Deson Development International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 262)

ANNUAL REPORT 2006

山頂道1號，獨立洋房
總承包工程包括結構及機電工程
Individual prestige house at No. 1 Peak Road
Main Contractor for construction works
including structure and E&M works

九龍崇光百貨裝修工程
Interior fitting-out works of Sogo Department Store
Kowloon

香港昂平三級污水處理廠
供應及安裝污水收集、處理及排放設施
Ngong Ping Sewage Treatment Plant (Tertiary Treatment)
Supply and installation of equipment
for sewage collection, treatment and disposal

Contents

BOARD OF DIRECTORS

Mr. Wang Ke Duan *(Chairman)*
Mr. Tjia Boen Sien
(Managing Director and Deputy Chairman)
Mr. Wang Jing Ning
Mr. Keung Kwok Cheung
Mr. Ong Chi King
Dr. Ho Chung Tai, Raymond*
Mr. Siu Man Po*
Mr. Wong Shing Kay, Oliver*

(Independent non-executive directors)*

COMPANY SECRETARY

Mr. Ong Chi King

PRINCIPAL BANKERS

Standard Chartered Bank (Hong Kong) Limited
Wing Hang Bank, Limited

LEGAL ADVISERS

Appleby Corporate Services (Bermuda) Ltd.
Morrison & Foerster

AUDITORS

Ernst & Young

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor, Nanyang Plaza
57 Hung To Road
Kwun Tong
Kowloon
Hong Kong

FOREWORDS

I have pleasure to present to the Shareholders the Group's annual report for the year ended 31 March 2006.

During the year under review, the Group's continuing operations achieved the highest turnover in history, which demonstrates our strengths in construction business, property development and investment business, and fitness club and related business. The profit attributable to equity holders of the Company decreased significantly as compared to last year, this is mainly because there was a non-recurring gain on disposal of discontinued operation (through the disposal of all shareholding interest in Chinese People Gas Holdings Company Limited, a former subsidiary of the Company) aggregating approximately HK$98 million in the last year, no such disposal with similar size was reported in current year. Despite of this, the Group achieved satisfactory net profit attributable to equity holders of the Company of HK$10,181,000.

BUSINESS REVIEW

The Group's turnover for the year for continuing operations was HK$617,414,000 which represented an increase of 8% as compared with last year. The net profit attributable to equity holders of the Company amounted to approximately HK$10,181,000 representing a decrease of 75% as compared with last year. Earnings per share is approximately HK2.04 cent.

The Group's major business segment during the year comprises (i) construction, as a main contractor, as well as the provision of contracting intelligent building engineering, and electrical and mechanical ("E&M") services; (ii) property development and investment; and (iii) the operation of fitness club and trading of fitness equipment business.

During the year, the Group already completed projects such as the fitting out for Sogo New Department Store at 12 Salisbury Road, Tsim Sha Tsui, Kowloon, main contractor for office fitting out works including E&M works at Two International Finance Centre, and main contractor for construction of a 7-storey secondary school at Nam Fung Road, Aberdeen, Hong Kong. Segment result achieved in this year increased by HK$46 million as compared to last year, to HK$16 million.

More to note, during the year, the Group sold certain units in Phase II and Phase III, Asian Villas, Haikou, Hainan Province, and certain villas in Parkview Garden, Shanghai, which contributed a meaningful turnover and profit to the Group. Also, the Group started to recognise sales for the residential units at Phase I of Asian Villas City Square, Haikou, Hainan Province since its completion during the year, which the enthusiastic sales response was demonstrated by the 73% and 111% increase in the segment turnover and segment results as compared to last year.

On the other hand, the fitness club and related business generated a meaningful turnover totalling HK$69 million to the Group during the year. In July 2005, a new fitness centre was opened at Hong Kong New World Tower (Shanghai), Shanghai, PRC. In addition, the Group had purchased the 5th floor of Fortune-King Plaza in Chengdu, PRC in September 2005, for the purpose of opening a new fitness club, the trial opening of this new fitness club was May 2006. Positive feedback was received since the trial opening of this fitness club.

PROSPECTS

Construction business (including E&M works)

The Group will uphold an on-going parallel development of its construction business (including E&M works) in both the PRC and Hong Kong. With its proven track records and adequate expertise in the main contracting business, in April 2006, the Group had been promoted from "List of Approved Contractors for Public Works under Group C (on probation) of the Building Category under Environment, Transport and Works Bureau of the HKSAR" to "List of Approved Contractors for Public Works under Group C of the Building Category under Environment, Transport and Works Bureau of the HKSAR". Together with the license in Group II under the "Turn-key Interior Design and Fitting-out Works" under the "List of Approved Suppliers of Materials and Specialist Contractors for Public Works" and the 11 licenses held under the "List of Approved Suppliers of Materials and Specialist Contractors for Public Works under Environment, Transport and Works Bureau of the Government of the HKSAR", enables the Group to take an active part in the construction business development (including E&M works).

During the year, new projects such as main contractor for construction of four residential houses at 10 Pollock's Path, The Peak, Hong Kong, main contractor for construction of a residential building at no.1, the Peak, Hong Kong, building services installation for the construction of a direct subsidy scheme school in Shatin, Hong Kong, two years' team contract for inspection, repair, overhaul and testing of E&M installations at various sewage treatment works and pumping station in the New Territories, Hong Kong, and a three years' team contract for telemetry and plant control installation of Water Supplies Department were awarded. As at the date of this announcement, the Group has contracts on hand with a total contract sum of over HK$679 million.

Property development and investment

The development of high-class residential property development project, Parkview, near the Botanical Gardens in Shanghai with a gross floor area of approximately 56,000 sq. metres was completed in December 2003. Certain units of the Parkview project were sold at a total contractual sum of over RMB311 million. As Shanghai is now vigorously developing into a metropolis serving as an international financial, information and logistic center, the Directors believe that this project has great market potential and bright prospects by virtue of its unique Botanical Gardens surroundings.

In addition, Southern Area of Asian Villas, Haikou, Hainan Province (also known as "Asian Villas City Square"), will be developed into a residential and commercial complex with a total gross floor area of approximately 130,000 sq. metres, construction is on schedule and 8 blocks of residential building of Phase I was completed during the year, and it is expected the whole development will be completed by the end of 2006. During the year under review, the above mentioned blocks had contributed RMB87 million to the turnover of the Group. Up to the date of this report, the total contract sum achieved amounted to approximately RMB122 million.

On 9 June 2005, the Group has been obtained through an open auction the land use rights of a development site in Long Ting District of the City of Kai Feng. The Directors intends to develop a commercial complex on the site with an estimated gross floor area of approximately 177,000 sq. metres. Up to now, the development is at the removal and demolish stage, and is processing according to schedule, it is expected to contribute return to the Group commencing year 2007.

Although the residual effect of the macro-economic tightening measures have added uncertainties to the growth of the PRC economy, however, the Directors believe that the austerity measure had only a moderate and short term impact on the property market in PRC. With strong sustained economic growth in PRC, coupled with the expected appreciation of RMB, the PRC property market offers tremendous opportunities, and the Directors are now looking for property development projects in PRC prime cities and may acquire additional land bank for property development purpose, however, the Group has no specific investment plan in relation to any particular project.

Noteworthy is the fact that Directors believe the hosting of the World Expo in 2010 which will have a positive impact on the PRC property market and the property development and investment segment will continue to provide a sizable contribution to the Group's operating results in the coming years.

