139 Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 139

2007 ANNUAL REPORT

Contents

EXECUTIVE DIRECTORS

Wong Howard *(Chairman & Chief Executive Officer)*
Wong Yat Fai
Wu Qing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tung Tat Chiu, Michael
Li Chi Ming
Wan Ngar Yin, David

AUDIT COMMITTEE

Tung Tat Chiu, Michael *(Chairman)*
Li Chi Ming
Wan Ngar Yin, David

REMUNERATION COMMITTEE

Li Chi Ming *(Chairman)*
Tung Tat Chiu, Michael
Wan Ngar Yin, David

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Szeto Pui Tong, Patrick

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1603-05
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY'S WEBSITE

www.139hk.com

STOCK CODE

139

BUSINESS REVIEW

The Group's revenue for the Year was HK$21.9 million, representing an increase of HK$11.6 million or 112% compared with last year. This was mainly attributable to an increase of HK$38.2 million in sales of electronic products. The loss for the Year was HK$38.8 million, compared to the loss of HK$46.5 million last year. Loss per share for the Year decreased to HK3.16 cents (2006: HK4.1 cents). The Group's loss for the Year was primarily attributable to a net loss of HK$31.2 million in treasury investment.

During the Year, the Group continued to put efforts in broadening the product range of electronic products trading, and strengthening its after-sales services and value-added services. Through the collaboration with business partners and active participation in trade fairs, the Group recorded an increase in sales revenue over the Year.

The sales of electronic products trading increased by HK$38.2 million or 131% to HK$67.4 million for the Year. The increase in revenue was mainly due to the sales orders for the trading of some new electronic products. With the strict cost control and the contributions from these new electronic products, the operating loss for the electronic products trading was reduced to HK$2.6 million.

The Group continued to utilise its available funds in treasury investment. During the Year, this segment incurred a net loss of HK$31.2 million.

In order to tap into the growing Mainland China energy market, on 1 November 2006 the Group entered into an agreement for investment in a methanol refinery project at Inner Mongolia in Mainland China. Details of this investment were disclosed in the Company's announcements dated 19 October 2006 and 2 November 2006 respectively.

Due to a delay on the vendor's part in obtaining adequate financing to fund the capital requirement of the project, the Group decided to terminate this transaction on 12 April 2007. Details of the termination were disclosed in the Company's announcement dated 12 April 2007. Despite the termination of this transaction, the Group still maintains strong confidence in the growth of Mainland China energy business and will look for favorable investment opportunities in Mainland China.

PROSPECTS

Looking ahead, the Group will continue to pursue its prudent investment strategies to explore investment opportunities for diversifying its existing business and revenues. The Group anticipated that the fast economic growth in Mainland China will continue and create many investment opportunities, in particular in the energy business. The Group will be on the alert for suitable investment opportunities and is poised to take hold of these opportunities for growth of new businesses.

FINANCIAL REVIEW

The Group's revenue for the Year was HK$21.9 million, representing an increase of HK$11.6 million or 112% compared with last year. The Group's revenue principally comprised the sales of electronic products of HK$67.4 million and the loss of HK$45.5 million from treasury investment. During the Year, the revenue from electronic products increased by HK$38.2 million or 131% to HK$67.4 million.

The loss for the Year was HK$38.8 million, compared to the loss of HK$46.5 million last year. As at 31 March 2007, the Group's net asset value increased by HK$47.1 million or 13.2% to HK$404.6 million. This was mainly due to the placement of new shares and an increase of HK$13.5 million in investment reserve. The Group maintained a sound financial position in terms of strong liquidity and nil debt burden.

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group generally financed its operation with internally generated cash flow and banking facilities and placing of new shares. The Group's bank and short-term deposits as at 31 March 2007 increased to HK$55.4 million (at 31 March 2006: HK$25.5 million). The increase was mainly due to the placement of new shares for the amount of HK$72.6 million during the Year.

As at 31 March 2007, the Group had no bank overdrafts, short and long term interest-bearing bank borrowings (at 31 March 2006: Nil).

As at 31 March 2007, the Group's current ratio was 6.5 times (at 31 March 2006: 30.1 times) based on current assets of HK$190.3 million (at 31 March 2006: HK$236.3 million) and current liabilities of HK$29.3 million (at 31 March 2006: HK$7.9 million).

As at 31 March 2007, the Group had no contingent liabilities or material commitments for the purchase of property, plant and equipment.

CAPITAL STRUCTURE

As at 31 March 2007, the Group's gearing ratio, being the total finance lease payables to net worth was 0.02% (31 March 2006: 0.04%).

The Group's bank deposits and borrowings are mainly denominated in Hong Kong dollars. Most of Group's sales and purchases are made in United States dollars and Hong Kong dollars. Therefore, the exchange risks exposed to the Group is minimal.

On 17 October 2006, the Company entered into an agreement with a placing agent for placement of 226,640,000 new shares at HK$0.325 per share. The 226,640,000 placing shares represented approximately 20% of the then issued share capital of the Company prior to such placing. The net proceeds from the placing of approximately HK$72.6 million was used as additional working capital for the Group.

On 6 February 2007, the Company entered into the CB placing agreement with a placing agent for the placing of the Convertible Bonds, on the best efforts basis, up to a total maximum principal amount of HK$101.96 million at the conversion price of HK$0.375 per share. The 271,900,000 conversion shares represented approximately 20% of the then issued share capital of the Company. The net proceeds from the placing of approximately HK$99.92 million was intended to be used to finance the new investment opportunities and general working capital for the Group. On 6 July 2007, in view of the current market condition, the Group reached an agreement with the placing agent to cancel the CB placing agreement.

POST BALANCE SHEET EVENT

Apart from the cancellation of the methanol refinery project at Inner Mongolia as mentioned above, on 6 July 2007, the Company entered into an agreement with the placing agent to (i) cancel the CB placing agreement dated 6 February 2007 and (ii) enter into three conditional placing agreements (namely, the fully underwritten placing agreement, the best efforts placing agreement and the new CB placing agreement).

Subject to the completion of placings and assuming the best efforts placing shares and the convertible bonds are subscribed for in full, the estimated net proceeds from the placings is approximately HK$354 million. The net proceeds will be used as working capital to support the Group's ongoing operation and expansion and/or finance possible investments should suitable opportunities arise. Details of the above transactions were disclosed in the Company's announcement dated 11 July 2007.

SIGNIFICANT INVESTMENTS

As at 31 March 2007, the Group had convertible notes issued by a company listed on The Stock Exchange of Hong Kong Limited with fair value amount of HK$42.4 million. The interest income for the Year was HK$3.8 million.

As at 31 March 2007, the Group maintained a portfolio of equity investments (including available-for-sales equity investments and equity investments at fair value through profit or loss) with total carrying amount of HK$331.5 million. The related dividend income for the Year was HK$4.2 million.

DETAILS OF CHARGES ON ASSETS

As at 31 March 2007, a fixed deposit of HK$7.0 million (2006: HK$6.7 million) was pledged to secure banking facilities granted to the Group.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Year, the Company had no material acquisition and disposal of subsidiaries and associate.

EMPLOYMENT, TRAINING AND DEVELOPMENT

As at 31 March 2007, the Group had a total of 44 employees of which 21 based in Hong Kong and 23 based in Mainland China. The Group is committed to staff training and development and structured training programs for all employees.

Remuneration packages are maintained at a competitive level and reviewed on a periodic basis. Bonuses and share options are awarded to certain employees according to the individual performance and industry practice.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our appreciation to all management and staff members for their contribution during the past year.

