



Chinese People Gas Holdings Company Limited
中民燃氣控股有限公司*

(formerly known as "KEL Holdings Limited", "基電控股有限公司")
(Incorporated in Bermuda with limited liability)

Annual Report 2005

CORPORATE INFORMATION

Board of Directors

Mr. Xu Ruixin *(Honourable Chairman)*
Mr. Liu Jing *(Chairman)*
Mr. Mo Shikang *(Managing Director)*
Mr. Zhu Peifeng *(Deputy Chairman)*
Mr. Zhang Hesheng *(Deputy Chairman)*
Mr. Jin Song
Mr. Yan Wing Cheung
Mr. Liu Junmin*
Mr. Tan Qinglian*
Mr. Wong Shing Kay, Oliver*

(Independent non-executive directors)*

Company Secretary

Mr. Ong Chi King

Principal Bankers

Bank of China

Legal Advisers

Appleby Spurling Hunter
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
Ground Floor,
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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group's turnover for the year was HK\$78,787,000. This represented an increase of 106% as compared with that of last year. The net profit for the year was HK\$15,336,000. Basic earnings per share is HK\$0.0061.

The Board of directors did not recommend the payment of a final dividend.

BUSINESS REVIEW

Natural Gas Business

During the year, the Group acquired 100% interests in Xin Hua Resource Investment Limited ("Xin Hua"). Xin Hua is an investment holding company and is beneficially interested in the entire equity interest in Beijing Zhong Min Gas Company Limited ("Zhong Min"). Zhong Min was beneficially interested in 99.99% of each of Mian Zhu City Hong Sen Natural Gas Co., Limited ("Hong Sen") and Mian Zhu City Long Teng Gas Installation Co., Limited ("Long Teng"). Hong Sen is principally engaged in the distribution and supply of piped natural gas in the PRC whilst Long Teng is principally engaged in the installation of natural gas distribution facilities in PRC. Zhong Min is also beneficially interested in 99% equity interest of LongXin (YanTing) Natural Gas Company Limited ("Yan Ting"). Yan Ting is principally engaged in distribution and supply of piped natural gas and installation of natural gas distribution facilities in the PRC.

As the acquisition of 100% interests in Xin Hua was completed on 25 October 2004, only approximately 5 months' financial results of Xin Hua and its natural gas subsidiaries can be consolidated into the income statement of the Group.

Discontinued operation in Electrical and Mechanical Engineering Services Business

Due to the weak local economy and the keen competition in the local construction industry, the electrical and mechanical engineering services ("E&M") segment had record operating losses for the past years. The Directors considered the disposal of E&M business provides an opportunity for the Group to dispose of such loss-making operation and improve the financial performance of the Group. During the year, the Group disposed the E&M business to Deson Development International Holdings Limited ("Deson"), the previous holdings company of the Company and the Group is no longer be engaged in the provision of E&M services and related business.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Continued)

Property Holdings and Investment Business

To strengthen the financial and asset positions, the Group acquired 24th, 27th and 28th floor of Zhongda Square, Shanghai, PRC together with 19 carparks in May 2003 at a total consideration of HK\$46,000,000. The consideration was satisfied by the issue of 657,142,857 Shares. On 30 April 2004, the Group further acquired 3A floor of Zhongda Square at a consideration of HK\$7,500,000. The Group now has a total of 3,632.20 square metres of Zhongda Square together with 19 car parks as the reserve for property holdings and investment purpose.

Details of acquisition of natural gas business and the disposal of E&M business are included in “Material transactions” section of this report. After the reorganisation and acquisitions took place on 30 April 2004 and 25 October 2004, respectively, the principal activities of the Group are the distribution, supply and installation of piped natural gas and property holding and investment. The increase in turnover and profit during the year mainly attributable to the newly acquired nature gas business.

PROSPECTS

Natural Gas Business

The PRC has historically relied heavily on coal as its primary energy source but the PRC government in recent years 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.