Operation of sports club, fitness and spa centres and related business

In the past few years, several fitness and spa centres were opened in various locations in the PRC including Shanghai, Xian, Wuhan, Urumqi and Shenzhen. In May 2004, one of the biggest sport club in the PRC was opened in Jinqaio, Shanghai, PRC, this sports club has a total gross floor area of approximately 11,000 square meters equipped with swimming pool, tennis court, spa and gym facilities. In addition, one new fitness centre was opened at Hong Kong New World Tower (Shanghai), Shanghai, PRC during the year, and another one with a gross floor area of approximately 4,933.73 square meters was at Fortune-King Plaza, Chengdu, PRC under trial opening in May 2006. There are currently 10 fitness clubs which are operating under the brand name "Megafit" and 1 fitness and spa center operating under the brand name "Sensation". The Group currently has over 10,500 members. As Beijing has won the right to host the 2008 Olympic Games, the Directors believe that such event will stimulate the public's enthusiasm in fitness and sports and this business segment will provide a favourable contribution to the Group's revenue in the future.

Subsequent to the year end, the Group had signed an agreement to open another fitness club at Xinjiangwan, Shanghai, PRC, the theme of this fitness club is high-class and leisure, it will have a gross floor area of approximately 4,500 square metres, fine-equipped with indoor heated swimming pool, squash field, gymnasium and aerobic exercise equipment etc.. It is expected this new fitness club will be open by August 2006.

Hotel

Subsequent to year end, in April 2006, the Group had purchased a hotel in Haikou, the capital of Hainan Province, PRC through the acquisition of a subsidiary. The hotel is a three-star hotel with a total of 208 guest rooms and suites with a gross floor area of 22,739.05 square meters. In view of the great potential which Hainan Province has as an upscale tourist destination, the Group intends to make use of the acquisition as a stepping stone for the Group to participate in the hotel business in Hainan, as the Directors consider the growth prospects of this business to be promising.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March, 2006, the Group had total assets of HK$649,676,000 and current liabilities, long term liabilities, shareholders' equity and minority interests of HK$241,917,000, HK$31,377,000, HK$374,107,000 and HK$2,275,000, respectively.

The gearing ratio for the group is at 7.7% (31 March 2005: 0.2%). It was calculated based on the long term borrowings of HK$31,377,000 (31 March 2005: HK$671,000) and long term capital of HK$407,759,000 (31 March 2005: HK$336,476,000).

The bank borrowings and cash and bank balances were principally denominated in Hong Kong dollars and Renminbi. Hence, there is no significant exposure to foreign exchange rate fluctuations. In view of the fact that Hong Kong dollars interest rate had risen in the past few months to a level similar to Renminbi interest rate, the Group have increase its Renminbi borrowings to an appropriate level in line with our actual need.

CAPITAL STRUCTURE

The Group's long-term capital mainly comprised of shareholders' equity which is confirmed with the low gearing ratio as discussed in the section "Liquidity and capital resources" above.

RISK OF CURRENCY FLUCTUATION

The Group's receivables and payables were denominated mainly in Hong Kong dollar and Renminbi. Since Renminbi is relatively stable, we consider the exchange risk is not significant.

CONTINGENT LIABILITIES

Details of contingent liabilities for the Group and the Company are set out in note 35 to the financial statements.

EMPLOYEE SCHEMES

As at 31 March 2006, the Group had 469 employees, 306 of whom were based in the PRC.

The remuneration policy and package of the Group's employees are reviewed and approved by the directors. Apart from pension funds, discretionary bonus and share options are linked to individual performance as recognition of and reward for value creation.

CHARGES ON GROUP ASSETS

Details of the charges on asset of the Group are set out in note 29 to the financial statements.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice (the "Code") for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company.

SUMMARY

The Group's on going parallel development of its construction business in both PRC and Hong Kong and the fruitful achievement in the property development business in PRC, were confirmed by the satisfactory operating results in current year. In the future, the Group will strengthen the development of its core business in construction business (including E&M), property development and hotel investment business, the "Megafit" fitness club brand marketing and expansion. On the other hand, the Group will keep on seeking new opportunities and corporate development so as to enhance its profitability.

ACKNOWLEDGEMENTS

On behalf of the directors, I would like to express my gratitude to our Shareholders, business partners and customers for their continued support, I would also like to thank my colleagues for their hard work and continuous commitment over the past few years, their work has contributed significantly to our favorable results. We will carry on dedicating our efforts towards the Group's long-term development.

Tjia Boen Sien
Managing Director and Deputy Chairman

Hong Kong
21 July 2006

The directors herein present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of (a) the construction business, as a main contractor, as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services, mainly in Hong Kong and Mainland China; (b) property development and investment; and (c) the operation of fitness centres and trading of fitness equipment. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2006 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 118.

No interim dividend was paid during the year and the directors do not recommend the payment of a final dividend in respect of the year ended 31 March 2006. (2005: Nil).

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years are restated/reclassified as appropriate. The amounts for each year in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy, as detailed in note 2.2 to the financial statements.

	Year ended 31 March				
	2006	2005	2004	2003	2002
RESULTS	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
CONTINUING OPERATIONS					
REVENUE					
Continuing operations	**617,414**	570,827	538,118	529,273	409,088
PROFIT/(LOSS) FROM OPERATING ACTIVITIES AFTER FINANCE COSTS	**9,963**	(65,480)	44,001	7,520	16,016
Share of profits of jointly-controlled entities	**55**	16	(25)	–	–
Share of profits less losses of associates	**101**	184	(6,201)	2,968	1,122
PROFIT/(LOSS) BEFORE TAX	**10,119**	(65,280)	37,775	10,488	17,138
Tax	**(1,656)**	(1,727)	(17,697)	(4,986)	(1,458)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**8,463**	(67,007)	20,078	5,502	15,680
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**–**	120,054	–	–	–
PROFIT FOR THE YEAR	**8,463**	53,047	20,078	5,502	15,680
Attributable to:					
Equity holders of the Company	**10,181**	40,242	23,418	8,809	20,450
Minority interests	**(1,718)**	12,805	(3,340)	(3,307)	(4,770)
	8,463	53,047	20,078	5,502	15,680

SUMMARY OF FINANCIAL INFORMATION *(Continued)*

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Total assets	**649,676**	643,474	568,577	636,367	542,586
Total liabilities	**(273,294)**	(307,669)	(278,909)	(361,641)	(266,886)
Minority interests	**(2,275)**	(2,006)	(11,182)	(10,889)	(15,227)
	374,107	333,799	278,486	263,837	260,473

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements, respectively.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 33(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company's reserves available for cash distribution and/or distribution in specie, computed in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK$160,567,000. In addition, the Company's share premium account and capital redemption reserve, in the aggregate amount of HK$106,033,000, may be distributed in the form of fully paid bonus shares.

Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions from its contributed surplus in certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 27% (2005: 31%) of the total sales for the year and sales to the largest customer included therein amounted to approximately 7% (2005: 13%). Purchases from the Group's five largest suppliers accounted for approximately 18% (2005: 19%) of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 5% (2005: 7%).

None of the directors of the Company or any of their associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or any other 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 any of the Group's five largest customers or suppliers during the year.

DIRECTORS

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

Executive directors

Mr. WANG Ke Duan *(Chairman)*
Mr. TJIA Boen Sien# *(Managing Director and Deputy Chairman)*
Mr. WANG Jing Ning#
Mr. KEUNG Kwok Cheung
Mr. ONG Chi King

Independent non-executive directors

Dr. HO Chung Tai, Raymond*#
Mr. SIU Man Po*#
Mr. WONG Shing Kay, Oliver*#
Ms. WONG Sin Yee (resigned on 11 April 2005)

* audit committee members
\# remuneration committee members

Mr. Tjia Boen Sien, Mr Wang Ke Duan and Mr. Siu Man Po will retire by rotation according to the Company's bye-laws and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

None of the directors 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' INTERESTS IN CONTRACTS

No director of the Company had a material beneficial 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

WANG Ke Duan, aged 75, is one of the co-founders of the Group. He is the chairman of the Group. He has over 51 years' experience in the construction engineering industry in the Mainland China and Hong Kong. He was the deputy general manager of Fujian Province Construction Corporation for three years prior to the establishment of the Group. He is responsible for the daily operations of the Group.

