



Deson Development International Holdings Limited

(Incorporated in Bermuda with limited liability)



ANNUAL REPORT 2005

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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

Bank of China (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited

LEGAL ADVISERS

Appleby Corporate Services (Bermuda) Ltd.
Morrison & Foerster

AUDITORS

Deloitte Touche Tohmatsu

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
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
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 2005.

During the year under review, the Group achieved the highest turnover in history and substantial growth in net profit attributable to shareholders, which demonstrates our strengths in construction business, property development and investment business, and fitness club and related business, and our success in the disposal of Chinese People Gas Holdings Company Limited ("CPG") and its subsidiaries ("CPG Group") which were mainly engaged in the distribution, supply and installation of piped natural gas business during the year, as detailed in the "Business Review" section below.

BUSINESS REVIEW

The Group's turnover for the year was HK\$647,878,000 which represented an increase of 20% as compared with last year. The net profit attributable to shareholders amounted to approximately HK\$40,234,000 representing an increase of 72% as compared with last year. Earnings per share is approximately HK0.81 cent.

The Group's major business segment during the year comprises (i) construction and electrical and mechanical ("E&M") works; (ii) property development and investment; (iii) fitness club and related business; and (iv) natural gas.

During the year, the Group already completed projects such as main contractor for the construction of commercial complex (German Centre), Shanghai, fitting out (including installation of marbles) for 4th to 6th floors of Ongoing Department Store, Shanghai, a 2-year term contract for Design and Contracting of fitting out works: Kowloon and New Territories – Eastern Region and main contractor for renovation works including E&M works in Sharps Street, Wanchai.

More to note, during the year, the Group sold certain units in Phase II and Phase III, Asian Villas, Haikou, Hainan Province and certain units in Parkview Garden, Shanghai, which contributed a meaningful turnover and profit to the Group. The turnover in this sector decreased significantly due to the recognition of most of the turnover and profit in Parkview Garden in last year.

The Group diversified its businesses to include operation of fitness club and the trading of fitness equipment business since the acquisition of additional equity interest in Fitness Concept Limited and its subsidiaries ("Fitness Group"). Since then, Fitness Group became wholly owned subsidiaries of the Group and the turnover and results generated are included in the Group's financial results. During the year under review, turnover contributed from the fitness club and related business amounted to HK\$75 million, representing 12% of the total turnover of the Group.

The PRC has historically relied heavily on coal as its primary energy source but the PRC government in recent years has encouraged the use of other more environmentally friendly forms of fuel such as natural gas to combat the pollution and environmental damage caused by coal combustion. The natural gas market currently only share a very low percentage of the total energy source supply in PRC and the Directors are of the view that this business segment has a high potential for future growth.

In view of the high growth potential of natural gas business, the Group, through a former subsidiary – CPG, acquired an aggregate 49% interests in Xin Hua Resource Investment Limited (“Xin Hua”) at a consideration of HK\$29.5 million in April 2004, and further 51% interests in Xin Hua at a consideration of HK\$65 million in October 2004. Xin Hua and its subsidiaries are principally engage in the installation, supply and distribution of piped natural gas in the PRC.

On 27 July 2004, the Company signed a placing agreement with Guotai Junan Securities (Hong Kong) Limited, on a best effort basis, to place 175,000,000 shares of CPG at HK\$0.3 each and all the 175,000,000 CPG shares were successfully placed out. As a result, the Group recognized a profit of approximately HK\$40 million.

Furthermore, the Group entered into several connected transactions to reorganize the business activities within the Group, details of which are included in the “Connected Transactions” section in the Directors’ Report. During this reorganization, CPG successfully placed a total of 1,095,000,000 new CPG shares at HK\$0.1 each in exchange for certain assets and cash, and the Group recognized a gain of approximately HK\$16 million. The Group also disposed of the entire issued share capital of Super Win Development Limited (“Super Win”), and thereby a controlling interest in CPG at a consideration of HK\$136,172,425.60 in March 2005. The Super Win disposal contributed a gain of approximately HK\$42 million and raise immediate funds of approximately HK\$86 million to the Group, which enable the Group to improve its liquidity and financial position.

Upon completion of the above reorganization, CPG Group ceased to be subsidiaries of the Group, and the natural gas business will be discontinued. The Group (other than CPG Group) will continue concentrates on (i) construction contracting and E&M works; (ii) property development and investment; and (iii) operation of fitness club and related business.

PROSPECTS

Construction and E&M works business

The Group will uphold an on-going parallel development of its construction and E&M works business in both the PRC and Hong Kong. With its proven track records and adequate expertise in the main contracting business, the Group is now included in the "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". In May 2004, the Group was upgraded to 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", this together with 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 and E&M works business development.

During the year, new projects such as renovation and E&M works for 292 rooms of Beijing Hilton Hotel, Beijing, main contractor for construction of a residential building at No.1, the Peak, Hong Kong, fitting out for Sogo New Department Store at 12 Salisbury Road, Tsim Sha Tsui, Kowloon, building services installation for the construction of a direct subsidy scheme school in Shatin, Hong Kong, and 2-year term contract for inspection, repair, overhaul and testing of E&M installations at various sewage treatment works and pumping stations in the New Territories were awarded. As at the date of this report, the Group has contracts on hand with a total contract sum of over HK\$800 million. Looking ahead, the Directors fully believe that the positive signs that the Hong Kong economy is gradually improving and that the confidence is built up in the Government of the HKSAR will have a double-functioning positive impact on the Group's construction and E&M works business in time to come.

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. 97% of the apartments of Parkview were sold, and total contractual sum achieved at over RMB282 million. The remaining villas will make available to the market recently. As Shanghai is now vigorously developing into a metropolis serving as an international financial, information and transportation 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 it is anticipated gross floor area of approximately 80,000 sq. metres of the development will be completed by the end of 2005. Up to now, presale of Phase I of Asian Villas City Square met with an overwhelming market response and the total contract sum achieved amounted to approximately RMB64 million.

Subsequent to year end, on 9 June 2005 the Group has been granted the land use rights of a development site in Long Ting District of the City of Kai Feng, PRC. The Directors intends to develop a commercial complex on the site with an estimated gross floor area of approximately 120,000 sq. metres, and is expected to contribute revenue to the Group from the year 2006 and expected to be completed by the year 2008.

The Directors are confident that current austerity measure of the PRC government had only a moderate and short term impact on the property market in PRC, and the aforesaid projects will have a significant contribution to the turnover and profit of the Group in the coming years.

With strong sustained economic growth in PRC, 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, Wuhan, Urumqi and Shenzhen. In May 2004, one of the biggest sport club in the PRC was opened in Jinqiao, 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, in July 2005, a new fitness centre was opened at Hong Kong New World Tower (Shanghai), Shanghai, PRC. The Group currently has over 11,000 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.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2005, the Group had total assets of HK\$643,997,000 and current liabilities, long term liabilities, shareholders' equity and minority interests of HK\$306,998,000, HK\$930,000, HK\$334,063,000 and HK\$2,006,000, respectively.

The Group continued to maintain a low gearing ratio, at 0.3%. It was calculated based on the long term borrowings of HK\$930,000 and long term capital of HK\$336,999,000.

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.

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 US dollar, Hong Kong dollar and Renminbi. Since Hong Kong dollar is linked to US dollar, and Renminbi is relatively stable, the Directors consider the risk of currency fluctuation will remain minimal.

CONTINGENT LIABILITIES

Details of the contingent liabilities for the Group and the Company are set out in note 32 to the financial statements.

EMPLOYEE SCHEMES

As at 31 March 2005, the Group had 427 employees, 279 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 assets of the Group are set out in note 24 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 the three independent non-executive directors of the Company.

CHAIRMAN'S STATEMENT

SUMMARY

The Group's on going parallel development of its construction and E&M works business in both PRC and Hong Kong, the fruitful achievement in the property investment business in PRC, and the successful reorganization of its businesses, 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 and E&M works business and property development and investment business, together with the fitness club and related business. On the other hand, the Group will keep on seeking new opportunities and corporate development so as to enhance the profitability of the Group.

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
25 July 2005

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 12 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March 2005 are set out in consolidated income statement on page 23 of the annual report.

The directors do not recommend the payment of dividend.

SUBSIDIARIES AND ASSOCIATES

During the year, the Group entered into the following transactions:

- (i) through its non-wholly subsidiary, Chinese People Gas Holdings Company Limited (“CPG”) (formerly known as KEL Holdings Limited), acquired 49% interest in Xin Hua Resource Investment Limited (“Xin Hua”) for HK\$29,500,000 satisfied by the issue of 295,000,000 shares in CPG at HK\$0.1 each;
- (ii) disposed the entire interest in Penmark Limited to CPG at HK\$7,500,000 satisfied by the issue of 75,000,000 shares in CPG at HK\$0.1 each;
- (iii) acquired the entire interest in Kenworth Group Limited and its related shareholder’s loan from CPG at HK\$7,000,000 satisfied by cash consideration;
- (iv) placement of 400,000,000 new shares in CPG to independent third parties at HK\$0.1 each; and
- (v) subscribed 325,000,000 new shares in CPG at HK\$0.1 each.

