

1. CORPORATE INFORMATION

Deson Development International Holdings Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at 11th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

During the year, the Group was principally engaged in the following activities:

- the construction business, as a main contractor, as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services, mainly in Hong Kong and Mainland China;
- property development and investment; and
- the operation of fitness centres and trading of fitness equipment.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for leasehold buildings and available-for-sale equity investment, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of interests in subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities
Amendment	
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Except for the impacts of HKFRSs as detailed below, the adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions of additional interest of a subsidiary subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases and HK-Int 4 – Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

In prior years, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

The effects of the above changes are summarised in note 2.4 to the financial statements. The comparative amounts for the year ended 31 March 2005 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(b) HKAS 32 and HKAS 39 – Financial Instruments*Equity securities*

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses. Upon the adoption of HKAS 39, these securities held by the Group at 1 April 2005 were designated as available-for-sale investment under the transitional provisions of HKAS 39 and accordingly, are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

In accordance with the transitional provisions of HKAS 39, the opening balance of investment revaluation reserve has been restated to reflect this change prospectively.

The effects of the above changes are summarised in note 2.4 to the financial statements.

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated capital reserve in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS*(Continued)***(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets** *(Continued)*

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 April 2005 the carrying amounts of negative goodwill that remained in the consolidated capital reserve against retained profits. Goodwill previously eliminated against the consolidated capital reserve remains eliminated against the consolidated capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(d) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 “Summary of significant accounting policies” below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

(d) HKFRS 2 – Share-based Payment *(Continued)*

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 March 2005 that had not yet vested as at 1 April 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 March 2004 and 2005. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(e) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

The Group has applied HKFRS 5 prospectively in accordance with the transitional provisions of HKFRS 5, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Under the previous Statement of Standard Accounting Practice ("SSAP") 33 "Discontinuing Operations", the Group would recognise a discontinued operation at the earlier of:

- the date the Group entered into a binding sale agreement; and
- the date the board of directors had approved and announced a formal disposal plan.

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The principal impact of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than it would be under SSAP 33 due to the stricter criteria in HKFRS 5, and that the income statement for the year ended 31 March 2005 attributable to the discontinued operation have been reclassified to the "profit for the year from a discontinued operation" on the face of the consolidated income statement of the Group, details of which are set out in note 12 to the financial statements.

The adoption of HKFRS 5 has no other impact on the financial statements of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 41	Agriculture
HKFRSs 1 & 6 Amendments	First-time adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Explorations for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

HK(IFRIC)-Int 6, 7, 8 and 9 are effective for annual periods beginning on or after the dates ranging from 1 December 2005 to 1 June 2006

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 April 2005	Effect of adopting			Total HK\$'000
	HKAS 17 [#]	HKASs 32 [#] and 39*	HKFRS 3*	
Effect of new policies Increase/(decrease)	Prepaid land lease payments HK\$'000	Change in classification and measurement of equity investments HK\$'000	Derecognition of negative goodwill HK\$'000	
Assets				
Property, plant and equipment	(14,285)	–	–	(14,285)
Prepaid land lease payments	13,762	–	–	13,762
Available-for-sale equity investment	–	12,013	–	12,013
Long term investment	–	(6,153)	–	(6,153)
				5,337
Liabilities/equity				
Deferred tax liabilities	(259)	–	–	(259)
Property revaluation reserve	(3,283)	–	–	(3,283)
Investment revaluation reserve	–	5,860	–	5,860
Capital reserve	–	–	(13,380)	(13,380)
Retained profits	3,019	–	13,380	16,399
				5,337

[#] Adjustments/presentation taken effect retrospectively

* Adjustments taken effect prospectively from 1 April 2005

NOTES TO FINANCIAL STATEMENTS

31 March 2006

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect on the consolidated balance sheet (Continued)

At 31 March 2006	Effect of adopting				Total HK\$'000
	HKAS 17	HKASs 32 and 39	HKFRS 2	HKFRS 3	
Effect of new policies Increase/(decrease)	Prepaid land lease payments HK\$'000	Change in classification and measurement of equity investments HK\$'000	Equity share option arrangements HK\$'000	Derecognition of negative goodwill HK\$'000	
Assets					
Property, plant and equipment	(13,982)	–	–	–	(13,982)
Prepaid land lease payments	13,512	–	–	–	13,512
Interests in associates	–	1,455	–	–	1,455
Available-for-sale equity investment	–	16,174	–	–	16,174
Long term investment	–	(6,153)	–	–	(6,153)
					<u>11,006</u>
Liabilities/equity					
Deferred tax liabilities	(259)	–	–	–	(259)
Share option reserve	–	–	799	–	799
Capital reserve	–	–	–	(13,380)	(13,380)
Property revaluation reserve	(3,283)	–	–	–	(3,283)
Investment revaluation reserve	–	11,476	–	–	11,476
Retained profits	3,072	–	(799)	13,380	15,653
					<u>11,006</u>

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Continued)
(b) Effect on the balances of equity at 1 April 2004 and at 1 April 2005

	Effect of adopting			Total HK\$'000
	HKAS 17	HKAS 39	HKFRS 3 and HKAS 36	
	Prepaid land lease payments HK\$'000	Designation of available- for-sale investment HK\$'000	Derecognition of negative goodwill HK\$'000	
Effect of new policies Decrease/(increase)				
1 April 2004				
Property revaluation reserve	(3,290)	–	–	(3,290)
Retained profits	3,011	–	–	3,011
				(279)
1 April 2005				
Property revaluation reserve	(3,283)	–	–	(3,283)
Investment revaluation reserve	–	5,860	–	5,860
Capital reserve	–	–	(13,380)	(13,380)
Retained profits	3,019	–	13,380	16,399
				5,596

(c) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005

	Effect of adopting		Total HK\$'000
	HKAS 17	HKFRS 2	
	Prepaid land lease payments HK\$'000	Employee share option scheme HK\$'000	
Effect of new policies			
Year ended 31 March 2006			
Decrease/(increase) in administrative expenses	53	(799)	(746)
Total increase/(decrease) in profit	53	(799)	(746)
Year ended 31 March 2005			
Decrease in administrative expenses	8	–	8
Total increase in profit	8	–	8

There is no significant impact of the adoption of new HKFRSs on the Group's basic and dilutive earnings per share for the years ended 31 March 2006 and 2005.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

Goodwill arising on acquisition of additional interest in a subsidiary is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Goodwill** *(Continued)*

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (Continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is not recognised in income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Related parties** *(Continued)*

- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis or the reducing balance basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	2.5% on the straight-line basis
Leasehold improvements	Over the remaining lease terms
Furniture and fixtures	15% on the reducing balance basis
Office equipment	15% on the reducing balance basis
Tools and equipment	15% on the reducing balance basis
Motor vehicles	15% on the reducing balance basis

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investments and other financial assets*****Applicable to the year ended 31 March 2005***

The Group classified its equity investments, other than subsidiaries, associates and jointly-controlled entity, as long term investments.

Long term investment is a non-trading investment in listed equity securities intended to be held on a long term basis.

Long term investment in listed equity securities, intended to be held for a continuing strategic or long term purpose, is stated at cost less any impairment losses, on an individual investment basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

Applicable to the year ended 31 March 2006

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Applicable to the year ended 31 March 2006 (Continued)

Available-for-sale financial asset

Available-for-sale financial asset is a non-derivative financial asset in listed equity securities that are designated as available for sale or is not classified in any of the other two categories. After initial recognition, available-for-sale financial asset is measured at fair value with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date.

Impairment of financial assets (Applicable to the year ended 31 March 2006)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Applicable to the year ended 31 March 2006) (Continued)

Assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial asset

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instrument classified as available for sale are not reversed through the income statement.

Derecognition of financial assets (Applicable to the year ended 31 March 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest-bearing loans and borrowings *(Continued)*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (Applicable to the year ended 31 March 2006)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Contracts for services

Contract revenue on the rendering of services comprise the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Properties held for sale

Properties under development which are intended for sale are included in properties held for sale and stated at the lower of cost and net realisable value, which is estimated by the directors based on the prevailing market conditions. Costs include all costs directly incurred in the properties under development, including development expenditure, borrowing costs and other direct costs.