Wong Howard
Chairman

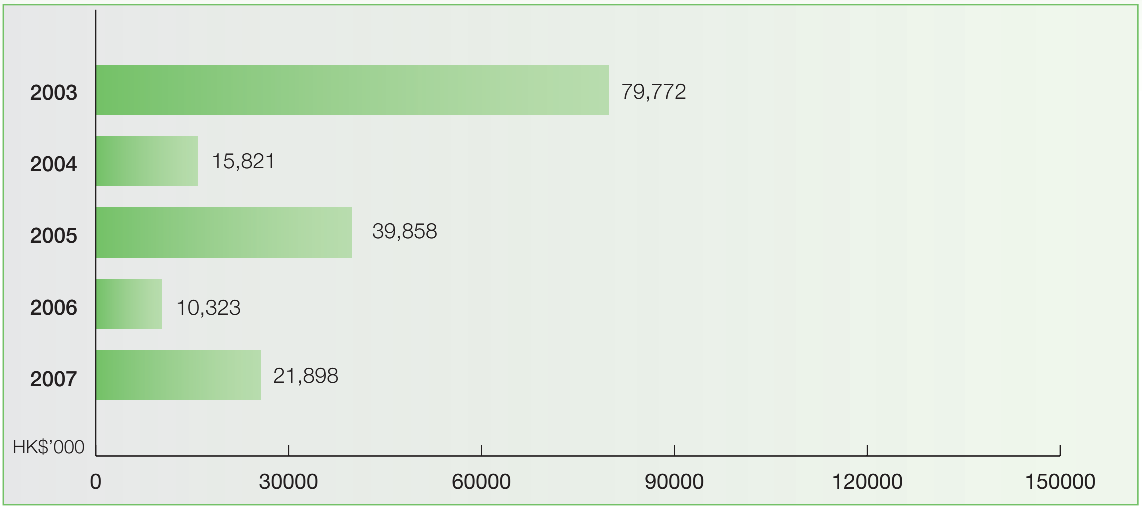
Hong Kong
20 July 2007

FINANCIAL HIGHLIGHTS

	2006/2007	2005/2006
Revenue	**HK$21,898,000**	HK$10,323,000
Loss for the year attributable to ordinary equity holders of the Company	**HK$(38,800,000)**	(HK$46,482,000)
Basic loss per share attributable to ordinary equity holders of the Company	**HK(3.16 cents)**	(HK4.10 cents)

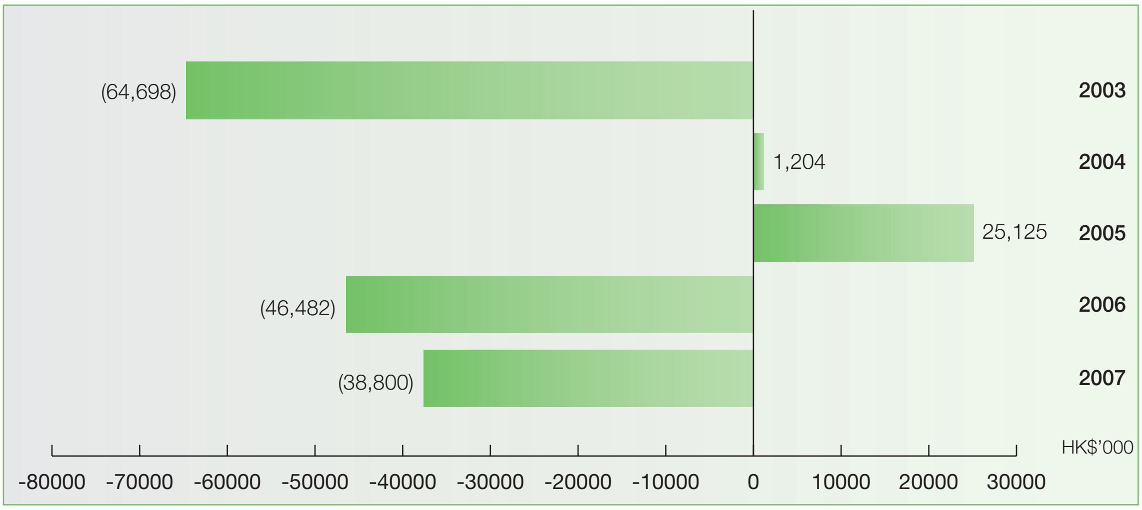
Revenue

(For the year ended 31 March)



Profit/(loss) for the year attributable to ordinary equity holders of the Company

(For the year ended 31 March)



EXECUTIVE DIRECTORS

Wong Howard, aged 51, is the Chairman and Chief Executive Officer of the Group and the Chairman of the Executive Committee of the Company. He joined the Group in February 2000. Mr. Wong has over 20 years of senior management experience in overall strategy, business development and retail chain shops establishment. Mr. Wong had been a Managing Director of a listed company in Hong Kong for two years before joining the Group.

Wong Yat Fai, aged 47, is an Executive Director of the Group and a member of the Executive Committee of the Company. He joined the Group in February 2000. Mr. Wong holds a professional diploma in banking from The Hong Kong Polytechnic University. Prior to joining the Group, Mr. Wong had over 13 years' working experience in an international banking group. He is an independent non-executive director of C C Land Holdings Limited, Yugang International Limited, Y.T. Realty Group Limited and The Cross-Harbour (Holdings) Limited, companies listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Wu Qing, aged 50, is an Executive Director of the Group and a member of the Executive Committee of the Company. He joined the Group in February 2000. Mr. Wu holds a Ph.D. degree of computer science from the University of Bonn in Germany. In 1994, Mr. Wu joined a holding company as the R & D manager. During that time, he was in charge of the research and development and engaged in the marketing study of application softwares and e-commerce.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Chi Ming, aged 49, is an Independent Non-executive Director, the Chairman of the Remuneration Committee and a member of the Audit Committee of the Company. He joined the Group in February 2000. Mr. Li holds an Honorary Bachelor of Laws (LLB) and Postgraduate Certificate in Laws (PCLL) from The University of Hong Kong, and Master of Laws (LLM) from City University of Hong Kong. He has been a Partner of Messrs. Poon, Yeung & Li, solicitors over 17 years.

Tung Tat Chiu, **Michael**, aged 45, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He joined the Group in September 2000. Mr. Tung holds a Bachelor of Arts degree in law and accounting from The University of Manchester. Mr. Tung is a practicing solicitor in Hong Kong. He is the company secretary of various listed companies in Hong Kong.

Wan Ngar Yin, David, aged 46, is an Independent Non-executive Director and a member of both the Audit Committee and Remuneration Committee of the Company. He joined the Group in September 2004. Mr. Wan holds a bachelor degree in social sciences from The University of Hong Kong and a master degree in business administration from The University of Sydney in Australia. Mr. Wan is a member of the Hong Kong Securities Institute, a member of the CPA Australia, an associate member of Hong Kong Institute of Certified Public Accountants, an associate member of The Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Mr. Wan is also the independent non-executive director of Mandarin Entertainment (Holdings) Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

COMPANY SECRETARY

Szeto Pui Tong, **Patrick**, aged 47, joined the Group in March 2000, is the Financial Controller, Qualified Accountant and the Company Secretary of the Group. Before joining the Group, Mr. Szeto has over 13 years of experience in finance and accounting field. Mr. Szeto holds a master degree of business in accounting from Monash University in Australia and is an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries, the Chartered Institute of Management Accountants and the Institute of Chartered Secretaries and Administrators.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the trading and distribution of electronic products and other merchandise and securities investment and trading. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 90.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue					
Continuing operations	**21,898**	10,323	39,858	15,821	(5,061)
Discontinued operations	**–**	–	–	–	84,833
	21,898	10,323	39,858	15,821	79,772
Profit/(loss) before tax					
Continuing operations	**(38,800)**	(46,482)	25,125	1,204	(72,649)
Discontinued operations	**–**	–	–	–	6,241
	(38,800)	(46,482)	25,125	1,204	(66,408)
Tax					
Continuing operations	**–**	–	–	–	1,600
Discontinued operations	**–**	–	–	–	–
	–	–	–	–	1,600
Profit/(loss) before minority interests	**(38,800)**	(46,482)	25,125	1,204	(64,808)
Minority interests	**–**	–	–	–	110
Profit/(loss) for the year attributable to ordinary equity holders of the Company	**(38,800)**	(46,482)	25,125	1,204	(64,698)

ASSETS AND LIABILITIES

	As at 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**443,240**	371,921	325,003	242,533	225,699
Total liabilities	**38,607**	14,401	9,093	14,148	18,262
Net assets	**404,633**	357,520	315,910	228,385	207,437

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 25 and 27 to the financial statements, respectively.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 23 August 2007 to Tuesday, 28 August 2007 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the annual general meeting of the Company to be held on Tuesday, 28 August 2007, unregistered holders of shares of the Company should ensure that all transfers of shares of the Company accompanied by the relevant share certificates and the appropriate transfer forms must be lodged with the Company's share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 22 August 2007.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company had no reserves available for distribution. The Company's share premium account and capital redemption reserve, with an aggregate balance of HK$380,842,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales of electronic products to the Group's five largest customers accounted for 87% of the sales from the electronic products segment for the year and sales to the largest customer included therein amounted to 42%. Purchases of electronic products from the Group's five largest suppliers accounted for 85% of the total purchases from the electronic products segment for the year and the largest supplier included therein amounted to 54%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Wong Howard
Mr. Wong Yat Fai
Mr. Wu Qing

Non-executive directors:
Mr. Li Chi Ming*
Mr. Tung Tat Chiu, Michael*
Mr. Wan Ngar Yin, David*

* Independent non-executive directors

In accordance with bye-law 98 of the bye-laws of the Company, Mr. Li Chi Ming and Mr. Tung Tat Chiu, Michael, the existing directors of the Company, will retire as directors of the Company by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmations of independence from Mr. Li Chi Ming, Mr. Tung Tat Chiu, Michael and Mr. Wan Ngar Yin, David and as at the date of this report still considers them to be independent pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Wong Howard has a service contract with the Company for a term of two years commencing on 1 February 2007, which is subject to termination by either party giving not less than three months' written notice.

