With better representation and quicker response time, we should be well placed to source deals in this region.

The provision of management information system to banks in the PRC is a potentially huge market, but competition is fierce. Our banking support department with its focus on local commercial banks is slowly building up client base. However, we continue to approach this market with cautious.

Our Hong Kong operation continues to suffer a shrinking market share and margin. Despite a pick-up in the local economy, we do not anticipate any significant improvement in this area.

Although we failed to close the management consultant contract for a company engaged in the provision of piped natural gas as mentioned above your Board has not given up on this market, and will continue to look for profitable opportunities.

Chairman's Statement

PROSPECTS

Looking ahead, our focus will be on the PRC energy market. The rapidly expanding and changing market will provide the Group with both opportunities and challenge. To take advantage of this market, your Board will look for growth opportunities both internally and through acquisition. We will review the Group's existing business portfolio and reduce its exposure in areas not profitable to the Group.

Sincerely yours,

Luk Yat Hung

Chairman

Hong Kong, 24 June 2005

FINANCIAL PERFORMANCE

During the year ended 31 March 2005, the Group recorded a turnover of HK\$30.5 million (2004: HK\$18.2 million) representing an increase of approximately 68% as compared with the comparative figures of the corresponding year. General and administrative expenses were reduced to approximately HK\$4.7 million as compared to HK\$8.1 million of the previous corresponding year, representing a decrease of approximately 42%. The loss attributable to the shareholders amounted to HK\$2 million (2004: HK\$6.9 million) representing an improvement of approximately 71% over the same period in 2004.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, shareholders' funds of the Group amounted to approximately HK\$10 million (2004: HK\$1 million). Current assets amounted to approximately HK\$89.6 million (2004: HK\$3.9 million), of which approximately HK\$3.9 million (2004: HK\$0.9 million) were cash and cash equivalents. Current liabilities were approximately HK\$75 million (2004: HK\$2.7 million) mainly comprised of other payables and accruals as well as receipts in advance.

The Group currently has not engaged in any borrowing activities. The Group further confirms that it does not have any impending capital expenditure commitments.

GEARING RATIO

The gearing ratio calculated on the basis of total liabilities over the total shareholders' fund as at 31 March 2005 was 308% (2004: 265.5%).

CAPITAL STRUCTURE

During the year under review and subsequent to the review period, there were several corporate actions occurred that had resulted in material changes on the capital structure of the Company.

On 18 September 2004, 18,160,000 new shares were allotted and issued as the consideration for the acquisition of the entire issued share capital of Treasure Wise. As a result of the issuance and allotment of the new shares, the issued share capital of the Company was increased from HK\$2,372,750 divided into 47,455,000 shares of HK\$0.05 each to HK\$3,280,750 divided into 65,615,000 shares of HK\$0.05 each.

On 16 March 2005, the Company further completed a placing of 9,490,000 new shares at a price of HK\$0.21 per share from which approximately of HK\$1.8 million of net proceeds were raised for the Group's future expansion, business development and general working capital.

As at 31 March 2005, the authorized share capital of the Company was HK\$200,000,000 divided into 4,000,000,000 shares of HK\$0.05 each and the issued share capital of the Company was HK\$3,755,250 divided into 75,105,000 shares of HK\$0.05 each (31 March 2004: HK\$2,372,750 divided into 47,455,000 shares of HK\$0.05 each).

Management Discussion and Analysis

FOREIGN CURRENCY EXPOSURE

During the year ended 31 March 2005, the Group experienced only immaterial exchange rate fluctuations, as the functional currencies of the Group's operations were mainly Hong Kong dollars and Renminbi. As the risk on exchange rate difference considered being minimal, the Group did not employ any financial instruments for hedging purposes.

NEW PRODUCTS AND SERVICES

The information technology market is characterized by rapidly changing technologies, evolving industry standards as well as frequent new platform and application launch. The introduction of new products and services embodying new technologies is tended to be costly to the Group's financial position. Therefore, the Group's future direction is to reduce the investments in research and development of new products. Instead, the management will identify several critical technologies and seek for the right business partners either through merger and acquisition or forming strategic alliances. This led to the acquisition of Beijing Tongfang that directly support this strategy and offer a product portfolio deeper and broader than the Group can provide.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

On 21 September 2004, the Company has successfully completed the acquisition of the entire issued share capital of Treasure Wise in a consideration HK\$9.08 million by way of issuance of 18,160,000 new shares at an issue price of HK\$0.50 per share (the "Acquisition"). Treasure Wise was the direct beneficial owner of 40% interests in Tongfang Electronic Company Limited ("Tongfang BVI") which was an indirect beneficial owner of the entire interests in Beijing Tongfang held directly by Tongfang Electronic (Hong Kong) Limited ("Tongfang HK"). The details of the acquisition were set out in the Company's circular dated 20 April 2004.

Subsequent to the completion of the Acquisition, Tongfang BVI had completed a share restructuring exercise on 1 December 2004. As a result of the restructuring exercise, the immediate shareholding of Treasure Wise in Tongfang BVI had been enlarged from 40% to approximately 61.5% but the approximate attributable shareholding interests of the Company in both Tongfang HK and Beijing Tongfang remained 40%. The details of the shareholding structure were set out in the Company's announcement dated 18 November 2004.

Save as disclosed above, as at 31 March 2005 and up to the date of this announcement, the Group did not have any other significant investments, material acquisitions or disposal of subsidiaries.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 31 March 2005, the Group had no known plans for material investments or capital assets. The Group will continue to consolidate its business operations and explore potential business opportunities and new investments which are in the best interests of the Group and the shareholders.

SEGMENT INFORMATION

The Group is principally engaged in four business segments mainly in Hong Kong and the other regions of the PRC. The Group presents its segmental information based on the nature of the products and services provided.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. The Group reports its businesses in four business segments namely:

- systems development;
- sales of software and hardware products;
- provision of professional services; and
- provision of training services.

Activities under each of the business segment decreased. This may drive the management to reorganize the business model of these business segments in order to improve the financial performance of the Group as a whole.

With respect to geographical segments, there was a decrease during the period under review. Turnover generated from PRC represented approximately 81% of the total turnover of the Group during the year ended 31 March 2005 as compared to approximately 3.6% in the previous year under review. However, it is expected that the level of the Group's activities in PRC will increase significantly following the acquisitions of Beijing Tongfang.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2005, the Group had hired 21 and 178 (2004: a total of 38) employees in Hong Kong and PRC respectively including the executive directors of the Company. Total staff costs including directors' remuneration for the year under review amounting to approximately HK\$8 million (2004: HK\$16 million). The increase was mainly resulted from the inclusion of the employees of Beijing Tongfang. The Group's remuneration policies are in line with the prevailing market practices and are determined on the basis of performance and experience of individual employees.

The Group had not made any changes to its remuneration policy and no bonuses were granted to any of its executive directors or employees for the year ended 31 March 2005.

The Company has conditionally adopted a new share option scheme on 22 October 2003 to replace the old share option scheme adopted on 26 August 2000. Pursuant to both schemes, the directors and employees of the Company and its subsidiaries may be granted options to subscribe for shares of the Company. During the year ended 31 March 2005, no option was granted under both the old and new share option schemes.

CHARGES ON GROUP'S ASSETS AND CONTINGENT LIABILITIES

As of the year ended 31 March 2005, the Company and its subsidiaries did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding.

Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Mr. Luk Yat Hung, aged 45, joined the Group as the Chairman, Qualified Accountant and Compliance Officer in July 2003. Mr. Luk is a member of Chartered Association of Certified Accountants of the United Kingdom and a fellow member of Hong Kong Institute of Certified Public Accountants with a master degree in business administration with Oklahoma City University, the United States of America. Mr. Luk has over 20 years of working experience with a number of international conglomerates performing functions of chief financial officer. Mr. Luk is also the Qualified Accountant of the Company.

Ms. Li Wenli, aged 34, joined the Group in November 2004. Ms. Li graduated from Hebei University of Technology with a bachelor degree in computer science and engineering and holds a master degree in economics with Peking University. Prior to joining the Group, Ms. Li held senior positions with China Textile Machinery Co., Ltd. and Shanghai Guojia Industrial Co., Ltd., companies listed in The Shanghai Stock Exchange. She is a director and vice general manager of Beijing Tongfang Electronic Science & Technology Co., Ltd., a non wholly-owned subsidiary of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Shui Ming, Timpson, GBS, JP, aged 53, joined the Group in July 2003. Mr. Chung holds a Master of Business Administration degree and is a fellow member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is a member of the National Committee of the 10th Chinese People's Political Consultative Conference, a Council Member and the Deputy Chairman of the City University of Hong Kong and a member of Hong Kong Housing Authority and Chairman of its Finance Sub-Committee. Currently, Mr. Chung is an executive director and chief executive officer of Shimao International Holdings Limited, a company listed on the Stock Exchange and an independent non-executive director of three other companies listed on the Stock Exchange. Formerly, Mr. Chung was the Chairman of the Hong Kong Housing Society and the Chief Executive of the Hong Kong Special Administrative Region Government Land Fund Trust.

Professor Ip Ho Shing, Horace, aged 48, joined the Group in July 2003. Professor Ip graduated from the University of London with a Bachelor of Science degree in Applied Physics and a Doctorate degree in Image Processing. He is the Chair Professor of the Department of Computer Science and a director of the Centre for Innovative Applications of Internet and Multimedia Technologies – AIMtech Centre of the City University of Hong Kong.

Mr. Yan Yonghong, aged 38, joined the Group in September 2004. Mr. Yan graduated from Tsinghua University with a Bachelor of Science degree in Electronic Engineering and holds a Doctorate degree in Computer Science and Engineering with Oregon Graduate Institute of Science and Engineering, the United States of America. Mr. Yan had been a principal engineer of Intel Corporation and an associate professor of Oregon Health and Science University. Currently, he is appointed by the Chinese Academy of Sciences as a professor and an instructor of doctorate students. He is also appointed by the Chinese government as a member of the vetting committee of National Science Foundation of China.

Mr. Peng Lijun, aged 38, joined the Group in December 2004. Mr. Peng graduated from Jiangnan Petroleum University major in architectural civil engineering. Mr. Peng has extensive experience in the industries of petroleum and civil engineering. Currently, he is appointed by Xinjiang YouBang Engineering Construction Co. Ltd. and Kelamayi YouBang Real Estate Developing Co. Ltd. as the president.

Directors and Senior Management Profile

SENIOR MANAGEMENT

Mr. Young Wai Ching, aged 36, joined the Group as company secretary in July 2003. Mr. Young is a practising member of Hong Kong Institute of Certified Public Accountants and a member of Chartered Association of Certified Accountants of the United Kingdom. He has over 14 years working experience in an accounting firm in Hong Kong performing auditing and management functions.

Report of the Directors

The board of directors (the “Directors”) of Tai Shing International (Holdings) Limited (“the Company”) has the pleasure in presenting their report together with the audited financial statements of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of the subsidiaries are set out in note 13 to the financial statements.

An analysis of the Group’s performance for the year ended 31 March 2005 by business and geographical segments are set out in note 10 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2005 are set out in the consolidated income statements on page 21.

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year ended 31 March 2005 are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Group during the year ended 31 March 2005 are set out in note 24 to the financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year under review are set out in the statements of changes in equity on pages 24 and 25.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year ended 31 March 2005 is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	16%	—
Five largest customers in aggregate	43%	—
The largest supplier	—	12%
Five largest suppliers in aggregate	—	37%

At no time during the year have the Directors, chief executive, substantial shareholders or management shareholders of the Company or any of its subsidiaries or their associates (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

DIVIDENDS

The Directors do not recommend the payment of any final dividend for the year ended 31 March 2005.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme for the year ended 31 March 2005 are set out in note 27 to the financial statements.

RAISING OF FUNDS

On 16 March 2005, the Company completed a placing of 9,490,000 new shares at a price of HK\$0.21 per share from which approximately of HK\$1.8 million of net proceeds were raised for the Group's future expansion, business development and general working capital.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions are set out in note 29 to the financial statements.

Report of the Directors

DIRECTORS

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

EXECUTIVE DIRECTORS

Mr. Luk Yat Hung

Ms. Li Wenli *(appointed on 1 November 2004)*

Mr. Ho Cho Hang *(resigned on 9 November 2004)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chung Shui Ming, Timpson

Professor Ip Ho Shing, Horace

Mr. Yan Yonghong *(appointed on 30 September 2004)*

Mr. Peng Lijun *(appointed on 15 December 2004)*

The biographical details of the Company's Directors are set out on page 8 of this report.

RETIREMENT OF DIRECTORS

Subject to the retirement by rotation provisions in the articles of association and the requirements of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules, Ms. Li Wenli, Mr. Yan Yonghong and Mr. Peng Lijun (being appointed during the year) and Professor Ip Ho Shing, Horace will retire by rotation accordingly, and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract with the Company for an initial term of one year which shall continue thereafter, subject to the termination provisions thereunder and the rotation and re-election requirements under the articles of associations of the Company.

Save as disclosed herein, none of the Directors has entered into any service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the Directors' remuneration are set out in note 5 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 March 2005, the relevant interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to the required standard of dealing by the Directors under the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

LONG POSITIONS IN THE SHARES OF THE COMPANY

Name of Director	Nature of Shares Interested	Number of Shares Interested	Approximate Percentage of issued share capital
Mr. Luk Yat Hung (<i>Note</i>)	Corporate	21,542,476	28.68%

Note: Mr. Luk Yat Hung will be taken to be interested in 21,542,476 shares in the Company as a result of him being beneficially interested in 50% of the issued share capital of Wide Source Group Ltd. which in turn holds 21,542,476 shares in the Company.

LONG POSITIONS IN UNDERLYING SHARES OF EQUITY DERIVATIVES AND DEBENTURES OF THE COMPANY

As at 31 March 2005, no long positions of the Directors and chief executive in the underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SHORT POSITIONS IN SHARES, UNDERLYING SHARES OF EQUITY DERIVATIVES AND DEBENTURES OF THE COMPANY

During the year under review, no short positions of the Directors and chief executive in the shares, underlying shares of equity derivatives and debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, as at 31 March 2005, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares of equity derivatives and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by the Directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors of the Company, as at 31 March 2005, the following persons who had an interest or short position in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:-

Name of Shareholders	Note	Number of shares held	Approximate Percentage of shareholding
Wide Source Group Ltd.	1	21,542,476	28.68%
Mr. Luk Yat Hung	2	21,542,476	28.68%
Mr. Ma Bing	3	21,542,476	28.68%
Best Jade Ltd.	4	18,160,000	24.18%
Ms. Li Luyuan	5	18,160,000	24.18%

Notes:

1. Wide Source Group Ltd. ("Wide Source") is a company incorporated in the British Virgin Islands with limited liability and is ultimately and beneficially owned as to 50% by Mr. Luk Yat Hung and as to 50% by Mr. Ma Bing.
2. Mr. Luk Yat Hung will be taken to be interested in 21,542,476 shares in the Company as a result of him being beneficially interested in 50% of the issued share capital of Wide Source which in turn holds 21,542,476 shares in the Company.
3. Mr. Ma Bing will be taken to be interested in 21,542,476 shares in the Company as a result of him being beneficially interested in 50% of the issued share capital of Wide Source which in turn holds 21,542,476 shares in the Company.
4. Best Jade Ltd. ("Best Jade") is a company incorporated in the British Virgin Islands with limited liability and is 100% ultimately and beneficially owned by Ms. Li Luyuan.
5. Ms. Li Luyuan will be taken to be interested in 18,160,000 shares in the Company as a result of her being beneficially interested in the entire issued share capital of Best Jade which in turn holds 18,160,000 shares in the Company.