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices on an individual property basis.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Income tax** *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax 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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;
- (b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

- (c) from the rendering of services, when the services are rendered or on the percentage of completion basis, as further explained in the accounting policy for “Contracts for services above”;
- (d) from the sale of property interests, when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;
- (e) rental income, on a time proportion basis over the lease terms;
- (f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (g) dividend income, when the shareholder’s right to receive payment has been established.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black Scholes Model, further details of which are given in note 32 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (“market conditions”), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Employee benefits** *(Continued)**Share-based payment transactions (Continued)*

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 April 2005 and to those granted on or after 1 April 2005.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Foreign currencies** *(Continued)*

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

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

(i) *Impairment of financial assets or goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 March 2006 and 2005 was nil. More details are given in note 16 to the financial statements.

(ii) *Estimates regarding the realisability of deferred tax assets*

Estimating the amount for deferred tax assets arising from tax losses requires a process that involves determining appropriate provisions for taxation, forecasting future years' taxable income and assessing the ability to utilise tax benefits through future taxable profits. In cases where the actual future profits generated are less than expected, a material reversal of the deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place. While the current financial models indicate that the tax losses recognised can be utilised in the future, any changes in assumptions and estimates and in tax regulations can affect the recoverability of these deferred tax assets. Details of the unrecognised tax losses of the Group are set out in note 30 to the financial statements.

(iii) *Estimation of fair value of leasehold buildings*

The Group considers information from a variety of sources, including (i) by reference to independent valuations; (ii) current prices in an active market for properties of a different nature, condition and location (or subject to different leases or other contracts), adjusted to reflect those differences; (iii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of transactions that occurred at those prices; and (iv) discounted cash flow projections, based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rates for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates and future maintenance costs.

4. SEGMENT INFORMATION

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

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

- (a) the construction business segment is engaged in construction contract work as a main contractor as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services;
- (b) the property development of residential and commercial properties; and
- (c) the fitness centre operation and related business segment is engaged in the operation of fitness centres, trading of fitness and medical equipment and the provision of related installation and maintenance services.

In prior year, the Group through its non-wholly-owned subsidiary, Chinese People Gas Holdings Company Limited ("CPG"), acquired the entire interest in Xin Hua Resources Investment Limited ("Xin Hua") for consideration of HK\$96,772,000 (note 34(a)). Xin Hua and its subsidiaries are engaged in natural gas business in Mainland China. The segment of natural gas business is regarded as a new business of the Group upon the completion of acquisition. However, following the disposal of the Group's entire interest in CPG in prior year, the natural gas business was discontinued. Most details are set out in note 12 to the financial statements.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (Continued)
(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2006 and 2005.

Group

	Continuing operations								Discontinued operation		Consolidated	
	Construction business		Property development and investment		Fitness centre operation and related business		Total		Natural gas business		2006	2005
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:												
Sales to external customers	431,929	427,994	116,683	67,403	68,802	75,430	617,414	570,827	-	77,051	617,414	647,878
Other income and gains	2,869	1,871	3,767	2,268	1,074	702	7,710	4,841	-	3,495	7,710	8,336
Total	434,798	429,865	120,450	69,671	69,876	76,132	625,124	575,668	-	80,546	625,124	656,214
Segment results	15,510	(30,435)	16,217	7,686	(14,475)	(16,954)	17,252	(39,703)	-	33,838	17,252	(5,865)
Interest income and dividend income	-	-	-	-	-	-	5,491	989	-	-	5,491	989
Gain on disposal of long term investments	-	-	-	-	-	-	-	3,181	-	-	-	3,181
Gain on disposal of discontinued operation	-	-	-	-	-	-	-	-	-	97,753	-	97,753
Unallocated expenses	-	-	-	-	(4,000)	(12,668)	(4,000)	(12,668)	-	-	(6,411)	(13,966)
Impairment of goodwill	-	-	-	-	-	(529)	-	(529)	-	(2,198)	-	(2,727)
Amortisation of goodwill	-	-	-	-	-	-	-	-	-	-	(2,369)	(2,784)
Finance costs	-	-	-	-	-	-	-	-	-	-	-	-
Share of profits and losses of:												
A jointly-controlled entity	55	16	-	-	-	-	55	16	-	-	55	16
Associates	101	184	-	-	-	-	101	184	-	2,784	101	2,968
Profit before tax											10,119	66,897
Tax							(1,656)	(1,727)	-	(12,123)	(1,656)	(13,850)
Profit for the year											8,463	53,047

NOTES TO FINANCIAL STATEMENTS

31 March 2006

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Continuing operations								Discontinued operation		Consolidated	
	Construction business		Property development and investment		Fitness centre operation and related business		Total		Natural gas business		2006 HK\$'000	2005 HK\$'000
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000		
Segment assets	208,115	269,178	345,583	247,879	54,685	33,504	608,383	550,561	-	-	608,383	550,561
Interest in a jointly-controlled entity	11,691	6,604	-	-	-	-	11,691	6,604	-	-	11,691	6,604
Interests in associates	7,403	6,220	-	-	-	-	7,403	6,220	-	-	7,403	6,220
Unallocated assets											22,199	80,089
Total assets											649,676	643,474
Segment liabilities	(77,507)	(107,391)	(90,494)	(81,174)	(22,897)	(20,639)	(190,898)	(209,204)	-	-	(190,898)	(209,204)
Unallocated liabilities											(82,396)	(98,465)
Total liabilities											(273,294)	(307,669)
Other segment information:												
Depreciation	1,293	891	254	378	2,339	2,441	3,886	3,710	-	1,518	3,886	5,228
Recognition of prepaid land lease payments	250	250	-	-	-	-	250	250	-	-	250	250
Loss on disposal of items of property, plant and equipment	-	123	-	-	746	-	746	123	-	1,941	746	2,064
Provision/(write-back) of provision for doubtful debts	693	(2,693)	116	947	(1,266)	9,575	(457)	7,829	-	-	(457)	7,829
Provision/(write-back) for other receivables	5,798	1,276	(3,169)	6,182	12	-	2,641	7,458	-	-	2,641	7,458
Provision/(write-back) for inventories	(209)	1	-	-	1,114	123	905	124	-	-	905	124
Capital expenditure	481	305	242	378	6,864	3,174	7,587	3,857	-	122,682	7,587	126,539

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

Group

	Hong Kong		Mainland China		Consolidated	
	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)
Segment revenue:						
Sales to external customers	333,769	346,423	283,645	301,455	617,414	647,878
Attributable to a discontinued operation	—	—	—	(77,051)	—	(77,051)
Revenue for continuing operations	<u>333,769</u>	<u>346,423</u>	<u>283,645</u>	<u>224,404</u>	<u>617,414</u>	<u>570,827</u>
Other segment information:						
Segment assets	<u>214,840</u>	<u>312,558</u>	<u>434,836</u>	<u>330,916</u>	<u>649,676</u>	<u>643,474</u>
Capital expenditure:						
Capital expenditure for continuing operations	4,559	3,857	3,028	—	7,587	3,857
Attributable to a discontinued operation	—	—	—	122,682	—	122,682
	<u>4,559</u>	<u>3,857</u>	<u>3,028</u>	<u>122,682</u>	<u>7,587</u>	<u>126,539</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2006

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of gross revenue earned from construction work and the net amount of maintenance work invoiced, property development and investment business, fitness centre operations and related business and natural gas business.