As stated in the announcement of the Company on 17 November 2004 and 10 May 2005, respectively, the Group signed a total of four letters of intent with independent third parties for the acquisition of certain interests in four natural gas businesses in PRC. The negotiations are still in progress and at an early stage and the Group will make appropriate announcement in this regard as and when required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The total population and number of families of the city of Mian Zhu is 100,000 and 35,000, respectively and the total population and number of families of the city of Yan Ting is 60,000 and 20,000, respectively. The existing natural gas network only covers 59% and 60% of the total capacity of the city of Mian Zhu and the city of Yan Ting, respectively. The Directors are confident that income from the installation of remaining natural gas network and recurring income from the supply of natural gas in these two cities will have a significant contribution to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS (Continued)

Property Holdings and Investment Business

The growth of economy in the PRC especially Shanghai is significant in these few years. This will have a positive impact on the commercial property market and the Group currently has a total of 3,632.20 square metres of Zhongda Square together with 19 parking spaces as the reserve for property holdings and investment purpose can benefit from this economy growth. In addition, the Directors believe the hosting of the World Expo in 2010 which will have a positive impact on the PRC property market and the property holding and investment segment will continue to contribute a sizeable contribution to the Group's operating results in coming years.

MATERIAL TRANSACTIONS

On 18 February 2004, the Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua and its related shareholders' loans for HK\$29,500,000 (the "Xin Hua Acquisition"). The consideration was satisfied by way of issuing 295,000,000 shares of the Company at HK\$0.10 each.

On 18 February 2004, the Group entered into an agreement with Deson to acquire the entire issued share capital of Penmark Limited ("Penmark") and its related shareholder's loan at a consideration of HK\$7,500,000 (the "Penmark Acquisition"). The consideration was satisfied by issuing 75,000,000 shares of the Company at HK\$0.10 each. The Company also granted Deson 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.

On 18 February 2004, the Group entered into an agreement with Deson to dispose of the entire issued share capital of Kenworth Group Limited and its shareholder's loan for HK\$7,000,000 to Deson (the "Kenworth Disposal"). The consideration was paid by Deson in cash.

On 18 February 2004, the Company entered into a placing agreement with a placing agent to place up to 800,000,000 new shares at a price of HK\$0.10 each (the "Placing Agreement"). The placing agent agreed to place to not less than six independent placees i) 200,000,000 placing shares on a fully underwritten basis and ii) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the Placing Agreement, the Company granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.

On 18 February 2004, the Company entered into a subscription agreement with Super Win Development Limited ("Super Win"), the immediate holding company of the Company (the "Subscription"). The Company issued 325,000,000 new shares to Super Win at a price of HK\$0.10 each for an aggregate consideration of HK\$32,500,000. Pursuant to the Subscription, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL TRANSACTIONS (Continued)

On 2 August 2004, Brilliant China Investments Limited (“Brilliant China”), a subsidiary of the Company, entered into an agreement with an independent third party to acquire 51% shareholding interests in Xin Hua, an associate of the Company at the time of acquisition for HK\$65 million. The consideration was paid by Brilliant China in cash out of the internal resources of the Group.

On 6 August 2004, a special resolution was proposed regarding the name of the Company to be changed to “Chinese People Gas Holdings Company Limited” and the Chinese translation of the name of the Company be changed from “基電控股有限公司” to “中民燃氣控股有限公司” for identification purpose only.

Transactions (1) to (5) were approved by independent shareholders and shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004. Transactions (6) and (7) were approved by shareholders of the Company at a special general meeting on 20 October 2004 and completed on 25 October 2004.

LIQUIDITY AND CAPITAL RESOURCES

As at 31 March 2005, the Group had total assets of HK\$260,351,000 and current liabilities, long term liabilities, shareholders’ equity and minority interests of HK\$81,806,000, HK\$11,146,000, HK\$165,565,000 and HK\$1,834,000 respectively.

The Group continued to maintain a low gearing ratio, at 6.24%. It was calculated based on the long term borrowings of HK\$11,146,000 and long term capital of HK\$178,545,000.

CONNECTED TRANSACTIONS

On 18 February 2004, the Group entered into the following connected transactions:

- the First Xin Hua Acquisition;
- the Penmark Acquisition;
- the Kenworth Disposal; and
- the Subscription.

The above transactions were approved by the shareholders/independent shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

RISK OF CURRENCY FLUCTUATION

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

CONTINGENT LIABILITIES

As at 31 March 2005, there were no material contingent liabilities to the Group.

EMPLOYEE SCHEMES

As at 31 March 2005, the Group had 356 employees, 350 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.

CAPITAL COMMITMENTS

As at 31 March 2005, the Group did not have any significant capital commitment.

CHARGES ON GROUP ASSETS

The bank loans and the Group's banking facilities are secured by the Group's time deposit of HK\$130,000 and completed properties for sale of HK\$41,569,000.

