1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 26.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (hereinafter collectively referred to as the "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Hence, HKFRS 3 has no impact to the Group from 1 January to 31 March 2005.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

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

All significant intercompany transactions and balances with the Group have been eliminated on consolidation.

Revenue recognition

Dividend income from investments in securities is recognised when the Group's rights to receive payment have been established.

Interest income is accrued on a time proportion basis, by reference to principal outstanding and at the interest rate applicable.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

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

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

Leasehold improvements	33%
Furniture and equipment	15% – 25%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill/less the negative goodwill in so far as it has not already been amortised/released to income, less any identified impairment loss.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, or an associate at the date of acquisition. Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate.

On disposal of an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations assessed by external qualified valuers at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance of the investment property revaluation reserve is charged to the consolidated income statement. Where a decrease has previously been charged to the consolidated income statement and a revaluation increase subsequently arises, this increase is credited to the consolidated income statement to the extent of the decrease previously charged.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties *(continued)*

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired terms of the relevant lease is 20 years or less.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

All securities are measured at fair value at subsequent reporting dates.

When securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Impairment

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

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

Convertible notes

The convertible notes are separately disclosed and regarded as a liability unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible notes, including the premium payable upon the final redemption of the convertible notes, are calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible notes for each accounting period.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

In preparing the consolidated financial statements, the results of operations outside Hong Kong are translated using the average exchange rates for the year. The assets and liabilities of the operations outside Hong Kong are translated using the rates ruling on the balance sheet date. On consolidation, any differences arising on translation of operations outside Hong Kong are dealt with in the translation reserve.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Retirement benefit scheme

Payments to the Mandatory Provident Fund are charged as an expense as they fall due.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Geographical segments

The Group is engaged in the corporate and strategic investment holding and investment in property. Corporate and strategic investment holding represents the investments in securities and development of properties for investment potential. The directors of the Company consider the geographical segments by location of assets as a source of the Group's risks and return.

A geographical breakdown of the Group's turnover and segment results by geographical market is as follows:

	Turnover		Segment results	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
The People's Republic of China (the "PRC"), other than Hong Kong	**846**	325	**(441)**	(5,595)
Hong Kong	**2,237**	486	**(18,642)**	(46,221)
United States of America	**833**	–	**717**	–
	3,916	811		
Loss from operations			**(18,366)**	(51,816)
Finance costs			**(834)**	(1,674)
Gain (loss) on disposal of subsidiaries			**7,547**	(5,829)
Share of results of an associate (located in the PRC)			**2,479**	–
Amortisation of goodwill in respect of an associate			**(115)**	–
Loss on legal proceedings			**–**	(1,156)
Loss before taxation			**(9,289)**	(60,475)
Taxation			**(801)**	(59)
Net loss for the year			**(10,090)**	(60,534)

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Geographical segments *(continued)*

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

	Carrying amount of segment assets		Additions to property, plant and equipment, and investment properties	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
The PRC, other than Hong Kong (including interest in an associate)	**83,824**	22,455	**–**	27,889
Hong Kong	**356,756**	117,144	**8**	7
United States of America	**5,723**	–	**–**	–
	446,303	139,599	**8**	27,896

OTHER INFORMATION

	The PRC, other than Hong Kong HK$'000	**Hong Kong** HK$'000	**Total** HK$'000
Year ended 31 March 2005			
Capital additions	–	8	8
Depreciation	–	122	122
Revaluation decrease arising from revaluation of investment properties	600	–	600
Impairment losses recognised in respect of investments in securities	–	14,100	14,100
Year ended 31 March 2004			
Capital additions	27,889	7	27,896
Depreciation	–	128	128
Revaluation decrease arising from revaluation of investment properties	5,689	–	5,689
Impairment losses recognised in respect of investments in securities	–	25,800	25,800

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(b) Business segments

Segment revenue represents dividend income, interest income and rental income received and receivable during the year. An analysis of segment revenue is as follows:

	2005	2004
	HK$'000	HK$'000
Corporate and strategic investment holding		
Dividend income from listed investments in securities	**948**	486
Interest income	**2,122**	–
	3,070	486
Rental income from investment properties	**846**	325
	3,916	811