An analysis of revenue, other income and gains is as follows:

		Group	
	Notes	2006 HK\$'000	2005 HK\$'000
Revenue			
Income from construction contracting and related business		431,929	427,994
Income from property development and investment business		116,683	67,403
Income from fitness centre operation and related business		68,802	75,430
Attributable to continuing operations reported in the consolidated income statement		617,414	570,827
Income from natural gas business attributable to a discontinued operation	12	–	77,051
		<u>617,414</u>	<u>647,878</u>
Other income and gains			
Bank interest income		1,017	812
Other interest income		1,964	–
Release of discounted amount of long term receivable arising from the passage of time	21	2,318	–
Gross rental income	6	2,161	1,097
Dividend income from available-for-sale equity investment/long term investment		194	177
Gain on disposal of subsidiaries	34(b)	1,768	–
Others		3,779	3,744
Attributable to continuing operations		13,201	5,830
Attributable to a discontinued operation	12	–	3,495
		<u>13,201</u>	<u>9,325</u>

6. PROFIT/(LOSS) BEFORE TAX

This is arrived at after charging/(crediting):

		Group	
	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Cost of inventories sold		27,815	38,493
Auditors' remuneration		2,150	2,780
Depreciation	14	3,886	5,228
Recognition of prepaid land lease payments	15	250	250
Minimum lease payments under operating leases on land and buildings		9,929	8,059
Loss on disposal of items of property, plant and equipment		746	2,064
Gain on disposal of a discontinued operation	12	–	(97,753)
Impairment of goodwill			
– continuing operations	16	4,000	10,470
– discontinued operation	12,16	–	2,198
		<u>4,000</u>	<u>12,668</u>
Amortisation of goodwill	16	–	2,727
Gross rental income			
– continuing operations	5	(2,161)	(1,097)
– discontinued operation		–	(1,902)
		<u>(2,161)</u>	<u>(2,999)</u>
Less: Outgoings		<u>371</u>	<u>493</u>
Net rental income		<u>(1,790)</u>	<u>(2,506)</u>
Provision for inventories		905	124
Provision/(write-back of provision) for doubtful debts		(457)	7,829
Provision for other receivables		2,641	7,458
Foreign exchange differences, net		492	293
Employee benefits expense (including directors' emoluments – note 8):			
Wages and salaries		36,920	44,151
Equity-settled share option expenses	32	799	–
Pension scheme contributions		1,260	1,197
Less: Forfeited contributions*		–	(68)
		<u>38,979</u>	<u>45,280</u>

* At 31 March 2006, there were no forfeited contributions available to the Group to reduce contributions to the pension scheme in future years (2005: Nil).

NOTES TO FINANCIAL STATEMENTS

31 March 2006

7. FINANCE COSTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other borrowings:		
wholly repayable within five years	4,651	3,362
wholly repayable after five years	–	413
Total interest	4,651	3,775
Less: Interest capitalised on properties under development	(2,282)	(991)
	<u>2,369</u>	<u>2,784</u>

8. DIRECTORS' REMUNERATION

Directors' emoluments for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Fees	305	334
Salaries and allowances	4,071	6,261
Equity-settled share options expenses	417	–
Pension scheme contributions	111	114
	<u>4,599</u>	<u>6,375</u>
	<u>4,904</u>	<u>6,709</u>

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (Continued)**(a) Independent non-executive directors**

The fees paid to independent non-executive directors during the year were as follows:

	Fees <i>HK\$'000</i>	Equity- settled share options expenses <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
2006			
<i>Independent non-executive directors:</i>			
Dr. Ho Chung Tai, Raymond	120	33	153
Mr. Siu Man Po	93	33	126
Mr. Wong Shing Kay, Oliver	90	–	90
Ms. Wong Sin Yee	2	–	2
	<u>305</u>	<u>66</u>	<u>371</u>
2005			
<i>Independent non-executive directors:</i>			
Dr. Ho Chung Tai, Raymond	120	–	120
Mr. Siu Man Po	120	–	120
Mr. Wong Shing Kay, Oliver	34	–	34
Ms. Wong Sin Yee	60	–	60
	<u>334</u>	<u>–</u>	<u>334</u>

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees HK\$'000	Salaries and allowances HK\$'000	Equity- settled share options expenses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration HK\$'000
2006					
<i>Executive directors:</i>					
Mr. Wang Ke Duan	–	540	–	–	540
Mr. Tjia Boen Sien	–	1,561	26	24	1,611
Mr. Wang Jing Ning	–	471	65	12	548
Mr. Keung Kwok Cheung	–	878	130	44	1,052
Mr. Ong Chi King	–	621	130	31	782
	–	4,071	351	111	4,533
2005					
<i>Executive directors:</i>					
Mr. Wang Ke Duan	–	540	–	–	540
Mr. Tjia Boen Sien	–	2,798	–	24	2,822
Mr. Wang Jing Ning	–	680	–	12	692
Mr. Keung Kwok Cheung	–	1,478	–	41	1,519
Mr. Kong Kwok Fai	–	765	–	37	802
Mr. Ong Chi King	–	–	–	–	–
	–	6,261	–	114	6,375

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: four) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: one) non-director, highest paid employees for the year are as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Salaries and allowances	1,418	986
Pension scheme contributions	49	25
	<u>1,467</u>	<u>1,011</u>

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

	Number of employees	
	2006	2005
	HK\$'000	HK\$'000
Nil to HK\$1,000,000	2	–
HK\$1,000,001 to HK\$1,500,000	–	1
	<u>2</u>	<u>1</u>

10. TAX

No Hong Kong profits tax has been provided as the Group did not generated any assessable profits arising in Hong Kong during the year (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Current – Hong Kong:		
Underprovision/(overprovision) in prior years	79	(530)
Current – Elsewhere:		
Charge for the year	3,221	2,186
Overprovision in prior years	(1,613)	–
Deferred (<i>note 30</i>)	(31)	71
Total tax charge for the year	<u>1,656</u>	<u>1,727</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2006

10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000 (Restated)
Profit before tax (including profit from a discontinued operation)	10,119	66,897
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	1,770	11,706
Effect of different rates for companies operating in other jurisdictions	(537)	7,838
Adjustments in respect of current tax of previous periods	(1,534)	(530)
Profits and losses attributable to associates	(101)	(145)
Income not subject to tax	(5,679)	(19,685)
Expenses not deductible for tax	6,481	10,921
Tax loss utilised from previous periods	(4,622)	(293)
Tax losses not recognised	5,878	4,038
Tax charge at the Group's effective rate	1,656	13,850
Tax charge attributable to a discontinued operation (<i>note 12</i>)	–	(12,123)
Tax charge attributable to continuing operations reported in the consolidated income statement	1,656	1,727

The share of tax attributable to associates amounting to HK\$580,000 (2005: HK\$830,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss from ordinary activities attributable to equity holders of the Company for the year ended 31 March 2006 dealt with in the financial statements of the Company was HK\$5,744,000 (2005: profit of HK\$13,546,000) (*note 33(b)*).

12. DISCONTINUED OPERATION

	Notes	2006 HK\$'000	2005 HK\$'000
Gain on disposal of a discontinued operation	(i)	–	97,753
Profit for the year from a discontinued operation	(ii)	–	22,301
		<u>–</u>	<u>120,054</u>

Notes:

- (i) In prior year, the Group disposed of the entire interest in CPG, which was engaged in natural gas business and following the disposal, the Group ceased to have any interest in CPG. The business segment of natural gas was regarded as discontinued operation. The details of the transactions are set out as follows:

On 30 April 2004, the Group acquired 49% equity interest in Xin Hua. The consideration was satisfied by way of issuing 295,000,000 shares in CPG. On the same date, the Group placed 400,000,000 new shares of CPG to third parties at HK\$0.10 each. The placement of new shares resulted in a deemed disposal gain of approximately HK\$15,908,000.

On 11 August 2004, the Group disposed of 175,000,000 shares of CPG of HK\$0.10 each to third parties at HK\$0.30 each. The disposal resulted in a gain of approximately HK\$40,194,000.

On 15 March 2005, the Group disposed of its remaining interest in CPG of approximately 52.08%, to a third party for a consideration of HK\$136,172,000 (before expenses). The disposal resulted in a gain of approximately HK\$41,651,000 (note 34(b)).