LONG POSITIONS IN UNDERLYING SHARES OF THE COMPANY

As at 31 March 2005, no long positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company and its associated corporations were recorded in the register.

SHORT POSITIONS IN SHARES OF THE COMPANY

As at 31 March 2005, no short positions of other persons or substantial shareholders in the shares of the Company and its associated corporations were recorded in the register.

SHORT POSITIONS IN UNDERLYING SHARES OF THE COMPANY

As at 31 March 2005, no short positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company and its associated corporations were recorded in the register.

Save as disclosed above, as at 31 March 2005, the Directors were not aware of any other person who has an interest or short position in the shares or underlying shares (including interest in options, if any) of the Company as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which any member of the Group was a party and in which a Director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year ended 31 March 2005 or at any time during such period.

DIRECTORS' COMPETING INTERESTS

As of 31 March, 2005, none of the Directors, the substantial shareholders or the management shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the shareholders of the Company dated 22 October 2003, the Company conditionally adopted and approved a share option scheme (the "New Scheme") to replace the share option scheme adopted on 26 August 2000 (the "Old Scheme"). The principal terms of the New Scheme were set out in the Appendix I to the circular of the Company dated 30 September 2003.

(a) PURPOSE OF THE SCHEME

The purpose of the New Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution and prospective contribution to and stronger business relationship between the selected participants and the Group.

(b) PARTICIPANTS OF THE SCHEME

Under the New Scheme, the Board shall have the absolute discretion to determine who is a participant in order that such person can participate in the scheme ("Participant"). In exercising such discretion, the Board shall take into account the following factors:

- (i) whether such person is an eligible employee, being any executive, employee (whether full time or part time), or director in the employ of any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"), an adviser of, a consultant of, or a contractor to any member of the Group or any Invested Entity, or whether such person has any relationship (whether business or otherwise) with the Group or any Invested Entity and the duration of such relationship;

Report of the Directors

- (ii) any contributions which have been made by such person to the Group or any Invested Entity in the past and the extent of any such contributions;
- (iii) any potential contributions to the Group or any Invested Entity which are considered by the Board such persons would make and the extent of such potential contributions;
- (iv) the existing terms of legal and business relationship between such persons and the Group or any Invested Entity; and
- (v) the views of the independent non-executive Directors of the Company in considering who is a Participant.

(c) BASIS FOR DETERMINING THE SUBSCRIPTION PRICE

The subscription price shall be a price determined by the Board at its absolute discretion and notified to a Participant provided that it shall be no less than the higher of:

- (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the relevant acceptance date, which must be a business day;
- (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the relevant acceptance date; and
- (iii) the nominal value of the share of the Company.

An offer of option shall lapse if not accepted on or before the twenty-eighth day from the date such offer is made to a Participant. A nominal consideration of HK\$1 is payable by the grantee on acceptance of the grant of an option.

(d) MAXIMUM NUMBERS AVAILABLE FOR ISSUE

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the New Scheme shall not in aggregate exceed 10% of the issued share capital of the Company as at the adoption date ("General Scheme Limit") unless further shareholders' approval is obtained in general meeting, provided that options lapsed in accordance with the terms of the New Scheme will not be counted for the purpose of calculating the General Scheme Limit.

Notwithstanding the foregoing the total number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the shares of the Company in issue from time to time.

As at 31 March 2005, the total number of shares available for issue under the New Scheme was 7,510,500 shares representing 10% of the issued share capital of the Company.

(e) MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

For each Participant, the total number of shares issued and to be issued upon exercise of all options granted and further to be granted in any 12-month period (including both exercised and outstanding options) and in the 12-month period up to and including the acceptance date (including exercised, cancelled and outstanding options) shall not in isolation or aggregate exceed 1% of the shares, and any grant of option which would result in such limit being exceeded shall be approved by the Company in general meeting with such Participant and any associate thereof abstaining from voting.

(f) TIME OF EXERCISE OF OPTION

An option may be exercised in whole or in part in accordance with the terms of the New Scheme at any time during the period commencing on the first business day from the date of grant of option and expiring at the close of business on a date to be determined and notified by the Directors which shall not be more than 10 years from the date of grant of option.

Unless the Directors otherwise determined and stated at the time of granting the option, there is no minimum period for which an option must be held before it can be exercised.

(g) REMAINING LIFE OF THE SCHEME

The Directors shall be entitled at any time within 10 years commencing on 22 October 2003 to offer the grant of an option to any qualifying participants.

No option has been granted by the Company under both of the Old Scheme and the New Scheme during the year under review or outstanding as at 31 March 2005.

Save as disclosed herein, as at 31 March 2005, none of the Directors, chief executive, substantial shareholders or management shareholders or their respective associates (as defined under the GEM Listing Rules) had any right to subscribe for the shares of the Group.

AUDIT COMMITTEE

The Company has established an audit committee on 18 May 2000 with written terms of reference in compliance with the requirements as set out in Rule 5.28 of the GEM Listing Rules. The primary duties of audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board.

The audit committee comprises four independent non-executive directors, namely, Mr. Chung Shui Ming, Timpson, Professor Ip Ho Shing, Horace, Mr. Yan Yonghong and Mr. Peng Lijun. Mr. Chung Shui Ming, Timpson is the chairman of the audit committee. Mr. Yan Yonghong and Mr. Peng Lijun were appointed as the independent non-executive directors and members of the audit committee of the Company with effect from 30 September 2004 and 15 December 2004 respectively.

During the year under review and up to the date of this report, five audit committee meetings were held for reviewing the annual reports, half-yearly report and quarterly reports of the Group and providing advices and comments thereon to the Directors prior to recommending them to the Board for approval and subsequent publication. The audit committee has reviewed the draft of this report and has provided advices and comments thereon.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

On 22 October 2003, the Company had conditionally adopted the New Scheme to replace the Old Scheme, pursuant to which the employees and Directors of the Company and its subsidiaries may be granted options to subscribe for Shares of the Company. During the year, no option was granted under both the Old Scheme and the New Scheme.

Save as disclosed above, as at 31 March 2005, none of the Directors, chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associate corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, its holding company, or any of its fellow subsidiaries a party to any arrangement to enable the Company's Directors (including their spouses or children under 18 years of age) or chief executive of the Company to acquire benefits by means of the acquisition of shares in or debentures of, the Company or any other body corporate.

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

From the date of listing since 8 September 2000 up to the year ended 31 March 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

FIVE-YEAR SUMMARY

A summary of results and of the assets and liabilities of the Group for the last five financial years is set out on page 58 of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands.