Balance sheet

	2005		2004	
	Segment assets HK$'000	**Capital additions HK$'000**	Segment assets HK$'000	Capital additions HK$'000
Corporate and strategic investment holding	**202,000**	**–**	89,874	–
Investment in property	**21,600**	**–**	22,200	27,889
Unallocated corporate assets	**222,703**	**8**	27,525	7
	446,303	**8**	139,599	27,896

5. LOSS FROM OPERATIONS

	2005 HK$'000	2004 HK$'000
Loss from operations has been arrived at after charging:		
Directors' emoluments	**1,231**	333
Contributions to the Mandatory Provident Fund	**46**	32
Other staff costs	**1,560**	1,139
Total staff costs	**2,837**	1,504
Auditors' remuneration	**850**	650
Depreciation	**122**	128
Minimum lease payments under operating leases in respect of land and buildings	**393**	354
and after crediting:		
Gross rental income less outgoings of HK$363,000 (2004: HK$70,000)	**483**	255

(i) Information regarding directors' emoluments

	2005 HK$'000	2004 HK$'000
Directors' emoluments:		
Directors' fees		
Executive	**411**	–
Independent non-executive	**350**	333
	761	333
Other emoluments to executive directors		
Salaries and other benefits	**467**	–
Contributions to the Mandatory Provident Fund	**3**	–
Total emoluments	**1,231**	333

The emoluments of ten (2004: seven) directors were below HK$1,000,000.

5. LOSS FROM OPERATIONS *(continued)*

(ii) Information regarding employees' emoluments:

Of the five individuals with the highest emoluments in the Group, two (2004: two) were directors of the Company whose emoluments are included in note 5(i) above. The emoluments of the remaining three (2004: three) individuals were as follows:

	2005 HK$'000	2004 HK$'000
Salaries and other benefits	**1,197**	1,130
Contributions to the Mandatory Provident Fund	**43**	32
	1,240	1,162

The emoluments of each of the three (2004: three) individuals were below HK$1,000,000.

6. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on borrowings wholly repayable within five years:		
Bank and other borrowings	**–**	(1,279)
Amount due to a related company	**(126)**	(380)
Convertible notes	**(408)**	(4)
	(534)	(1,663)
Amortisation of the issue costs of convertible notes	**(300)**	(11)
	(834)	(1,674)

7. GAIN (LOSS) ON DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its entire interests in certain subsidiaries. The gain (loss) on disposal of subsidiaries is computed as follows:

	2005 HK$'000	2004 HK$'000
Net (liabilities) assets disposed of:		
Property, plant and equipment	**–**	12
Land held for development	**–**	53,000
Trade and other receivables	**–**	1,013
Bank balances and cash	**–**	34
Other payables and accrued charges	**(1,415)**	(6,272)
Amount due to a related company	**(6,132)**	–
	(7,547)	47,787
Gain (loss) on disposal of subsidiaries	**7,547**	(5,829)
Cash consideration received	**–**	41,958
Net cash inflow arising on disposal		
Cash consideration received	**–**	41,958
Bank balances and cash disposed of	**–**	(34)
	–	41,924

The subsidiaries disposed of during the year did not contribute significantly to the Group's operating results and cash flows for the year.

8. TAXATION

	2005 HK$'000	2004 HK$'000
The charge comprises:		
Underprovision of Hong Kong Profits Tax in prior years	–	(3)
Taxation in other jurisdictions	**(85)**	(56)
	(85)	(59)
Share of taxation attributable to an associate	**(716)**	–
	(801)	(59)

No provision for Hong Kong Profits Tax has been made since the Group had no assessable profits for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	2005 HK$'000	2004 HK$'000
Loss before taxation	**(9,289)**	(60,475)
Tax credit at the domestic income tax rate of 17.5% (2004: 17.5%)	**1,626**	10,583
Tax effect of share of results of an associate	**434**	–
Tax effect of expenses not deductible for tax purpose	**(3,064)**	(7,939)
Tax effect of income not taxable for tax purpose	**1,836**	194
Underprovision of Hong Kong Profits Tax in prior years	–	(3)
Utilisation of tax losses previously not recognised	**595**	–
Tax effect of losses not recognised	**(1,555)**	(2,841)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(63)**	(37)
Others	**(610)**	(16)
Taxation charge for the year	**(801)**	(59)

At the balance sheet date, the Group and the Company had unused tax losses of HK$199,838,000 and HK$17,985,000 (2004: HK$194,352,000 and HK$9,453,000), respectively available to offset against future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams.

9. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK$10,900,000 (2004: HK$60,534,000) and on the weighted average of 1,258,869,558 (2004: 689,361,736 adjusted for 10 to 1 share consolidation effective in March 2005) shares in issue during the year.

No diluted loss per share figures have been presented for either 2005 or 2004 because the exercise of the convertible notes would result in a decrease in the loss per share in 2005 and 2004.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and equipment HK$'000	Total HK$'000
THE GROUP AND THE COMPANY			
COST			
At 1 April 2004	262	202	464
Additions	–	8	8
At 31 March 2005	262	210	472
DEPRECIATION			
At 1 April 2004	128	113	241
Provided for the year	87	35	122
At 31 March 2005	215	148	363
NET BOOK VALUES			
At 31 March 2005	47	62	109
At 31 March 2004	134	89	223

11. INVESTMENT PROPERTIES

	THE GROUP HK$'000
AT VALUATION	
At 1 April 2004	22,200
Revaluation decrease	(600)
At 31 March 2005	21,600

The investment properties were valued at 31 March 2005 by Legend Surveyors Limited, a firm of property valuers, on an open market value basis. This valuation gives rise to a revaluation decrease of HK$600,000 (2004: HK$5,689,000) which has been charged to the consolidated income statement.

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

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY 2005 HK$'000	THE COMPANY 2004 HK$'000
Unlisted shares, at cost	**127,614**	127,614
Amounts due from subsidiaries	**457,052**	351,631
	584,666	479,245
Impairment losses recognised	**(361,948)**	(361,215)
	222,718	118,030

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. In the opinion of directors, the Company will not demand for repayment of the amounts within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets.

Particulars of the Company's principal subsidiaries at 31 March 2005 are set out in note 26.

13. INTEREST IN AN ASSOCIATE

	THE GROUP HK$'000
Share of net assets	48,262
Goodwill	
At cost	
Arising from acquisition during the year and balance at 31 March 2005	13,801
Amortisation	
Amortised during the year	115
Unamortised goodwill at 31 March 2005	13,686
	61,948

Goodwill is amortised over 12 years.

13. INTEREST IN AN ASSOCIATE *(continued)*

On 18 November 2004, the Company announced to acquire 25% of the equity interest in Shijizhuang Shuanghuan Automobile Co., Ltd. ("Shuanghuan"), a sino-foreign joint venture established in the PRC and engaged in the manufacture and sales of motor vehicles, through acquisition of a subsidiary.

The following details have been extracted from the unaudited management accounts, prepared under accounting principles generally accepted in Hong Kong, of Shuanghuan for the period from 1 February to 31 March 2005:

	HK$'000
Results for the period	
Turnover	72,850
Profit before taxation	9,916
Profit before taxation attributable to the Group	2,479
Financial position at 31 March 2005	
Non-current assets	84,034
Current assets	406,961
Current liabilities	(289,959)
Non-current liabilities	(7,988)
Net assets	193,048
Net assets attributable to the Group	48,262

Note: The financial year end of Shuanghuan is 31 December.

14. INVESTMENTS IN SECURITIES

THE GROUP

	Trading securities		Non-trading securities		Total	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Listed equity securities in Hong Kong	**114,952**	70,674	**–**	–	**114,952**	70,674
Unlisted equity securities	**–**	–	**45,000**	45,000	**45,000**	45,000
	114,952	70,674	**45,000**	45,000	**159,952**	115,674
Impairment losses recognised in respect of unlisted equity securities	**–**	–	**(39,900)**	(25,800)	**(39,900)**	(25,800)
Unlisted convertible notes	**–**	–	**20,000**	–	**20,000**	–
Carrying amount analysed for reporting purposes:						
– current asset	**114,952**	70,674	**–**	–	**114,952**	70,674
– non current asset	**–**	–	**25,100**	19,200	**25,100**	19,200
	114,952	70,674	**25,100**	19,200	**140,052**	89,874
Market value of listed equity securities	**114,952**	70,674	**N/A**	N/A	**114,952**	70,674

During the year, the directors of the Company reviewed the carrying amount of the non-trading unlisted equity securities with reference to the underlying monetary assets. Accordingly, an impairment loss of HK$14,100,000 (2004: HK$25,800,000) was recognised in the financial statements.