AUDIT COMMITTEE

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code, as set out in the Appendix 14 of the Listing Rules throughout the accounting period covered by this annual report, except that the independent non-executive directors of the Company are 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.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Xu Ruixin, aged 64, is the Honourable Chairman of the Board and an executive Director of the Company. Mr. Xu is currently the Chairman of the China Association of Social Workers. He was a Vice Minister of the Ministry of Civil Affairs of the People's Republic of China and a member of the Ministry's Party Organization Department.

Mr. Liu Jing, aged 44, is the Chairman of the Board and an executive Director of the Company. Mr. Liu holds a Master degree from the Chinese Academy of Social Sciences, and an EMBA degree from the Peking University. He is currently Chairman of the Zhongmin group, Publisher of Public Welfare Newspaper (公益報社), a member of the Communist Party Committee of the Ministry of Civil Affairs of the People's Republic of China, and a Standing Committee member of the China Association of Social Worker. Mr. Liu has been working in the Ministry of Civil Affairs of the People's Republic of China for 24 years, during which he held duties in various departments, including the General Office, the City Welfare Department, Central and Public Welfare Department (中福公司), the Government Offices Administration, and the Press Department. He has over 14 years experience in operational management, of which over 10 years involving in top management for big enterprises. Mr. Liu has substantial experience in the operational management of real estate development, project management, tourism, sales and marketing, import and export trade, industry, investment and media.

Mr. Mo Shikang, aged 47, is the Managing Director and executive Director of the Company. He holds a Bachelor degree in Mathematics from Tianjin Education University and a Master degree in Economics from Tianjin College of Finance. Mr. Mo has substantial experience in the development and management of natural gas projects in the PRC.

Mr. Zhu Peifeng, aged 47, is a Deputy Chairman of the Board and an executive Director. Mr. Zhu holds a Bachelor degree from Shanghai Maritime Transportation University, and a Master degree from Tongji University in Shanghai. He had worked as General Manager of the Shenzhen branch of Guotai Securities Company Limited, General Manager of the international business headquarter of Guotai Junan Securities Company Limited, General Manager of the institutional customer services headquarter of Guotai Junan Securities Company Limited, Executive Director of Guotai Junan Financial Holdings Company Limited, Director of Guotai Junan Securities (Hong Kong) Company Limited, Director of Guotai Junan Assets Management (Asia) Limited, and Chairman of the Board of Harvest China Equities Investment Company Limited. Mr. Zhu joined the financial securities industry in 1992 and has worked over 10 years for Bank of Communications, Guotai Securities Company Limited, and Guotai Junan Securities Company Limited. He has extensive practical experience in the capital markets of Mainland China and Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS (Continued)

Mr. Zhang Hesheng, aged 50, is a Deputy Chairman of the Board and an executive Director of the Company. Mr. Zhang holds a MBA degree from the Latrobe University in Australia. He joined the emerging financial securities industry in China in late 1980s, and had engaged in the middle and top management in the areas of securities and financial investment, securities brokerages, investment banking and finance, financial research and analysis for various companies such as Wanguo Holdings Limited, Guotai Securities Company Limited and Guotai Junan Securities Company Limited. He was the Deputy General Manager of the Shanghai branch of Guotai Junan Securities Company Limited. Mr. Zhang has extensive experience in the financial industry and substantial working experience in the financial capital market.

Mr. Jin Song, aged 33, is an executive Director and the Deputy General Manger of the Company. Mr. Jin holds a Bachelor degree in Computer Science from Tianjin University of Technology and a MBA degree from Oklahoma City University. He had engaged in marketing and project management for Shenzhen Huawei Technologies Co. Ltd., and had worked for years in investment banking business for Guangzhou Security Company Limited and Huatai Securities Co. Ltd. He is currently a director and a Vice President of Beijing Zhong Min Gas Co., Ltd. and is responsible for the investment and merger and acquisition businesses. Mr. Jin has substantial experience in investment banking as well as merging and acquisition of gas enterprises in the PRC.