- (ii) The results of CPG for the prior year are presented below:

	Notes	2005 HK\$'000
Revenue	5	77,051
Cost of sales		(33,479)
Other income and gains		3,495
Administrative expenses		(13,229)
Impairment of goodwill	6,16	(2,198)
Share of profits of associates		2,784
Profit before tax from the discontinued operation		34,424
Tax	10	(12,123)
Profit for the year from the discontinued operation		<u>22,301</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2006

12. DISCONTINUED OPERATION (Continued)

The net cash flows incurred by CPG for the prior year are as follows:

	2005 HK\$'000
Operating activities	(28,167)
Investing activities	30,397
Financing activities	10,674
	<hr/>
Net cash inflow	12,904
	<hr/>
	2005
Earnings per share:	
Basic, from the discontinued operation	HK24.08 cents
Diluted, from the discontinued operation	HK23.80 cents
	<hr/> <hr/>

The calculations of basic and diluted earnings per share for the prior year from the discontinued operation are based on:

	2005
Net profit attributable to ordinary equity holders of the Company from the discontinued operation	HK\$120,054,000
	<hr/>
Weighted average number of ordinary shares in issue during the prior year used in the basic earnings per share calculation, as adjusted to the share consolidation during the year ended 31 March 2006	498,383,800
	<hr/>
Weighted average number of ordinary shares used in the diluted earnings per share calculation, as adjusted to the share consolidation during the year ended 31 March 2006	504,420,800
	<hr/>

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to the share consolidation during the year ended 31 March 2006.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i> (Restated)
Earnings		
Net profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	<u>10,181</u>	<u>40,242</u>
Attributable to:		
Continuing operations	10,181	(79,812)
Discontinued operation (<i>note 12</i>)	<u>–</u>	<u>120,054</u>
	<u>10,181</u>	<u>40,242</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	499,790,777	498,383,800
Effect of dilution – weighted average number of ordinary shares:		
Warrants	–	6,037,000
Share options	<u>255,573</u>	<u>–</u>
	<u>500,046,350</u>	<u>504,420,800</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2006

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Tools and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost or valuation								
At 1 April 2005, as restated	17,861	4,975	3,949	6,663	10,147	5,120	–	48,715
Additions	–	4,920	67	510	1,646	444	–	7,587
Disposals	–	(2,197)	–	(341)	(354)	(213)	–	(3,105)
Surplus on revaluation	27,537	–	–	–	–	–	–	27,537
Exchange realignment	–	18	–	31	14	25	–	88
At 31 March 2006	45,398	7,716	4,016	6,863	11,453	5,376	–	80,822
Accumulated depreciation								
At 1 April 2005, as restated	536	2,710	2,902	3,609	3,364	3,910	–	17,031
Depreciation provided during the year	556	1,143	162	679	1,101	245	–	3,886
Disposals	–	(1,667)	–	(167)	(185)	(192)	–	(2,211)
Reverse upon revaluation	(1,092)	–	–	–	–	–	–	(1,092)
Exchange realignment	–	16	–	17	9	15	–	57
At 31 March 2006	–	2,202	3,064	4,138	4,289	3,978	–	17,671
Net book values								
At 31 March 2006	45,398	5,514	952	2,725	7,164	1,398	–	63,151
At 31 March 2005	17,325	2,265	1,047	3,054	6,783	1,210	–	31,684
An analysis of cost or valuation:								
At cost	–	7,716	4,016	6,863	11,453	5,376	–	35,424
At valuation	45,398	–	–	–	–	–	–	45,398
	45,398	7,716	4,016	6,863	11,453	5,376	–	80,822

14. PROPERTY, PLANT AND EQUIPMENT (Continued)
Group (Continued)

		Leasehold buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Tools and equipment	Motor vehicles	Construction in progress	Total
Notes	HK\$'000 (Restated)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)
At cost or valuation									
At 1 April 2004, as restated		25,861	3,995	3,949	5,738	9,019	5,322	–	53,884
Acquisition of subsidiaries	34(a)	12,997	–	–	438	18,521	1,217	81,287	114,460
Additions		542	1,153	–	1,330	8,382	407	265	12,079
Transfers		2,308	–	–	–	40,268	–	(42,576)	–
Disposal of a discontinued operation	34(b)	(23,847)	(173)	–	(560)	(66,043)	(1,256)	(37,010)	(128,889)
Disposals		–	–	–	(283)	–	(570)	(1,966)	(2,819)
At 31 March 2005		<u>17,861</u>	<u>4,975</u>	<u>3,949</u>	<u>6,663</u>	<u>10,147</u>	<u>5,120</u>	<u>–</u>	<u>48,715</u>
Accumulated depreciation									
At 1 April 2004, as restated		–	1,559	2,717	3,270	2,253	4,391	–	14,190
Depreciation provided during the year		742	1,324	185	593	2,314	70	–	5,228
Disposal of a discontinued operation	34(b)	(206)	(173)	–	(44)	(1,203)	(98)	–	(1,724)
Disposals		–	–	–	(210)	–	(453)	–	(663)
At 31 March 2005		<u>536</u>	<u>2,710</u>	<u>2,902</u>	<u>3,609</u>	<u>3,364</u>	<u>3,910</u>	<u>–</u>	<u>17,031</u>
Net book values									
At 31 March 2005		<u>17,325</u>	<u>2,265</u>	<u>1,047</u>	<u>3,054</u>	<u>6,783</u>	<u>1,210</u>	<u>–</u>	<u>31,684</u>
At 31 March 2004		<u>25,861</u>	<u>2,436</u>	<u>1,232</u>	<u>2,468</u>	<u>6,766</u>	<u>931</u>	<u>–</u>	<u>39,694</u>
An analysis of cost or valuation:									
At cost		–	4,975	3,949	6,663	10,147	5,120	–	30,854
At valuation		17,861	–	–	–	–	–	–	17,861
		<u>17,861</u>	<u>4,975</u>	<u>3,949</u>	<u>6,663</u>	<u>10,147</u>	<u>5,120</u>	<u>–</u>	<u>48,715</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2006

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

As 31 March 2006, the Group's leasehold buildings were individually revalued at an aggregate open market value of HK\$45,398,000, by B.I. Appraisals Limited, independent professionally qualified valuers, based on their existing use. A revaluation surplus of HK\$28,629,000 (2005: Nil) resulting from the revaluation has been credited to the property revaluation reserve.

Had the Group's leasehold buildings been carried at cost less accumulated depreciation and impairment losses, their carrying amounts would have been approximately HK\$14,733,000 as at 31 March 2006 (2005: HK\$15,111,000).

As at 31 March 2006, the leasehold buildings of the Group are pledged to banks to secure banking facilities granted to the Group (note 29).

Certain leasehold buildings of the Group with an aggregate carrying value of HK\$8,000,000 (2005: HK\$4,230,000) were leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements.

15. PREPAID LAND LEASE PAYMENTS

		Group	
	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Carrying amount at beginning of year			
As previously reported		–	–
Prior year adjustment	2.4(a)	<u>13,762</u>	<u>14,012</u>
As restated		13,762	14,012
Recognised during the year		<u>(250)</u>	<u>(250)</u>
Carrying amount at 31 March		13,512	13,762
Current portion included in prepayments, deposits and other receivables		<u>(250)</u>	<u>(250)</u>
Non-current portion		<u><u>13,262</u></u>	<u><u>13,512</u></u>

15. PREPAID LAND LEASE PAYMENTS (Continued)

An analysis of carrying amounts of prepaid land lease payments of the Group at the balance sheet date is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
		(Restated)
Situating in Hong Kong held under:		
Medium term leases	5,367	5,498
Long term leases	8,145	8,264
	<u>13,512</u>	<u>13,762</u>

At 31 March 2006, the Group's leasehold lands were pledged to secure certain of the Group's bank borrowings (note 29).

16. GOODWILL

	Group
	HK\$'000
31 March 2006	
At 1 April 2005:	
Cost as previously reported	13,197
Effect of adopting HKFRS 3 (note 2.2(c))	(13,197)
Cost as restated	<u>–</u>
Accumulated amortisation and impairment as previously reported	13,197
Effect of adopting HKFRS 3 (note 2.2(c))	(13,197)
Accumulated amortisation and impairment as restated	<u>–</u>
Net carrying amount at 1 April 2005	<u>–</u>
Arising from acquisition of additional interest in a subsidiary	4,000
Impairment loss recognised (note 6)	(4,000)
Net carrying amount at 31 March 2006	<u>–</u>

NOTES TO FINANCIAL STATEMENTS

31 March 2006

16. GOODWILL (Continued)

	Notes	Group HK\$'000
31 March 2005		
At 1 April 2004:		
Cost		22,077
Accumulated amortisation and impairment		(676)
		<hr/>
Net carrying amount		21,401
		<hr/> <hr/>
Cost at 1 April 2004, net of accumulated amortisation and impairment		21,401
Arising from acquisition of subsidiaries	34(a)	37,474
Reclassified from interests in associates		3,619
Arising from acquisition of additional interests in subsidiaries		4,081
Eliminated on disposal of subsidiaries	34(b)	(47,449)
Eliminated on disposal of partial interests in subsidiaries		(3,731)
Charge for the year	6	(2,727)
Impairment loss recognised		
– continuing operations	6	(10,470)
– discontinued operation	6,12	(2,198)
		<hr/>
At 31 March 2005		–
		<hr/> <hr/>
At 31 March 2005:		
Cost		13,197
Accumulated amortisation and impairment		(13,197)
		<hr/>
Net carrying amount		–
		<hr/> <hr/>

In the year ended 31 March 2005, goodwill not previously eliminated against the consolidated capital reserve was amortised on the straight-line basis over its estimate useful life of twenty years.