CORPORATE GOVERNANCE

The Company had complied with the Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1 January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 March 2006.

The Company had adopted a code of conduct regarding securities transactions by Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules, and all Directors have complied with the required standard of dealings set out therein throughout the year ended 31 March 2005 and up to the date of this report.

The Company has received written confirmation in respect of independence from each of the independent non-executive Directors of the Company in compliance with Rule 5.09 of the GEM Listing Rules, and all the independent non-executive Directors were considered to be independent.

AUDITORS

The auditors of the Company for the financial years ended 31 March 2004 and 2005 was Messrs. CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Limited) ("CCIF"). CCIF has been appointed as the auditors of the Company on 25 July 2003 to fill the vacancy caused by the resignation of Messrs. KPMG on 9 July 2003.

The financial statements for the year ended 31 March 2005 were audited by CCIF. CCIF would retire at the conclusion of the forthcoming annual general meeting, and being eligible, offered themselves for re-appointment.

On behalf of the Board

Luk Yat Hung

Chairman

Hong Kong, 24 June 2005

Auditors' Report

TO THE SHAREHOLDERS OF
TAI SHING INTERNATIONAL (HOLDINGS) LIMITED
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)



CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

We have audited the financial statements on pages 21 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants

Hong Kong, 24 June 2005

Kwok Cheuk Yuen, Nickson

Practising Certificate Number P02412

Consolidated Income Statement

For the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Turnover	2	30,538	18,150
Cost of services and merchandise sold		(22,246)	(14,807)
Gross profit		8,292	3,343
Other income	3(c)	1,566	72
Research and development costs	3(c)	(1,855)	(623)
Selling expenses		(2,709)	(588)
General and administrative expenses		(4,702)	(8,119)
Impairment loss on goodwill		(1,229)	—
Provision for impairment on other investment		—	(379)
Loss from operations		(637)	(6,294)
Share of profits less losses of associates		1,286	—
Finance costs	3(a)	(496)	(17)
Loss on disposal of subsidiaries		—	(294)
Profit/(Loss) from ordinary activities before taxation	3	153	(6,605)
Taxation	4(a)	(614)	(327)
Loss from ordinary activities after taxation		(461)	(6,932)
Minority interests		(1,538)	—
Loss attributable to shareholders	7	(1,999)	(6,932)
Dividends	8	—	—
Loss per share	9		
- Basic (HK cents)		(3.5) cents	(16.62) cents
- Diluted (HK cents)		N/A	N/A

The notes on pages 28 to 57 form an integral part of these financial statements.

Consolidated Balance Sheet

For the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Fixed assets	11	9,485	125
Interests in associates	12	—	—
Investment securities	15	2,724	1,421
		<u>12,209</u>	<u>1,546</u>
Current assets			
Gross amount due from customers for contracts	16	711	—
Inventories	17	26,412	—
Accounts receivable	18	26,742	2,799
Prepayments, deposits and other receivables		31,812	240
Cash and bank balances		3,917	907
		<u>89,594</u>	<u>3,946</u>
Current liabilities			
Gross amount due to customers for contracts	16	2,726	—
Trade payable	19	8,821	—
Bills payable	19	2,337	—
Receipts in advance	20	5,605	279
Other payables and accruals		13,774	2,076
Amount due to a related company	21	24,450	—
Short term bank loans	22	16,981	—
Tax payable		327	327
		<u>75,021</u>	<u>2,682</u>
Net current assets		<u>14,573</u>	<u>1,264</u>
Total assets less current liabilities		<u>26,782</u>	<u>2,810</u>
Non-current liabilities			
Promissory note, unsecured	23	1,800	1,800
Minority interests		<u>14,892</u>	<u>—</u>
NET ASSETS		<u>10,090</u>	<u>1,010</u>
CAPITAL AND RESERVES			
Share capital	24	3,755	2,373
Reserves/(deficit)		6,335	(1,363)
		<u>10,090</u>	<u>1,010</u>

Approved and authorised for issue by the board of directors on 24 June 2005.

On behalf of the board

Luk Yat Hung
Director

Li Wenli
Director

The notes on pages 28 to 57 form an integral part of these financial statements.

Balance Sheet

For the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Fixed assets	11	69	—
Interests in subsidiaries	13	10,279	1,507
		<u>10,348</u>	<u>1,507</u>
Current assets			
Amounts due from subsidiaries	14	—	12
Prepayments, deposits and other receivables		119	160
Cash and bank balances		219	363
		<u>338</u>	<u>535</u>
Current liabilities			
Amounts due to subsidiaries	14	33	132
Other payables and accruals		1,444	1,287
		<u>1,477</u>	<u>1,419</u>
Net current liabilities		<u>(1,139)</u>	<u>(884)</u>
Total assets less current liabilities		<u>9,209</u>	<u>623</u>
Non-current liabilities			
Promissory note, unsecured	23	1,800	1,800
NET ASSETS/(LIABILITIES)		<u>7,409</u>	<u>(1,177)</u>
CAPITAL AND RESERVES			
Share capital	24	3,755	2,373
Reserves/(deficit)		3,654	(3,550)
		<u>7,409</u>	<u>(1,177)</u>

Approved and authorised for issue by the board of directors on 24 June 2005.

On behalf of the board

Luk Yat Hung
Director

Li Wenli
Director

BS 25030108e (Tai Shing)
The notes on pages 28 to 57 form an integral part of these financial statements.

Statements of Changes in Equity

For the year ended 31 March 2005

THE GROUP

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003	103,638	33,144	1,200	(395)	(132,150)	5,437
Capital reduction	(101,565)	(33,144)	—	—	134,709	—
Issue of new ordinary shares upon placement	300	2,580	—	—	—	2,880
Realised on disposal of subsidiaries	—	—	—	(375)	—	(375)
Loss for the year	—	—	—	—	(6,932)	(6,932)
At 31 March 2004 and at 1 April 2004	2,373	2,580	1,200	(770)	(4,373)	1,010
Loss for the year	—	—	—	—	(1,999)	(1,999)
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	7	—	7
Issue of new ordinary shares on acquisition of a subsidiary (note 24(a))	908	8,172	—	—	—	9,080
Issue of new ordinary shares upon placement (note 24(b))	474	1,518	—	—	—	1,992
At 31 March 2005	3,755	12,270	1,200	(763)	(6,372)	10,090

According to the relevant PRC accounting rules and regulations, the PRC subsidiaries may appropriate part of its profits after tax to general reserve, at the discretion of the board of directors of the PRC subsidiaries. The general reserve can be used to make good losses and to convert into paid-up capital.

The notes on pages 28 to 57 form an integral part of these financial statements.

Statements of Changes in Equity

For the year ended 31 March 2005

THE COMPANY

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003	103,638	33,144	1,200	—	(131,976)	6,006
Capital reduction	(101,565)	(33,144)	—	—	134,709	—
Issue of new ordinary shares upon placement	300	2,580	—	—	—	2,880
Loss for the year	—	—	—	—	(10,063)	(10,063)
At 31 March 2004 and at 1 April 2004	2,373	2,580	1,200	—	(7,330)	(1,177)
Loss for the year	—	—	—	—	(2,100)	(2,100)
Acquisition of subsidiaries	—	—	—	(386)	—	(386)
Issue of new ordinary shares on acquisition of a subsidiary (<i>note 24(a)</i>)	908	8,172	—	—	—	9,080
Issue of new ordinary shares upon placements (<i>note 24(b)</i>)	474	1,518	—	—	—	1,992
At 31 March 2005	3,755	12,270	1,200	(386)	(9,430)	7,409

Under the Companies Law (revised) of the Cayman Islands, the funds in the share premium account and capital reserve of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at 31 March 2005, in the opinion of the Directors of the Company, no reserves of the Company are available for distribution to shareholders.