Following the completion of the above transaction, the Group’s interest in CPG was reduced from 74.80% to 58.77%.

The Group further reduced its interest in CPG to 52.08% by disposing 175,000,000 shares in CPG of HK\$0.1 each to independent third parties.

SUBSIDIARIES AND ASSOCIATES *(Continued)*

The Group through CPG acquired the remaining 51% interest in Xin Hua at cash consideration of HK\$65,000,000 and Xin Hua becomes a wholly owned subsidiary of CPG.

The Group disposed of its entire 52.08% interest in CPG to an independent third party at an aggregate consideration of HK\$136,172,000 and following the disposal, the Group ceased to have any interest in CPG.

Details of principal subsidiaries and associates of the Company at 31 March 2005 are set out in notes 12 and 13 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group disposed of and acquired certain property, plant and equipment of approximately HK\$127,165,000 and HK\$114,460,000, resulting from the disposal and acquisition of subsidiaries respectively.

Details of movements during the year in the property, plant and equipment of the Group are set out in note 10 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements during the year in the share capital and warrants of the Company are set out in note 26 to the financial statements.

PURCHASE, SALES OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year, the Company repurchased certain of its own shares through the Stock Exchange of Hong Kong Limited ("Stock Exchange"), details of which are set out in note 26 to the financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

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

(appointed on 30 March 2005)

Mr. KONG Kwok Fai

(resigned on 30 March 2005)

Independent non-executive directors:

Dr. HO Chung Tai, Raymond *

Mr. SIU Man Po *

Mr. WONG Shing Kay, Oliver *

(appointed on 27 September 2004)

Ms. WONG Sin Yee

(resigned on 11 April 2005)

* audit committee members

In according to the Company's bye-laws, Mr. Wang Jing Ning and Mr. Keung Kwok Cheung shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws and, subject to eligibility, may then be re-elected.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company, fellow subsidiaries or any of its subsidiaries was a party and in which a director of the Company had a material beneficial interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2005, the interests of the directors and their associates of the Company in the shares 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest		Total	Percentage of the Company's issued share capital %
	Directly beneficially owned	Through a controlled corporation		
Tjia Boen Sien*	351,124,000	2,362,500,000	2,713,624,000	52.51
Wang Jing Ning*	18,396,000	2,362,500,000	2,380,896,000	46.08
Wang Ke Duan	2,689,600	–	–	0.05
Siu Man Po	1,800,000	–	–	0.03

* Sparta Assets Limited ("Sparta Assets"), a company incorporated in the British Virgin Islands, is beneficially interested in 2,362,500,000 ordinary shares. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 90% and 10% of the issued share capital of Sparta Assets respectively.

The interests of the directors in the share options of the Company are separately disclosed in note 27 to the financial statements.

Save as disclosed above, none of the directors nor their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option scheme are set out in note 27 to the financial statements.

Other than as disclosed above, at no time during the year of the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive directors

WANG Ke Duan, aged 74, is one of the co-founders of the Group. He is the chairman of the Group. He has over 50 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 61, 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 22 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 49, joined the Group in 1989 and is an executive director of the Group. Mr. Wang has over 25 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.

KEUNG Kwok Cheung, aged 47, 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 23 years' experience in the fields of civil, structural and building engineering 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.

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

Executive directors *(Continued)*

Ong Chi King, aged 32, 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 9 years' experience in accounting, auditing and finance.

Independent non-executive directors

Dr. Raymond Ho Chung-Tai, MBE, S.B. St. J., JP, aged 66, is currently a member of the third Legislative Council (Engineering Functional Constituency). Dr. Ho has 42 years' experience in the fields of civil, structural environmental and geotechnical engineering and project management including 32 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 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 and member of Consultative Committee on the New Airport and Related Projects. Dr. Ho is currently Chairman of Guangdong Daya Bay Nuclear Plant and LingAo Nuclear Plant Safety Consultative Committee and member of the Gas Safety Advisory Committee.

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 67, obtained his Master of Science in Civil Engineering in 1963 from Auburn University in Auburn, Alabama, U.S.A.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT *(Continued)***Independent non-executive directors** *(Continued)*

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.

Mr. Wong Shing Kay, Oliver, aged 53, 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.

Senior management

KONG Kwok Fai, aged 43, 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 50, 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 26 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.

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

Senior management *(Continued)*

CHAN Chi Kwong, aged 42, 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 21 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 37, joined the Group in February 1996. He is the contracts manager of the Group and in-charge of the contracts department. He has over 15 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.

WONG Ka Yan, aged 32, 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.

HO Ka Yiu, aged 46, 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 23 years' experience and holds a Higher Certificate in Building Studies from the Hong Kong Polytechnic University.

LEUNG Siu Lok, aged 47, joined the Group in April 1995. He is a project manager of the Group and is responsible for on-site supervision of the Hong Kong projects. He has over 24 years' experience in the field of civil and structural engineering. He holds an Associateship in Civil and Structural Engineering & Master of Science in Project Management from the Hong Kong Polytechnic University.

YEUNG Yam Chi, aged 43, 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 19 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.

LEE Kai Ming, aged 47, joined the Group in August 1997. He is an E&M engineer of the Group and is responsible for supervising all building service projects. He has more than 23 years' experience in building services engineering. He is a member of The Hong Kong Institution of Engineers, a Chartered Engineer of the Engineering Council, and a member of the Chartered Institution of Building Services Engineers.

LI Ngan Mei, aged 44, joined the Group in December 1988 and is the administration manager of the Group. She has more than 20 years' experience in personnel and administration management.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

Senior management (Continued)

KONG Ping, aged 69, 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 39 years' cost accounting experience in major enterprises in the Mainland China.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Capacity and nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Sparta Assets	Directly beneficially owned	2,362,500,000	45.72%
Tjia Boen Sien*	Through a controlled corporation	2,362,500,000	45.72%
	Directly beneficially owned	351,124,000	6.79%
Wang Jing Ning*	Through a controlled corporation	2,362,500,000	45.72%
	Directly beneficially owned	18,396,000	0.36%
Okabe Co. Ltd.	Directly beneficially owned	281,250,000	5.44%

* Sparta Assets, a company incorporated in the British Virgin Islands, is beneficially interested in 2,362,500,000 ordinary shares of the Company. Mr. Tjia Boen Sien and Mr. Wang Jing Ning own 90% and 10% of the issued share capital of Sparta Assets respectively.

CONNECTED TRANSACTIONS

The Group had the following material connected transactions during the year:

1. During the year, the Group entered into a conditional agreement with KEL Holdings Limited (“KEL”) to disposal of the entire issued share capital of Penmark Limited and its related shareholder’s loan (the “Penmark Disposal”) at a consideration of HK\$7,500,000. The consideration was satisfied by issuing 75,000,000 shares of KEL at HK\$0.10 each to the Group. KEL granted the Group an option to subscribe for one option share for every two shares issued at the option exercise price of HK\$0.105 per option share.

As the Group was a controlling shareholder of KEL having a shareholding interest of approximately 74.8% in KEL at the time of the Penmark Disposal took place, the Penmark Disposal constituted a connected transaction for the Group under the Listing Rules. The transaction was approved by the shareholders of the Group at a special general meeting on 16 April 2004 and was completed on 30 April 2004.

2. During the year, the Group entered into a conditional agreement with KEL to acquire of the entire issued share capital of Kenworth Group Limited and its shareholder’s loan (the “Kenworth Acquisition”) for HK\$7,000,000 in cash.

The Kenworth Acquisition has been aggregated with the Subscription (as defined below) and as a result, the subscription and Kenworth Acquisition constituted discloseable transactions for the Group under the Listing Rules. As the Group was a controlling shareholder of the KEL having a shareholding interest of 74.8% in KEL at the time of the Kenworth Acquisition took place, the Subscription and the Kenworth Acquisition constituted connected transactions for the Group under the Listing Rules. The Subscription and the Kenworth Acquisition were approved by the shareholders of the Group at a special general meeting on 16 April 2004 and were completed on 30 April 2004.

3. During the year, Super Win Development Limited (“Super Win”), an indirect subsidiary of the Group entered into a conditional subscription agreement with KEL. KEL will issue 325,000,000 new shares (the “Subscription Shares”) to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000 (the “Subscription”). Pursuant to the subscription agreement, Super Win will be entitled to subscribe for one option share for every two shares subscribed for at the option exercise price of HK\$0.105 per option share.

CONNECTED TRANSACTIONS *(Continued)*

4. During the year, the Group also entered into a conditional sales and purchases agreement with Asian Allied Limited ("Asian Allied") (the "Sales and Purchases Agreement"). Pursuant to the Sales and Purchases Agreement, the Group agreed to dispose to Asian Allied the entire issued share capital of Super Win and the related shareholder's loan for an aggregate consideration of HK\$136,172,425.6 ("Super Win Disposal").

The sole asset of Super Win is its legal and beneficial interest in 1,361,724,256 shares of CPG shares and 200,000,000 options to subscribe new shares of CPG at HK\$0.105 each.

Mr. Mo Shikang, a director of CPG and certain of its subsidiaries, is a director and controlling shareholder of Asian Allied. As CPG is a subsidiary of the Group at the time of Super Win Disposal, Super Win Disposal constitutes a connected transaction for the Company under the Listing Rules. The Super Win Disposal was approved by the shareholder of the Company at a special general meeting on 15 March 2005 and was completed on the same day.