15. AMOUNTS DUE TO DIRECTORS

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

16. AMOUNT DUE TO A RELATED COMPANY

In the prior year, the amount represented balance due to a company in which a brother of Mr. Chiu Kong, a director of the Company, had beneficial interest. The amount was unsecured, carried interest at 12% per annum and settled through disposal of subsidiaries.

17. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY HK$'000
Convertible notes	
At 1 April 2004	22,000
Issued during the year	109,950
Converted during the year	(22,000)
At 31 March 2005	109,950
Issue costs	
At 1 April 2004	253
Incurred during the year	2,349
Amortised during the year	(300)
At 31 March 2005	2,302
Carrying value	
At 31 March 2005	107,648
At 31 March 2004	21,747

On 13 February 2004, the Company entered into a subscription agreement with a placing agent for the subscription of an aggregate principal amount of HK$22,000,000 convertible notes (the "Old Convertible Notes") issued by the Company. The Old Convertible Notes are unsecured, carry interest at 2% per annum and are repayable upon maturity on 29 March 2006 (the "Maturity Date") on the amount outstanding. The Company may redeem the Old Convertible Notes to the extent of the entire principal amount outstanding at any time until fourteen days prior to the Maturity Date. The Old Convertible Notes may be converted into ordinary shares of the Company at an initial conversion price of HK$0.022 per share, subject to adjustments.

During the year, the Old Convertible Notes were fully converted into 500,000,000 and 550,000,000 ordinary shares of the Company at a conversion price of HK$0.022 and HK$0.02 per share, respectively.

The Company issued new convertible notes of HK$49,950,000 and HK$60,000,000 on 31 January 2005 and 31 March 2005, respectively (the "New Convertible Notes"). The New Convertible Notes are unsecured, carry interest at 3% per annum and are repayable upon maturity 3 years from the date of issue. Holders of the New Convertible Notes have the right to convert, on any business day, the new convertible notes into ordinary shares of the Company during a period of 3 years from the date of issues of the New Convertible Notes, at an initial conversion price of HK$0.027 per share and HK$0.3 per share, respectively, subject to adjustments.

18. SHARE CAPITAL

	Nominal value per share HK$	Number of shares 2005	Number of shares 2004	Share capital 2005 HK$'000	Share capital 2004 HK$'000
Authorised:					
At the beginning of the year	0.01	**20,000,000,000**	20,000,000,000	**200,000**	200,000
Increase in authorised share capital (note (b))	0.01	**30,000,000,000**	–	**300,000**	–
Upon consolidation of shares (note (d))		**(45,000,000,000)**	–	**–**	–
At the end of the year	0.1	**5,000,000,000**	20,000,000,000	**500,000**	200,000
Issued and fully paid:					
At the beginning of the year	0.01	**8,348,124,004**	5,806,770,004	**83,481**	58,068
Issue of new shares (note (a))	0.01	**5,776,722,000**	2,541,354,000	**57,767**	25,413
Exercise of convertible notes (note 17)	0.01	**1,050,000,000**	–	**10,500**	–
Upon consolidation of shares (note (c))		**(13,657,361,404)**	–	**–**	–
	0.1	**1,517,484,600**	8,348,124,004	**151,748**	83,481
Issue of new share (note (d))	0.1	**200,000,000**	–	**20,000**	–
At the end of the year	0.1	**1,717,484,600**	8,348,124,004	**171,748**	83,481

18. SHARE CAPITAL *(continued)*

Notes:

(a) Pursuant to a subscription agreement dated 30 March 2004, the Company issued 1,669,624,000 new shares of HK$0.01 each in the capital of the Company at a price of HK$0.19 per share to Sunderland Properties Limited. The subscription was completed on 13 April 2004. These new shares issued rank pari passu with the then existing shares in all respects.