The notes on pages 28 to 57 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Operating activities			
Profit/(Loss) from ordinary activities before taxation		153	(6,605)
Interest income		—	(1)
Depreciation		630	775
Finance costs		496	17
(Profit)/loss on disposal of fixed assets		(56)	5
Loss on disposal of subsidiaries		—	294
Provision for diminution in value against investment securities		—	379
Impairment loss on goodwill		1,229	—
Profit on disposal of investment in securities		(845)	—
Waiver of amounts due to fellow subsidiaries		—	2,765
		<hr/>	<hr/>
Operating profit/(loss) before changes in working capital		1,607	(2,371)
Increase in gross amount due from customers for contracts		(711)	(2,564)
Increase in inventories		(11,844)	(116)
(Increase)/decrease in accounts receivable		(15,807)	723
Decrease/(increase) in prepayments, deposits and other receivables		5,975	(613)
Increase in gross amount due to customers for contracts		1,566	—
Increase/(decrease) in receipts in advance		210	(1,270)
Decrease in bills payable		(863)	—
Increase in amount due to a related company		24,450	—
Decrease in trade payable		(11,255)	—
(Decrease)/Increase in other payables and accruals		(9,906)	2,560
		<hr/>	<hr/>
Cash used in operations		(16,578)	(3,651)
Tax paid			
- Hong Kong Profits Tax refunded		—	—
- Overseas tax paid		(857)	—
		<hr/>	<hr/>
Net cash used in operating activities		(17,435)	(3,651)

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	Note	2005 HK\$'000	2004 HK\$'000
Investing activities			
Purchase of fixed assets		(744)	(288)
Proceeds from disposal of fixed assets		1,202	—
Disposal of subsidiaries		—	(125)
Acquisition of subsidiaries	25(b)	8,310	—
Proceeds from disposal of investment in securities		6,505	—
Interest received		—	1
Net cash generated from/(used in) investing activities		15,273	(412)
Financing activities			
New shares issued		11,072	2,880
Repayment of short term bank loans		(5,411)	—
Interest paid		(496)	(17)
Net cash generated from financing activities		5,165	2,863
Net increase/(decrease) in cash and cash equivalents		3,003	(1,200)
Cash and cash equivalents at 1 April		907	2,107
Effect of foreign exchange rates changes		7	—
Cash and cash equivalents at 31 March		3,917	907

The notes on pages 28 to 57 form an integral part of these financial statements.

Notes to the Financial Statements

31 March 2005

1. SIGNIFICANT ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention as modified by provision for impairment loss on investment securities and goodwill.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out below.

GOING CONCERN CONCEPT

The financial statements have been prepared by the directors with due care on a going concern basis, notwithstanding that the Group had net loss of approximately HK\$1,999,000 for the year ended 31 March 2005. The validity of the Group to carry on its business as a going concern is dependent upon future profitable operations of the Group. Accordingly, the financial statements have been prepared on a going concern basis.

Should the Group be unable to continue its business as a going concern, adjustments would have been made to restate the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these potential adjustments have not been reflected in these financial statements.

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) SUBSIDIARIES

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intragroup transactions are eliminated in the same way as unrealised gain, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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

C) ASSOCIATES

An associate is an entity in which the Group or the Company has significant influence, which is neither a subsidiary nor a joint venture of the Group or the Company.

The investments in associates are stated at cost less any identified impairment loss. The results of associates are accounted for to the extent of dividends received and receivable.

D) GOODWILL/NEGATIVE GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is stated at cost less any impairment loss.

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated income statement when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated income statement on a systematic basis over remaining average useful life of the acquired depreciable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated income statement and any relevant reserves as appropriate.

Notes to the Financial Statements

31 March 2005

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) INVESTMENT SECURITIES

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

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

F) RESEARCH AND DEVELOPMENT COSTS

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

G) FIXED ASSETS

- i) Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.
- ii) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- iii) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

H) AMORTISATION AND DEPRECIATION

Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values, as follows:

Leasehold improvements	Over the shorter of remaining lease term and 5 years
Furniture and fixtures	5 years
Computer and office equipment	5 years
Motor vehicles	8 years

I) LEASED ASSETS

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

Notes to the Financial Statements

31 March 2005

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) IMPAIRMENT OF ASSETS

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets;
- investments in subsidiaries and associates; and
- positive goodwill

If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

ii) Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

K) INVENTORIES

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

L) CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

M) EMPLOYEE BENEFITS

- (i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance or other retirement benefit schemes, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.
- (iii) When the Group grants employees options to acquire shares of the Company at nil consideration, no employee benefit cost or obligations is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

N) DEFERRED TAXATION

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Notes to the Financial Statements

31 March 2005

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

O) PROVISION AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

P) SERVICE CONTRACTS

The accounting policy for the revenue derived from systems development and consultancy services is set out in note 1 (Q)(i). When the outcome of a service contract can be estimated reliably, contract costs are recognised as expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a service contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Service contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contracts" (as an asset) or the "Gross amount due to customers for contracts" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Accounts receivable". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Receipts in advance".

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q) REVENUE RECOGNITION

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Systems development and consultancy services

Revenue arising from the provision of systems development, maintenance and installation as well as consultancy services is recognised when the underlying services are rendered which is estimated by apportionment over the expected duration of each engagement; and the outcome of the contract can be estimated with reasonable certainty.

(ii) Sale of software and hardware products

Revenue arising from the sale of software and hardware products is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is stated after deduction of any trade discounts.

(iii) Professional service fees

Professional service fees represent fees for the provision of IT engineering services and are recognised when the underlying professional services are rendered.

(iv) Training fees

Training fees represent income earned from the provision of training courses, which is recognised when the related courses are held.

(v) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

(vi) Dividend income

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

Notes to the Financial Statements

31 March 2005

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

R) TRANSLATION OF FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign subsidiaries are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign subsidiary, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

S) WARRANTY COSTS

Warranty costs are charged to the income statement as and when they are incurred.

T) RELATED PARTIES

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

U) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, accounts receivable and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

2. TURNOVER

The principal activities of the Group are the provision of systems development, sale of software and hardware, training and technical support services. Turnover represents income arising from the provision of systems development and consultancy services, provision of IT engineering and technical support services, provision of courses and the sale of software and hardware products.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2005 HK\$'000	2004 HK\$'000
Systems development	20,567	10,452
Software and hardware products	1,754	1,142
Professional service fees	8,026	5,704
Training fees	191	852
	<u>30,538</u>	<u>18,150</u>

Notes to the Financial Statements

31 March 2005

3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(Loss) from ordinary activities before taxation is arrived at after (crediting)/charging:

	2005 HK\$'000	2004 HK\$'000
(a) Finance costs:		
Interest on bank overdrafts and other borrowings repayable within five years	<u>496</u>	<u>17</u>
(b) Staff costs: #		
Salaries, wages and other benefits	7,667	15,350
Retirement costs	<u>218</u>	<u>—</u>
	<u>7,885</u>	<u>15,350</u>
(c) Other income		
Gain on disposal of investment in securities	(845)	—
Value added tax refund (note)	(665)	—
Gain on disposal of fixed assets	(56)	—
Sundry	<u>—</u>	<u>(72)</u>
	<u>(1,566)</u>	<u>(72)</u>
Costs of services and merchandise sold #	<u>22,246</u>	<u>14,807</u>
Research and development costs #	1,855	623
Operating lease rentals - properties	178	1,737
Auditor's remuneration	247	325
Depreciation	630	775
Loss on disposal of subsidiaries	—	294
Provision for diminution in value against investment securities	<u>—</u>	<u>379</u>

Note: A tax concession has been granted by the PRC tax authorities to the Group' PRC subsidiary which is engaged in the development and trading of computer software. Under this concession, the PRC subsidiary is entitled to refund of value added tax ("VAT") paid in excess of an effective rate of 3%. The amount of VAT refund is recognised as other income.