As further detailed in note 2.2(c) to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated capital reserve.

The amounts of goodwill and negative goodwill remaining in the consolidated capital reserve, arising from the acquisition of subsidiaries prior to the adoption of the SSAP 30 in 2001, were HK\$9,121,000 and HK\$13,380,000, respectively, as at 31 March 2005. Upon the adoption of HKFRS 3, such negative goodwill of HK\$13,380,000 was derecognised with a corresponding adjustment to the opening balance of retained profits at 1 April 2005.

16. GOODWILL (Continued)**Impairment testing of goodwill**

Goodwill acquired through business combinations during the year has been allocated to the fitness centre operation and related business cash-generating unit, which is a reportable segment, for impairment testing.

The recoverable amount of this cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a three-year period approved by senior management. The discount rate applied to cash flow projections is 4%.

Key assumptions were used in the value in use calculation of this cash-generating unit for 31 March 2006. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budgeted year.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the cash-generating unit.

As at 1 April 2005, Mega fitness (Shanghai) Investments Limited is a 75%-owned subsidiary of the Company. During the year, the remaining 25% equity interest in Mega fitness (Shanghai) Investments Limited with nil carrying value was acquired by the Group at a cash consideration of HK\$4,000,000, resulting in goodwill of HK\$4,000,000. As the estimated recoverable amount arising from Mega fitness (Shanghai) Investments Limited is of minimal amount, an impairment loss of HK\$4,000,000 is resulted.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK\$'000	HK\$'000
Unlisted shares, at cost	156,031	156,031
Due from subsidiaries	161,244	176,587
	317,275	332,618

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of all amounts due from subsidiaries approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries are as follows:

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Class of shares held	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Beijing Chang De Architectural & Decoration Co., Ltd.	PRC	RMB16,000,000	(ii)	–	60	Decoration engineering
Deson Development Holdings Limited	British Virgin Islands/ Hong Kong	US\$200	Ordinary	100	–	Investment holding
Deson Development Limited	Hong Kong	HK\$20,000,100 HK\$20,000,000	Class A Class B(i)	–	100	Construction contracting and investment holding
Deson Ventures Limited	British Virgin Islands/ Hong Kong	US\$1	Ordinary	–	100	Investment holding
Fitness Concept Limited	Hong Kong	HK\$11,611,111	Ordinary	–	100	Investment holding
Fitness Concept Leisure Supplies Limited	Hong Kong	HK\$2	Ordinary	–	100	Trading and retailing of fitness and leisure equipment
Hua Sheng International Real Estate Development (Shanghai) Co., Ltd. *	PRC	US\$6,400,000	(ii)	–	100	Property development

17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries are as follows: (Continued)

Name	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Class of shares held	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Kenworth Engineering Limited	Hong Kong	HK\$34,374,140 HK\$20,000,000	Ordinary Preference (iii)	–	100	Provision of electrical and mechanical engineering services
Medical Technologies Limited	Hong Kong	HK\$10,000	Ordinary	–	100	Trading of medical equipment
Super Sight Investments Inc.	British Virgin Islands/ PRC	US\$1	Ordinary	–	100	Property development
Wonderful Hope Limited	British Virgin Islands/ PRC	US\$1	Ordinary	–	100	Property development
Deson Property Development (Kaifeng) Co., Ltd.*	PRC	HK\$24,000,000	(ii)	–	100	Property Development
美格菲(成都)康體發展有限公司*	PRC	RMB15,000,000	(ii)	–	100	Operation of fitness center

* It is registered as a wholly-foreign-owned enterprise under the PRC law.

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17. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- (i) These non-voting class B shares are not entitled to dividend distributions. Moreover, upon the winding-up of this company, the class B shareholders are not entitled to any return of assets if the assets of the Company are less than HK\$100 trillion.
- (ii) The issued or paid-up capital of these subsidiaries is not classified.
- (iii) The holders of the preference shares have a cumulative preferential right to the company's profits at 10% of the nominal amount of share capital, but are not entitled to receive notice of or attend or vote at any meeting of members or any meeting of directors.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets	546	491
Due from a jointly-controlled entity	11,145	6,113
	11,691	6,604

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment except for an amount of HK\$7,178,000 (2005: Nil) which bears interest at prime rate plus 1% per annum. The carrying amount of the amount due from the jointly-controlled entity approximates to its fair value.

Name	Place of registration and operations	Percentage of			Principal activities
		Ownership interest	Voting power	Profit sharing	
Kenworth-Watfield Joint Venture Limited	Hong Kong	50	50	50	Provision of electrical and mechanical engineering services

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY (Continued)

The interest in jointly-controlled entity is held through a subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity extracted from its financial statements:

	2006	2005
	HK\$'000	HK\$'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	9,295	4,170
Non-current assets	43	45
Current liabilities	(8,792)	(3,724)
Net assets	546	491
Share of the jointly-controlled entity's results:		
Revenue	18,758	21,674
Other income and gains	9	–
Total revenue	18,767	21,674
Total expenses	(18,712)	(21,658)
Profit after tax	55	16

19. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Share of net assets	7,403	6,220
Due from associates	19,166	8,690
Due to associates	(443)	(443)

The balances with associates are unsecured, interest-free and repayable on demand. The carrying amounts of all amounts with associates approximate to their fair values.

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19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates as at the balance sheet date are as follows:

Name	Particular of issued shares held/ registered paid-up capital	Place of incorporation or registration/ operations	Percentage of ownership attributable to the Group	Principal activities
Asia Construction Holdings Limited	Ordinary shares of HK\$1 each	Hong Kong	49	Investment holding
Deson Metals Company Limited	Ordinary shares of HK\$1 each	Hong Kong/ PRC	40	Trading of construction materials
Fortune On Engineering Ltd.	Ordinary shares of HK\$1 each	Hong Kong	40	Property development
Fuzhou Jiandi Concrete Co., Ltd. * (ii)	Registered capital of RMB10,000,000 (i)	PRC	40	Manufacture of concrete products
Phantasy Development Limited	Ordinary shares of HK\$1 each Deferred shares of HK\$1 each	Hong Kong	45	Property development
Reality Profile Limited	Ordinary shares of US\$1 each	British Virgin Islands	45	Investment holding
Visonic Deson Limited *	Ordinary shares of HK\$1 each	Hong Kong	50	Selling, distributing and marketing of home security and automation products
W & D Joint Venture Limited	Ordinary shares of HK\$1 each	Hong Kong	45	Construction contracting

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International members firms.

19. INTERESTS IN ASSOCIATES (Continued)

Notes:

- (i) The issued or paid-up capital of this associate is not classified.
- (ii) The remittance of dividends to the Group from this associate operating outside Hong Kong is subject to the availability of foreign currencies generated and retained by this associate.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The financial statements of the above associates are coterminous with those of the Group, except for Fuzhou Jiandi Concrete Co., Ltd. which has a financial year ended 31 December. The consolidated financial statements are adjusted for the material transactions between Fuzhou Jiandi Concrete Co., Ltd. and Group companies between 1 January and 31 March. Fuzhou Jiandi Concrete Co., Ltd. use 31 March as its reporting date to conform with its holding company's reporting date.

The Group's shareholdings in the associates all comprise equity shares held through subsidiaries of the Company.