Pursuant to a placing agreement dated 30 March 2004 entered into by the Company and Kingston Securities Limited, the placing agent, for placement of 1,669,624,000 new shares of HK$0.01 each in the capital of the Company at a price of HK$0.019 per share. The placement was completed on 7 May 2004. The net proceeds of this placement and the share subscription described above amounting to approximately HK$$62,000,000 was used in the investment of listed securities and the acquisition of 25% interest in Shuanghuan. These new shares issued rank pari passu with the then existing shares in all respects.

Pursuant to a subscription agreement dated 7 January 2005, the Company issued 1,669,624,000 and 767,850,000 new shares of HK$0.01 each in the capital of the Company at a price of HK$0.04 per share to Kaison Limited, a substantial shareholder of the Company, as at the balance sheet date, and Everfull International Limited. The subscription was completed on 21 January 2005. The net proceeds amounting to approximately HK$94,500,000 will be used for investment purposes or as the general working capital of the Company. These new shares issued rank pari passu with the then existing shares in all respects.

(b) Pursuant to an ordinary resolution passed at the annual general meeting held on 24 September 2004, the authorised share capital of the Company was increased from HK$200,000,000 to HK$500,000,000 by the creation of additional 30,000,000,000 new shares of HK$0.01 each in the capital of the Company.

(c) Pursuant to an ordinary resolution passed at the extraordinary general meeting held on 10 March 2005, every ten issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK$0.1 each in the capital of the Company.

(d) Pursuant to a placing agreement dated 1 February 2005 entered into by the Company and Kingston Securities Limited, the placing agent, for placement of 200,000,000 new shares of HK$0.1 each in the capital of the Company at a price of HK$0.3 per share. The placement was completed on 31 March 2005. The net proceeds amounting to approximately HK$58,000,000 will be used for investment purposes or as the general working capital of the Company. These new shares issued rank pari passu with the then existing shares in all respects.

19. RESERVES

THE GROUP

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

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

	Share premium HK$'000	Capital reserve HK$'000 (note a)	Other capital reserve HK$'000 (note b)	Accumulated losses HK$'000	Total HK$'000
THE COMPANY					
At 1 April 2003	–	35,125	396,347	(364,840)	66,632
Premium arising on issue of new shares	18,457	–	–	–	18,457
Expenses incurred in connection with issue of new shares	(513)	–	–	–	(513)
Net loss for the year	–	–	–	(66,544)	(66,544)
At 31 March 2004 and 1 April 2004	17,944	35,125	396,347	(431,384)	18,032
Premium arising on issue of new shares	143,177	–	–	–	143,177
Premium arising on exercise of convertible notes	11,500	–	–	–	11,500
Expenses incurred in connection with issue of new shares	(4,455)	–	–	–	(4,455)
Net loss for the year	–	–	–	(11,307)	(11,307)
At 31 March 2005	168,166	35,125	396,347	(442,691)	156,947

Notes:

(a) The capital reserve of the Company represents the excess of the fair value of the then combined net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange, pursuant to the Reorganisation.

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

19. RESERVES *(continued)*

In the opinion of the directors of the Company, the Company's reserve available for distribution to shareholders were as follows:

	2005 HK$'000	2004 HK$'000
Share premium	**168,166**	17,944
Capital reserve	**35,125**	35,125
Other capital reserve	**396,347**	396,347
Accumulated losses	**(442,691)**	(431,384)
	156,947	18,032

20. RETIREMENT BENEFIT SCHEME

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

The retirement benefit cost charged to the income statement of HK$46,000 (2004: HK$32,000) represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

21. OPERATING LEASE ARRANGEMENTS

The Group and the Company as leasee

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

	2005 HK$'000	2004 HK$'000
In respect of rented premises:		
Within one year	**353**	244
In the second to fifth year inclusive	**–**	98
	353	342

Operating lease payments represent rentals payable by the Group and the Company for their rented premises. Leases are negotiated for an average term of one year.

The Group as lessor

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

	2005 HK$'000	2004 HK$'000
Within one year	**934**	258
In the second to fifth year inclusive	**577**	57
	1,511	315

Leases are negotiated for an average term of two years and rental income are fixed for an average term of two years.