The Company has service agreements with Mr. Wong Yat Fai and Mr. Wu Qing for a term of two years and of 16 months respectively commencing on 1 April 2007. These agreements are subject to termination by either party giving not less than three months' written notice.

All the independent non-executive directors of the Company have been appointed for a fixed term of one year commencing on 27 September 2006.

All directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2007, the interests of the directors of the Company in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Wong Howard	Beneficial owner	21,299,000	1.57%
Mr. Wong Yat Fai	Beneficial owner	21,299,000	1.57%
Mr. Wu Qing	Beneficial owner	21,299,000	1.57%

In addition to the above, as at 31 March 2007, certain director(s) had non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the previous requirement of having a minimum of two shareholders.

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Save as disclosed above, as at 31 March 2007, none of the directors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares" above and in the share option scheme disclosures in note 27 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

At 31 March 2007, the following interests of 5% or more of the Company's issued share capital were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of substantial shareholder	Position	Capacity	Note	Number of ordinary shares	Percentage of the Company's issued share capital
JB International Holdings Limited	Long	Beneficial Owner	(a)	262,500,000	19.30%
Mr. Surani Bhupendra Jivrajbhai	Long	Interests held by a controlled corporation	(a)	262,500,000	19.30%
Ms. Surani Varsha Bhupendra	Long	Interests held through spouse	(b)	262,500,000	19.30%
Mercurius GP LLC	Long	Founder of a discretionary trust	(c)	93,320,000	6.86%
Mr. Todd Zwaanstra	Long	Trustee	(d)	93,320,000	6.86%
Penta Japan Fund, Ltd.	Long	Interests held by a controlled corporation	(e)	93,320,000	6.86%
Penta Investment Advisers Limited	Long	Investment manager	(f)	160,670,000	11.81%
Mr. John Zwaanstra	Long	Interests held by a controlled corporation	(f)	160,670,000	11.81%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES (CONTINUED)

Notes:

(a) The interest in 262,500,000 shares reported by JB International Holdings Limited included derivative interests of 200,000,000 shares. Mr. Surani Bhupendra Jivrajbhai was deemed to be interested in 262,500,000 shares since he controlled 60% interests of JB International Holdings Limited.

(b) Ms. Surani Varsha Bhupendra was deemed to be interested in 262,500,000 shares of the Company through her spouse, Mr. Surani Bhupendra Jivrajbhai.

(c) Mercurius GP LLC was the founder of Mercurius Partners Trust.

(d) Mr. Todd Zwaanstra was the trustee of Mercurius Partners Trust.

(e) Penta Japan Fund, Ltd. was deemed to be interested in 93,320,000 shares held by Penta Master Fund, Ltd., a corporation wholly controlled by Penta Japan Fund, Ltd..

(f) Mr. John Zwaanstra was deemed to be interested in 160,670,000 shares reported by Penta Investment Advisers Limited, a corporation wholly controlled by Mr. John Zwaanstra.

Save as disclosed above, as at 31 March 2007, no persons had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in the annual report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 34 to the financial statements.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On Behalf of the Board

Wong Howard
Chairman

Hong Kong
20 July 2007

The board of directors (the "Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31 March 2007.

CORPORATE GOVERNANCE PRACTICES OF THE COMPANY

The Company recognises the importance of high standards of corporate governance to sustain healthy growth and has taken a proactive approach in strengthening corporate governance practices in accordance with the needs of its business. The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). With the exception of the code provision A.2.1 of the CG Code in relation to the separation of the roles of the Chairman and Chief Executive Officer, the Company has complied with the code provisions as set out in the CG Code throughout the year under review. The details of such deviation will be explained below.

The Company reviews its corporate governance practices regularly to ensure its continuous compliance with the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:

A. THE BOARD

1. Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

Every director carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company and its shareholders at all times.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee, the Chief Executive Officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

In addition, the Board has also established Board committees and has delegated to these Board committees various responsibilities set out in their terms of reference respectively.

2. Board Composition

The composition of the Board reflects the necessary balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board comprises the following directors:–

Executive directors:–
Mr. Wong Howard, *Chairman of the Board and the Executive Committee and Chief Executive Officer*
Mr. Wong Yat Fai, *member of the Executive Committee*
Mr. Wu Qing, *member of the Executive Committee*

Independent non-executive directors:–
Mr. Li Chi Ming, *Chairman of the Remuneration Committee and member of the Audit Committee*
Mr. Tung Tat Chiu, Michael, *Chairman of the Audit Committee and member of the Remuneration Committee*
Mr. Wan Ngar Yin, David, *member of the Audit Committee and the Remuneration Committee*

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

There is no relationship (including financial, business, family, or other material/relevant relationship(s)) among the Board members.

During the year ended 31 March 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with one independent non-executive director, being Mr. Wan Ngar Yin, David, possessing appropriate professional qualifications and accounting and related financial management expertise.

The Company has received written annual confirmations from the three independent non-executive directors respectively for confirming their independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive director brings a wide range of business and financial expertise, experiences and independent judgement to the Board. Through participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, the non-executive directors make various contributions to the effective direction of the Company.

3. Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Wong Howard is the Chairman of the Board and the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership and allows for effective and efficient business planning and decisions as well as execution of long term business strategies. As such, it is beneficial to the business prospects of the Company.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

4. Appointment and re-election of directors

Each of Mr. Wong Howard and Mr. Wong Yat Fai is engaged on a service contract for a term of 2 years. Mr. Wu Qing is engaged on a service contract for a term of 16 months. Each of the above service contracts may be terminated by not less than 3 months' written notice.

In addition, each of the independent non-executive directors of the Company is appointed for a specific term. The term of office of Mr. Li Chi Ming, Mr. Tung Tat Chiu, Michael and Mr. Wan Ngar Yin, David is one year up to 26 September 2007.

In accordance with the Company's Bye-laws, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Pursuant to the aforesaid, Mr. Li Chi Ming and Mr. Tung Tat Chiu, Michael shall retire by rotation and, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of these two retiring directors standing for re-election at the forthcoming annual general meeting. Detailed information of such directors standing for re-election is contained in the Company's circular sent together with this annual report.

The Company has adopted Directors Nomination Procedures as written guidelines in providing formal, considered and transparent procedures to the Board for evaluating and selecting candidates for directorships. Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

During the year under review, the Board met once, with the presence of Mr. Wong Howard, Mr. Wong Yat Fai, Mr. Wu Qing, Mr. Li Chi Ming, Mr. Tung Tat Chiu, Michael and Mr. Wan Ngar Yin, David, for reviewing the structure, size and composition of the Board, assessing the independence of the independent non-executive directors and recommending the re-appointment of the directors standing for re-election at the annual general meeting of the Company.

5. Training for directors

There was no director newly appointed during the year ended 31 March 2007. In case there is any newly appointed director, he/she will receive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Continuing briefings and professional development to directors will be arranged whenever necessary.

6. Board meetings

Board Practices and Conduct of Meetings

Annual meeting schedules are normally made available to directors in advance.

Notices of regular Board meetings were served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice was generally given.

Agenda and board papers together with all appropriate, complete and reliable information were sent to all directors/Board committee members at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Company Secretary, also the Qualified Accountant of the Company, attends all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

The Company's Bye-laws contains provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest. According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

Directors' Attendance Records

During the year ended 31 March 2007, 11 board meetings were held, out of which 4 were regular meetings held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The attendance records of each director at the Board meetings during the year ended 31 March 2007 are set out below:

Name of Directors	Attendance/Number of Meetings
Mr. Wong Howard	11/11
Mr. Wong Yat Fai	11/11
Mr. Wu Qing	11/11
Mr. Li Chi Ming	9/11
Mr. Tung Tat Chiu, Michael	4/11
Mr. Wan Ngar Yin, David	10/11

7. Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 March 2007.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

B. DELEGATION BY THE BOARD

The Board reserves for its decisions all major matters of the Company, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

In order to increase the efficiency for the business decision, the Board established an Executive Committee with written terms of reference. The Executive Committee comprises all the executive directors of the Company with Mr. Wong Howard, acting as the chairman of such Committee. The principal duties of the Executive Committee include monitoring the execution of the Company's strategic plans and operations of all business units of the Company and discussing and making decisions on matters relating to the day-to-day management and operations of the Company.