TJIA Boen Sien, aged 62, is one of the co-founders of the Group. He is the Managing Director and Deputy Chairman of the Group. Mr. Tjia is responsible for the overall corporate strategy and the daily operations of the Group, including business development and overall management. He graduated from the Fujian Overseas Chinese University in the Mainland China. Mr. Tjia is well respected and has established connections in the Mainland China construction industry through his extensive experience. He has over 23 years' experience in the construction industry in the Mainland China and Hong Kong. Mr. Tjia is the Vice Chairman and a committee member of Zhan Tian You Civil Engineering Development for Science and Technology; a member of China Civil Engineering Society, the People's Republic of China; a corporate member of the Chartered Institute of Building and a professional member of The Royal Institution of Chartered Surveyors in the United Kingdom.

WANG Jing Ning, aged 50, joined the Group in 1989 and is an executive director of the Group. Mr. Wang has over 26 years' experience in hotel management and construction engineering in the Mainland China and Hong Kong. He is responsible for managing the Group's projects in the Mainland China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Executive Directors *(Continued)*

KEUNG Kwok Cheung, aged 48, joined the Group in March 1989. He is an executive director of the Group and is in charge of the Group's engineering and contracts departments. He has over 24 years' experience in the fields of civil, structural and building engineerings and in the management of large-scale projects. He also holds an Associateship in Civil and Structural Engineering from the Hong Kong Polytechnic University and a Master degree in Business Administration. He is a fellow member of the Hong Kong Institute of Directors. He is also a member of Civil Engineering & Architectural Society of Guangdong Province, the People's Republic of China and is a member of the China Civil Engineering Society, the People's Republic of China.

ONG Chi King, aged 33, joined the Group in October 1999. He is an executive director of the Group. He is responsible for the business development, listing compliance and company secretarial functions of the Group. He holds a Master degree of Corporate Finance from the Hong Kong Polytechnic University and a Bachelor degree in Business Administration from the Hong Kong University of Science and Technology. He is a fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He has over 10 years' experience in accounting, auditing and finance.

Independent non-executive directors

Dr. Raymond HO Chung-Tai, MBE, S.B. St. J., JP, aged 67, is currently a member of the third Legislative Council (Engineering Functional Constituency). Dr. Ho has 43 years' experience in the fields of civil, structural environmental and geotechnical engineering and project management including 33 years in Hong Kong and 10 years in the United Kingdom, with direct responsibility in major projects of tunnels, bridges, flyovers, roads, dockyards, jetties, hospitals, hotels, incinerators, high-rise commercial / residential buildings, geotechnical work, environmental studies and projects as well as project management. Dr. Ho holds a doctorate degree in civil engineering from the City University of London, U.K., Hon. Doctor of Business Administration from the City University of H.K., Honorary Doctor of Laws from University of Manchester, U.K., a postgraduate diploma in geotechnical engineering from Manchester University, U.K. and a bachelor degree in civil engineering from the University of Hong Kong. Dr. Ho was formerly a partner and senior director of Maunsell Consultants Asia Limited from January 1976 to August 1993. Dr. Ho was formerly President of the Hong Kong Institution of Engineers (1987/1988), Council Chairman of the City University of Hong Kong, Council Chairman of the former City Polytechnic of Hong Kong, Chairman of Hong Kong Technology Committee of the Industry & Technology Development Council (ITDC) and member of ITDC, member of the first and second Legislative Council (Engineering Functional Constituency), member of the Provisional Legislative Council, Chairman of the Transport Advisory Committee, Hong Kong Affairs Adviser, member of Consultative Committee on the New Airport and Related Projects, and member of the Gas Safety Advisory Committee. Dr. Ho is currently Chairman of Guangdong Daya Bay Nuclear Plant and LingAo Nuclear Plant Safety Consultative Committee.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Independent non-executive directors *(Continued)*

Ir SIU Man-po was awarded the MEDAL OF HONOUR (MH) by the Chief Executive of the Government of the Hong Kong Special Administrative Region (HKSAR) in July 2004 for his dedication and meritorious services to the engineering profession and the community.

Mr. Siu, aged 68, obtained his Master of Science in Civil Engineering in 1963 from Auburn University in Auburn, Alabama, U.S.A.

Mr. Siu has extensive experience in construction field including the construction of Tsing Yi Power Stations in 1966-1977, MTR stations in 1977-1987, and Hong Kong Baptist University campus development in 1989-1999.

Mr. Siu is a Fellow Member of the Hong Kong Institution of Engineers, American Society of Civil Engineers, the Hong Kong Institute of Facility Management and the Hong Kong Institute of Directors.

Mr. Siu is currently the Managing Director of Ho Wang Siu Mak Management Ltd.

WONG Shing Kay, Oliver, aged 54 , obtained his professional accounting qualifications in both Hong Kong and Canada. Mr. Wong is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. Mr. Wong is also a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of Certified General Accountants of Canada. Mr. Wong had worked in various renowned auditing firms in Hong Kong with over 15 years of experience in handling auditing, financial accounting and taxation matters. Mr. Wong is currently appointed as an independent non-executive director and a member of Auditing Committee of several listed companies in Hong Kong. He also assumed the duty of Financial Controller for several listed companies in both Hong Kong and Canada for over ten years. Mr. Wong is presently practising as a Certified Public Accountant in Hong Kong. He is knowledgeable with expertise in financial accounting, taxation, import-export business and company management.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Senior management

KONG Kwok Fai, aged 44, joined the Group in March 1991. He is a director of Deson Development Limited and supervises the Group's engineering department. He is responsible for overall projects operation and all contractual matters relating to construction. He holds a Master degree in civil and structural engineering from the University of Sheffield in the United Kingdom, and is a Registered Professional Engineer, a member of the Hong Kong Institution of Engineers, a member of the Association for Project Management in the United Kingdom, a member of the China Civil Engineering Society, the People's Republic of China and a member of the Civil Engineering & Architectural Society of Guangdong Province, the People's Republic of China.

SONG Sio Chong, age 51, joined the Group in July 1999. He is a director of Deson Development Ltd. and supervises the Group's engineering department and contracts department. He has 27 years' professional experience in structural design, site supervision and contract management. He is a chartered structural engineer of the UK, registered professional engineer of the HKSAR and Grade I registered structural engineer of the PRC. Other than his academic qualifications in Civil and Structural Engineering, he holds LLB, LLM and LLD degrees in PRC Law from Peking University.

CHAN Chi Kwong, aged 43, joined the Group in July 1992. He is a senior project manager of the Group and is responsible for the supervision of the Group's construction projects both in Hong Kong and in the Mainland China. He has over 22 years' experience in the field of civil and structural engineering. He holds a Bachelor Degree of Science in Construction Management from the University of Wolverhampton.

KWOK Koon Keung, aged 38, joined the Group in February 1996. He is the contracts manager of the Group and in-charge of the contracts department. He has over 16 years' experience in the industry and holds a Bachelor of Science degree in Building from South Bank University in United Kingdom. He is a Professional Associate Member of the Royal Institute of Chartered Surveyors.

HO Ka Yiu, aged 47, joined the Group in August 1993. He is a director of Deson Development Limited and in charge the safety & environmental department of the Group. His responsibilities include monitor and implementation of safety policies in the projects and quantity surveying. He has over 24 years' experience and holds a Higher Certificate in Building Studies from the Hong Kong Polytechnic University.