EMOLUMENT POLICY

The Group's emolument policy for its employees is set out by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 27 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 31% (2004: 32%) of the total sales for the years and sales to the largest customer included therein amounted to approximately 13% (2004: 11%). Purchases from the Group's five largest suppliers accounted for approximately 19% (2004: 21%) of the total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 7% (2004: 11%).

None of the directors of the Company, or any of their associates 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 interest in the Group's five largest customers or suppliers.

COMPETITION AND CONFLICTS OF INTERESTS

None of the directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that completes or may complete with the business of the Group or has any other conflict of interests with the Group.

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.

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
Southern Area, Jinpen Industrial Development Zone Haikou Hainan Province PRC	100%	Construction stage	End of 2005	Residential and commercial complex	Total gross floor area is 125,964 sq. m.

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

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

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Listing Rules except that the independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s bye-laws.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors’ securities transactions on terms no less exactly than the required standard set out in the Model Code. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year and they all confirmed that they have fully complied with the required standard set out in the Model Code.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient Public float throughout the year ended 31 March 2005.

AUDITORS

During the year, Messrs. Ernst & Young, who acts as auditors for the period from 1 April 2003 to 31 March 2004, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Tjia Boen Sien

Managing Director and Deputy Chairman

Hong Kong, 25 July 2005

Deloitte.

德勤

To the Members of Deson Development International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 73 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, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes 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 circumstances of the Company and the Group, 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 the Group as at 31 March 2005 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.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
25 July 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000
Turnover	4	647,878	538,118
Cost of sales		(549,227)	(451,136)
Gross profit		98,651	86,982
Other operating income		9,325	10,962
Administration expenses		(129,553)	(51,153)
Impairment loss recognised in respect of goodwill		(12,668)	–
		(34,245)	46,791
Finance costs	6	(2,784)	(3,349)
Share of results of associates		3,798	(6,201)
Share of results of a jointly-controlled entity		16	(25)
Gain on disposal of subsidiaries	30	–	535
Profit on disposal of discontinuing operation	30	97,753	–
Gain on disposal of long-term investments		3,181	–
Profit before taxation	5	67,719	37,751
Income tax expenses	8	(14,680)	(17,697)
Profit before minority interests		53,039	20,054
Minority interests		(12,805)	3,340
Net profit for the year		40,234	23,394
Earnings per share	9		
Basic		0.81 cents	0.51 cents
Diluted		0.80 cents	0.51 cents

CONSOLIDATED BALANCE SHEET

At 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	10	45,969	54,237
Goodwill	11	–	21,401
Interests in associates	13	6,220	6,376
Interest in a jointly-controlled entity	14	6,604	556
Long-term investments	15	6,153	8,153
Deferred tax assets	25	382	453
Long-term receivable	16	46,355	–
		111,683	91,176
CURRENT ASSETS			
Properties held for sale	17	229,317	280,260
Amounts due from contract customers	18	20,581	17,599
Inventories	19	5,275	7,160
Trade and other receivables	20	149,765	103,257
Amounts due from associates	13	8,690	1,615
Amounts due from minority shareholders	21	355	383
Pledged bank deposits	24	57,780	32,781
Bank balances and cash		60,551	34,884
		532,314	477,939
CURRENT LIABILITIES			
Amounts due to contract customers	18	44,582	39,483
Trade and other payables	22	166,783	158,681
Amounts due to associates	13	443	625
Amounts due to minority shareholders	21	7,005	6,762
Taxation payable		6,081	13,685
Provision for scheme debts	23	–	1,047
Bank and other borrowings – due within one year	24	82,104	48,959
		306,998	269,242
NET CURRENT ASSETS		225,316	208,697
TOTAL ASSETS LESS CURRENT LIABILITIES		336,999	299,873

CONSOLIDATED BALANCE SHEET

At 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
NON-CURRENT LIABILITIES			
Bank and other borrowings – due over one year	24	–	8,996
Deferred tax liabilities	25	930	930
		<u>930</u>	<u>9,926</u>
MINORITY INTERESTS			
		<u>2,006</u>	<u>11,182</u>
		<u>334,063</u>	<u>278,765</u>
CAPITAL AND RESERVES			
Share capital	26	51,675	46,688
Reserves		282,388	232,077
		<u>334,063</u>	<u>278,765</u>

The financial statements on pages 23 to 73 were approved and authorised for issue by the Board of Directors on 25 July 2005 and are signed on its behalf by:

Tjia Boen Sien
Director

Wang Jing Ning
Director

BALANCE SHEET

At 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	12	332,618	304,138
Deferred tax assets	25	262	262
		<u>332,880</u>	<u>304,400</u>
CURRENT ASSETS			
Other receivables		1,591	1
Bank balances and cash		85	342
		<u>1,676</u>	<u>343</u>
CURRENT LIABILITIES			
Other payables and accruals		1,425	280
NET CURRENT ASSETS			
		<u>251</u>	<u>63</u>
		<u>333,131</u>	<u>304,463</u>
CAPITAL AND RESERVES			
Share capital	26	51,675	46,688
Reserves	28	281,456	257,775
		<u>333,131</u>	<u>304,463</u>

Tjia Boen Sien
Director

Wang Jing Ning
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

THE GROUP

	Share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Reserve funds <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	47,916	104,015	15,262	7,068	5,753	786	(33)	-	84,033	264,800
Exchange differences on translation of overseas operations	-	-	-	-	-	-	36	-	-	36
Surplus on revaluation of land and buildings	-	-	-	209	-	-	-	-	-	209
Reversal of deferred tax liabilities arising on revaluation of properties	-	-	-	507	-	-	-	-	-	507
Net gains not recognised in the income statement	-	-	-	716	-	-	36	-	-	752
Net profit for the year	-	-	-	-	-	-	-	-	23,394	23,394
Repurchase of shares	(4,791)	(14,375)	-	-	-	4,791	-	-	(4,791)	(19,166)
Share repurchase expenses	-	(1,281)	-	-	-	-	-	-	-	(1,281)
Exercise of share options	2,560	4,981	-	-	-	-	-	-	-	7,541
Exercise of warrants	1,003	2,308	-	-	-	-	-	-	-	3,311
Transfer	-	-	-	-	-	-	-	3,260	(3,260)	-
Release upon disposal of subsidiaries	-	-	-	-	(1,494)	-	908	-	-	(586)
At 31 March 2004	46,688	95,648	15,262	7,784	4,259	5,577	911	3,260	99,376	278,765

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

THE GROUP (Continued)

	Share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Property revaluation reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Reserve funds HK\$'000	Retained profits HK\$'000	Total HK\$'000
Exchange differences on										
translation of overseas operations	-	-	-	-	-	-	3	-	-	3
Share of reserves of associates	-	-	-	-	2,182	-	-	-	-	2,182
Deferred tax liabilities										
arising on revaluation of properties	-	-	-	(61)	-	-	-	-	-	(61)
Net (losses) gains not recognised in the income statement	-	-	-	(61)	2,182	-	3	-	-	2,124
Net profit for the year	-	-	-	-	-	-	-	-	40,234	40,234
Repurchase of shares	(1,778)	(5,312)	-	-	-	1,778	-	-	(1,778)	(7,090)
Share repurchase expenses	-	(112)	-	-	-	-	-	-	-	(112)
Exercise of warrants	6,765	15,559	-	-	-	-	-	-	-	22,324
Transfer	-	-	-	-	-	-	-	1,092	(1,092)	-
Release upon disposal of subsidiaries	-	-	-	(1,273)	(2,182)	-	-	(1,092)	2,365	(2,182)
At 31 March 2005	51,675	105,783	15,262	6,450	4,259	7,355	914	3,260	139,105	334,063
Reserves retained by:										
Company and subsidiaries	51,675	105,783	15,262	6,450	4,259	7,355	1,885	3,260	125,038	320,967
A jointly-controlled entity	-	-	-	-	-	-	-	-	(9)	(9)
Associates	-	-	-	-	-	-	(971)	-	14,076	13,105
31 March 2005	51,675	105,783	15,262	6,450	4,259	7,355	914	3,260	139,105	334,063
Company and subsidiaries	46,688	95,648	15,262	7,784	4,259	5,577	1,882	3,260	86,029	266,389
A jointly-controlled entity	-	-	-	-	-	-	-	-	(25)	(25)
Associates	-	-	-	-	-	-	(971)	-	13,372	12,401
31 March 2004	46,688	95,648	15,262	7,784	4,259	5,577	911	3,260	99,376	278,765

Capital reserve mainly comprises goodwill arising from the acquisition of subsidiaries, prior to 1 April 2002, of approximately HK\$13,380,000 (2004: HK\$13,380,000) and negative goodwill arising on acquisition of subsidiaries of approximately HK\$9,121,000 (2004: HK\$9,121,000), respectively. The amount of goodwill is stated at its cost of HK\$33,330,000, less impairment of HK\$19,950,000.