The Board has delegated a schedule of responsibilities to the senior management of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board, formulating and monitoring the production and operating plans and budgets, and supervising and monitoring the control systems.

The Board has the full support of the senior management to discharge its responsibilities.

C. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration and senior management of the Group. Details of the remuneration of each of the directors of the Company for the year ended 31 March 2007 are set out in the financial statements of the Company.

Remuneration Committee

The Remuneration Committee comprises three members, namely Mr. Li Chi Ming (Chairman), Mr. Tung Tat Chiu, Michael and Mr. Wan Ngar Yin, David, all of them are independent non-executive directors. The primary objectives of the Remuneration Committee include:

- To make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive directors and the senior management, such policy shall ensure that no director or any of his/her associates will participate in deciding his/her own remuneration;

- To make recommendations on the remuneration packages of the executive directors and the senior management;

- To review and approve the remuneration packages of the executive directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and

- To review and approve the compensation arrangements for the executive directors and the senior management.

The Remuneration Committee normally meets annually for reviewing and discussing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall consult the Chairman/Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

During the year ended 31 March 2007, the Remuneration Committee met once and discussed the remuneration related matters of the Company. The individual attendance record of each member at the Remuneration Committee meeting is set out below:–

Name of Directors	Attendance/Number of Meeting
Mr. Li Chi Ming	1/1
Mr. Tung Tat Chiu, Michael	1/1
Mr. Wan Ngar Yin, David	1/1

D. ACCOUNTABILITY AND AUDIT

Directors' responsibilities for financial reporting

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The directors have acknowledged their responsibility for preparing the financial statements of the Company for the year ended 31 March 2007.

The senior management has provided explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

Internal controls

The Board has conducted a review of the effectiveness of the internal control system of the Group for the year ended 31 March 2007. Such review covered the financial, operational, compliance and risk management aspects of the Group.

The Board has overall responsibility for the internal control system of the Company and for reviewing its effectiveness. The Board is also responsible for maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely, Mr. Tung Tat Chiu, Michael (Chairman), Mr. Li Chi Ming and Mr. Wan Ngar Yin, David, with Mr. Wan Ngar Yin, David possesses the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports of the Group.

- To review the relationship with and terms of appointment of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

During the year under review, the Audit Committee has reviewed the Group's annual results and annual report for the year ended 31 March 2006 and interim results and report for the six months ended 30 September 2006, the financial reporting and compliance procedures, the report from the senior management on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The external auditors were invited to attend one of the meetings to discuss with the Audit Committee on issues arising from the audit and financial reporting matters.

During the year ended 31 March 2007, the Audit Committee held 2 meetings. The individual attendance records of each member at the Audit Committee meetings are set out below:–

Name of Directors	**Attendance/Number of Meetings**
Mr. Tung Tat Chiu, Michael	2/2
Mr. Li Chi Ming	2/2
Mr. Wan Ngar Yin, David	2/2

External auditors and auditors' remuneration

The statement of the external auditors of the Company, Messrs Ernst & Young, about their reporting responsibilities on the financial statements is set out in the "Independent Auditors' Report" on pages 31 and 32 in this annual report.

The remuneration of the Company's external auditors is set out below:–

Type of services provided by the external auditors	**Fees paid/payable**
	HK$
Audit fee	850,000
Non-audit fee *(Note)*	716,000
	1,566,000

Note: It includes tax compliance, financial advisory services and service fee on the issuance of accountant's report on major acquisition.

E. COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The general meetings of the Company provide an opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Audit Committee and Remuneration Committee or, in their absence, other members of the respective committees are normally attend to answer questions at the shareholders' meetings.

To promote effective communication, the Company maintains a website at "www.139hk.com", where information on the Company's financial information, corporate governance practices and other information are posted. Investors may write directly to the Company at its principal place of business at Room 1603-5, 16/F, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong for any inquiries.

F. SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-laws. Details of such rights to demand a poll were included in all circulars to shareholders and explained during the proceedings of shareholders' meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained at the meeting.

Where poll voting is conducted at a shareholders' meeting, the poll voting results will be posted on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.139hk.com) after the meeting.

ERNST & YOUNG
安永會計師事務所

TO THE SHAREHOLDERS OF 139 HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of 139 Holdings Limited set out on pages 33 to 90, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

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

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

20 July 2007

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
REVENUE			
Electronic products		67,401	29,216
Treasury investment		(45,503)	(18,893)
	5	21,898	10,323
Cost of electronic products sold		(66,782)	(29,308)
Brokerage and commission expenses		(303)	(1,242)
		(67,085)	(30,550)
		(45,187)	(20,227)
Other income and gains	5	1,956	3,246
Selling and distribution costs		(271)	(303)
Administrative expenses		(17,654)	(16,247)
Other operating expenses		(89)	(415)
Gain arising from redemption of convertible notes		755	–
Fair value gains/(losses), net:			
Equity investments at fair value through profit or loss		23,775	(10,096)
Conversion option derivative		(2,062)	(1,479)
Finance costs	6	(23)	(961)
LOSS BEFORE TAX	7	(38,800)	(46,482)
Tax	10	–	–
LOSS FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	11	(38,800)	(46,482)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		HK(3.16 cents)	HK(4.10 cents)
Diluted		N/A	N/A

Consolidated Balance Sheet

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	445	403
Prepaid land lease payment	14	–	–
Convertible notes – loan portion	16	39,842	12,480
Available-for-sale equity investments	17	212,669	122,743
Total non-current assets		252,956	135,626
CURRENT ASSETS			
Convertible notes – conversion option derivative	16	2,520	–
Equity investments at fair value through profit or loss	18	118,873	192,558
Inventories	19	2,011	6
Trade and bills receivables	20	10,462	10,235
Prepayments, deposits and other receivables		997	7,985
Pledged time deposits	21	6,996	6,731
Cash and cash equivalents	21	48,425	18,780
Total current assets		190,284	236,295
CURRENT LIABILITIES			
Trade and bills payables	22	5,866	250
Tax payable		10	363
Other payables and accruals		23,327	7,170
Finance lease payables	23	69	78
Total current liabilities		29,272	7,861
NET CURRENT ASSETS		161,012	228,434
TOTAL ASSETS LESS CURRENT LIABILITIES		413,968	364,060
NON-CURRENT LIABILITIES			
Finance lease payables	23	–	69
Deferred tax liabilities	24	9,335	6,471
Total non-current liabilities		9,335	6,540
Net assets		404,633	357,520

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Issued capital	25	**13,599**	11,332
Reserves	26(a)	**391,034**	346,188
Total equity		**404,633**	357,520

Wong Howard
Director

Wong Yat Fai
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2007

		Attributable to equity holders of the Company							
	Notes	Issued share capital *HK$'000*	Share premium account *HK$'000*	Capital reserve *HK$'000*	Contributed surplus *HK$'000*	Available-for-sale equity investment revaluation reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Accumulated losses *HK$'000*	Total equity *HK$'000*
At 1 April 2005		113,324	310,000	556	449,182	–	32	(536,810)	336,284
Capital reorganisation	*26(a)*	(101,992)	–	–	101,992	–	–	–	–
Changes in fair values of available-for-sale equity investments		–	–	–	–	74,303	–	–	74,303
Deferred tax arising from changes in fair value of available-for-sale equity investments	*24*	–	–	–	–	(6,471)	–	–	(6,471)
Exchange realignment		–	–	–	–	–	(114)	–	(114)
Loss for the year		–	–	–	–	–	–	(46,482)	(46,482)
At 31 March 2006 and 1 April 2006		11,332	310,000*	556*	551,174*	67,832*	(82)*	(583,292)*	357,520
Issue of shares	*25*	2,267	71,391	–	–	–	–	–	73,658
Share issue expenses	*25*	–	(1,105)	–	–	–	–	–	(1,105)
Changes in fair values of available-for-sale equity investments		–	–	–	–	16,364	–	–	16,364
Deferred tax arising from changes in fair value of available-for-sale equity investments	*24*	–	–	–	–	(2,864)	–	–	(2,864)
Exchange realignment		–	–	–	–	–	(140)	–	(140)
Loss for the year		–	–	–	–	–	–	(38,800)	(38,800)
At 31 March 2007		13,599	380,286*	556*	551,174*	81,332*	(222)*	(622,092)*	404,633