YEUNG Yam Chi, aged 44, joined the Group in April 1994. He is a senior project manager of the Group and is responsible for supervision of the Group's construction projects in Hong Kong and in the Mainland China. He has over 20 years' experience in the field of civil and structural engineering. He holds a Master's degree in Civil and Structural Engineering from the University of Sheffield in the United Kingdom.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

Senior management *(Continued)*

LO Wing Ling, age 46, joined the Group in 2000. He is the director of Kenworth Engineering Limited and incharge of the engineering division of the Group. He is responsible for the planning and co-ordination of projects which cover the co-ordination of engineering resources, progress monitoring and work performance. Mr. Lo has over 23 years' experience in environmental engineering and building services work. He holds a Bachelor of Science degree in Mechanical Engineering, a Bachelor of Arts degree in Business Studies and a degree of Master of Science in Environmental Management. He is also a director of The Hong Kong Project Management Exchange Centre.

WONG Ka Yan, aged 33, joined the Group in April 2001. She is the Financial Controller of the Group. She is responsible for monitoring all of the Group's accounting and finance functions. She holds a Bachelor degree in Commerce from the University of Adelaide, Australia. She is a certified public accountant of CPA Australia. Before joining the Group, she had several years' experience with an international accounting firm.

KONG Ping, aged 70, joined the Group in April 1990 as the accountant of the Group. She is responsible for overseeing all of the Group's accounting matters in the Mainland China. She obtained her accountancy qualification in Fujian Province in 1983 after having graduated from Fujian Finance School in the Mainland China. She has more than 40 years' cost accounting experience in major enterprises in the Mainland China.

LI Ngan Mei, aged 45, joined the Group in December 1988 and is the administration manager of the Group. She has more than 21 years' experience in personnel and administration management.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the interests and short positions of the directors in the share capital and share option of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which he would be deemed or taken to have under Section 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

	Number of shares held, capacity and nature of interest			
Name of director	**Directly beneficially owned**	**Through controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. Tjia Boen Sien*	35,584,400	226,250,000	261,834,400	52.71
Mr. Wang Jing Ning	11,839,600	–	11,839,600	2.38
Mr. Wang Ke Duan	268,960	–	268,960	0.05
Mr. Siu Man Po	180,000	–	180,000	0.04

* Sparta Assets Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Tjia Boen Sien, is beneficially interested in 226,250,000 ordinary shares of the Company.

The interests of the directors in the share options of the Company are separately disclosed in note 32 to the financial statements.

Save as disclosed above and note 32 to the financial statements, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors interests and short positions in shares and underlying shares" above and in the share option scheme disclosures in note 32 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 spouse 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' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2006, the following interests of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital	Number of share options held
Sparta Assets Limited	Directly beneficially owned	226,250,000	45.55	–
Mr. Tjia Boen Sien*	Through a controlled corporation	226,250,000	45.55	–
	Directly beneficially owned	35,584,400	7.16	400,000
Okabe Co. Ltd.	Directly beneficially owned	28,125,000	5.66	–

* Sparta Assets Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Tjia Boen Sien, is beneficially interested in 226,250,000 ordinary shares of the Company.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, at 31 March 2006, had registered an interest or short position in the shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, the Company repurchased certain of its shares on the Stock Exchange and these shares were subsequently cancelled by the Company. The Company considered that it is the best way of enhancing shareholder value and that it is in the best interest of the shareholders to return a substantial part of the surplus funds to them. Further details of these transactions are set out in note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTION

On 17 February 2006, Gold Swing Enterprises Limited, an indirect subsidiary of the Company, entered into an unconditional agreement with Interpath Profits Limited ("Interpath"), a substantial shareholder of a subsidiary of the Company, Mega Fitness (Shanghai) Investments Limited ("Mega Fitness"), for the acquisition of 25% interest and related shareholder's loan in Mega Fitness at a total consideration of HK$4 million. Upon completion of the agreement, Mega Fitness became a wholly-owned subsidiary of the Company. The transaction was completed on 20 February 2006.

As Interpath is a substantial shareholder of Mega Fitness, and Interpath is beneficially owned by Mr. Ho Shu Sum who acts as a director in several subsidiaries of the Company, accordingly, Interpath is a connected person of the Company, and the acquisition constitutes a connected transaction of the Company within the meaning of the Listing Rules on The Stock Exchange of Hong Kong Limited. Since such transaction falls below the de minimis threshold under Rule 14A.32 of the Listing Rules, it is exempted from the independent shareholders' approval requirement and is only subject to the reporting and announcement requirements of the Listing Rules.

PARTICULARS OF PROPERTIES

The properties under development for sale of the Group are as follows:

Location	Group's interest	Stage of completion	Expected completion date	Expected use	Gross floor area
中國河南省開封市 西大街1號	100%	Removal and demolish stage	End of 2008	Residential/ commercial complex	The total gross floor area is 134,274 sq. m.
Phase II, III and IV of Asian Villas City Square Southern Area Jinpen Industrial Development Zone Haikou Hainan Province PRC	100%	Construction stage	End of 2006	Residential/ commercial complex	The total gross floor area is 70,854 sq. m.

PARTICULARS OF PROPERTIES *(Continued)*

The completed properties held for sale of the Group are as follows:

Location	Group's interest	Tenure	Current use	Gross floor area
Phases II & III, Asian Villas Jinpen Industrial Development Zone Xinhua District Haikou Hainan Province PRC	100%	The properties are held for a term of 70 years, commencing on 13 May 1998 and expiring on 12 May 2068	Residential	The total gross floor area is 89,251 sq. m.
Apartments, villas, at Park View Nos. 206,208,218,220,222, 228 & 238 Baise Road Xuhui District Shanghai PRC	100%	The properties are held for a term of 70 years, commencing on 18 February 1993 and expiring on 17 February 2063	Residential	The total gross floor area is 56,174 sq. m.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year ended 31 March 2006.

AUDITORS

During the year, Deloitte Touche Tohmatsu resigned as auditors of the Company and Ernst & Young were appointed by directors to fill the casual vacancy so arising. A resolution for the reappointment of Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tjia Boen Sien
Managing Director and Deputy Chairman

Hong Kong
21 July 2006

The Company is committed to a high standard of corporate governance practices in enhancing the confidence of shareholders, investors, employees, creditors and business partners and also the growth of its business. The Company's corporate governance practices are based on the principles ("Principles") and the code provisions ("Code Provisions") as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules"). The Company has complied with most of the Code Provisions save for certain deviations from the Code Provisions in respect of Code Provisions A1.1, A2.1, A4.1 and A4.2, details of which are explained below. The Company regularly reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

Summary of derivations of the CG Code:

Code Provision A1.1

Code Provision A1.1 stipulates that the Company should hold as least four regular Board meetings a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held twice during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. As the Company did not announce its quarterly results hence did not hold quarterly meetings. In order to meet the Code Provision, the Company plans to hold at least four regular Board meetings in the future. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

Code Provision A2.1

Under Code Provision A2.1, the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

The Company does not have a position of Chief Executive Officer but the Managing Director performs similar function as Chief Executive Officer. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

Code Provision A4.1 and A4.2

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The independent non-executive directors are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

To comply with Code Provision A4.2, relevant amendments to the Company's Bye-Laws were proposed and approved by the shareholders at the Company's annual general meeting held on 31 August 2005. Under the Company's existing Bye-Laws, every director, including those appointed for specific terms, should be subject to retirement by rotation at least once every three years. All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting.

THE KEY CORPORATE GOVERNANCE PRINCIPLES AND PRACTICES

The Company acknowledges the important role of its Board of Directors ("Board") in providing effective leadership and direction of the Company towards its objectives and ensuring transparency and accountability of all operations. The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The Company has a division of functions reserved to the Board and delegated to the management. The Board provides leadership and approves strategic policies and plans with a view to enhance shareholder interests while the day-to-day operations of the Company are delegated to the management. 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. The Company has arranged appropriate insurance cover in respect of legal actions against the Board.

The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the management. 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.

The Board has the full support of the Managing Director and the management to discharge its responsibilities.

Composition

The Board has in its composition a balance of skills and experience necessary for independent decision making and fulfilling its business needs.