The 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 taxation of the Company's PRC subsidiaries under PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' board of directors.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	2005	2004
	HK\$'000	HK\$'000
		(Restated)
OPERATING ACTIVITIES		
Profit before taxation	67,719	37,751
Adjustments for:		
Interest income	(812)	(1,561)
Dividend income from long-term investments	(177)	(156)
Finance costs	2,784	3,349
Share of results of associates	(3,798)	6,201
Share of results of a jointly-controlled entity	(16)	25
Gain on disposal of subsidiaries	–	(535)
Profit on disposal of discontinuing operation	(97,753)	–
Gain on disposal of long-term investments	(3,181)	–
Loss on disposal of property, plant and equipment	2,064	89
Depreciation	5,486	2,586
Impairment loss recognised in respect of goodwill	12,668	–
Amortisation of goodwill	2,727	676
Provision for foreseeable losses of construction contracts	–	288
Allowance for inventories	124	419
Allowance (write-back of allowance) for doubtful debts	7,829	(625)
Allowance for other receivables	7,458	2,162
Operating cash flows before movements in working capital	3,122	50,669
Decrease in properties held for sale	44,767	32,760
(Increase) decrease in properties under development for sale	(33,796)	40,063
(Increase) decrease in amounts due from contract customers	(1,991)	1,953
Decrease (increase) in inventories	1,473	(1,011)
(Increase) decrease in trade and other receivables	(73,508)	29,463
Increase (decrease) in amount due to contract customers	5,099	(8,290)
Decrease in trade and other payables	(26,209)	(14,574)
Decrease in provision for scheme debts	(1,047)	–
Cash (used in) generated from operations	(82,090)	131,033
Hong Kong Profits Tax paid	(2,186)	(532)
Overseas taxation paid	(8,931)	(7,470)
NET CASH (USED IN) INFLOW FROM OPERATING ACTIVITIES	(93,207)	123,031

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
INVESTING ACTIVITIES			
Increase in pledged time deposits		(54,573)	(37)
Acquisition of subsidiaries	29	(50,972)	274
Purchases of property, plant and equipment	10	(12,079)	(319)
Repayments from (to) associates, net		(7,257)	(3,566)
Advance to a jointly-controlled entity		(6,032)	(81)
Acquisition of additional interest in subsidiaries		(4,166)	–
Acquisition of an associate		(3)	–
Capital contribution to a jointly-controlled entity		–	(500)
Proceeds from disposal of property, plant and equipment		92	27
Dividend received from long-term investments		177	156
Interest received		812	1,561
Dividend received from associates		863	300
Proceeds from disposal of long-term investments		5,181	–
Proceeds from partial disposal of subsidiaries		50,998	–
Disposal of subsidiaries	30	75,559	–
NET CASH USED IN INVESTING ACTIVITIES		(1,400)	(2,185)
FINANCING ACTIVITIES			
New bank and other borrowings		155,073	12,221
Capital contributions by minority shareholders		40,160	74
Exercise of warrants	26	22,324	3,311
Repayments from (to) minority interests, net		271	(3,001)
Repurchase of convertible notes		–	(7,285)
Exercise of share options	26	–	7,541
Share repurchase expenses	26	(112)	(1,281)
Dividends paid to minority interests		(519)	(402)
Interest paid		(3,775)	(4,607)
Repurchase of the Company's shares	26	(7,090)	(19,166)
Repayment of bank and other borrowings		(99,224)	(82,944)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		107,108	(95,539)
NET INCREASE IN CASH AND CASH EQUIVALENTS		12,501	25,307
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		37,104	11,797
CASH AND CASH EQUIVALENTS AT END OF YEAR		49,605	37,104
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		60,551	34,884
Bank overdrafts, secured	24	(10,946)	(27,354)
Short-term time deposits		–	29,574
		49,605	37,104

1. GENERAL

The Company is an exempted company incorporated in Bermuda with limited liability. Its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 12.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

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

HKFRS 3 "Business Combinations"

HKFRS 3 requires goodwill acquired in a business combination to be measured after initial recognition at cost less any accumulated impairment losses. Therefore, the goodwill is not amortised and instead must be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. Currently, the Group amortises the goodwill capitalised on a straight line basis over its useful economic life. At 31 March 2005, the entire goodwill account was fully amortised and written off. Therefore, the Group expects that the adoption of HKFRS 3 for the year ending 31 March 2006 would have no impact on net profit.

HKFRS 3 also requires negative goodwill to be recognised in the profit or loss immediately on acquisition.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 March each year.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries, associates and a jointly controlled entity at the date of acquisition.

Goodwill arising on acquisition prior to 1 April 2001 continues to be held in reserves and will be charged to income statement at the time of disposal of the relevant subsidiaries or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 and before 1 January 2005 is capitalised as an asset and amortised on a straight line basis over its useful economic life of not more than twenty years.

Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary the attributable amount of unamortised goodwill or goodwill previously eliminated against reserves is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of subsidiaries at the date of acquisition over the cost of the acquisition.

Negative goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

Negative goodwill arising on acquisitions after 1 April 2001 and before 1 January 2005 is presented as a deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

On disposal of a subsidiary the attributable amount of unamortised negative goodwill or negative goodwill previously credited to reserves is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue from construction contracts is recognised on the percentage of completion method when the outcome of the contracts can be reasonably foreseen, after making due allowances for contingencies and/or recognised on the percentage of completion method, measured by reference to the value of work certified during the year.

Sale of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Income from properties developed for sale, where there are no pre-sales prior to completion of the development, is recognised on the execution of a binding sales agreement entered into subsequent to the completion of the development.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Income from properties under pre-sale arrangement prior to completion of the development is recognised on the execution of a binding sales agreement or when the relevant completion certificates are issued by the respective government authorities, whichever is the later. Payments received from the purchasers prior to this stage are recorded as customers' deposits received on sale of properties and presented as current liabilities.

Rental income from property letting under operating leases, is recognised on a straight-line basis over the term of the relevant lease.

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

Management fee income is recognised when services are rendered; and

Dividend income is recognised when the shareholders' rights to receive payment have been established.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of net assets of the associates, less any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to a jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill or less the negative goodwill in so far as it has not already been written off or amortised or released to income, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Property, plant and equipment**

Construction in progress are stated at cost, which includes land cost and the related construction cost, less accumulated impairment losses. No depreciation or amortisation is provided on properties under construction and construction in progress until the construction is completed and the properties and assets are ready for use.

Property, plant and equipment, other than leasehold land and buildings and construction in progress, are stated at cost less depreciation and amortisation and any impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

The cost of leasehold land is amortised over the remaining period of the relevant leases using the straight line method.

The cost of buildings is depreciated over the remaining period of the relevant leases or forty years, whichever is shorter, using straight line method.

The cost of leasehold improvement is depreciated over the remaining period of the relevant leases using straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over its estimated useful lives, using the reducing balance method, at 15% per annum.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard issued by the HKICPA, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of impairment loss is treated as a revaluation increase under that standard.

Investments in securities

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

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***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 for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs.

Completed properties for sale are stated at the lower of cost and net realisable value. Cost includes all development expenditure for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to such properties.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date on the same basis as contract revenue. When the outcome of a construction contract cannot be estimated reliably contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profit less recognised losses exceed progress billings, the excess is shown as an amount due from customers for contract work. Where progress billings exceed contract costs incurred to date plus recognised profit less recognised loss, the excess is shown as an amount due to customers for contract work.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using on the first-in, first-out method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of the assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for its intended use or sale.

All other borrowing costs are recognised as an expenses in the year in which they are incurred.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

The carrying amount of deferred 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 asset to be recovered.

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes for Hong Kong staff are charged as expenses or capitalised in construction contracts, where appropriate, as they fall due.

The retirement benefit scheme contribution for PRC staff charged to the income statement represents the Group's contribution payable to the retirement funds schemes managed by local social security bureau in accordance with the government regulation of PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. SEGMENT INFORMATION

During the year, the Group through its non-wholly owned subsidiary, Chinese People Gas Holdings Company Limited ("CPG") (formerly known as KEL Holdings Limited), acquired the entire interest in Xin Hua Resources Investment Limited ("Xin Hua") for consideration of HK\$96,772,000. Xin Hua and its subsidiaries are engaged in natural gas business in the PRC. 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, the natural gas business was discontinued.

For management purposes, the Group is currently organised into the following three operating divisions – construction business, property development and investment and fitness club and related business segment. These divisions are the basis on which the Group reports its primary segment information.

- 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;
- the property development and investment segment is engaged in the development of residential properties and invests in prime office space for its rental income potential; and
- the fitness club 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. SEGMENT INFORMATION (Continued)

(a) Business segments

An analysis of the Group's turnover and contribution to operating results and segment assets and liabilities by business segments is as follows.