Mr. Yan Wing Cheung, aged 40, is an executive Director, financial controller and Qualified Accountant of the Company. He is responsible for the overall supervision on the accounting and financial reporting procedures and internal controls and compliance of the Company and its subsidiaries. Mr. Yan graduated from the Hong Kong Polytechnic with a Professional Diploma in Accountancy. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and an associate member of the Chartered Institute of Management Accountants, and has over 16 years of experience with regard to accounting-related, auditing and financial reporting issues. Mr. Yan had worked in several renowned international audit firms and had also assumed the position of financial controller of a US multi-national Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Liu Junmin, aged 55, is an independent non-executive Director of the Company. He holds a Bachelor degree, a Master degree and a PhD degree in Economics from Nankai University. He is currently Professor of the School of Economics of Nankai University, a Director of the Virtual Economics & Management Research Center of Nankai University, the President of the Tianjin branch of China Foreign Economics Research Association (中華外國經濟學研究會), a member of the Tianjin Academic Degree Committee as well as Independent Director of Tianjin Faw Xiali Automobile Co. Ltd. He was awarded the "Sun Yefang Economics Prize."

Mr. Tan Qinglian, aged 67, is an independent non-executive Director of the Company, is the Member of the 10th National Committee of the Chinese People's Political Consultative Conference and President of China Civil Engineering Society. He was once the Vice Minister of the Ministry of Construction of the People's Republic of China.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Wong Shing Kay, Oliver, age 53, is an independent non-executive Director of the Company. He is a fellow member of the Association of Chartered Certified Accountants of the United Kingdom and 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 16 years of experience in handling auditing, financial accounting and taxation matters. He also assumed the duty of financial controller for many listed companies in both Hong Kong and Canada during the past 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.

Mr. Wong is also an independent non-executive director and a member of audit committee of Deson Development International Holdings Limited (stock code: 262).

REPORT OF THE DIRECTORS

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

CHANGE OF NAME

Pursuant to a special resolution passed at a special general meeting on 20 October 2004, the name of the Company was changed from KEL Holdings Limited (基電控股有限公司) to Chinese People Gas Holdings Company Limited (中民燃氣控股有限公司).

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group ceased the business of the provision of electrical and mechanical engineering services during the year. The principal activities of the Group have changed to distribution, supply and installation of piped natural gas and property holding and investment upon the completion of certain acquisitions during the year. The principal activities of its subsidiaries are set out in note 35 to the financial statements.

RESULTS AND DIVIDENDS

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

The directors did not recommend the payment of a final dividend for the year ended 31 March 2005.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group disposed of and acquired certain property, plant and equipment of HK\$270,000 and HK\$114,460,000 respectively, resulting from the disposal and acquisition of subsidiaries during the year. In addition, the Group also disposed of construction in progress of HK\$1,966,000 during the year.

Details of these movements during the year in the property, plant and equipment of the Group and the Company are set out in note 11 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

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

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors:

Mo Shikang (<i>Managing Director</i>)	(appointed on 30 April 2004)
Zhang Hesheng (<i>Deputy Chairman</i>)	(appointed on 21 March 2005)
Zhu Peifeng (<i>Deputy Chairman</i>)	(appointed on 21 March 2005)
Ong Chi King	(appointed on 21 March 2005 and resigned on 15 July 2005)
Liu Jing (<i>Chairman</i>)	(appointed on 11 April 2005)
Xu Ruixin (<i>Honourable Chairman</i>)	(appointed on 11 April 2005)
Jin Song	(appointed on 11 April 2005)
Yan Wing Cheung	(appointed on 15 July 2005)
Wang Ke Duan	(resigned on 11 April 2005)
Tjia Boen Sien	(resigned on 11 April 2005)
Wang Jing Ning	(resigned on 11 April 2005)
Keung Kwok Cheung	(resigned on 11 April 2005)
Kong Kwok Fai	(resigned on 11 April 2005)
Song Sio Chong	(resigned on 27 September 2004)

Independent non-executive directors:

Wong Shing Kay, Oliver	(appointed on 27 September 2004)
Liu Junmin	(appointed on 11 April 2005)
Tan Qinglian	(appointed on 11 April 2005)
Siu Man Po	(resigned on 11 April 2005)
Wong Sin Yee	(resigned on 11 April 2005)

In accordance with clause 99 of the Company's Bye-laws, Mr. Zhang Hesheng, Mr. Zhu Peifeng, Mr. Liu Jing, Mr. Xu Ruixin, Mr. Jin Song, Mr. Yan Wing Cheung, Mr. Wong Shing Kay, Oliver, Mr. Liu Junmin and Mr. Tan Qinglian will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

No proposed director 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2005, the interests of the directors and their associates in the shares, share options and warrants of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Issued shares