Cost of services and merchandise sold, research and development costs, and amortisation of deferred assets include HK\$6,658,000 (2004: HK\$12,833,000) staff costs.

4. TAXATION

a) Taxation in the consolidated income statement represents:

	2005 HK\$'000	2004 HK\$'000
Current tax:		
PRC Foreign Enterprise Income Tax	614	—
Hong Kong profits tax	—	327
	<u>614</u>	<u>327</u>

No Hong Kong profits tax has been provided in the financial statements as the Group has no assessable profits arising in Hong Kong during the year (2004 : 17.5%).

The provision for PRC taxation is based on the estimated taxable income for PRC taxation purposes for the year at the appropriate current rate of taxation.

A Group's subsidiary, Beijing Tongfang Electronic Science & Technology Company Limited, operated in the PRC was adjudicated as an Advanced Software Enterprise by the PRC government authority, the subsidiary is entitled to 10% Foreign Enterprise Income Tax (instead of the tax rate of 13.5%).

b) The charge for the year can be reconciled to the loss as per the income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit/(Loss) before taxation	<u>153</u>	<u>(6,605)</u>
Effect of tax at Hong Kong profits tax rate of 17.5% (2004: 17.5%)	27	(1,156)
Effect of different tax rates in other countries	290	—
Income that are not taxable	(499)	(274)
Expenses that are not deductible	510	1,411
Tax losses not recognised	299	—
Utilisation of tax losses	—	(291)
Tax effect on accelerated depreciation allowance	(13)	(17)
	<u>614</u>	<u>(327)</u>

Notes to the Financial Statements

31 March 2005

4. TAXATION (Continued)

c) At the balance sheet date, potential deferred taxation assets not recognised and provided for are as follows:

	2005 HK\$'000	2004 HK\$'000
Tax losses carried forward	<u>15,783</u>	<u>15,484</u>
	<u>15,783</u>	<u>15,484</u>

5. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2005 HK\$'000	2004 HK\$'000
Executive Directors:		
Salaries and other emoluments	322	845
Retirement scheme contributions	—	13
Other allowances	—	—
	<u>322</u>	<u>858</u>
Non-executive Directors:		
Fees	<u>264</u>	<u>178</u>

The remuneration of the Directors is within the following bands:

	Number of directors	
	2005	2004
Nil - \$1,000,000	<u>7</u>	<u>13</u>
\$1,000,001 - \$2,000,000	<u>—</u>	<u>—</u>

6. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none (2004: two) are Directors whose emoluments are disclosed in note 5 above. The aggregate of the emoluments in respect of the other five (2004: three) individuals are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other emoluments	1,893	1,142
Retirement scheme contributions	58	24
	<u>1,951</u>	<u>1,166</u>

The emoluments of the five (2004:three) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2005	2004
Nil - \$1,000,000	5	3
\$1,000,001 - \$2,000,000	—	—
	<u>—</u>	<u>—</u>

7. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$2,100,000 (2004: HK\$10,063,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 March 2005 (2004: Nil).

9. LOSS PER SHARE**(A) BASIC LOSS PER SHARE**

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$1,999,000 (2004: loss of HK\$6,932,000) divided by the weighted average number of 57,565,874 (2004: 41,717,800) shares in issue during the year.

(B) DILUTED LOSS PER SHARE

There were no potential dilutive ordinary shares in issue as at 31 March 2005 and 2004.

Notes to the Financial Statements

31 March 2005

10. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Systems development:	Provision of systems development, maintenance and installation as well as consulting services.
Software and hardware products:	Sales of computer software and hardware products.
Professional services:	Provision of IT engineering and technical support services.
Training:	Provision of training courses.

10. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Systems development		Software and hardware products		Professional services		Training		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	20,196	10,452	11	1,142	8,026	5,704	2,305	852	30,538	18,150
Contribution from operations	879	1,421	3	517	5,183	934	2,227	471	8,292	3,343
Unallocated operating income and expenses									(7,700)	(9,637)
Impairment loss on goodwill									(1,229)	—
Loss from operations									(637)	(6,294)
Share of profits less losses of associates									1,286	—
Finance costs									(496)	(17)
Loss from disposal of subsidiaries									—	(294)
Taxation									(614)	(327)
Minority interests									(1,538)	—
Loss attributable to shareholders									(1,999)	(6,932)
Depreciation and amortisation for the year	1,422	656	—	—	—	—	—	119	1,422	775
Unallocated significant non-cash expenses (other than depreciation and amortisation)									—	5
Segment assets	98,427	2,836	—	—	71	118	—	50	98,498	3,004
Unallocated assets									3,305	2,488
Total assets									101,803	5,492
Segment liabilities	73,686	743	—	14	87	301	—	—	73,773	1,058
Unallocated liabilities									3,048	3,424
Total liabilities									76,821	4,482
Minority interests									14,892	—
Capital expenditure incurred during the year	670	132	—	—	—	—	—	—	670	132
Unallocated capital expenditure incurred during the year									74	—
									744	132

The Group does not have any inter-segment sales.

Notes to the Financial Statements

31 March 2005

10. SEGMENT REPORTING (Continued)

Geographical segments

The Group's four business segments are conducted mainly in Hong Kong and elsewhere in the PRC.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		The PRC		Other countries	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	5,892	16,898	24,646	639	—	613
Segment assets	6,090	5,492	95,713	—	—	—
Capital expenditure incurred during the year	126	132	618	—	—	—

11. FIXED ASSETS

The Group

	Furniture and fixtures	Computer and office equipment	Leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 April 2004	18	148	20	—	186
Acquisition of subsidiaries	—	2,931	1,960	5,501	10,392
Additions	43	184	2	515	744
Disposals	—	(19)	—	(1,329)	(1,348)
At 31 March 2005	61	3,244	1,982	4,687	9,974
Accumulated depreciation					
At 1 April 2004	1	60	—	—	61
Charge for the year	8	313	86	223	630
Disposals	—	(16)	—	(186)	(202)
At 31 March 2005	9	357	86	37	489
Net book value					
At 31 March 2005	52	2,887	1,896	4,650	9,485
At 31 March 2004	17	88	20	—	125

11. FIXED ASSETS (Continued)

The Company

	Computer and office equipment HK\$'000	Furniture and fixtures HK\$'000	Total HK\$'000
Cost			
At 1 April 2004	—	—	—
Additions	32	43	75
	<hr/>	<hr/>	<hr/>
At 31 March 2005	32	43	75
	<hr/>	<hr/>	<hr/>
Accumulated depreciation			
At 1 April 2004	—	—	—
Charge for the year	2	4	6
	<hr/>	<hr/>	<hr/>
At 31 March 2005	2	4	6
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 March 2005	30	39	69
	<hr/>	<hr/>	<hr/>
At 31 March 2004	—	—	—
	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements

31 March 2005

12. INTERESTS IN ASSOCIATES

On 28 September 2004, the Company has entered the sales and purchase agreement with an independent third party to purchase the entire issued share capital of Treasure Wise Enterprise Limited ("Treasure Wise"), upon completion, the Company became the indirect beneficial owner of 40% equity interests in Tongfang Electronic Company Limited ("Tongfang BVI"), Tongfang Electronic (Hong Kong) Company Limited ("Tongfang HK") and Beijing Tongfang Electronic Science & Technology Company Limited ("Beijing Tongfang"), collectively (the "Tongfang Group"). Pursuant to the corporate restructuring of the Tongfang Group on 1 December 2004, Treasure Wise has 61.5% equity interest in Tongfang BVI, which in turns has 65% shareholding in Tongfang HK and Beijing Tongfang. Therefore, interests in associates were subsequently transferred to as interests in subsidiaries.