	Discontinuing operation		Continuing operations						Consolidated	
	Natural gas business (Note)		Construction business		Property development and investment		Fitness Club and related business			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)		(Restated)		(Restated)		(Restated)
THE GROUP										
Segment revenue										
Sales to external customers	77,051	–	427,994	327,381	67,403	197,087	75,430	13,650	647,878	538,118
Other operating income	3,495	–	1,871	7,435	2,268	1,808	702	2	8,336	9,245
Total	<u>80,546</u>	<u>–</u>	<u>429,865</u>	<u>334,816</u>	<u>69,671</u>	<u>198,895</u>	<u>76,132</u>	<u>13,652</u>	<u>656,214</u>	<u>547,363</u>
Segment results	<u>33,837</u>	<u>–</u>	<u>(30,443)</u>	<u>24,743</u>	<u>7,687</u>	<u>29,053</u>	<u>(16,954)</u>	<u>136</u>	<u>(5,873)</u>	<u>53,932</u>
Interest income and dividend income									989	1,717
Unallocated expenses									(13,966)	(8,182)
Impairment loss recognised in respect of goodwill	–	–	–	–	–	–	(12,668)	–	(12,668)	–
Amortisation of goodwill	(2,198)	–	–	–	–	–	(529)	(676)	(2,727)	(676)
									(34,245)	46,791
Finance costs									(2,784)	(3,349)
Share of results of associates	2,784	–	1,014	565	–	–	–	(6,766)	3,798	(6,201)
Share of results of a jointly-controlled entity	–	–	16	(25)	–	–	–	–	16	(25)
Gain on disposal of subsidiaries	–	–	–	–	–	–	–	535	–	535
Profit on disposal of discontinuing operation	97,753	–	–	–	–	–	–	–	97,753	–
Gain on disposal of long-term investments									3,181	–
Profit before taxation									67,719	37,751
Income tax expenses									(14,680)	(17,697)
Profit before minority interests									53,039	20,054
Minority interests									(12,805)	3,340
Net profit for the year									<u>40,234</u>	<u>23,394</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Discontinuing operation		Continuing operations						Consolidated	
	Natural gas business (Note)		Construction business		Property development and investment		Fitness Club and related business			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)		(Restated)		(Restated)		(Restated)
THE GROUP										
Segment assets	–	–	269,701	168,113	247,879	319,325	33,504	44,177	551,084	531,615
Interests in associates	–	–	6,623	3,204	3	–	(406)	3,172	6,220	6,376
Interests in a jointly-controlled entity	–	–	6,604	556	–	–	–	–	6,604	556
Unallocated assets	–	–	–	–	–	–	–	–	80,089	30,568
Total assets									643,997	569,115
Segment liabilities	–	–	107,391	85,264	81,174	97,126	20,639	17,753	209,204	200,143
Unallocated liabilities	–	–	–	–	–	–	–	–	98,724	79,025
Total liabilities									307,928	279,168
Other segment information:										
Depreciation	1,518	–	1,149	1,915	378	605	2,441	66	5,486	2,586
Allowance (write-back of allowance) for doubtful debts	–	–	(2,693)	(2,176)	947	1,286	9,575	265	7,829	(625)
Allowance for other receivables	–	–	1,276	1,409	6,182	753	–	–	7,458	2,162
Loss on disposal of property, plant and equipment	1,941	–	123	89	–	–	–	–	2,064	89
Goodwill arising on acquisition of interest in subsidiaries	41,093	–	–	–	–	–	–	9,116	41,093	9,116
Goodwill arising on acquisition of additional interest in subsidiaries	–	–	–	12,961	–	–	4,081	–	4,081	12,961
									68,011	26,289
Other non-cash expenses	–	–	–	293	–	–	124	414	124	707
Additions of property, plant and equipment	122,682	–	305	206	378	66	3,174	9,296	126,539	9,568

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Note: Following the disposal of the Group's entire interest in CPG in March 2005, the business segment of natural gas was regarded as discontinuing operations during the year ended 31 March 2005. CPG is a company with shares listed on the Stock Exchange.

The aggregate carrying amount of the assets and liabilities of the discontinuing operations at the date of discontinuance were as follows:

	<i>HK\$'000</i>
Total assets	269,055
Total liabilities	(91,135)
The condensed cash flow information of the discontinuing operations during the year ended 31 March 2005 is as follows:	
Operating cash flows	(28,167)
Cash inflow in respect of investing activities	30,397
Cash inflow in respect of financing activities	10,674
Net operating cash inflow	12,904

(b) Geographical segments

The following is an analysis of the Group's turnover, the carrying amount of segment assets and capital expenditure to property, plant and equipment and goodwill, analysed by the geographical area in which the customers and assets are located:

	Hong Kong		Mainland China		Consolidated	
	2005	2004	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)		(Restated)		(Restated)
THE GROUP						
Turnover:						
Sales to external customers	346,423	231,308	301,455	306,810	647,878	538,118
Other segment information:						
Segment assets	313,082	190,704	330,915	378,411	643,997	569,115
Capital expenditure	4,471	22,295	167,242	9,350	171,713	31,645

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. PROFIT BEFORE TAXATION

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Profit before taxation has been arrived at after charging:		
Staff costs (including directors' remuneration – Note 7(a))	44,151	25,246
Retirement benefits schemes contributions net of forfeited contributions of HK\$68,000 (2004: HK\$125,000)	1,129	708
Total staff costs	45,280	25,954
Auditors' remuneration	2,780	1,303
Depreciation	5,486	2,586
Minimum lease payments under operating leases for land and buildings	8,059	764
Loss on disposal of property, plant and equipment	2,064	89
Amortisation of goodwill, included in administration expenses	2,727	676
Provision for foreseeable losses of construction contracts	–	288
Allowance for inventories	124	419
Allowance (write-back of allowance) for doubtful debts	7,829	(625)
Allowance for other receivables	7,458	2,162
Cost of inventories recognised as expense	38,493	10,101
and after crediting:		
Interest income	812	1,561
Rental income under operating leases, less outgoings of HK\$493,000 (2004: Nil)	2,506	2,741
Dividend income from long-term investments – listed	177	156

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

6. FINANCE COSTS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Interest on bank and other borrowings:		
– wholly repayable within five years	3,362	4,319
– not wholly repayable within five years	413	255
Interest on convertible notes	–	33
	<hr/>	<hr/>
Total borrowing costs	3,775	4,607
Less: Amount capitalised	(991)	(1,258)
	<hr/>	<hr/>
	2,784	3,349
	<hr/> <hr/>	<hr/> <hr/>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Executive directors:		
Fees	–	–
Basic salaries and allowances	5,966	3,975
Retirement benefits scheme contributions	174	113
	<hr/>	<hr/>
	6,140	4,088
Independent non-executive directors:		
Fees	334	300
	<hr/>	<hr/>
	6,474	4,388
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The numbers of directors whose remuneration fell within the following bands are as follows:

	2005 Number of directors	2004 Number of directors
Nil to HK\$1,000,000	8	7
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
	<u>10</u>	<u>8</u>

(b) Employees' emoluments

The five highest paid employees during the year included five (2004: three) directors, details of whose remuneration are set out in note 7(a) above. Details of the emoluments of the remaining Nil (2004: two) non-directors, highest paid individuals are set out below:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Basic salaries and allowances	–	1,272
Retirement benefit scheme contributions	–	44
	<u>–</u>	<u>1,316</u>

The emoluments of each of the above non-directors, highest paid individuals fell within the band of Nil to HK\$1,000,000 in the year ended 31 March 2004.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to joint or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during the year.

8. INCOME TAX EXPENSES

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

PRC income tax is calculated at 33% of the assessable profit for the year.

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
Current	–	2,357
Overprovision in prior year	(530)	–
Overseas taxation	14,309	13,245
Deferred taxation (<i>Note 25</i>)	71	1,862
	<hr/> 13,850 <hr/>	<hr/> 17,464 <hr/>
Share of taxation attributable to associates	830	233
	<hr/> 14,680 <hr/>	<hr/> 17,697 <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

8. INCOME TAX EXPENSES (Continued)

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

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000 (Restated)
Profit before taxation	<u>67,719</u>	<u>37,751</u>
Tax at the domestic tax rate of 17.5% (2004: 17.5%)	11,851	6,606
Effect of different tax rates of subsidiaries operating in other jurisdictions	7,838	5,738
Tax effect of expenses that are not deductible in determining taxable profit	10,921	4,809
Tax effect of income not subject to tax	(19,310)	(2,667)
Overprovision in prior year	(530)	–
Utilisation of tax losses not previously recognised	(293)	(283)
Tax effect of tax losses not recognised	4,038	1,577
Tax effect of share of results of associates	165	1,318
Tax effect of share of results of a jointly-controlled entity	–	4
Others	–	595
Taxation charge for the year	<u>14,680</u>	<u>17,697</u>

Details of deferred taxation are set out in Note 25.