The Group has discontinued the recognition of its share of losses of Asia Construction Holdings Limited, 海南亞豪物業管理有限公司 and Fitness Asia Limited, because the share of losses of the associates exceeded the Group's interest in the associates. The Group's aggregate unrecognised share of losses of these associates for the current year and cumulatively was HK\$198,000 (2005: profits of HK\$32,000 and losses of HK\$764,000 (2005: HK\$566,000), respectively.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts or financial statements:

	2006	2005
	HK\$'000	HK\$'000
Assets	96,397	52,476
Liabilities	77,023	35,188
Revenues	129,436	92,939
Profit	3,843	1,370

20. AVAILABLE-FOR-SALE EQUITY INVESTMENT/LONG TERM INVESTMENT

	Group	
	2006	2005
	HK\$'000	HK\$'000
Listed equity investment outside Hong Kong, at cost	–	6,153
Listed equity investment outside Hong Kong, at fair value	16,174	–
	<u>16,174</u>	<u>6,153</u>

During the year, the gross gain of the Group's available-for-sale equity investment recognised directly in equity amounted to HK\$4,161,000.

The above investment in equity security was designated as an available-for-sale financial asset on 1 April 2005 and has no fixed maturity date or coupon rate.

The fair value of listed equity investment is based on quoted market price as at the balance sheet date.

21. LONG TERM RECEIVABLE AND DEPOSITS

In March 2005, the Group disposed of its entire interest in CPG for an aggregate consideration of HK\$136,172,000 (note 12) satisfied by HK\$87,499,000 in cash and HK\$48,673,000 to be repaid on 15 June 2006. Accordingly, the amount was classified as non-current after discounting into its present value of HK\$46,355,000 (note 34 (b)) as at 31 March 2005. This amount has been fully settled during the year and the discounted amount of long term receivable of HK\$2,318,000 (note 5) has been released to the income statement for the year. The carrying amount of the amount approximated to its fair value.

Long term deposits as at 31 March 2006 represent a deposit of HK\$14,040,000 paid for the acquisition of items of property, plant and equipment and a deposit of HK\$16,160,000 for acquisition of an interest in hotel property. The carrying amounts of the amounts approximate to their fair values.

22. AMOUNTS WITH MINORITY SHAREHOLDERS

The amounts with minority shareholders are unsecured, interest-free and repayable on demand. The carrying amounts of these amounts approximate to their fair values.

23. PROPERTIES HELD FOR SALE

	Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Completed properties	142,749	126,973
Properties under development	85,697	102,344
	<u>228,446</u>	<u>229,317</u>

Certain completed properties held for sale with an aggregate carrying value of HK\$20,951,000 (2005: HK\$12,421,000) were leased to third parties under operating leases, further summary details of which are included in note 36(a) to the financial statements. As at 31 March 2006, certain completed properties held for sale are pledged to banks to secure banking facilities granted to the Group (note 29).

24. CONSTRUCTION CONTRACTS

	Group	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Gross amount due from contract customers	23,149	20,581
Gross amount due to contract customers	(32,853)	(44,582)
	<u>(9,704)</u>	<u>(24,001)</u>
Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date	1,930,673	1,901,022
Less: Progress billings	(1,940,377)	(1,925,023)
	<u>(9,704)</u>	<u>(24,001)</u>

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25. INVENTORIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Trading goods	<u>8,674</u>	<u>5,275</u>

26. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 90 days for sale of trading goods and a period of 180 days for sale of completed properties held for sale. For retention receivables in respect of construction work carried out by the Group, the due dates are usually one year after the completion of the construction work. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of accounts receivable as at the balance sheet date, based on the invoice date and net of provision is as follows:

	2006	2005
	HK\$'000	HK\$'000
Current to 90 days	29,743	49,631
91 to 180 days	8,037	23,512
181 to 360 days	11,564	22,558
Over 360 days	<u>6,282</u>	<u>2,907</u>
	55,626	98,608
Retention money receivable	<u>4,457</u>	<u>7,713</u>
Total	<u>60,083</u>	<u>106,321</u>

27. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash and bank balances		47,167	60,551	62	85
Time deposits		68,300	57,780	-	-
		115,467	118,331	62	85
Less: Pledged time deposits for bank facilities	29	(68,300)	(57,780)	-	-
Cash and cash equivalents		47,167	60,551	62	85

At the balance sheet date, the aggregate cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK\$72,352,000 (2005: HK\$27,685,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate to their fair values.

28. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Current to 90 days	53,929	67,976
91 to 180 days	2,186	4,098
181 to 360 days	1,128	3,650
Over 360 days	4,439	4,145
	61,682	79,869

The accounts payable are non-interest-bearing and are normally settled on 30-day terms.

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29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group 2006 HK\$'000	2005 HK\$'000
Current				
Bank loan – secured	6.85	March 2007	9,600	23,550
Bank overdrafts – secured	Prime rate + 0.5	on demand	28,431	10,946
Trust receipt loans – secured	Prime rate + 0.875	on demand	6,631	32,008
Other borrowings – unsecured	Interest-free	on demand	–	15,600
			44,662	82,104
Non-current				
Bank loan – secured	6.85	September 2008	28,800	–
			73,462	82,104
Analysed into				
Bank loans, overdrafts and trust receipt loans:				
Within one year or on demand			44,662	66,504
In the second year			16,800	–
In the third to fifth years			12,000	–
			73,462	66,504
Other borrowings repayable:				
Within one year or on demand			–	15,600

The carrying amounts of all bank and other borrowings approximate to their fair values as at the balance sheet date. The fair value of bank and other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

Except for the secured bank loan with a carrying amount of HK\$38,400,000 (2005: HK\$23,550,000), all bank borrowings of the Company bear interest at floating interest rates. Other borrowings of the Group were interest-free.

The Group's banking facilities are secured by:

- (i) the pledge of the Group's leasehold buildings and leasehold land situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK\$45,398,000 (2005: HK\$17,325,000) (note 14) and HK\$13,512,000 (2005: HK\$13,762,000) (note 15), respectively.
- (ii) the pledge of the Group's time deposits of HK\$68,300,000 (2005: HK\$57,780,000) (note 27).
- (iii) the pledge of the Group's completed properties for sale of HK\$74,306,000 (2005: Nil).

In addition, the Group's banking facilities are secured by the Company's corporate guarantees (note 35).

30. DEFERRED TAX

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax assets
Group

	Losses available for offset against future taxable profit <i>HK\$'000</i>	Other temporary timing differences <i>HK\$'000</i>	2006 Total <i>HK\$'000</i>
At 1 April 2005	262	120	382
Deferred tax credited/(charged) to the income statement during the year (<i>note 10</i>)	151	(120)	31
Deferred tax assets at 31 March 2006	<u>413</u>	<u>–</u>	<u>413</u>

Deferred tax liabilities
Group

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	2006 Total <i>HK\$'000</i>
At 1 April 2005:			
As previously reported	331	599	930
Prior year adjustment (<i>note 2.4</i>)	–	(259)	(259)
As restated	331	340	671
Deferred tax debited to equity during the year	–	1,906	1,906
Deferred tax liabilities at 31 March 2006	<u>331</u>	<u>2,246</u>	<u>2,577</u>

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30. DEFERRED TAX (Continued)

Deferred tax assets

Group

	Losses available for offset against future taxable profit <i>HK\$'000</i>	Other temporary timing differences <i>HK\$'000</i>	2005 Total <i>HK\$'000</i>
At 1 April 2004	262	191	453
Deferred tax charged to the income statement (<i>note 10</i>)	–	(71)	(71)
Gross deferred tax assets at 31 March 2005	<u>262</u>	<u>120</u>	<u>382</u>

Deferred tax liabilities

Group

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	2005 Total <i>HK\$'000</i>
At 1 April 2004 (restated)	331	347	678
Deferred tax debited to equity during the year	–	54	54
Disposal of subsidiaries (<i>note 34(b)</i>)	–	(61)	(61)
Deferred tax liabilities at 31 March 2005	<u>331</u>	<u>340</u>	<u>671</u>

The Group has tax losses arising in Hong Kong and Mainland China of HK\$561,725,000 (2005: HK\$557,737,000) and HK\$9,489,000 (2005: HK\$9,490,000) respectively that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries with uncertain future operating profit streams.