13. INTERESTS IN SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Unlisted investments, at cost	14,725	5,953
Less: Impairment loss	(5,867)	(5,867)
	<u>8,858</u>	<u>86</u>
Advance to a subsidiary	1,800	1,800
Less: Impairment loss	(379)	(379)
	<u>1,421</u>	<u>1,421</u>
	<u>10,279</u>	<u>1,507</u>

Details of the subsidiaries at 31 March 2005 are as follows:

Name of company	Place of incorporation/ establishment and operation	Percentage of ownership interest			Issued/ registered capital	Principal activities
		Group's effective holding	held by the company	held by subsidiary		
Productive Finance Limited ("PFL")	British Virgin Islands ("BVI")	100%	100%	—	US\$5,200	Investment holding
Absolute Great Technology Limited	BVI	100%	—	100%	US\$1	Dormant
Systek Information System (Shanghai) Limited (Note)	PRC	100%	—	100%	US\$200,000	Dormant
Systek Information Technology Inc.	United States of America	100%	—	100%	US\$10	Dormant

13. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Percentage of ownership interest			Issued/ registered capital	Principal activities
		Group's effective holding	held by the company	held by subsidiary		
System Information Technology (Pte) Limited	Singapore	100%	—	100%	Singapore\$2	Dormant
Top Gallant International Limited ("Top Gallant")	BVI	100%	100%	—	US\$10,000	Investment holding
Acon Enterprises Limited	BVI	100%	100%	—	US\$1,000	Dormant
Loyaltek Limited	Hong Kong	100%	—	100%	HK\$10,000	Dormant
Tai Shing (Hong Kong) Limited	Hong Kong	100%	—	100%	HK\$2	Dormant
System International Trading Company (Shanghai) Limited (Note)	PRC	100%	—	100%	US\$200,000	Dormant
System Solutions (China) Limited	Hong Kong	100%	—	100%	HK\$2	Development and trading of software products and provision of training services
System Research Limited	BVI	100%	—	100%	US\$1	Dormant
Transaction Technologies Limited	Hong Kong	100%	—	100%	HK\$2	Development and trading of software products
Wingreat Investments Limited	BVI	100%	—	100%	US\$1	Investment holding
Treasure Wise Enterprises Limited	BVI	100%	100%	—	US\$1,000	Investment holding

Notes to the Financial Statements

31 March 2005

13. INTERESTS IN SUBSIDIARIES (Continued)

Name of company	Place of incorporation/ establishment and operation	Percentage of ownership interest			Issued/ registered capital	Principal activities
		Group's effective holding	held by the company	held by subsidiary		
Tongfang Electronic Company Limited	BVI	61.5%	—	61.5%	US\$50,000	Investment holding
Tongfang Electronic (Hong Kong) Company Limited	Hong Kong	40%	—	40%	HK\$100,000	Investment holding
Beijing Tongfang Electronic Science & Technology Company Limited (Note)	PRC	40%	—	40%	RMB\$35,579,090	Research, development and provision of integrated management information system

Note: These companies were established as wholly-foreign owned enterprises in the PRC.

14. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

Amounts due were unsecured, interest free and without fixed terms of repayment.

15. INVESTMENT SECURITIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Other investments:		
Unlisted investments, at cost	3,103	1,800
Less: Impairment loss	(379)	(379)
	<u>2,724</u>	<u>1,421</u>

At 31 March 2005, the carrying value of the other investment exceed 10% of the total assets of the Company and the Group, respectively.

Name	Business structure	Place of incorporation	Principal activities	Registered capital	Percentage of interest held
北京中廣鴻聯網絡技術有限公司 ("Hung Luen")	Corporate	The People's Republic of China	Research, development and provision of information-on-demand system solutions, telecommunication and broadcasting media, network solutions and provision of related products and services	RMB4.5 million	40%
甘肅同興智能科技發展有限公司 ("Tung Hing")	Corporate	The People's Republic of China	Research, development and provision of information-on-demand system solutions, telecommunication and broadcasting media, network solutions and provision of related products and services	RMB11.4million	12.11%

The equity interest of 40% in Hung Luen is held by Top Gallant, a direct wholly-owned subsidiary incorporated in British Virgin Islands.

Neither the Company nor Top Gallant has representative on the board of directors of Hung Luen and Tung Hing. In the opinion of the directors of the Company, neither the Company nor Top Gallant has any significant influence over Hung Luen and Tung Hing. Therefore, the interests in Hung Luen and Tung Hing are regarded as "other investments" and dealt with in accordance with the accounting policies detailed in note 1E and note 1Q(vi) to the financial statements.

Notes to the Financial Statements

31 March 2005

16. GROSS AMOUNT DUE FROM/(TO) CUSTOMERS FOR CONTRACTS

	The Group	
	2005 HK\$'000	2004 HK\$'000
Costs incurred	19,288	—
Recognised profits less(losses), net	8,073	—
	<u>27,361</u>	<u>—</u>
Less: Progress billings	(29,376)	—
	<u>(2,015)</u>	<u>—</u>
Amounts due from contract customers	711	—
Amounts due to contract customers	(2,726)	—
	<u>(2,015)</u>	<u>—</u>

At 31 March 2005, retentions held by customers for contract work amounted to approximately HK\$155,343 which have been included in accounts receivables under current assets.

17. INVENTORIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Work in progress, at cost	<u>26,412</u>	<u>—</u>

18. ACCOUNTS RECEIVABLE

An ageing analysis of accounts receivable is as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Within 1 month	1,741	264
More than 1 month but within 3 months	3,717	502
More than 3 months but less than 12 months	20,234	2,033
Beyond 1 year	1,050	—
	<u>26,742</u>	<u>2,799</u>

All of the accounts receivable are expected to be recovered within one year. General credit term is 30 to 45 days from the date of billing. Debtors with balances that are more than 9 months overdue are requested to settle all outstanding balances before any further credit is granted.

19. TRADE AND BILLS PAYABLES

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Bills payable	2,337	—
Trade payable	8,821	—
	<u>11,158</u>	<u>—</u>

An ageing analysis of trade payable is as follows:

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Within 1 month	2,152	—
More than 1 month but within 3 months	1,328	—
More than 3 months but less than 12 months	7,634	—
Beyond 1 year	44	—
	<u>11,158</u>	<u>—</u>

All bills payables are due within five months.

Notes to the Financial Statements

31 March 2005

20. RECEIPTS IN ADVANCE

Receipts in advance represented advance payments of systems development service fees from customers pursuant to the respective service contracts.

21. AMOUNT DUE TO A RELATED COMPANY

The amount due is unsecured, interest free and repayable on demand.