22. ACQUISITION OF A SUBSIDIARY

On 18 November 2004, the Company announced the acquisition of the entire issued share capital of Tian Yang (H.K.) Company Limited which holds 25% equity interest in Shuanghuan for a consideration of HK$60,000,000. Shuanghuan is engaged in the manufacture and sales of motor vehicles. The acquisition was completed on 28 January 2005 and has been accounted for by the Group using the acquisition method of accounting.

The net assets of the subsidiary at the effective date of acquisition were as follows:

	2005 HK$'000	2004 HK$'000
Investment properties	–	27,889
Interest in an associate	60,300	-
Other receivables	–	164
Bank balances and cash	–	15
Creditors and accrued charges	(300)	(520)
Taxation payable	–	(548)
Total consideration paid	60,000	27,000
Net cash outflow arising on acquisition		
Consideration paid	(60,000)	(27,000)
Bank balances and cash acquired	–	15
	(60,000)	(26,985)

The subsidiary acquired during the year did not contribute significantly to the Group's operating results and cash flows for the year except for the share of results of an associate of HK$2,479,000.

23. PENDING LITIGATION

(a) On 1 September 1999, a former officer of the Company entered into a supply contract with an independent third party (the "Supplier") for the supply of 20,000 cable modems for a total consideration of US$6,000,000 (approximately HK$46,560,000), purportedly on behalf of the Company. On 8 September 1999, the Company announced that the supply contract was entered into without being properly authorised by the Company and, therefore, disputed the validity of the contract. On the same date, the Company issued a legal letter to the Supplier confirming that the Company would not recognise the supply contract and it should not be binding on the Company. The Supplier was claiming damages of a sum of US$3,600,000 (approximately HK$28,000,000) in respect of the Group's failure to take delivery of the cable modems.

Having considered legal counsel's advice, the directors of the Company believe that the Group has a favourable defence against the claim. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

23. PENDING LITIGATION *(continued)*

(b) On 6 December 1999, Mr. Yeung Kang Lam ("Mr. Yeung"), who was appointed and subsequently resigned as a director of the Company during the year ended 31 March 2000, filed a High Court proceeding against the Company for a sum of HK$932,958 and damages, interest and costs arising from the termination of an alleged employment letter which was signed between Mr. Yeung and Mr. Chiu, a former director of the Company. The directors of the Company consider that since no board meeting was ever called to approve the alleged employment letter of Mr. Yeung and the alleged remuneration relating thereto, the Company disputes the validity of the alleged employment letter. On 23 February 2000, the Company filed its defence against the claim.

Having considered legal counsel's advice, the directors of the Company believe that the Group has a favourable defence against the claim. Accordingly, the directors of the Company consider that no provision for the claim is necessary.

24. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given guarantee of HK$50,000,000 (2004: HK$50,000,000) to a financial institution for credit facilities granted to a subsidiary. No facilities were utilised at 31 March 2005 (2004: Nil). The facilities expired on 30 May 2005 and the guarantee was then released accordingly.

25. POST BALANCE SHEET EVENT

On 1 April 2005, a subsidiary of the Company entered into an agreement to increase the registered capital of, and the injection of capital into, Shuanghuan, by US$30,200,000. After completion of the transaction, the Group's equity interest in Shuanghuan will increase from 25% to 50%. The long stop date of the agreement is 31 July 2005.

26. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 March 2005 are as follows:

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

26. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered and paid-up capital	Proportion of nominal value of issued share capital/ registered and paid-up capital held by the Company		Principal activities
			Directly	*Indirectly*	
Perfect Touch Technology Inc.	British Virgin Islands*	US$2	100%	–	Investment holding
Smart Ease Limited	Hong Kong	HK$2	100%	–	Investment holding
Kingarm Company Limited	Hong Kong	HK$2	–	100%	Property investment
Partner United Limited	British Virgin Islands*	US$1	–	100%	Investment holding
Skytop Technology Limited	Hong Kong	HK$2	–	100%	Securities investment and investment holding
Tian Yang (H.K.) Company Limited	Hong Kong	HK$10,000	–	100%	Investment holding
Unigolden Limited	Hong Kong	HK$2	–	100%	Property investment
Zeal Advance Limited	British Virgin Islands*	US$1	–	100%	Investment holding

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

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

None of the subsidiaries had any debt securities at 31 March 2005 or at any time during the year.