9. EARNINGS PER SHARE

	2005 HK\$'000	2004 HK\$'000
Earnings for the purposes of basic and diluted earnings per share		
– Net profit for the year	<u>40,234</u>	<u>23,394</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share calculation	4,983,838,000	4,544,515,000
Weighted average number of shares assumed to have been issued at no consideration on the deemed exercise of warrants expired on 14 August 2004	60,370,000	–
Effect of dilutive potential ordinary shares in respect of the share options expired on 21 February 2004 and 28 February 2004	–	795,000
Weighted average number of ordinary shares for the purposes of diluted earnings per share calculation	<u>5,044,208,000</u>	<u>4,545,310,000</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings situated in Hong Kong HK\$'000	Leasehold land and buildings situated in Mainland China 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
THE GROUP									
AT COST OR									
VALUATION									
At 1 April 2004	32,900	8,000	3,995	3,949	5,738	9,019	5,322	–	68,923
Acquisition of subsidiaries	–	12,997	–	–	438	18,521	1,217	81,287	114,460
Additions	–	542	1,153	–	1,330	8,382	407	265	12,079
Transfer	–	2,308	–	–	–	40,268	–	(42,576)	–
Disposal of subsidiaries	–	(23,847)	(173)	–	(560)	(66,043)	(1,256)	(37,010)	(128,889)
Disposals	–	–	–	–	(283)	–	(570)	(1,966)	(2,819)
At 31 March 2005	<u>32,900</u>	<u>–</u>	<u>4,975</u>	<u>3,949</u>	<u>6,663</u>	<u>10,147</u>	<u>5,120</u>	<u>–</u>	<u>63,754</u>
ANALYSIS OF COST									
OR VALUATION									
At cost	–	–	4,975	3,949	6,663	10,147	5,120	–	30,854
At 2004 valuation	32,900	–	–	–	–	–	–	–	32,900
	<u>32,900</u>	<u>–</u>	<u>4,975</u>	<u>3,949</u>	<u>6,663</u>	<u>10,147</u>	<u>5,120</u>	<u>–</u>	<u>63,754</u>
ACCUMULATED									
DEPRECIATION									
At 1 April 2004	480	16	1,559	2,717	3,270	2,253	4,391	–	14,686
Provided during the year	810	190	1,324	185	593	2,314	70	–	5,486
Disposal of subsidiaries	–	(206)	(173)	–	(44)	(1,203)	(98)	–	(1,724)
Disposals	–	–	–	–	(210)	–	(453)	–	(663)
At 31 March 2005	<u>1,290</u>	<u>–</u>	<u>2,710</u>	<u>2,902</u>	<u>3,609</u>	<u>3,364</u>	<u>3,910</u>	<u>–</u>	<u>17,785</u>
NET BOOK VALUES									
At 31 March 2005	<u>31,610</u>	<u>–</u>	<u>2,265</u>	<u>1,047</u>	<u>3,054</u>	<u>6,783</u>	<u>1,210</u>	<u>–</u>	<u>45,969</u>
At 31 March 2004	<u>32,420</u>	<u>7,984</u>	<u>2,436</u>	<u>1,232</u>	<u>2,468</u>	<u>6,766</u>	<u>931</u>	<u>–</u>	<u>54,237</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group's land and buildings located in Hong Kong and Mainland China were revalued at 31 August 2003 and 28 February 2004 at an aggregate open market value of HK\$32,900,000 and HK\$8,000,000, respectively, by B.I. Appraisals Limited, independent professionally qualified valuers, based on their existing use. A revaluation surplus of HK\$209,000 resulting from the revaluation has been credited to the property revaluation reserve, in the year ended 31 March 2004. In the opinion of the directors, the carrying amounts of these properties are not materially different from their market values as at 31 March 2005.

Had the Group's land and buildings been carried at cost less accumulated depreciation and impairment losses, they would have been included in the financial statements at approximately HK\$27,821,000 as at 31 March 2005 (2004: HK\$35,537,000).

The net book value of land and buildings held by the Group at the balance sheet date comprises the following:

	2005	2004
	HK\$'000	HK\$'000
Long term leasehold properties in Hong Kong	11,433	11,726
Medium term leasehold properties in:		
Hong Kong	20,177	20,694
PRC	–	7,984
	31,610	40,404

Certain land and building situated in Hong Kong with an aggregate carrying value of HK\$5,717,000 (2004: HK\$11,900,000) were leased to third parties under operating leases, further summary details of which are included in note 34(a).

Certain land and buildings of the Group are pledged to banks to secure banking facilities grant to the Group (note 24(i)).

11. GOODWILL

	THE GROUP
	<i>HK\$'000</i>
COST	
At 1 April 2004	22,077
Arising from acquisition of subsidiaries (<i>Note 29</i>)	37,474
Reclassified from interest in associates	3,619
Arising from acquisition of additional interest in subsidiaries	4,081
Eliminated on disposal of partial interest in subsidiaries	(3,731)
Eliminated on disposal of subsidiaries (<i>Note 30</i>)	(50,323)
	<hr/>
At 31 March 2005	13,197
	<hr/>
AMORTISATION AND IMPAIRMENT	
At 1 April 2004	676
Charge for the year	2,727
Eliminated on disposal of subsidiaries (<i>Note 30</i>)	(2,874)
Impairment loss recognised	12,668
	<hr/>
At 31 March 2005	13,197
	<hr/>
NET BOOK VALUES	
At 31 March 2005	–
	<hr/> <hr/>
At 31 March 2004	21,401
	<hr/> <hr/>

The directors of the Group reassessed the carrying amount of goodwill on 31 March 2005 based on the future operating cash flow of the Group's subsidiary, Fitness Concept Limited. An impairment loss of approximately HK\$12,668,000 has been identified and recognised in the income statement for the year.

The amortisation period adopted for goodwill is twenty years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	156,031	156,031
Amounts due from subsidiaries	176,587	148,107
	<u>332,618</u>	<u>304,138</u>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment except for an amount of HK\$45,902,000 (2005: Nil) which borne interest at 7% per annum in 2004. In the opinion of the directors, the amounts will not be settled within twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current.

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

Name of subsidiary	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly	Indirectly	
				%	%	
Beijing Chang De Architectural & Decoration Co., Ltd.*	People's Republic of China ("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

12. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operations	Nominal value of issued share/ registered capital	Class of shares held	Proportion of nominal value of issued capital/registered capital held by the Company		Principal activities
				Directly %	Indirectly %	
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
Kenworth Engineering Limited (“Kenworth”)	Hong Kong	HK\$5,374,140 HK\$20,000,000	Ordinary Preference (iii)	–	100	Provision of electrical and mechanical engineering services
Kingsly Corporation Limited	Hong Kong	HK\$2,340,000	Ordinary	–	70	Trading of construction material
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

* Sino-foreign joint venture enterprise.

** Wholly foreign-owned enterprise.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

12. INTERESTS IN SUBSIDIARIES (Continued)

- (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 normal 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.

None of the subsidiaries had issued debt securities during the year or at the end of the year.

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.

13. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets	<u>6,220</u>	<u>6,376</u>
Amounts due from associates	<u>8,690</u>	<u>1,615</u>
Amounts due to associates	<u>(443)</u>	<u>(625)</u>

The amounts due from (to) associates are unsecured, non-interest bearing and repayable on demand.

13. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the Group's principal associates at 31 March 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation or registration/ operations	Class of shares held	Percentage of ownership attributable to the Group	Principal activities
Asia Construction Holdings Limited	Corporation	Hong Kong	Ordinary	49	Investment holding
Deson Metals Company Limited	Corporation	Hong Kong/ PRC	Ordinary	40	Trading of construction materials
Fuzhou Jiandi Concrete Co., Ltd. (ii)	Corporation	PRC	(i)	40	Manufacture of concrete products
Reality Profile Limited	Corporation	Hong Kong	Ordinary	45	Investment holding
Visonic Deson Limited	Corporation	Hong Kong	Ordinary	50	Selling, distributing and marketing of home security and automation products
W & D Joint Venture Limited	Corporation	Hong Kong	Ordinary	45	Construction contracting

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

14. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Share of net assets	491	475
Amount due from a jointly-controlled entity	6,113	81
	<u>6,604</u>	<u>556</u>

The amount due from the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the directors, the amount will not be repayable within twelve months from the balance sheet date and is therefore shown as non-current.

As at 31 March 2005, the Group had interest in the following jointly-controlled entity:

Name of entity	Form of business structure	Place of registration and operations	Class of shares held	Percentage of			Principal activities
				Ownership interest	Voting power	Profit sharing	
Kenworth-Watfield Joint Venture Limited	Corporation	Hong Kong	Ordinary	50	50	50	Provision of electrical and mechanical engineering services

The jointly-controlled entity is held through a subsidiary.

15. LONG-TERM INVESTMENTS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Investment Securities		
Listed equity investment outside Hong Kong, at cost	6,153	6,153
Unlisted debt investment in Hong Kong, at cost	–	2,000
	<u>6,153</u>	<u>8,153</u>
Market value of listed equity investment outside Hong Kong at balance sheet date	<u>11,899</u>	<u>6,488</u>

16. LONG-TERM RECEIVABLE

In March 2005, the Group disposed of its entire interest in CPG for an aggregate consideration of HK\$136,172,000 (note 30) satisfied by HK\$87,499,000 in cash and HK\$48,673,000 to be repaid on 15 June 2006. Accordingly, the amount is classified as non-current after discounting into its present value of HK\$46,355,000.

17. PROPERTIES HELD FOR SALE

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Completed properties held for sale	126,973	211,712
Properties under development for sale	102,344	68,548
	<u>229,317</u>	<u>280,260</u>

The completed properties and properties under development are stated at cost at 31 March 2005 and 2004. Certain completed properties held for sale with an aggregate carrying value of HK\$12,421,000 (2004: HK\$40,386,000) were leased to third parties under operating leases, further summary details of which are included in note 34(a).