The Board of the Company comprises the following directors:

Executive Directors

Mr. Wang Ke Duan *(Chairman)*
Mr. Tjia Boen Sien *(Managing Director and Deputy Chairman) (Chairman of Remuneration Committee)*
Mr. Wang Jing Ning *(Member of Remuneration Committee)*
Mr. Keung Kwok Cheung
Mr. Ong Chi King

Independent Non-Executive Directors

Mr. Wong Shing Kay, Oliver *(Chairman of Audit Committee and Member of Remuneration Committee)*
Dr. Ho Chung Tai, Raymond *(Member of Remuneration Committee and Audit Committee)*
Mr. Siu Man Po *(Member of Remuneration Committee and Audit Committee)*

None of the members of the Board is related to one another.

During the year ended 31 March 2006, 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 at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors will scrutinize the performance of the Company.

Appointment and Succession Planning of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors. Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Although the independent non-executive directors do not have a specific term of appointment, all the existing directors of the Company retire by rotation once every three years.

The independent non-executive directors are not appointed for a specific term. However, all non-executive directors are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the Code.

To comply with Code Provision A4.2, relevant amendments to the Company's Bye-Laws were proposed and approved by the shareholders at the Company's annual general meeting held on 31 August 2005. Under the Company's existing Bye-Laws, every director, including those appointed for specific terms, should be subject to retirement by rotation at least once every three years. All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting.

Training for Directors

Each newly appointed director receives comprehensive, formal induction to ensure that he/she has appropriate understanding of the business and his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

There are also arrangements in place for providing continuing briefing and professional development to directors whenever necessary.

Board Meetings

Code Provision A1.1 stipulates that the Company should hold as least four regular Board meetings a year at approximately quarterly intervals with active participation of a majority of directors, either in person or through other electronic means of communication.

Regular Board meetings were held twice during the year for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. As the Company did not announce its quarterly results hence did not hold quarterly meetings. In order to meet the Code Provision, the Company plans to hold at least four regular Board meetings in the future.

During the year under review, two full board meetings were held. Details of the attendance of the Directors are as follows:–

Executive Directors	**Directors' Attendance**
Mr. Wang Ke Duan *(Chairman)*	2/2
Mr. Tjia Boen Sien *(Managing Director and Deputy Chairman)*	2/2
Mr. Wang Jing Ning	2/2
Mr. Keung Kwok Cheung	2/2
Mr. Ong Chi King	2/2
Independent Non-Executive Directors	
Dr. Ho Chung Tai, Raymond	1/2
Mr. Wong Shing Kay, Oliver	2/2
Mr. Siu Man Po	2/2

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

Agenda and Board papers together with all appropriate information are sent to all directors at least three days before each Board meeting or committee meeting to give an opportunity and sufficient time to include matters in the agenda. The Board is also obligated 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 executives whenever necessary.

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. Directors are entitled to have access to board papers and queries will be responded fully. 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. Such director must abstain from voting and will not be counted as quorum.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Managing Director, who performs similar role as Chief Executive Officer, to ensure a balance of power and authority. The respective responsibilities of the Chairman and the Managing Director are clearly defined and set out in writing. The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the management, the Chairman is also responsible for ensuring that the directors receive adequate information and appropriate briefing on issues arising at Board meetings.

The Managing Director focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Managing Director is also responsible for developing strategic plans and formulating the organisational structure, control systems and internal procedures and processes for the Board's approval. The position of the Chairman is held by Mr. Wang Ke Duan while the position of the Managing Director is held by Mr. Tjia Boen Sien.

BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and are available to shareholders upon request. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

Remuneration Committee

Mr. Tjia Boen Sien, Mr. Wang Jing Ning, Dr. Ho Chung Tai, Raymond, Mr. Siu Man Po and Mr. Wong Shing Kay, Oliver are the members of the Remuneration Committee and Mr. Tjia Boen Sien is the chairman of the committee. The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the executives after consultation with the Chairman/Managing Director and accessed to professional advice, at the Company's expense, when necessary. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The Remuneration Committee normally meets towards the end of each year for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the executives and other related matters. The Remuneration Committee met once during the year ended 31 March 2006 and reviewed the remuneration policy and structure of the Company and remuneration packages of the executive directors and the executives for the year under review.

Details of attendance record of members of the Remuneration Committee are set out below:

Name of member	Meeting Attended
Mr. Tjia Boen Sien *(Chairman of Remuneration Committee)*	1/1
Mr. Wang Jing Ning	1/1
Dr. Ho Chung Tai, Raymond	1/1
Mr. Siu Man Po	1/1
Mr. Wong Shing Kay, Oliver	1/1

Audit Committee

The Audit Committee comprises the three independent non-executive directors (including one independent nonexecutive director who possesses the appropriate professional qualifications or accounting or related financial management expertise) and Mr. Wong Shing Kay, Oliver is the chairman of the committee. 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:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, compliance officer (if any) or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, reappointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31 March 2006 to review the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors. There is no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Sufficient resources is provided by the Company for the Audit Committee to perform its duties.

There is no disagreement between the Board and the Audit Committee regarding the selection, appointment, resignation or dismissal of the external auditors.

The Audit Committee held two meetings during the year under review. Details of the attendance of the Audit Committee Meetings are as follows:

Name of member	**Members' Attendance**
Mr. Wong Shing Kay, Oliver *(Chairman of Audit Committee)*	2/2
Dr. Ho Chung Tai, Raymond	1/2
Mr. Siu Man Po	2/2

AUDITORS' REMUNERATION

For the year ended 31 March 2006, the Group had engaged the Group's external auditors, Ernst & Young, to provide the following services and their respective fees charged are set out as below:

Fee Charged for the year ended 31 March 2006

Types of Services	*HK$*
Audit for the Group	2,150,000
Non-audit services-taxation services	–
Non-audit services-others	–
Total	2,150,000

Nomination Committee

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure for agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting either to fill a casual vacancy or as an addition to the existing directors.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the ''Model Code'') as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31 March 2006.

The Company has adopted the same Model Code 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 Model Code by the relevant employees was noted by the Company.

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006. The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 32. Management of the Company is obligated to provide explanation and information to the Board to make informed assessment of relevant matters.

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interests of shareholders and the assets of the Group. The Board has reviewed the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions. A review will be conducted at least annually on the effectiveness of the system of internal controls.

INVESTORS RELATIONS

The Company is committed to maintain an open and effective investors relations policy and to update investors on relevant information/developments in a timely manner, subject to relevant regulatory requirements. Briefings and meetings with institutional investors and analysts are conducted from time to time. The Company also replied the enquiries from shareholders timely. The Directors host the annual general meeting each year to meet the shareholders and answer their enquiries. The corporate website of the Company has provided a communication platform via which the public and investor community can access to up-to-date information regarding the Group.

SHAREHOLDER RIGHTS

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 and procedures are included in all circulars to shareholders convening shareholders' meetings and will be explained during the proceedings of meetings. Whenever voting by way of a poll is required, the detailed procedures for conducting a poll will be explained.

Poll results will be counted by Hong Kong Branch Share Registrar, Tengis Limited and will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of the Company and of the Stock Exchange. The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee, or in their absence, other members of the respective committees, and where applicable, the independent Board committee, are available to answer questions at the shareholders' meetings.

Separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

ERNST & YOUNG
安 永 會 計 師 事 務 所

To the members
Deson Development International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 33 to 118 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, 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.