30. DEFERRED TAX (Continued)

At 31 March 2006, there is no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax assets

Company

	Losses available for offset against future taxable profit
	<i>HK\$'000</i>
At 1 April 2004, 31 March 2005, 1 April 2005 and 31 March 2006	262

31. SHARE CAPITAL

Shares

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised:		
1,500,000,000 (2005: 15,000,000,000) ordinary shares of HK\$0.10 (2005: HK\$0.01) each	150,000	150,000
Issued and fully paid:		
496,683,017 (2005: 5,167,540,176) ordinary shares of HK\$0.10 (2005: HK\$0.01) each	49,668	51,675

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31. SHARE CAPITAL (Continued)

A summary of the transactions during the current and prior years with reference to the movements in the Company's issued ordinary share capital as follows:

	Notes	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 April 2004		4,668,779,496	46,688	95,648	142,336
Repurchase of shares	(i)	(177,720,000)	(1,778)	(5,424)	(7,202)
Exercise of warrants	(ii)	676,480,680	6,765	15,559	22,324
At 31 March 2005 and 1 April 2005		5,167,540,176	51,675	105,783	157,458
Repurchase of shares	(iii, v)	(184,600,000)	(2,007)	(9,112)	(11,119)
Consolidation of shares	(iv)	(4,486,257,159)	–	–	–
At 31 March 2006		496,683,017	49,668	96,671	146,339

Notes:

- (i) In prior year, the Company repurchased a total of 177,720,000 of its own shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") at a price of HK\$0.038 to HK\$0.042 per share, for a total consideration, before expenses, of HK\$7,090,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK\$1,778,000 was transferred from retained profits to the capital redemption reserve. The premium of HK\$5,312,000 paid on the repurchased shares and share repurchase expenses of HK\$112,000 were charged against the share premium account.
- (ii) In prior year, 676,480,680 shares were issued for cash at a subscription price of HK\$0.033 per share, pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of approximately HK\$22,324,000.

31. SHARE CAPITAL (Continued)

- (iii) During the period from April 2005 to August 2005, the Company repurchased a total of 182,810,000 of its own shares on the Stock Exchange at a price of HK\$0.036 to HK\$0.065 per share, for a total consideration, before expenses, of HK\$10,464,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK\$1,828,000 was transferred from retained profits to the capital redemption reserve. The premium of HK\$8,636,000 paid on the repurchased shares and share repurchase expenses of HK\$121,000 were charged against the share premium account, details of which are set out below:

Month of purchase	Number of Ordinary share of HK\$0.01 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
April 2005	76,430,000	0.065	0.063	4,935
May 2005	37,290,000	0.062	0.057	2,200
June 2005	56,080,000	0.052	0.049	2,848
August 2005	13,010,000	0.038	0.036	481
	<u>182,810,000</u>			<u>10,464</u>

- (iv) With effect from 1 September 2005, the Company's authorised share capital of HK\$150,000,000 divided into 15,000,000,000 ordinary shares of HK\$0.01 each was consolidated into 1,500,000,000 ordinary shares of HK\$0.10 each. On the same date, the Company's issued and fully paid share capital of HK\$49,847,000 divided into 4,984,730,176 ordinary shares of HK\$0.01 each was consolidated into 498,473,017 ordinary shares of HK\$0.10 each.

- (v) During the period from November 2005 to December 2005, the Company repurchased a total of 1,790,000 of its own shares on the Stock Exchange at a price of HK\$0.265 to HK\$0.32 per share, for a total consideration, before expenses, of HK\$525,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK\$179,000 was transferred from retained profits to the capital redemption reserve. The premium of HK\$346,000 paid on the repurchased shares and share repurchase expenses of HK\$9,000 were charged against the share premium account, details of which are set out below:

Month of purchase	Number of Ordinary share of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
November 2005	970,000	0.320	0.295	304
December 2005	820,000	0.280	0.265	221
	<u>1,790,000</u>			<u>525</u>

31. SHARE CAPITAL *(Continued)***Share options**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 32 to the financial statements.

Warrants

Pursuant to an ordinary resolution passed on 14 August 2002, a bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 13 August 2002, resulting in 958,323,000 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.01 each at a subscription price of HK\$0.033 per share, payable in cash and subject to adjustment, from the date of issue to 14 August 2004, both dates inclusive.

All of the remaining outstanding warrants which entitled the registered holders to subscribe for 181,514,000 shares of HK\$0.01 each in the Company were expired on 14 August 2004 and accordingly, no warrant was outstanding as at 31 March 2005 and 2006.

32. SHARE OPTION SCHEME

On 14 August 2002, the share option scheme of the Company adopted on 21 May 1997 ceased to operate and a new share option scheme (the "Scheme") was adopted on the same date to comply with the requirements of Chapter 17 of the Listing Rules regarding share option schemes of a company. The options granted under the old scheme will remain in force and effect.

The Company operates the Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, the Company's shareholders and other employees of the Group. The Scheme became effective on 14 August 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company at the adoption date of the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

32. SHARE OPTION SCHEME *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. An option may be exercised under the Scheme at any time during a period not exceeding 10 years after the date when the option is granted and expiring on the last date of such period.

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

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

At 31 March 2005, no share options were outstanding under the Scheme.

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32. SHARE OPTION SCHEME (Continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares*** At grant date of options HK\$
	At 1 April 2005	Granted during the year	At 31 March 2006				
Directors							
Tjia Boen Sien	-	400,000	400,000	16 February 2006	17 February 2006 to 16 February 2008	0.272	0.27
Wang Jing Ning	-	1,000,000	1,000,000	16 February 2006	17 February 2006 to 16 February 2008	0.272	0.27
Keung Kwok Chueng	-	2,000,000	2,000,000	16 February 2006	17 February 2006 to 16 February 2008	0.272	0.27
Ong Chi King	-	2,000,000	2,000,000	16 February 2006	17 February 2006 to 16 February 2008	0.272	0.27
Ho Chung Tai, Raymond	-	400,000	400,000	4 March 2006	5 March 2006 to 4 March 2008	0.34	0.34
Siu Man Po	-	400,000	400,000	4 March 2006	5 March 2006 to 4 March 2008	0.34	0.34
	-	6,200,000	6,200,000				
Other employees, in aggregate							
	-	4,600,000	4,600,000	16 February 2006	17 February 2006 to 16 February 2008	0.272	0.27
	-	1,000,000	1,000,000	4 March 2006	5 March 2006 to 4 March 2008	0.34	0.34
	-	5,600,000	5,600,000				
Total	-	11,800,000	11,800,000				

32. SHARE OPTION SCHEME *(Continued)*

- * The vesting period of the share options is from the date of the grant until the commencement of the exercise period.
- ** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.
- *** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

The fair value of the share options granted during the year was HK\$799,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 March 2006:

Dividend yield (%)	0.00
Expected volatility (%)	39.00
Historical volatility (%)	39.00
Risk-free interest rate (%)	3.12
Expected life of option (year)	2.00
Weighted average share price (HK\$)	0.32

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 11,800,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 11,800,000 additional ordinary shares of the Company, representing approximately 2.4 % of the Company's shares in issue as at the balance sheet date, and additional share capital of HK\$1,180,000 and share premium of HK\$2,152,000 (before issue expenses).

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33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 36 to 37 of the financial statements.