* These reserve accounts comprise the consolidated reserves of HK$391,034,000 (2006: HK$346,188,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(38,800)	(46,482)
Adjustments for:			
Bank interest income	5	(1,382)	(1,931)
Finance costs	6	23	961
Depreciation	7	198	143
Gain on disposal of subsidiaries	5 & 28	–	(1,173)
Gain on disposal of items of property, plant and equipment	5	–	(109)
Write-back of provision for inventories	7	–	(1,232)
Gain arising from redemption of convertible notes		(755)	–
Fair value losses/(gains), net:			
Equity investments at fair value through profit or loss		(23,775)	10,096
Conversion option derivative		2,062	1,479
		(62,429)	(38,248)
Increase in convertible notes - loan portion		(3,553)	(459)
Increase/(decrease) in equity investments at fair value through profit or loss		56,324	(31,183)
Decrease/(increase) in inventories		(2,005)	1,605
Increase in trade and bills receivables		(227)	(10,235)
Decrease in prepayments, deposits and other receivables		6,988	18,135
Increase in trade and bills payables		5,616	54
Increase/(decrease) in other payables and accruals		15,653	(297)
Cash generated from/(used in) operations		16,367	(60,628)
Interest paid		(23)	(961)
Net cash inflow/(outflow) from operating activities		16,344	(61,589)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from redemption of convertible notes		13,500	–
Purchases of items of property, plant and equipment		(240)	(57)
Purchases of available-for-sale equity investments		(73,562)	(4,794)
Interest received		1,382	1,931
Net cash outflow from investing activities		(58,920)	(2,920)

Consolidated Cash Flow Statement

Year ended 31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	25	73,658	–
Share issue expenses	25	(1,105)	–
New other loans		–	90,000
Repayment of other loans		–	(90,000)
Capital element of finance lease rental payments		(78)	(61)
Net cash inflow/(outflow) from financing activities		72,475	(61)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		29,899	(64,570)
Cash and cash equivalents at beginning of year		25,511	90,076
Effect of foreign exchange rate changes, net		11	5
CASH AND CASH EQUIVALENTS AT END OF YEAR		55,421	25,511
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	5,034	7,643
Non-pledged time deposits with original maturity of less than three months when acquired	21	43,391	11,137
Time deposits with original maturity of less than three months when acquired, pledged as a security for bank overdraft facilities	21	6,996	6,731
		55,421	25,511

31 March 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	–	–
Interests in subsidiaries	15	–	–
Total non-current assets		–	–
CURRENT ASSETS			
Due from subsidiaries	15	297,845	277,673
Prepayments, deposits and other receivables		67	26
Cash and cash equivalents	21	20,673	320
Total current assets		318,585	278,019
CURRENT LIABILITIES			
Tax payable		–	354
Accruals		1,411	1,308
Due to subsidiaries	15	44,724	36,251
Total current liabilities		46,135	37,913
NET CURRENT ASSETS		272,450	240,106
Net assets		272,450	240,106
EQUITY			
Issued capital	25	13,599	11,332
Reserves	26(b)	258,851	228,774
Total equity		272,450	240,106

Wong Howard
Director

Wong Yat Fai
Director

1. CORPORATE INFORMATION

139 Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The principal place of 139 Holdings Limited is located at Rooms 1603-5, 16/F., Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consisted of the trading and distribution of electronic products and other merchandise and securities investment and trading. There were no significant changes in the nature of the Group's principal activities during the year.

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 equity investments and conversion option derivative, which have been measured at fair value. These financial statements are presented in Hong Kong dollars 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 2007. 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.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs, applicable to these financial statements, for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 March 2007 or 31 March 2006.

(b) HKAS 39 Amendment *The Fair Value Option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 April 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

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 applicable to these financial statements, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	Group and Treasury Share Transactions

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 objectives, 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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32 Financial Instruments: Disclosure and Presentation.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 May 2006, 1 June 2006, 1 November 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 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.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), 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.

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 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/amortisation), had no impairment loss been recognised for the asset in prior years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 a member of the key management personnel of the Group;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) 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 are stated at cost 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)
Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over the following estimated useful life.

Buildings	50 years or over the lease terms, whichever is shorter
Leasehold improvements	Over the remaining lease terms or 3 years, whichever is shorter
Plant and machinery	7 to 10 years
Motor vehicles, furniture, fixtures and equipment	3 to 5 years

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

Residual values, useful lives and the 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.

Leases
Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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 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.

Investments and other financial assets

Financial assets in the scope of HKAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables or 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 considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are closely related to those of the host contract.

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, that is, the date that the Group commits to purchase or sell 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are 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. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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.

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.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

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 instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

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 them 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at amortised cost

Financial liabilities including trade payables, other payables and finance lease payables are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

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 the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditure expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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 tax 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, 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.

2.4 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, 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 tax authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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;

(b) the profit or loss on the trading of equity investments at fair value through profit or loss on the transaction dates when the relevant contract notes are executed;

(c) 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

(d) dividend income, when the shareholders' 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 binomial model. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees. 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, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Pursuant to the relevant regulations of Mainland China, subsidiaries of the Company operating in Mainland China participate in a local municipal government retirement benefits scheme (the "Mainland Scheme") whereby the subsidiaries are required to contribute a percentage of the basic salaries of their employees to the Mainland Scheme to fund their retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the Mainland Scheme is to pay the ongoing required contributions under the Mainland Scheme mentioned above. Contributions under the Mainland Scheme are charged to the income statement as incurred. There are no provisions under the Mainland Scheme whereby forfeited contributions may be used to reduce future contributions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of exchange ruling at the dates 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.

The functional currencies of certain overseas subsidiaries 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 an overseas subsidiary, 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, 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENT

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, which has the most significant effect on the amounts recognised in the financial statements:

Income tax

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 assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carried forward tax losses, the asset balance will be reduced and charged to the income statement.

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 electronic products segment trades electronic products;

(b) the treasury investment segment comprises securities investment and trading; and

(c) the corporate and others segment comprises corporate income and expenses items.

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

There are no intersegment sales and transfers between the business segments.

4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, loss and certain asset, liability and capital expenditure information for the Group's business segments for the years ended 31 March 2007 and 2006.

Group

	Electronic products		Treasury investment		Corporate and others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:								
Sales to external customers	67,401	29,216	–	–	–	–	67,401	29,216
Losses from treasury investment	–	–	(45,503)	(18,893)	–	–	(45,503)	(18,893)
Total	67,401	29,216	(45,503)	(18,893)	–	–	21,898	10,323
Segment results	(2,576)	(2,916)	(31,224)	(35,687)	(5,703)	(9,035)	(39,503)	(47,638)
Interest income and unallocated gains							1,397	3,109
Unallocated expenses							(671)	(992)
Finance costs							(23)	(961)
Loss before tax							(38,800)	(46,482)
Tax							–	–
Loss for the year							(38,800)	(46,482)
Assets and liabilities								
Segment assets	19,780	12,835	374,916	338,687	21,454	1,224	416,150	352,746
Unallocated assets							27,090	19,175
Total assets							443,240	371,921
Segment liabilities	10,965	5,447	16,517	120	1,730	2,301	29,212	7,868
Unallocated liabilities							9,395	6,533
Total liabilities							38,607	14,401
Other segment information:								
Depreciation	3	20	–	–	192	120	195	140
Unallocated depreciation							3	3
							198	143
Capital expenditure	20	–	–	–	220	375	240	375

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and capital expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

	People's Republic of China (including Hong Kong)		United States of America and Europe		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:						
Electronic products	59,787	27,315	7,614	1,901	67,401	29,216
Treasury investment	(45,503)	(18,893)	–	–	(45,503)	(18,893)
	14,284	8,422	7,614	1,901	21,898	10,323
Other segment information:						
Segment assets	443,240	371,921	–	–	443,240	371,921
Capital expenditure	240	375	–	–	240	375

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and losses on disposal of equity investments at fair value through profit or loss, dividend income arising from listed securities and interest income from convertible notes during the year.