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
21 July 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	5	**617,414**	570,827
Cost of sales		**(509,177)**	(515,748)
Gross profit		**108,237**	55,079
Other income and gains	5	**13,201**	5,830
Administrative expenses		**(105,106)**	(116,316)
Gain on disposal of long term investments		**–**	3,181
Impairment for goodwill		**(4,000)**	(10,470)
Finance costs	7	**(2,369)**	(2,784)
Share of profits and losses of:			
A jointly-controlled entity		**55**	16
Associates		**101**	184
PROFIT/(LOSS) BEFORE TAX	6	**10,119**	(65,280)
Tax	10	**(1,656)**	(1,727)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**8,463**	(67,007)
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	12	**–**	120,054
PROFIT FOR THE YEAR		**8,463**	53,047
Attributable to:			
Equity holders of the Company	11	**10,181**	40,242
Minority interests		**(1,718)**	12,805
		8,463	53,047
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic			
– For profit for the year		**2.04 cents**	8.07 cents
– For profit/(loss) from continuing operations		**2.04 cents**	(16.01 cents)
Diluted			
– For profit for the year		**2.04 cents**	7.98 cents
– For profit/(loss) from continuing operations		**2.04 cents**	(15.82 cents)

CONSOLIDATED BALANCE SHEET

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**63,151**	31,684
Prepaid land lease payments	15	**13,262**	13,512
Goodwill	16	**–**	–
Interest in a jointly-controlled entity	18	**11,691**	6,604
Interests in associates	19	**7,403**	6,220
Available-for-sale equity investment/long term investment	20	**16,174**	6,153
Long term receivable and deposits	21	**30,200**	46,355
Deferred tax assets	30	**413**	382
Total non-current assets		**142,294**	110,910
CURRENT ASSETS			
Amounts due from associates	19	**19,166**	8,690
Amounts due from minority shareholders	22	**7**	355
Properties held for sale	23	**228,446**	229,317
Gross amount due from contract customers	24	**23,149**	20,581
Inventories	25	**8,674**	5,275
Accounts receivable	26	**60,083**	106,321
Prepayments, deposits and other receivables		**52,390**	43,694
Cash and cash equivalents	27	**47,167**	60,551
Pledged time deposits	27	**68,300**	57,780
Total current assets		**507,382**	532,564
CURRENT LIABILITIES			
Gross amount due to contract customers	24	**32,853**	44,582
Accounts payable	28	**61,682**	79,869
Other payables and accruals		**93,313**	86,914
Amounts due to associates	19	**443**	443
Amounts due to minority shareholders	22	**3,984**	7,005
Tax payable		**4,980**	6,081
Interest-bearing bank and other borrowings	29	**44,662**	82,104
Total current liabilities		**241,917**	306,998
NET CURRENT ASSETS		**265,465**	225,566
TOTAL ASSETS LESS CURRENT LIABILITIES		**407,759**	336,476

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**28,800**	–
Deferred tax liabilities	30	**2,577**	671
Total non-current liabilities		**31,377**	671
Net assets		**376,382**	335,805
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	31	**49,668**	51,675
Reserves	33(a)	**324,439**	282,124
		374,107	333,799
Minority interests		**2,275**	2,006
Total equity		**376,382**	335,805

Tjia Boen Sien
Director

Wang Jing Ning
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 March 2006

		Attributable to equity holders of the Company													
		Issued share capital	**Share premium account**	**Contributed surplus**	**Property revaluation reserve**	**Capital reserve**	**Capital redemption reserve**	**Exchange fluctuation reserve**	**Investment revaluation reserve**	**Share option reserve**	**Reserve funds**	**Retained profits**	**Total**	**Minority interests**	**Total equity**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note 31)													
At 1 April 2004:															
As previously reported		46,688	95,648	15,262	7,784	4,259	5,577	911	–	–	3,260	99,376	278,765	11,182	289,947
Prior year adjustment	*2.4(b)*	–	–	–	(3,290)	–	–	–	–	–	–	3,011	(279)	–	(279)
As restated		46,688	95,648	15,262	4,494	4,259	5,577	911	–	–	3,260	102,387	278,486	11,182	289,668
Exchange realignment		–	–	–	–	–	–	3	–	–	–	–	3	–	3
Share of reserves of associates		–	–	–	–	2,182	–	–	–	–	–	–	2,182	–	2,182
Deferred tax liabilities arising from revaluation of leasehold buildings (restated)	*30*	–	–	–	(54)	–	–	–	–	–	–	–	(54)	–	(54)
Total income and expense recognised directly in equity		–	–	–	(54)	2,182	–	3	–	–	–	–	2,131	–	2,131
Net profit for the year (restated)		–	–	–	–	–	–	–	–	–	–	40,242	40,242	12,805	53,047
Disposal of subsidiaries	*34(b)*	–	–	–	–	–	–	–	–	–	–	–	–	(83,535)	(83,535)
Acquisition of subsidiaries	*34(a)*	–	–	–	–	–	–	–	–	–	–	–	–	1,336	1,336
Acquisition of additional interests in subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	60,737	60,737
Repurchase of shares	*31*	(1,778)	(5,312)	–	–	–	1,778	–	–	–	–	(1,778)	(7,090)	–	(7,090)
Share repurchases expenses	31	–	(112)	–	–	–	–	–	–	–	–	–	(112)	–	(112)
Exercise of warrants	31	6,765	15,559	–	–	–	–	–	–	–	–	–	22,324	–	22,324
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(519)	(519)
Transfer from retained profits		–	–	–	–	–	–	–	–	–	1,092	(1,092)	–	–	–
Release upon disposal of subsidiaries		–	–	–	(1,273)	(2,182)	–	–	–	–	(1,092)	2,365	(2,182)	–	(2,182)
At 31 March 2005		51,675	105,783	15,262	3,167	4,259	7,355	914	–	–	3,260	142,124	333,799	2,006	335,805

	Notes	Issued share capital HK$'000 (Note 31)	Share premium account HK$'000	Contributed surplus HK$'000	Property revaluation reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Investment revaluation reserve HK$'000	Share option reserve HK$'000	Reserve funds HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company													
At 1 April 2005:															
As previously reported		51,675	105,783	15,262	6,450	4,259	7,355	914	–	–	3,260	139,105	334,063	2,006	336,069
Opening adjustments	2.4(b)	–	–	–	–	(13,380)	–	–	5,860	–	–	13,380	5,860	–	5,860
Prior year adjustment	2.4(b)	–	–	–	(3,283)	–	–	–	–	–	–	3,019	(264)	–	(264)
As restated		51,675	105,783	15,262	3,167	(9,121)	7,355	914	5,860	–	3,260	155,504	339,659	2,006	341,665
Exchange realignment		–	–	–	–	–	–	2,142	–	–	–	–	2,142	117	2,259
Share of reserves of associates		–	–	–	–	–	–	106	1,455	–	–	–	1,561	–	1,561
Surplus on revaluation of leasehold buildings	14	–	–	–	28,629	–	–	–	–	–	–	–	28,629	–	28,629
Deferred tax liabilities arising on revaluation of leasehold buildings	30	–	–	–	(1,906)	–	–	–	–	–	–	–	(1,906)	–	(1,906)
Changes in fair value of available-for-sale equity investment	20	–	–	–	–	–	–	–	4,161	–	–	–	4,161	–	4,161
Total income and expense recognised directly in equity		–	–	–	26,723	–	–	2,248	5,616	–	–	–	34,587	117	34,704
Net profit for the year		–	–	–	–	–	–	–	–	–	–	10,181	10,181	(1,718)	8,463
Offset against amount due to a minority shareholder upon acquisition of additional interest in a subsidiary		–	–	–	–	–	–	–	–	–	–	–	–	2,777	2,777
Dividend paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	–	(286)	(286)
Disposal of a subsidiary	34(b)	–	–	–	–	–	–	–	–	–	–	–	–	(621)	(621)
Repurchases of shares	31	(2,007)	(8,982)	–	–	–	2,007	–	–	–	–	(2,007)	(10,989)	–	(10,989)
Share repurchase expenses	31	–	(130)	–	–	–	–	–	–	–	–	–	(130)	–	(130)
Equity-settled share option arrangement	32	–	–	–	–	–	–	–	–	799	–	–	799	–	799
At 31 March 2006		49,668	96,671	15,262	29,890	(9,121)	9,362	3,162	11,476	799	3,260	163,678	374,107	2,275	376,382

Capital reserve as at 1 April 2005 and 31 March 2006 mainly comprises goodwill arising from the acquisition of subsidiaries prior to 1 April 2002, of approximately HK$9,121,000.