22. SHORT TERM BANK LOANS

Short term bank loans bear interest at rates ranging from 5.84% to 6.13% per annum and are guaranteed by a related company.

23. PROMISSORY NOTE, UNSECURED

On 8 September 2004, the Company entered into a sale and purchase agreement with an independent third party to purchase 40% equity interest in Hung Luen in PRC at a consideration of HK\$1,800,000, which is satisfied by the issuance of a Promissory Note by the Company in the nominal value of HK\$1,800,000. The Promissory Note bears interest at 1% per annum and is redeemable on 7 September 2005.

24. SHARE CAPITAL

	Note	Number of shares '000	Amounts HK\$'000
Authorised:			
Ordinary shares of HK\$0.05 each		4,000,000	200,000
Issued and fully paid:			
At 1 April 2003 ordinary shares of HK\$0.10 each		1,036,375	103,638
Capital reduction of par value from HK\$0.10 to HK\$0.002 each		—	(101,565)
		1,036,375	2,073
Consolidation of every 25 shares to 1 share at HK\$0.002 each		(994,920)	—
		41,455	2,073
Issue upon share placements		6,000	300
At 31 March 2004 ordinary shares of HK\$0.05 each		47,455	2,373
Issue of shares on acquisition of a subsidiary	(a)	18,160	908
Issue upon share placements	(b)	9,490	474
At 31 March 2005 ordinary shares of HK\$0.05 each		75,105	3,755

(a) On 18 September 2004, 18,160,000 new ordinary shares of HK\$0.05 each were issued at HK\$0.50 to an independent third party as consideration for the acquisition of interest in a subsidiary. These shares rank pari passu in all respects with the existing ordinary shares of the Company.

(b) On 16 March 2005, 9,490,000 new ordinary shares of HK\$0.05 each were issued at HK\$0.21 each per placing share upon the completion of share placements. These shares rank pari passu in all respects with the existing ordinary shares of the Company. The reason for the increase in issued share capital was to provide additional general working capital of the Company for its daily operations and possible future expansion. The premium on issue of shares of approximately HK\$1,518,400 was credited to the share premium account.

Notes to the Financial Statements

31 March 2005

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) DISPOSAL OF SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	3,835
Gross amount due from customers	—	4,165
Accounts receivable	—	2,537
Inventories	—	356
Prepayment, deposits and other receivable	—	1,165
Due to fellow subsidiaries	—	(2,765)
Pledged deposits	—	526
Cash and bank balances	—	125
Other payable and accruals	—	(8,853)
Receipts in advance	—	(422)
	<hr/>	<hr/>
	—	669
Exchange reserve realised on disposal	—	(375)
Loss on disposal of subsidiaries	—	(294)
	<hr/>	<hr/>
	—	—
	<hr/>	<hr/>
Net cash outflow arising on disposal:		
	2005 HK\$'000	2004 HK\$'000
Cash and bank balances disposed of	—	(125)
	<hr/>	<hr/>

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) ACQUISITION OF SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Net assets disposed of:		
Fixed assets	10,392	—
Accounts receivable	8,136	—
Inventories	14,567	—
Investment in securities	6,963	—
Prepayment, deposits and other receivable	37,547	—
Cash and bank balances	17,390	—
Bills payables	(3,200)	—
Trade payables	(20,076)	—
Other payable and accruals	(21,603)	—
Gross amount due to customers for contracts	(1,160)	—
Tax payable	(243)	—
Bank loans	(22,392)	—
Receipts in advance	(5,116)	—
	<u>21,205</u>	—
Minority interest	(13,354)	—
Goodwill on acquisition	1,229	—
	<u>9,080</u>	—
Consideration	<u>9,080</u>	—
	2005 HK\$'000	2004 HK\$'000
Satisfied by:		
Issue of new shares	<u>9,080</u>	—

Notes to the Financial Statements

31 March 2005

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) ACQUISITION OF SUBSIDIARIES *(Continued)*

An analysis of net outflow of cash and cash equivalents in respect of acquisition of subsidiaries is as follows:

	2005 HK\$'000	2004 HK\$'000
Cash and bank balance acquired	<u>17,390</u>	<u>—</u>

(c) MAJOR NON-CASH ITEMS

On 24 September 2004, the Company acquired the entire issued share capital of Treasure Wise Enterprise Limited at a consideration of HK\$9,080,000 which was satisfied by the issue of 18,160,000 new shares of the Company at HK\$0.50 per share.

26. COMMITMENTS UNDER OPERATING LEASES

At 31 March 2005, the total future minimum lease payment under non-cancellable operating leases payable are as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Within 1 year	<u>923</u>	150
After 1 year but within 5 years	<u>64</u>	<u>128</u>
	<u>987</u>	<u>278</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one year to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

27. RETIREMENT BENEFITS SCHEMES

HONG KONG

Since 1 December 2000, the Hong Kong subsidiaries are required to join the Mandatory Provident Fund (the "MPF"), managed by an independent approved MPF trustee, under the requirements of the Mandatory Provident Fund Schemes Ordinance.

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

Total retirement benefits costs under the MPF charged to the income statement amounted to HK\$218,392 (2004: HK\$376,000), minimum contribution to the MPF is 5% of the employees' basic salaries.

PRC, OTHER THAN HONG KONG

The PRC subsidiaries of the Group participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 19% to 25.5% of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to HK\$269,577 (2004: HK\$122,000) during the year.

28. SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 22 October 2003 whereby the Directors of the Company are authorised, at their discretion, to invite full time employees of the Group, including executive Directors of any Company in the Group excluding non-executive Directors and independent non-executive Directors, to take up options to subscribe for shares of the Company. The exercise price of options was determined by the board and was the higher of (i) the closing price of the shares as stated on the Stock Exchange of Hong Kong Limited's ("Exchange's") daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated on the Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; (iii) the nominal value of the shares. Each option gives the holder the right to subscribe for one share.

No option was granted since the inception of the share option scheme.

29. RELATED PARTY TRANSACTIONS

During the year, the Group purchased goods amounted to HK\$5,339,426 (2004: NIL) and sold services amounted to HK\$19,356,754 (2004: NIL) to a related company of which Ms Li Wenli, an executive director of the Company, is a director. The board of directors consider that the sales and purchases with the related company were transacted on normal commercial terms similar to those offered to other independent third parties.

Five Year Summary

COMPARATIVE TABLES OF RESULTS, ASSETS AND LIABILITIES

The following table summaries the results, assets and liabilities of the Group for each of the last five financial years:

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	<u>30,538</u>	<u>18,150</u>	<u>37,698</u>	<u>35,292</u>	<u>35,628</u>
Profit/(loss) from ordinary activities before taxation	153	(6,605)	(56,904)	(54,153)	(29,233)
Taxation	<u>(614)</u>	<u>(327)</u>	<u>75</u>	<u>—</u>	<u>(295)</u>
Loss from ordinary activities after taxation	(461)	(6,932)	(56,829)	(54,153)	(29,528)
Minority interests	<u>(1,538)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>987</u>
Loss attributable to shareholders	<u>(1,999)</u>	<u>(6,932)</u>	<u>(56,829)</u>	<u>(54,153)</u>	<u>(28,541)</u>
Total assets	101,803	5,492	15,777	71,250	127,131
Total liabilities	(76,821)	(4,482)	(10,340)	(10,147)	(11,549)
Minority interests	<u>(14,892)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net assets	<u>10,090</u>	<u>1,010</u>	<u>5,437</u>	<u>61,103</u>	<u>115,582</u>