As at 31 March 2004, certain completed properties held for sale are pledged to banks to secure banking facilities granted to the Group (note 24(iii)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

18. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Contracts in progress at the balance sheet date:		
Contract costs incurred plus recognised profits less recognised losses and provision for foreseeable losses to date	1,901,022	1,726,023
Less: progress billings	(1,925,023)	(1,747,907)
	<u>(24,001)</u>	<u>(21,884)</u>
Analysed for reporting purposes as:		
Amounts due from contract customers (<i>note</i>)	20,581	17,599
Amounts due to contract customers	(44,582)	(39,483)
	<u>(24,001)</u>	<u>(21,884)</u>

Note: At 31 March 2005, retentions held by customers for contract work amounting to approximately HK\$7,713,000 (2004: HK\$2,126,000) were included in trade receivables.

19. INVENTORIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trading goods	<u>5,275</u>	<u>7,160</u>

The carrying amounts of inventories carried at net realisable value included in the above balances was HK\$486,000 (2004: HK\$419,000).

20. TRADE AND OTHER RECEIVABLES

An aged analysis of accounts receivable as at the balance sheet date is as follows:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 90 days	49,631	51,983
Between 91–180 days	23,512	6,930
Between 181–360 days	22,558	3,901
Over 360 days	2,907	8,377
	98,608	71,191
Retention money receivable	7,713	2,126
Prepayment, deposit and other receivables	43,444	29,940
Total	149,765	103,257

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of 60 days. 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.

21. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

The amounts are unsecured, non-interest bearing and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

22. TRADE AND OTHER PAYABLES

An aged analysis of trade payables as at the balance sheet date is as follows:

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within 90 days	67,976	47,437
Between 91 – 180 days	4,098	2,818
Between 181 – 360 days	3,650	541
Over 360 days	4,145	3,286
	<hr/>	<hr/>
	79,869	54,082
Other payables	86,914	104,599
	<hr/>	<hr/>
	166,783	158,681

23. PROVISION FOR SCHEME DEBTS

The amount represented a scheme debt provision made by CPG in prior years. The Company's directors have estimated and provided for the expected claims of the scheme debts on a case-by-case basis. The provision was released upon disposal of CPG during the year.

24. BANK AND OTHER BORROWINGS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Bank overdrafts, secured	10,946	27,354
Bank loans, secured	23,550	12,917
Trust receipt loans, secured	32,008	15,862
Other loan, unsecured	15,600	1,822
	<u>82,104</u>	<u>57,955</u>

The maturity of bank and other borrowings is as follows:

On demand or within one year	82,104	48,959
More than one year but not exceeding two years	–	2,285
More than two years but not exceeding five years	–	2,405
More than five years	–	4,306
	<u>82,104</u>	<u>57,955</u>
Less: Amounts due within one year shown under current liabilities	<u>(82,104)</u>	<u>(48,959)</u>
	<u>–</u>	<u>8,996</u>

The Group's bank loans and banking facilities are secured by:

- (i) certain of the Group's land and buildings situated in Hong Kong, which had an aggregate net book value at the balance sheet date of approximately HK\$31,610,000 (2004: HK\$32,420,000);
- (ii) the pledge of the Group's time deposits amounting to approximately HK\$57,780,000 (2004: HK\$32,781,000); and
- (iii) certain of the Group's completed properties held for sale situated in Mainland China with an aggregate carrying value of HK\$40,386,000 as at 31 March 2004 (2005: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

25. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Group and the Company and movements thereon during the current and prior reporting periods.

	THE GROUP				THE COMPANY	
	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>
At 1 April 2003	(351)	(730)	1,229	730	878	1,229
Credit (charge) to income for the year	20	(376)	(967)	(539)	(1,862)	(967)
Credit to equity for the year	–	507	–	–	507	–
At 31 March 2004	(331)	(599)	262	191	(477)	262
Charge to income for the year	–	–	–	(71)	(71)	–
Charge to equity for the year	–	(61)	–	–	(61)	–
Eliminated on disposal of subsidiaries	–	61	–	–	61	–
At 31 March 2005	<u>(331)</u>	<u>(599)</u>	<u>262</u>	<u>120</u>	<u>(548)</u>	<u>262</u>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Deferred tax liabilities	(930)	(930)
Deferred tax assets	<u>382</u>	<u>453</u>
	<u>(548)</u>	<u>(477)</u>

At the balance sheet date, the Group has unused tax losses of approximately HK\$557,737,000 (2004: HK\$536,337,000) available to offset against future profits. A deferred tax asset had been recognised in respect of approximately HK\$1,497,000 (2004: HK\$1,497,000) of such losses. No deferred tax asset in respect of the remaining tax losses has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

26. SHARE CAPITAL

	2005	2004
	HK\$'000	HK\$'000
Authorised:		
15,000,000,000 ordinary shares of HK\$0.01 each	150,000	150,000
Issued and fully paid:		
5,167,540,176 (2004: 4,668,779,496) ordinary shares of HK\$0.01 each	51,675	46,688

During the year, the movements in share capital were as follows:

	<i>Notes</i>	Number of ordinary shares	Amount HK\$'000
Issued and fully paid:			
At 1 April 2003		4,791,612,750	47,916
Repurchase of shares	(i)	(479,161,254)	(4,791)
Exercise of share options	(ii)	256,000,000	2,560
Exercise of warrants	(iii)	100,328,000	1,003
At 31 March 2004		4,668,779,496	46,688
Repurchase of shares	(iv)	(177,720,000)	(1,778)
Exercise of warrants	(v)	676,480,680	6,765
At 31 March 2005		5,167,540,176	51,675

Notes:

- (i) The Company repurchased a total of 479,161,254 of its own shares on the Stock Exchange at a price of HK\$0.04 per share, for a total consideration, before expenses, of HK\$19,166,000. The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares of HK\$4,791,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchased shares was charged against the share premium account.
- (ii) 256,000,000 share options were exercised at the subscription price of approximately HK\$0.02946 per share resulting in the issue of 256,000,000 shares, for a total cash consideration, before expenses, of HK\$7,541,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

26. SHARE CAPITAL (Continued)

Notes: (Continued)

- (iii) 100,328,000 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\$3,311,000.
- (iv) The Company repurchased a total of 177,720,000 of its own shares on 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 paid on the repurchased shares was charged against the share premium account.

Month of purchase	Number of ordinary shares of HK\$0.01 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
May 2004	29,300,000	0.042	0.040	1,204
August 2004	88,420,000	0.040	0.038	3,462
September 2004	60,000,000	0.041	0.040	2,424
	<u>177,720,000</u>			<u>7,090</u>

- (v) 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.

Share options

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

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 the balance sheet date.

27. 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 "Deson 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 Deson 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 Deson Scheme include the Company's directors, including independent non-executive directors, the Company's shareholders and other employees of the Group. The Deson 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 share options currently permitted to be granted under the Deson Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the adoption date of the Deson Scheme. The maximum number of shares issuable under share options to each eligible participant in the Deson 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.

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 Deson 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.

At 31 March 2005 and 31 March 2004, no share options were outstanding under the Deson Scheme and none of the Company's directors or the Group's employees were granted share options during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

27. SHARE OPTION SCHEME (Continued)

Movement of share options grant under the share option scheme adopted on 21 May 1997 was as follows:

Name or category of participant	Date of grant of share options*	Exercise price of share options** HK\$	Exercise period of share of options	Outstanding at 1 April 2003	Exercise during the year	Expired during the year	Outstanding at 31 March 2004 and 2005	Price of Company's shares ***	
								At grant HK\$	At exercise HK\$
Wang Ke Duan	23 Oct 00	0.0384	23 April 01 to 22 April 03	2,000,000	–	(2,000,000)	–	0.055	–
	23 Jul 01	0.03088	23 Jan 02 to 22 Jan 04	3,000,000	(3,000,000)	–	–	0.039	0.045
				<u>5,000,000</u>	<u>(3,000,000)</u>	<u>(2,000,000)</u>	<u>–</u>		
Tjia Boen Sien	23 Jul 01	0.03088	23 Jan 02 to 22 Jan 04	26,000,000	(26,000,000)	–	–	0.039	0.045
	29 Aug 01	0.02864	28 Feb 02 to 28 Feb 04	35,000,000	(35,000,000)	–	–	0.038	0.045
				<u>61,000,000</u>	<u>(61,000,000)</u>	<u>–</u>	<u>–</u>		
Wang Jing Ning	23 Oct 00	0.0384	23 April 01 to 22 April 03	3,000,000	–	(3,000,000)	–	0.055	–
	23 Jul 01	0.03088	23 Jan 02 to 22 Jan 04	5,000,000	(5,000,000)	–	–	0.039	0.045
				<u>8,000,000</u>	<u>(5,000,000)</u>	<u>(3,000,000)</u>	<u>–</u>		
Keung Kwok Cheng	23 Jul 01	0.03088	23 Jan 02 to 22 Jan 04	5,000,000	(5,000,000)	–	–	0.039	0.045
Kong Kwok Fai (Note 1)	23 Oct 00	0.0384	23 April 01 to 22 April 03	5,000,000	–	(5,000,000)	–	0.055	–
	23 Jul 01	0.03088	23 Jan 02 to 22 Jan 04	4,000,000	(4,000,000)	–	–	0.039	0.045
				<u>9,000,000</u>	<u>(4,000,000)</u>	<u>(5,000,000)</u>	<u>–</u>		
Sub-total				<u>88,000,000</u>	<u>(78,000,000)</u>	<u>(10,000,000)</u>	<u>–</u>		
Other employees									
In aggregate	23 Oct 00	0.0384	23 April 01 to 22 April 03	11,500,000	–	(11,500,000)	–	0.039	–
	3 Nov 00	0.04032	3 May 01 to 2 May 03	3,000,000	–	(3,000,000)	–	0.054	–
	23 Jul 01	0.03088	23 Jan 02 to 22 Jan 04	67,000,000	(48,000,000)	(19,000,000)	–	0.039	0.045
	22 Aug 01	0.02880	22 Feb 02 to 21 Feb 04	35,000,000	(35,000,000)	–	–	0.035	0.045
	29 Aug 01	0.02864	28 Feb 02 to 28 Feb 04	95,000,000	(95,000,000)	–	–	0.038	0.047
				<u>211,500,000</u>	<u>(178,000,000)</u>	<u>(33,500,000)</u>	<u>–</u>		
				<u>299,500,000</u>	<u>(256,000,000)</u>	<u>(43,500,000)</u>	<u>–</u>		