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

	2007 *HK$'000*	2006 *HK$'000*
Revenue		
Sale of goods	67,401	29,216
Losses on disposal of equity investments at fair value through profit or loss	(53,455)	(24,066)
Dividend income from listed securities	4,171	4,289
Interest income from convertible notes	3,781	884
	21,898	10,323
Other income and gains		
Bank interest income	1,382	1,931
Gain on disposal of subsidiaries (note 28)	–	1,173
Gain on disposal of items of property, plant and equipment	–	109
Others	574	33
	1,956	3,246

6. FINANCE COSTS

	Group 2007 HK$'000	Group 2006 HK$'000
Interest on bank overdrafts wholly repayable within five years	15	1
Interest on other loans	–	949
Interest on finance lease	8	11
	23	961

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Note	2007 HK$'000	2006 HK$'000
Cost of inventories sold		66,782	29,945
Depreciation	13	198	143
Write-back of provision for inventories*		–	(1,232)
Employee benefit expenses (including directors' remuneration (note 8)):*			
Wages and salaries		8,990	7,190
Retirement benefits scheme contributions**		318	343
		9,308	7,533
Minimum lease payments under operating leases in respect of buildings		1,514	1,566
Auditors' remuneration		850	790
Foreign exchange differences, net		38	4

* In prior year, the employee benefit expenses of HK$87,000 and the write-back of provision for inventories of HK$1,232,000 were included in "Cost of electronic products sold" on the face of the consolidated income statement. No such expenses were incurred during the year.

** At 31 March 2007, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2006: Nil).

8. DIRECTORS' REMUNERATION

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Fees	**400**	400
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**3,272**	2,665
Pension scheme contributions	**133**	133
	3,405	2,798
	3,805	3,198

(a) Independent non-executive directors

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

	2007	2006
	HK$'000	*HK$'000*
Mr. Li Chi Ming	**150**	150
Mr. Tung Tat Chiu, Michael	**150**	150
Mr. Wan Ngar Yin, David	**100**	100
	400	400

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2007				
Mr. Wong Howard	**–**	**1,647**	**52**	**1,699**
Mr. Wong Yat Fai	**–**	**975**	**49**	**1,024**
Mr. Wu Qing	**–**	**650**	**32**	**682**
	–	**3,272**	**133**	**3,405**
2006				
Mr. Wong Howard	–	1,040	52	1,092
Mr. Wong Yat Fai	–	975	49	1,024
Mr. Wu Qing	–	650	32	682
	–	2,665	133	2,798

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2006: two) non-director, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,074**	1,021
Performance related bonuses	**–**	25
Pension scheme contributions	**54**	53
	1,128	1,099

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

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**2**	2

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the year (2006: Nil). No provision for Mainland China corporate income tax has been made as the Group did not generate any assessable profits in Mainland China during the year (2006: Nil).

10. TAX (continued)

A reconciliation of the tax applicable to loss before tax using the statutory rates in Hong Kong of 17.5% (2006: 17.5%) and Mainland China of 33% (2006: 33%) in which the Company and the majority of its subsidiaries are operated to the effective tax rates is as follows:

Group – 2007

	Hong Kong *HK$'000*	**Mainland China** *HK$'000*	**Total** *HK$'000*
Loss before tax	**(37,122)**	**(1,678)**	**(38,800)**
Tax at the applicable tax rates	**(6,496)**	**(554)**	**(7,050)**
Lower tax rate for specific provinces or local authority	**–**	**123**	**123**
Income not subject to tax	**(958)**	**–**	**(958)**
Expenses not deductible for tax	**621**	**–**	**621**
Tax losses for the year not recognised	**6,833**	**431**	**7,264**
Tax charge/(credit)	**–**	**–**	**–**

Group – 2006

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Loss before tax	(46,212)	(270)	(46,482)
Tax at the applicable tax rates	(8,087)	(89)	(8,176)
Lower tax rate for specific provinces or local authority	–	4	4
Income not subject to tax	(1,092)	–	(1,092)
Expenses not deductible for tax	1,113	–	1,113
Tax losses for the year not recognised	8,066	85	8,151
Tax charge/(credit)	–	–	–

11. LOSS FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The consolidated loss attributable to ordinary equity holders of the Company for the year ended 31 March 2007 includes a loss of HK$40,209,000 (2006: HK$4,186,000) which has been dealt with in the financial statements of the Company (note 26(b)).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company for the year of HK$38,800,000 (2006: HK$46,482,000), and the weighted average number of 1,226,382,773 (2006: 1,133,243,047) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2007 and 2006 have not been disclosed as no diluting events existed during these years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improve-ments	Plant and machinery	Motor vehicles, furniture, fixtures and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:					
At 1 April 2005	13,238	427	13,826	5,113	32,604
Additions	–	–	–	375	375
Disposals	–	–	–	(238)	(238)
At 31 March 2006 and 1 April 2006	13,238	427	13,826	5,250	32,741
Additions	–	185	–	55	240
At 31 March 2007	13,238	612	13,826	5,305	32,981
Accumulated depreciation:					
At 1 April 2005	13,238	427	13,826	4,941	32,432
Provided during the year	–	–	–	143	143
Disposals	–	–	–	(237)	(237)
At 31 March 2006 and 1 April 2006	13,238	427	13,826	4,847	32,338
Provided during the year	–	77	–	121	198
At 31 March 2007	13,238	504	13,826	4,968	32,536
Net carrying amount:					
At 31 March 2007	–	108	–	337	445
At 31 March 2006	–	–	–	403	403

13. PROPERTY, PLANT AND EQUIPMENT (continued)

All the Group's buildings included above are stated at cost and are held under medium term leases outside Hong Kong.

The net carrying amount of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles, furniture, fixtures and equipment at 31 March 2007 amounted to HK$201,000 (2006: HK$265,000).

Company

	Leasehold improvements *HK$'000*	**Furniture, fixtures and equipment** *HK$'000*	**Total** *HK$'000*
Cost:			
At 1 April 2005, 31 March 2006, 1 April 2006 and 31 March 2007	299	415	714
Accumulated depreciation:			
At 1 April 2005, 31 March 2006, 1 April 2006 and 31 March 2007	299	415	714
Net carrying amount:			
At 31 March 2007	–	–	–
At 31 March 2006	–	–	–

14. PREPAID LAND LEASE PAYMENT

	Group *HK$'000*
Cost:	
At 1 April 2005, 31 March 2006, 1 April 2006 and 31 March 2007	821
Accumulated amortisation:	
At 1 April 2005, 31 March 2006, 1 April 2006 and 31 March 2007	821
Net carrying amount:	
At 31 March 2007	–
At 31 March 2006	–

The Group is required to pay an annual fee of HK$72,000 with an increment of 15% for every ten years in respect of certain land in Mainland China used by the Group for its electronic products business up to 2011 commencing from 1993. The annual fee paid by the Group during the year which had been charged to the income statement for the year, was HK$83,000 (2006: HK$110,000). The Group's legal counsel confirmed that the Group properly owns the legal right to use the land for the period granted.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2007 ***HK$'000***	2006 *HK$'000*
Unlisted shares, at cost	**–**	–
Due from subsidiaries	**643,189**	577,710
Less: Impairment	**(345,344)**	(300,037)
	297,845	277,673

The amounts due from and to subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for the amount due from Main Purpose Investments Limited bears interest at Hong Kong dollar prime rate less 3% per annum (2006: Nil). The carrying amounts of the amounts due from/to subsidiaries approximate to their fair values.

15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries during the year are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hoshing Limited	British Virgin Islands	Ordinary US$1	100	–	Investment holding
Sino Electronics Limited	British Virgin Islands/ Hong Kong	Ordinary US$2	–	100	Investment holding
Chongqing Electronics Limited	Hong Kong	Ordinary HK$2	–	100	Trading of electronic products
139 Enterprises Limited	Hong Kong	Ordinary US$2	–	100	Provision of administrative services
Chaifa Finance Limited	Hong Kong	Ordinary HK$2	–	100	Provision of finance services
Main Purpose Investments Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100	Investment in and trading of securities

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.

16. CONVERTIBLE NOTES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Unlisted convertible notes		
Loan portion	**39,842**	12,480
Conversion option derivative	**2,520**	–
	42,362	12,480

(a) On 31 March 2005, the Group subscribed for convertible notes (the "CST Convertible Notes") issued by China Sci-Tech Holdings Limited ("CST"), a company listed on the Stock Exchange, an independent party of the Group. The CST Convertible Notes bear interest at the rate of 3% per annum, are unsecured and mature on 30 March 2008. The CST Convertible Notes are convertible into approximately 45,000,000 ordinary shares of China Sci-Tech Holdings Limited at an initial conversion price of HK$0.3 per share. The conversion price will be adjusted to HK$0.35 and HK$0.40 per share for the period from the date immediately following the first anniversary from the date of issue of the CST Convertible Notes (the "Issue Date") to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date, respectively. These conversion prices are subject to adjustment. During the year, CST early redeemed the CST Convertible Notes at HK$13,500,000 and the Group recognised a gain on redemption of HK$755,000 for the year.