Contributed surplus of the Group represents the excess of the nominal value of the subsidiaries' shares acquired over the nominal value of the Company's shares issued in exchange therefor, pursuant to the Group reorganisation on 21 May 1997.

Reserve funds of the Group included statutory reserves required to be appropriated from the profit after tax of the Company's Mainland China subsidiaries under the People's Republic of China ("PRC") laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries board of directors.

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**10,119**	(65,280)
From a discontinued operation	12	**–**	132,177
Adjustments for:			
Finance costs	7	**2,369**	2,784
Share of profits and losses of:			
A jointly-controlled entity		**(55)**	(16)
Associates		**(101)**	(2,968)
Interest income	5	**(2,981)**	(812)
Release of discounted amount of long term receivable arising from the passage of time	5	**(2,318)**	–
Gain on disposal of long term investments		**–**	(3,181)
Dividend income from available-for-sale equity investment/long term investment	5	**(194)**	(177)
Loss on disposal of items of property, plant and equipment	6	**746**	2,064
Equity-settled share option expenses	6	**799**	–
Depreciation	6	**3,886**	5,228
Recognition of prepaid land lease payments	6	**250**	250
Gain on disposal of a discontinued operation	12	**–**	(97,753)
Gain on disposal of subsidiaries	5	**(1,768)**	–
Impairment of goodwill	6	**4,000**	12,668
Amortisation of goodwill	6	**–**	2,727
Provision for inventories	6	**905**	124
Provision/(write-back of provision) for doubtful debts	6	**(457)**	7,829
Provision for other receivables	6	**2,641**	7,458
Operating profit before working capital changes		**17,841**	3,122
Decrease/(increase) in completed properties held for sale		**(15,776)**	44,767
Decrease/(increase) in properties under development for sale		**18,929**	(33,796)
Increase in gross amount due from contract customers		**(2,568)**	(1,991)
Decrease/(increase) in inventories		**(8,744)**	1,473
Decrease/(increase) in accounts receivables		**46,695**	(39,603)
Increase in prepayments, deposits and other receivables		**(12,915)**	(33,905)
Increase/(decrease) in gross amount due to contract customers		**(11,729)**	5,099
Decrease in accounts payable		**(18,187)**	(13,806)
Increase/(decrease) in other payables and accruals		**12,924**	(12,403)
Decrease in provision for scheme debts		**–**	(1,047)
Cash generated/(used) in operations		**26,470**	(82,090)

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Interest paid		**(4,651)**	(3,775)
Hong Kong profits tax refunded/(paid)		**63**	(2,186)
Overseas taxes paid		**(2,851)**	(8,931)
Net cash inflow/(outflow) from operating activities		**19,031**	(96,982)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**2,981**	812
Increase in long term deposits		**(30,200)**	–
Dividends received from available-for-sale equity investment/long term investment		**194**	177
Dividends received from associates		**360**	863
Purchases of items of property, plant and equipment	*14*	**(7,587)**	(12,079)
Proceeds from disposal of items of property, plant and equipment		**148**	92
Acquisition of subsidiaries	*34(a)*	**–**	(50,972)
Acquisition of an associate		**–**	(3)
Proceeds from disposal of long term investments		**–**	5,181
Settlement of long term receivable		**48,673**	–
Acquisition of additional interest in a subsidiary		**(4,000)**	(4,166)
Disposal of subsidiaries	*34(b)*	**758**	75,559
Disposal of partial interest in subsidiaries		**–**	50,998
Advance to a jointly-controlled entity		**(5,032)**	(6,032)
Advance to associates, net		**(10,476)**	(7,257)
Increase in pledged time deposits with original maturity of more than three months when acquired		**(10,520)**	(54,573)
Net cash outflow from investing activities		**(14,701)**	(1,400)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of the Company's shares	*31*	**(10,989)**	(7,090)
Share repurchase expenses	*31*	**(130)**	(112)
Exercise of warrants	*31*	**–**	22,324
New bank loans		**38,400**	155,073
Repayment of bank loans, trust receipt loans and other borrowings		**(64,527)**	(99,224)
Capital contributions by minority shareholders		**–**	40,160
Repayment from minority shareholders, net		**104**	271
Dividends paid to minority shareholders		**(286)**	(519)
Net cash inflow/(outflow) from financing activities		**(37,428)**	110,883

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(33,098)**	12,501
Cash and cash equivalents at beginning of year		**49,605**	37,104
Effect of foreign exchange rate change		**2,229**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**18,736**	49,605
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*27*	**47,167**	60,551
Bank overdrafts, secured	*29*	**(28,431)**	(10,946)
		18,736	49,605

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*17*	**317,275**	332,618
Deferred tax assets	*30*	**262**	262
Total non-current assets		**317,537**	332,880
CURRENT ASSETS			
Other receivables		**–**	1,591
Cash and cash equivalents	*27*	**62**	85
Total current assets		**62**	1,676
CURRENT LIABILITIES			
Other payables and accruals		**532**	1,425
NET CURRENT ASSETS/(LIABILITIES)		**(470)**	251
Net assets		**317,067**	333,131
EQUITY			
Issued capital	*31*	**49,668**	51,675
Reserves	*33(b)*	**267,399**	281,456
Total equity		**317,067**	333,131

Tjia Boen Sien
Director

Wang Jing Ning
Director

1. CORPORATE INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

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

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

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

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) HKAS 32 and HKAS 39 – Financial Instruments

Equity securities

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

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

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

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

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

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

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

(d) *HKFRS 2 – Share-based Payment*

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

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

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

Adjustments/presentation taken effect retrospectively

* Adjustments taken effect prospectively from 1 April 2005

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

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

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

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

(b) Effect on the balances of equity at 1 April 2004 and at 1 April 2005

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly-controlled entity

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

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

Associates

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

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

Goodwill

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

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

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

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

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

Goodwill previously eliminated against the consolidated reserves

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

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

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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

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

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

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

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

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

Operating leases

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Applicable to the year ended 31 March 2005

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

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

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

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

Applicable to the year ended 31 March 2006

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

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

Loans and receivables

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Applicable to the year ended 31 March 2006 *(Continued)*

Available-for-sale financial asset

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

Fair value

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

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

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

Assets carried at amortised cost

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Assets carried at amortised cost (Continued)

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

Available-for-sale financial asset

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

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

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Interest-bearing loans and borrowings

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Interest-bearing loans and borrowings *(Continued)*

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

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

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

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

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

Inventories

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

Construction contracts

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

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

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

Contracts for services

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

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

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

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

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

Properties held for sale

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

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

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

Income tax

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

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

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Revenue recognition

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

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(b) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(c) from the rendering of services, when the services are rendered or on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services above";

(d) from the sale of property interests, when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer;

(e) rental income, on a time proportion basis over the lease terms;

(f) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(g) dividend income, when the shareholder's right to receive payment has been established.

Employee benefits

Share-based payment transactions

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Share-based payment transactions (Continued)

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

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

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

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

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

Paid leave carried forward

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Pension schemes

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

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

Borrowing costs

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

Foreign currencies

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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

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

Judgements

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

Operating lease commitments – Group as lessor

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

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

(i) Impairment of financial assets or goodwill

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

(ii) Estimates regarding the realisability of deferred tax assets

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

(iii) Estimation of fair value of leasehold buildings

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

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

4. SEGMENT INFORMATION

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

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

(a) the construction business segment is engaged in construction contract work as a main contractor as well as the provision of contracting intelligent building engineering and electrical and mechanical engineering services;

(b) the property development of residential and commercial properties; and

(c) the fitness centre operation and related business segment is engaged in the operation of fitness centres, trading of fitness and medical equipment and the provision of related installation and maintenance services.