Note 1: Director resigned on 30 March 2005

27. 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 share 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 price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

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

28. RESERVES

THE COMPANY

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003:					
As previously reported	104,015	155,531	786	352	260,684
Prior year adjustment: SSAP 12 – restatement of deferred tax	–	–	–	1,229	1,229
As restated	104,015	155,531	786	1,581	261,913
Repurchases of shares	(14,375)	–	4,791	(4,791)	(14,375)
Share repurchase expenses	(1,281)	–	–	–	(1,281)
Exercise of share options	4,981	–	–	–	4,981
Exercise of warrants	2,308	–	–	–	2,308
Net profit for the year	–	–	–	4,229	4,229
At 31 March 2004	95,648	155,531	5,577	1,019	257,775
Repurchases of shares	(5,312)	–	1,778	(1,778)	(5,312)
Share repurchase expenses	(112)	–	–	–	(112)
Exercise of warrants	15,559	–	–	–	15,559
Net profit for the year	–	–	–	13,546	13,546
At 31 March 2005	<u>105,783</u>	<u>155,531</u>	<u>7,355</u>	<u>12,787</u>	<u>281,456</u>

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For the year ended 31 March 2005

28. RESERVES (Continued)

The Company's contributed surplus represents the excess of the net assets 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.

At 31 March 2005, the Company's reserves available for distribution computed in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$168,318,000 (2004: HK\$156,550,000). In addition, the Company's share premium account and capital redemption reserve, in the aggregate amount of HK\$113,138,000 (2004: HK\$101,225,000), may be distributed in the form of fully paid bonus shares.

29. ACQUISITION OF SUBSIDIARIES

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 current year (see note 30). The net assets of the subsidiaries at the date of acquisition are as follows:

	2005 HK\$'000	2004 HK\$'000
Net assets acquired:		
Property, plant and equipment	114,460	9,249
Interests in associates	–	(62)
Inventories	1,078	5,572
Investment in securities	190	–
Trade and other receivables	31,077	13,862
Bank balances and cash	15,473	1,274
Trade and other payables	(95,385)	(15,746)
Taxation payable	(545)	(61)
Bank and other borrowings	(5,714)	(14,517)
Minority interests	(1,336)	(380)
	<u>59,298</u>	<u>(809)</u>
Goodwill on acquisition (Note 11)	37,474	9,116
	<u>96,772</u>	<u>8,307</u>
Satisfied by:		
Cash	66,445	1,000
Reclassified of interests in associates	30,327	7,307
	<u>96,772</u>	<u>8,307</u>

29. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	(66,445)	(1,000)
Cash and bank balances acquired	15,473	1,274
Net (outflow) inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(50,972)</u>	<u>274</u>

The subsidiaries acquired during the year ended 31 March 2005, contributed approximately HK\$77,051,000 to the Group's turnover and approximately HK\$33,837,000 to the Group's segment result.

30. DISPOSAL OF SUBSIDIARIES

During the 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 discontinuing operations. 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\$0.1 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

30. DISPOSAL OF SUBSIDIARIES (Continued)

The net assets of CPG at the date of disposal, 15 March 2005, were as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net assets disposed of:		
Property, plant and equipment	127,165	–
Goodwill	47,449	–
Investment in securities	190	–
Trade and other receivables	42,790	69
Inventories	1,366	–
Properties held for sale	39,972	–
Bank balances and cash	10,123	–
Trade and other payables	(61,074)	(18)
Bank and other borrowings	(21,006)	–
Taxation payable	(10,811)	–
Deferred tax liability	(61)	–
Minority interests	(83,535)	–
	<u>92,568</u>	51
Gain on disposal of subsidiaries	41,651	535
Release of capital reserve	(2,182)	(1,494)
Release of translation reserve	–	908
	<u>132,037</u>	–
Satisfied by:		
Cash	85,682	–
Long-term receivables (Note 16)	46,355	–
	<u>132,037</u>	–
Net cash inflow arising on disposal:		
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cash consideration	85,682	–
Bank balances and cash disposed of	(10,123)	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>75,559</u>	–

31. MAJOR NON-CASH TRANSACTIONS

In April 2004, the Group acquired 49% equity interest in Xin Hua. The consideration was satisfied by way of issuing 295,000,000 shares of CPG.

32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in respect of banking facilities granted to subsidiaries	–	–	282,830	222,090
Financial assistance to subsidiaries	–	–	50,000	50,000
	<u>–</u>	<u>–</u>	<u>332,830</u>	<u>272,090</u>

In respect of the guarantees granted to subsidiaries, banking facilities in the amount of approximately HK\$35,055,000 (2004: HK\$35,668,000) were utilised by the subsidiaries as at 31 March 2005.

33. RETIREMENT BENEFITS SCHEME

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 profit and loss account 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 in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution pension scheme (the “Prior Scheme”) for those employees who were eligible to participate in this scheme. The Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer’s contributions. With effect from 1 December 2000, the Group has operated both schemes.

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 profit and loss account as they become payable in accordance with the rules of the central pension scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

34. OPERATING LEASES

(a) The Group as lessor

Property rental income earned during the year was approximately HK\$2,999,000 (2004: HK\$2,741,000). The Group leases certain of its land and building (note 10) and certain of its completed properties held for sale (note 17) under operating lease arrangements, with leases negotiated for terms ranging from one 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 the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	1,362	1,565
In the second to fifth year inclusive	1,819	1,150
	<u>3,181</u>	<u>2,715</u>

The Company had no operating lease arrangement at the balance sheet date.

(b) The Group as lessee

The Group made minimum lease payments under operating leases in respect of office and fitness club premises of approximately HK\$8,059,000 (2004: HK\$764,000).

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

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within one year	10,785	7,924
In the second to fifth year inclusive	34,045	18,068
After five years	14,619	18,148
	<u>59,449</u>	<u>44,140</u>

34. OPERATING LEASES *(Continued)*

(b) The Group as lessee *(Continued)*

Operating lease payments represent rentals payable by the Group for certain of its office and fitness club premises. Leases are negotiated for terms ranging from one to ten years and rentals are fixed for an average of five years.

The Company had no operating lease commitment at the balance sheet date.

35. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Management fee paid to an associate	–	121
Management fees received from associates	344	1,125
Interest incomes from an associate	–	416
Rental income from an associate	–	546
Purchases of goods from an associate	–	280
Renovation service provided to an associate	–	333
	<u> </u>	<u> </u>

In the opinion of directors, the above transactions were undertaken in the ordinary course of business transactions and the terms were mutually agreed between the Group and the related parties.

36. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to confirm with the current year's presentation.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial years is as follows:

	For the year ended 31 March				
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2005 <i>HK\$'000</i>
RESULTS					
Turnover	<u>643,199</u>	<u>409,088</u>	<u>529,273</u>	<u>538,118</u>	<u>647,878</u>
(Loss) profit before taxation	(59,959)	3,851	10,239	37,751	67,719
Income tax expenses	<u>5,532</u>	<u>(1,458)</u>	<u>(4,986)</u>	<u>(17,697)</u>	<u>(14,680)</u>
(Loss) profit before minority interests	(54,427)	2,393	5,253	20,054	53,039
Minority interests	<u>719</u>	<u>4,770</u>	<u>3,307</u>	<u>3,340</u>	<u>(12,805)</u>
Net (loss) profit for the year	<u>(53,708)</u>	<u>7,163</u>	<u>8,560</u>	<u>23,394</u>	<u>40,234</u>
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
ASSETS AND LIABILITIES					
Total assets	487,575	553,544	637,737	569,115	643,997
Total liabilities	(212,098)	(269,107)	(362,048)	(279,168)	(307,928)
Minority interests	<u>(15,063)</u>	<u>(15,227)</u>	<u>(10,889)</u>	<u>(11,182)</u>	<u>(2,006)</u>
Shareholders' funds	<u>260,414</u>	<u>269,210</u>	<u>264,800</u>	<u>278,765</u>	<u>334,063</u>