(b) On 21 June 2006, the Group's equity investments at fair value through profit or loss with a carrying amount of HK$33,176,000 were exchanged for cash amounting to HK$7,960,000 and convertible notes with a face value of HK$62,100,000 of Hanny Holdings Limited (the "Hanny Convertible Notes"), a company listed on the Stock Exchange and an independent party of the Group. The Hanny Convertible Notes bear interest at the rate of 2% per annum, payable on maturity, are unsecured and mature on 20 June 2011. The conversion price of the Hanny Convertible Notes is HK$9 per share. On maturity, the Group is entitled to a full repayment of the outstanding principal amount of the Hanny Convertible Notes at a face value of HK$62,100,000, together with the interest accrued.

The fair value of the conversion option derivative related to the Hanny Convertible Notes is determined by the directors using the binominal model.

The fair value of the loan portion of the Hanny Convertible Notes at 31 March 2007 approximate to the corresponding carrying amount and its effective interest rate was 11.73%.

17. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Listed equity investments, at fair value:		
Hong Kong	**185,186**	122,743
Elsewhere	**27,483**	–
	212,669	122,743

At 31 March 2007, the carrying amount of the Group's shareholding in the following companies exceeded 10% of the total assets of the Group.

Name	Place of incorporation	Particulars of issued share capital	Percentage of capital held	Principal activities
C C Land Holdings Limited (Formerly known as Qualipak International Holdings Limited)	Bermuda	Ordinary shares of HK$0.1 each	1.5	Manufacturing and sale of watch boxes, gift boxes and brief cases
Y.T. Realty Group Limited	Bermuda	Ordinary shares of HK$0.1 each	4.9	Property trading, investment and management services

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at fair value	**118,873**	192,558

The above equity investments at 31 March 2007 and 2006 were classified as held for trading.

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

At 31 March 2007, the carrying amount of the Group's shareholding in the following companies exceeded 10% of the total assets of the Group.

Name	Place of incorporation	Particulars of issued share capital	Percentage of capital held	Principal activities
The Cross-Harbour (Holdings) Limited	Hong Kong	Ordinary share of HK$1 each	2.2	Operation of motoring school, tunnels and an electronic toll collection system
Yugang International Limited	Bermuda	Ordinary share of HK$0.1 each	1.9	Trading of metal commodities and other materials; treasury investment; manufacturing and sale of watch-boxes, gift boxes, spectacles cases, bags and display units, property and other investments

19. INVENTORIES

	Group 2007 HK$'000	Group 2006 HK$'000
Raw materials	**1,978**	–
Finished goods	**33**	6
	2,011	6

20. TRADE AND BILLS RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**10,320**	10,235
Bills receivables	**142**	–
	10,462	10,235

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 month	**10,102**	8,709
1 to 2 months	**–**	736
2 to 3 months	**360**	790
	10,462	10,235

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**5,034**	7,643	**107**	320
Time deposits	**50,387**	17,868	**20,566**	–
	55,421	25,511	**20,673**	320
Less: Pledged time deposits for bank overdraft facilities *(note 30)*	**(6,996)**	(6,731)	**–**	–
Cash and cash equivalents	**48,425**	18,780	**20,673**	320

At the balance sheet date, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$486,000 (2006: HK$211,000). 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 banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods from one day to one month 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 deposits approximate to their fair values.

22. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 to 2 months	**5,823**	210
Over 3 months	**43**	40
	5,866	250

Trade payables are non-interest-bearing and have a credit period of two months on average.

23. FINANCE LEASE PAYABLES

The lease is classified as a finance lease and has a remaining lease term of one year.

At 31 March 2007, the total future minimum lease payments under a finance lease and their present values were as follows:

Group	Minimum lease payments 2007 HK$'000	Minimum lease payments 2006 HK$'000	Present value of minimum lease payments 2007 HK$'000	Present value of minimum lease payments 2006 HK$'000
Amounts payable:				
Within one year	71	86	69	78
In the second year	–	71	–	69
Total minimum finance lease payments	71	157	69	147
Future finance charges	(2)	(10)		
Total net finance lease payables	69	147		
Portion classified as current liabilities	(69)	(78)		
Non-current portion	–	69		

At 31 March 2007, the effective interest rate of the finance lease payables was 7.1% (2006: 7.1%) per annum.

24. DEFERRED TAX LIABILITIES

The principal components of the net deferred tax liabilities of the Group as at 31 March 2007 comprise fair value gain on available-for-sale equity investments and tax losses amounted to HK$15,867,000 (2006: HK$13,003,000) and HK$6,532,000 (HK$6,532,000), respectively.

The total amount of deferred tax recognised in equity during the year amounted to HK$2,864,000 (2006: HK$6,471,000).

At 31 March 2007, there was no significant unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

The Group has tax losses arising in Hong Kong of HK$143,176,000 (2006: HK$104,128,000) and in Mainland China of HK$6,272,000 (2006: HK$4,594,000) 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 that have been loss-making for some time and the directors are uncertain the extent of profit that will be generated by the respective subsidiaries to utilise such losses in the foreseeable future.

25. SHARE CAPITAL

Shares

	2007	2006
	HK$'000	*HK$'000*
Authorised:		
60,000,000,000 ordinary shares of HK$0.01 each	**600,000**	600,000
Issued and fully paid:		
1,359,883,047 (2006: 1,133,243,047) ordinary shares of HK$0.01 each	**13,599**	11,332

25. SHARE CAPITAL (continued)

A summary of the transactions during the year in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 April 2005		11,332,430,478	113,324	310,000	423,324
Capital reorganisation	*(i)*	(10,199,187,431)	(101,992)	–	(101,992)
At 31 March 2006 and 1 April 2006		1,133,243,047	11,332	310,000	321,332
Issue of shares	*(ii)*	226,640,000	2,267	71,391	73,658
Share issue expenses	*(ii)*	–	–	(1,105)	(1,105)
At 31 March 2007		1,359,883,047	13,599	380,286	393,885

Notes:

(i) A capital reorganisation scheme was approved by the shareholders under a special resolution on 28 July 2005, details of the which are as follows:

(a) Every ten shares of HK$0.01 each in the issued share capital of the Company were consolidated into one consolidated share of HK$0.10;

(b) Every issued consolidated share was reduced in nominal amount by cancelling HK$0.09 of the capital paid up for each issued consolidated share so as to form (after the share consolidation) one reorganised share of HK$0.01; and

(c) The credit arising from the capital reorganisation was transferred to the contributed surplus of the Company.

The value of the authorised share capital of the Company before and after the capital reorganisation remains unchanged and is HK$600,000,000.

(ii) The Company entered into a placing agreement with Celestial Securities Limited, the placing agent, on 17 October 2006, for the subscription of 226,640,000 new shares of the Company of HK$0.01 each at a price of HK$0.325 per share. 226,640,000 shares of HK$0.01 each of the Company were issued and cash proceeds of HK$73,658,000, net of share issue expenses of HK$1,105,000, were received by the Company. The proceeds were applied as the general working capital of the Group.

25. SHARE CAPITAL (continued)

Share options

Details of the Company's share option scheme are included in note 27 to the financial statements.

26. 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.

The contributed surplus of the Group arose as a result of the Group reorganisation upon listing of the Company's shares in 1994, and represented the difference between the nominal value of the shares of the former holding company of the Group prior to the Group reorganisation, over the nominal value of the Company's shares issued in exchange thereof.

In addition, pursuant to special and ordinary resolutions passed at the special general meeting held on 22 September 2000, the issued and fully paid share capital of the Company was reduced by HK$448,992,000 through a reduction in the nominal value of the share capital of the Company. The credit arising as a result of the reduction of the share capital of approximately HK$448,992,000 was transferred to the contributed surplus.

In prior year, a credit of HK$101,992,000 arising from the capital reorganisation was transferred to the contributed surplus as explained in note 25 to the financial statements.