(b) Company

		Share premium account	Contributed surplus	Share option reserve	Capital redemption reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004		95,648	155,531	–	5,577	1,019	257,775
Repurchase of shares	31	(5,312)	–	–	1,778	(1,778)	(5,312)
Share repurchases expenses	31	(112)	–	–	–	–	(112)
Exercise of warrants	31	15,559	–	–	–	–	15,559
Net profit for the year	11	–	–	–	–	13,546	13,546
At 31 March 2005		105,783	155,531	–	7,355	12,787	281,456
Repurchases of shares	31	(8,982)	–	–	2,007	(2,007)	(8,982)
Share repurchase expenses	31	(130)	–	–	–	–	(130)
Equity-settled share option arrangement	32	–	–	799	–	–	799
Net loss for the year	11	–	–	–	–	(5,744)	(5,744)
At 31 March 2006		96,671	155,531	799	9,362	5,036	267,399

The Company's contributed surplus represents the excess of the fair value of the subsidiaries' shares acquired pursuant to the Group reorganisation on 21 May 1997, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), a distribution may be made out of the contributed surplus provided that the Company will be able to pay its liabilities as they fall due and subsequent to the distribution, the aggregate amount of its total liabilities, as well as its issued share capital and share premium, is less than the realisable value of its assets.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Acquisition of subsidiaries**

In prior year, the Group, through its non-wholly owned subsidiary, CPG, acquired a 49% equity interest in Xin Hua on 30 April 2004 and subsequently acquired the remaining 51% equity interest in October 2004, at an aggregate consideration of approximately HK\$94,500,000 (before expenses). CPG was subsequently disposed of in the prior year (note 12 and 34(b)). The net assets of the subsidiaries at the date of acquisition are as follows:

	<i>Notes</i>	2006 HK\$'000	2005 <i>HK\$'000</i>
Net assets acquired:			
Property, plant, and equipment	14	–	114,460
Inventories		–	1,078
Investment in securities		–	190
Trade and other receivables		–	31,077
Cash and bank balances		–	15,473
Trade and other payables		–	(95,385)
Taxation payable		–	(545)
Interest-bearing bank and other borrowings		–	(5,714)
Minority interests		–	(1,336)
		–	59,298
Goodwill on acquisition	16	–	37,474
		–	96,772
Satisfied by:			
Cash		–	66,445
Reclassification to interests in subsidiaries from interests in associates		–	30,327
		–	96,772

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

	2006 HK\$'000	2005 <i>HK\$'000</i>
Cash consideration	–	(66,445)
Cash and cash equivalents acquired	–	15,473
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	(50,972)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

In prior year, the Group disposed of its entire interest in CPG, a formal subsidiary. Details of the disposal and its impact on the Group's consolidated turnover and profit after tax for that year are set out in note 12 to the financial statements. In the current year, the Group has disposed of its interests in certain subsidiaries. The net assets of the subsidiaries at the date of disposal are as follows:

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Net assets disposed of:			
Property, plant and equipment	<i>14</i>	–	127,165
Goodwill	<i>16</i>	–	47,449
Investment in securities		–	190
Prepayment, deposits and other receivables		1,578	42,790
Inventories		4,440	1,366
Properties held for sale		–	39,972
Cash and bank balances		896	10,123
Other payables and accruals		(6,525)	(61,074)
Interest-bearing bank and other borrowings		–	(21,006)
Tax payable		–	(10,811)
Deferred tax liabilities	<i>30</i>	–	(61)
Minority interests		(621)	(83,535)
		(232)	92,568
Gain on disposal of subsidiaries	<i>5</i>	1,768	–
Gain on disposal of subsidiaries in a discontinued operation	<i>12</i>	–	41,651
Release of capital reserves		–	(2,182)
		1,536	132,037
Satisfied by:			
Cash		1,654	85,682
Long term receivable	<i>21</i>	–	46,355
Interests in associates		(118)	–
		1,536	132,037

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries (Continued)

An analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006 HK\$'000	2005 HK\$'000
Cash consideration	1,654	85,682
Cash and bank balances disposed of	<u>(896)</u>	<u>(10,123)</u>
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>758</u>	<u>75,559</u>

35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	–	–	360,100	282,830
Financial assistance to subsidiaries	<u>–</u>	<u>–</u>	<u>–</u>	<u>50,000</u>
	<u>–</u>	<u>–</u>	<u>360,100</u>	<u>332,830</u>

In respect of the guarantees granted to subsidiaries, banking facilities in the amount of HK\$73,462,000 (2005: HK\$35,055,000) were utilised by the subsidiaries as at 31 March 2006.

36. OPERATING LEASE ARRANGEMENTS

(a) The Group as lessor

The Group leases certain of its leasehold buildings (note 14) and certain of its completed properties held for sale (note 23) under operating lease arrangements, with leases negotiated for terms ranging from 1 month to two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 March 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006	2005
	HK\$'000	HK\$'000
Within one year	1,655	1,362
In the second to fifth years, inclusive	1,195	1,819
	<u>2,850</u>	<u>3,181</u>

(b) The Group as lessee

The Group leases certain of its office properties under operating lease arrangements, with leases negotiated for terms ranging from one to ten years.

At 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006	2005
	HK\$'000	HK\$'000
Within one year	10,063	10,785
In the second to fifth years, inclusive	29,884	34,045
After five years	10,370	14,619
	<u>50,317</u>	<u>59,449</u>

The Company had no operating lease arrangements as at 31 March 2006 (2005: Nil).

37. COMMITMENTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Capital commitments contracted, but not provided for, in respect of acquisition of properties	16,503	–

The Company had no material commitments as at 31 March 2006 (2005: Nil).

38. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Management fees received from associates (<i>Note</i>)	553	344
Interest income from jointly-controlled entity (<i>note 18</i>)	397	–

Note: The management fees were charged by reference to costs incurred for services provided by the Group.

- (b) Outstanding balances with related parties:
- (i) Details of the Group's amounts with its jointly-controlled entity and associates as at the balance sheet date are included in notes 18 and 19 to the financial statements respectively; and
 - (ii) Details of the Company's amounts due with its subsidiaries as at the balance sheet date are included in note 17 to the financial statements.
- (c) Compensation of key management personnel of the Group:

The key management personnel of the Group are the directors of the Company. Details of their remuneration are disclosed in note 8 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, available-for-sale equity investment, cash and cash equivalents and pledged time deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable, accounts payable, prepayments, deposits and other receivables, and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

One of the Group's most significant sources of interest rate risk is the repricing risk caused by timing differences in interest rate changes and cash flows that occur in the repricing and maturity of fixed and floating rate assets and liabilities. The Group is exposed to interest rate risk through the impact of rate changes on interest-bearing bank and other borrowings. The Group has an interest rate risk management policy in place to monitor and mitigate interest rate risk within tolerable risk limits.

Foreign currency risk

The monetary assets and transactions of several subsidiaries of the Group are principally denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently has no particular hedging vehicles to hedge its exposure to foreign exchange risk profile. It is the Group's policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Details of the Group's credit policy are set out in note 26 to the financial statements.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)***Credit risk** *(Continued)*

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents, pledged time deposits, and prepayments, deposits and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group will consistently maintain a prudent financing policy and ensure that it maintains sufficient cash and credit lines to meet its liquidity requirements.

40. POST BALANCE SHEET EVENTS

- (i) On 1 April 2006, the Group acquired a 100% interest in Winsome Properties Limited, which is engaged in the investment holding business. The purchase consideration of HK\$10,096,154 for the acquisition was in the form of cash and was paid up to acquisition date.

The major asset held by Winsome Properties Limited is a 70% interest in a hotel property located in Mainland China.

Because the acquisition of Winsome Properties Limited was effected shortly before the date of approval of these financial statements, it is not practicable to disclose further details about the acquisition.

- (ii) On 4 April 2006, Sparta Assets Limited ("Sparta Assets"), a company incorporated in the British Virgin Islands with limited liability, which holds approximately 45.55% of the Company shares, has entered into a placing agreement with Penta Investment Advisers Limited ("Penta"), a company incorporated in British Virgin Islands with limited liability. Pursuant to the placing agreement, Sparta Assets agreed to place 15,000,000 placing Shares with Penta at a price of HK\$0.34 per Share. On the same day, Sparta Assets entered into a share subscription agreement with the Company pursuant to which, Sparta Assets conditionally agreed to subscribe for 15,000,000 subscription shares at the same price of HK\$0.34 per share.
- (iii) On 4 April 2006, the Company and Penta entered into a convertible note subscription agreement under which, subject to certain conditions, the Company agreed to issue, and Penta agreed to subscribe for, convertible notes with an aggregate principal amount of HK\$15,750,000.

The convertible notes are convertible into shares at an initial conversion price at HK\$0.45 per share. The notes and conversion shares to be issued pursuant to the convertible notes will be issued under general mandate.

NOTES TO FINANCIAL STATEMENTS

31 March 2006

41. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 July 2006.