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

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

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

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

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

Group

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

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

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

Group

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

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

6. PROFIT/(LOSS) BEFORE TAX

This is arrived at after charging/(crediting):

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

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

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION

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

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

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

8. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

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

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

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

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors

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

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries and allowances	**1,418**	986
Pension scheme contributions	**49**	25
	1,467	1,011

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

	Number of employees	
	2006	2005
	HK$'000	*HK$'000*
Nil to HK$1,000,000	**2**	–
HK$1,000,001 to HK$1,500,000	**–**	1
	2	1

10. TAX

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

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

10. TAX *(Continued)*

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

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

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

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

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

12. DISCONTINUED OPERATION

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

Notes:

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

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

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

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

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

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

12. DISCONTINUED OPERATION *(Continued)*

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

	2005
	HK$'000
Operating activities	(28,167)
Investing activities	30,397
Financing activities	10,674
Net cash inflow	12,904

	2005
Earnings per share:	
Basic, from the discontinued operation	HK24.08 cents
Diluted, from the discontinued operation	HK23.80 cents

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

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

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

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

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

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

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

Group *(Continued)*

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

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

Group *(Continued)*

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

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

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

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

15. PREPAID LAND LEASE PAYMENTS

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

15. PREPAID LAND LEASE PAYMENTS *(Continued)*

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Situated in Hong Kong held under:		
Medium term leases	**5,367**	5,498
Long term leases	**8,145**	8,264
	13,512	13,762

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

16. GOODWILL

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

16. GOODWILL *(Continued)*

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

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

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

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

16. GOODWILL *(Continued)*

Impairment testing of goodwill

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

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

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

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

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

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

17. INTERESTS IN SUBSIDIARIES

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

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

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the principal subsidiaries are as follows:

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

17. INTERESTS IN SUBSIDIARIES *(Continued)*

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

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

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

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(i) These non-voting class B shares are not entitled to dividend distributions. Moreover, upon the winding-up of this company, the class B shareholders are not entitled to any return of assets if the assets of the Company are less than HK$100 trillion.

(ii) The issued or paid-up capital of these subsidiaries is not classified.

(iii) The holders of the preference shares have a cumulative preferential right to the company's profits at 10% of the nominal amount of share capital, but are not entitled to receive notice of or attend or vote at any meeting of members or any meeting of directors.

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

18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

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

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

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

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

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

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

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

19. INTERESTS IN ASSOCIATES

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

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

19. INTERESTS IN ASSOCIATES *(Continued)*

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

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

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

19. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(i) The issued or paid-up capital of this associate is not classified.

(ii) The remittance of dividends to the Group from this associate operating outside Hong Kong is subject to the availability of foreign currencies generated and retained by this associate.

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

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

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

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

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

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

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Listed equity investment outside Hong Kong, at cost	**–**	6,153
Listed equity investment outside Hong Kong, at fair value	**16,174**	–
	16,174	6,153

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

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

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

21. LONG TERM RECEIVABLE AND DEPOSITS

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

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

22. AMOUNTS WITH MINORITY SHAREHOLDERS

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

23. PROPERTIES HELD FOR SALE

	Group	
	2006	2005
	HK$'000	*HK$'000*
Completed properties	**142,749**	126,973
Properties under development	**85,697**	102,344
	228,446	229,317

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

24. CONSTRUCTION CONTRACTS

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

25. INVENTORIES

	Group 2006 HK$'000	2005 HK$'000
Trading goods	**8,674**	5,275

26. ACCOUNTS RECEIVABLE

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

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

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

27. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

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

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

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

28. ACCOUNTS PAYABLE

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

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

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

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

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

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

The Group's banking facilities are secured by:

(i) the pledge of the Group's leasehold buildings and leasehold land situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK$45,398,000 (2005: HK$17,325,000) (note 14) and HK$13,512,000 (2005: HK$13,762,000) (note 15) , respectively.

(ii) the pledge of the Group's time deposits of HK$68,300,000 (2005: HK$57,780,000) (note 27).

(iii) the pledge of the Group's completed properties for sale of HK$74,306,000 (2005: Nil).

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

30. DEFERRED TAX

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

Deferred tax assets

Group

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

Deferred tax liabilities

Group

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

30. DEFERRED TAX *(Continued)*

Deferred tax assets

Group

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

Deferred tax liabilities

Group

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

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

30. DEFERRED TAX *(Continued)*

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

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

Deferred tax assets

Company

	Losses available for offset against future taxable profit *HK$'000*
At 1 April 2004, 31 March 2005, 1 April 2005 and 31 March 2006	262

31. SHARE CAPITAL

Shares

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

31. SHARE CAPITAL *(Continued)*

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

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

Notes:

(i) In prior year, the Company repurchased a total of 177,720,000 of its own shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") at a price of HK$0.038 to HK$0.042 per share, for a total consideration, before expenses, of HK$7,090,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK$1,778,000 was transferred from retained profits to the capital redemption reserve. The premium of HK$5,312,000 paid on the repurchased shares and share repurchase expenses of HK$112,000 were charged against the share premium account.

(ii) In prior year, 676,480,680 shares were issued for cash at a subscription price of HK$0.033 per share, pursuant to the exercise of the Company's bonus warrants for a total cash consideration, before expenses, of approximately HK$22,324,000.

31. SHARE CAPITAL *(Continued)*

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

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

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

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

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

31. SHARE CAPITAL *(Continued)*

Share options

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

Warrants

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

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

32. SHARE OPTION SCHEME

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

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

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

32. SHARE OPTION SCHEME *(Continued)*

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

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

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

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

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

32. SHARE OPTION SCHEME *(Continued)*

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

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

32. SHARE OPTION SCHEME *(Continued)*

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

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

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

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

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

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

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

33. RESERVES

(a) Group

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

(b) Company

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

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

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

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

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

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

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

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

(b) Disposal of subsidiaries

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

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

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

(b) Disposal of subsidiaries *(Continued)*

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

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

35. CONTINGENT LIABILITIES

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

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

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

36. OPERATING LEASE ARRANGEMENTS

(a) The Group as lessor

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

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

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

(b) The Group as lessee

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

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

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

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

37. COMMITMENTS

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

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

38. RELATED PARTY TRANSACTIONS

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

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

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

(b) Outstanding balances with related parties:

(i) Details of the Group's amounts with its jointly-controlled entity and associates as at the balance sheet date are included in notes 18 and 19 to the financial statements respectively; and

(ii) Details of the Company's amounts due with its subsidiaries as at the balance sheet date are included in note 17 to the financial statements.

(c) Compensation of key management personnel of the Group:

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Interest rate risk

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

Foreign currency risk

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

Credit risk

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

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

Credit risk *(Continued)*

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

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

Liquidity risk

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

40. POST BALANCE SHEET EVENTS

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

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

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

(ii) On 4 April 2006, Sparta Assets Limited ("Sparta Assets"), a company incorporated in the British Virgin Islands with limited liability, which holds approximately 45.55% of the Company shares, has entered into a placing agreement with Penta Investment Advisers Limited ("Penta"), a company incorporated in British Virgin Islands with limited liability. Pursuant to the placing agreement, Sparta Assets agreed to place 15,000,000 placing Shares with Penta at a price of HK$0.34 per Share. On the same day, Sparta Assets entered into a share subscription agreement with the Company pursuant to which, Sparta Assets conditionally agreed to subscribe for 15,000,000 subscription shares at the same price of HK$0.34 per share.

(iii) On 4 April 2006, the Company and Penta entered into a convertible note subscription agreement under which, subject to certain conditions, the Company agreed to issue, and Penta agreed to subscribe for, convertible notes with an aggregate principal amount of HK$15,750,000.

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

41. COMPARATIVE AMOUNTS

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

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