26. RESERVES (continued)

(b) Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	310,000	556	492,681	(672,269)	130,968
Capital reorganisation *(note 25)*	–	–	101,992	–	101,992
Loss for the year	–	–	–	(4,186)	(4,186)
At 31 March 2006 and 1 April 2006	310,000	556	594,673	(676,455)	228,774
Premium upon issue of shares *(note 25)*	71,391	–	–	–	71,391
Share issue expenses *(note 25)*	(1,105)	–	–	–	(1,105)
Loss for the year	–	–	–	(40,209)	(40,209)
At 31 March 2007	380,286	556	594,673	(716,664)	258,851

Note: The contributed surplus of the Company arose as a result of the Group reorganisation referred to in (a) above and represents the excess of the then combined net assets of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor.

In addition, the capital reorganisation described in (a) above also resulted in an aggregate credit balance of approximately HK$550,984,000 being transferred to the Company's contributed surplus.

27. SHARE OPTION SCHEME

The Company operates a share option scheme (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 include the Company's directors, including independent non-executive directors, other employees of the Group or any invested entity, suppliers of goods or services to the Group or any invested entity, customers of the Group or any invested entity, shareholders of the Group or any invested entity, holders of securities of the Group or any invested entity and persons or entities that provide research, development or other technological support to the Group or any invested entity. The Scheme became effective on 27 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of approval of the Scheme unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The total number of shares of the Company available for issue under the Scheme is 86,193,604 shares, representing approximately 6.3% of the issued share capital of the Company as at the date of the annual report. The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant in the Scheme (including exercised, cancelled and outstanding options) within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Under the Scheme, 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 grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5,000,000 is subject to shareholders' approval in advance in a general meeting.

27. SHARE OPTION SCHEME (continued)

The offer of a grant of share options under the Scheme may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such period shall not be more than 10 years from the date of adoption of the Scheme subject to the provisions for early termination set out in the Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held before it can be exercised.

The exercise price of share options granted under the Scheme is determined by the directors, but shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of 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 offer; and (iii) the nominal value of a share of the Company on the date of offer.

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

Since the date of adoption of the Scheme, no options have been granted under the Scheme.

There were no share options granted, lapsed, exercised or cancelled during the year ended 31 March 2007 (2006: Nil).

28. DISPOSAL OF SUBSIDIARIES

	2007 HK$'000	2006 HK$'000
Net assets disposed of:		
Prepayments and other receivables	–	12
Other payables and accruals	–	(1,185)
	–	(1,173)
Gain on disposal of subsidiaries	–	1,173
	–	–
Satisfied by:		
Cash	–	–

The results of subsidiaries disposed of in the year ended 31 March 2006 had no significant impact on the Group's consolidated revenue or loss after tax for that year.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(i) During the year, the Group's equity investments at fair value through profit or loss with a carrying amount of HK$33,176,000 were exchanged for cash amounting to HK$7,960,000 and the Hanny Convertible Notes with an initial fair value of HK$41,136,000.

(ii) During the year ended 31 March 2006, the Group acquired certain convertible notes that amounted to HK$27,000,000. These convertible notes were converted into 39,705,882 shares of a company listed on the Stock Exchange at a conversion price of HK$0.68 per share which were subsequently disposed of during the year ended 31 March 2006.

(iii) During the year ended 31 March 2006, the Group entered into a finance lease arrangement in respect of the property, plant and equipment with a total capital value at the inception of the lease of HK$208,000. Pursuant to the finance lease agreement, the Group disposed of a motor vehicle with a carrying value of HK$1,000 in exchange for a reduction of HK$110,000 in the price of the property, plant and equipment acquired.

30. PLEDGE OF ASSETS

At 31 March 2007, the Group's banking facilities were secured by the Group's fixed deposits of HK$6,996,000 (2006: HK$6,731,000) (note 21).

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

At 31 March 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**2,121**	952
In the second to fifth years, inclusive	**1,512**	15
	3,633	967

In addition, the Group is required to pay an annual fee of HK$72,000 in respect of the use of certain land in Mainland China for its electronic products business up to 2011 with an increment of 15% for every ten years commencing from 1993. The total future annual fee payables under such non-cancellable operating lease falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**83**	67
In the second to fifth years, inclusive	**214**	–
	297	67

32. RELATED PARTY TRANSACTIONS

The Group considers the directors of the Company to be the key management personnel, whose compensation has been disclosed in note 8 to the financial statements.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include equity investments, convertible notes, cash and short term 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 trade receivables and trade payables. Details of the major financial instruments and the Group's accounting policies in relation to them are disclosed in note 2.4 to the financial statements.

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 of directors review and agree policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The Group does not have any significant exposure to the risk of changes in market interest rates, and therefore it does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

The Group has currency exposures as its sales were denominated in United States dollars. As United States dollars and Hong Kong dollars are pegged, the Group does not expect any significant movements in exchange rates in the foreseeable future.

The Group currently does not have a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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. The Group reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale equity investments and equity investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Group's available cash and its available banking facilities.

34. POST BALANCE SHEET EVENTS

(i) On 1 November 2006, the Group entered into a sale and purchase agreement (the "Agreement") with JB International Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, a holding company of Century Time Investments Limited ("Century Time") for the acquisition of (i) 25% of equity interests in Century Time and its subsidiaries (hereinafter collectively referred to as the "Century Time Group"), (ii) 25% of shareholder's loan of Century Time (point (i) and (ii) hereinafter collectively referred to as the "Acquisition"), and (iii) the call option to purchase additional up to 50% equity interest in Century Time and up to 50% of shareholder's loan of Century Time at consideration of HK$150 million. The consideration will be settled as to (i) HK$15,000,000 in cash, (ii) HK$110,000,000 by convertible notes to be issued by the Company (the "CT Convertible Notes"), whereas the CT Convertible Notes will be interest-free and convertible at HK$0.55 per share of the Company, and the CT Convertible Notes are exercisable at any time after the issuance and mature in four years, and (iii) HK$25,000,000 by the shares to be issued by the Company at an issue price of HK$0.4 per share on the completion date of the Agreement.

Century Time Group is engaged in methanol production and coal mining and owns a production plant under construction at Inner Mongolia in Mainland China.

On 12 April 2007, the Company announced that one of the conditions precedent to the Acquisition has not been fulfilled and the Agreement ceased with immediate effect since no deposit or any sort of payment has been made to the Century Time Group by the Group under the Agreement, the directors considered that the cessation of the Agreement had no material adverse financial impact on the Group's business operations.

34. POST BALANCE SHEET EVENTS (continued)

(ii) On 6 February 2007, the Company entered into a placement agreement of convertible bonds (the "Original CB Placing Agreement") with its placing agent, Tai Fook Securities Company Limited (the "Placing Agent"). The Company has agreed to appoint the Placing Agent for the placing of the convertible bonds proposed to be issued by the Company up to maximum principal amount of HK$101,962,500.

On 6 July 2007, the Company has reached an agreement with the Placing Agent to (i) cancel the Original CB Placing Agreement (the "Cancellation Agreement") and (ii) enter into three conditional placing agreements (namely the "Fully Underwritten Placing Agreement, the Best Efforts Placing Agreement and the New CB Placing Agreement") on a several basis and on the principal terms and conditions for its ongoing operation and future business expansion.

According to the Fully Underwritten Placing Agreement and the Best Efforts Placing Agreement, 271,900,000 ordinary shares of the Company will be placed by the Placing Agent on a fully underwritten basis (the "Fully Underwritten Placing Shares") and 500,000,000 ordinary shares of the Company, will be placed by the Placing Agent on a best efforts basis (the "Best Efforts Placing Shares"). The placing price for the Fully Underwritten Placing Shares and Best Efforts Placing Shares is HK$0.21. Upon completion of the Fully Underwritten Placing Agreement and the Best Efforts Placing Agreement, the total gross proceeds by the Company amounted to HK$162,099,000.

According to the New CB Placing Agreement, a three years zero coupon convertible bonds to be issued by the Company to convertible bonds placees up to a maximum principal amount of HK$200,000,000 (the "New Bonds") will be placed by the Placing Agent on a best efforts basis. The New Bonds will be mature in the third anniversary of the issue date of the New Bonds. The conversion price will be HK$0.25 per share for the period from the date of issue of the New Bonds to the maturity date of the New Bonds.

The respective terms of the Cancellation Agreement, the Fully Underwritten Placing Agreement, the Best Efforts Placing Agreement and the New CB Placing Agreement have been arrived at after arm's length negotiations between the Company and the Placing Agent and are the respective commercial decisions of the Company and the Placing Agent.

34. POST BALANCE SHEET EVENTS (continued)

(ii) Details of the terms of the Fully Underwritten Placing Agreement, the Best Efforts Placing Agreement and the New CB Placing Agreement are set out in the Company's announcement dated 11 July 2007.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 July 2007.