Name	Capacity	Number of shares	Approximate percentage of the Company's issued share capital
Asian Allied Limited (“Asian Allied”) (Note 1)	Through a controlled corporation	1,361,724,256	52.08%
Super Win Development Limited (“Super Win”)	Beneficial owner	1,361,724,256	52.08%
Mr. Yuan Yakang (Note 2)	Beneficial owner and through a controlled corporation	1,411,724,256	53.99%
Smarksborne Investments Limited (“Smarksborne”) (Note 3)	Beneficial owner	30,000,000	1.15%
Mr. Mo Shikang (Note 1, 3 and 4)	Through controlled corporations	1,391,724,256	53.23%
Mr. Tjia Boen Sien (Note 5)	Through a controlled corporation	1,361,724,256	52.08%
Mr. Wang Jing Ning (Note 5)	Through a controlled corporation	1,361,724,256	52.08%

Notes:

1. Asian Allied is interested in the same block of 1,361,724,256 shares registered under the name of Super Win, its wholly-owned subsidiary.
2. Mr. Yuan Yakang is the beneficial owner of 34.86% of the issued share capital of Asian Allied and is a party acting in concert with it. Pursuant to Part XV of the SFO, Mr. Yuan Yakang is deemed to be interested in the same block of 1,361,724,256 shares in which Asian Allied has an attributable interest. Mr. Yuan Yakang is the beneficial owner of 50,000,000 shares in the Company.
3. Smarksborne is a company wholly and beneficially owned by Mr. Mo Shikang, a beneficial owner of 65.14% of the issued share capital of Asian Allied and is a party acting in concert with it.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

(a) Issued shares (Continued)

Notes:

- Mr. Mo Shikang is the beneficial owner of 65.14% of the issued share capital of Asian Allied. Pursuant to the provisions of Part XV of the SFO, Mr. Mo Shikang is deemed to be interested in the same block of 1,361,724,256 shares in which Asian Allied has an attributable interest. Mr. Mo Shikang is also deemed to be interested in the same block of 30,000,000 shares owned by Smarksborne, a company wholly and beneficially owned by him.
- The respective interest of Mr. Tjia Boen Sien and Mr. Wang Jing Ning are interest attributable to them by virtue of their controlled corporations. Such attribution is more particularly set out in the section headed "substantial shareholders".

(b) Options

Name	Capacity	Number of underlying shares	Exercise period
Asian Allied (Note 1)	Through a controlled corporation	200,000,000	28 October 2004 to 27 October 2006
Super Win	Beneficial owner	200,000,000	28 October 2004 to 27 October 2006
Mr. Yuan Yakang (Note 2)	Beneficial owner and through a controlled corporation	250,000,000	28 October 2004 to 27 October 2006
Mr. Mo Shikang (Note 3)	Through a controlled corporation	200,000,000	28 October 2004 to 27 October 2006

Notes:

- The options in which Asian Allied is interested are registered in the name of Super Win, its wholly-owned subsidiary.
- Mr. Yuan Yakang is the beneficial owner of 50,000,000 options which entitle him to subscribe for 50,000,000 shares in the Company. Mr. Yuan Yakang is also deemed to be interested in the same block of 200,000,000 options in which Asian Allied, a company which he has a 34.86% shareholding, is interested.
- Mr. Mo Shikang is deemed to be interested in the same block of 200,000,000 options in which Asian Allied, a company which he has a 65.14% shareholding, is interested.

Save as disclosed above, none of the directors nor their associates had any interests in any shares and underlying shares of the Company or any of its associated corporations as at 31 March 2005.

REPORT OF THE DIRECTORS

SHARE OPTION

Particulars of the Company's share option scheme (the "Option Scheme") are set out in note 25 to the financial statements. No share option was granted during the year or outstanding as at 31 March 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 35 to the financial statements, there are no contracts of significance to which the Company, its holding company, any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons were, directly or indirectly, beneficially interested in 5% or more of the issued share capital and share options of the Company.

Name of shareholder	Capacity and nature of interest	Number of shares held	Number of share options held	Percentage of the Company's issued share capital
Super Win	Directly beneficially owned (<i>Note 1</i>)	1,361,724,256	200,000,000	52.08%
Asian Allied	Through a controlled corporation (<i>Note 1</i>)	1,361,724,256	200,000,000	52.08%
Deson Development Holdings Limited	Security interest (<i>Note 2</i>)	1,361,724,256	–	52.08%
Deson Development International Holdings Limited ("Deson")	Through a controlled corporation (<i>Note 3</i>)	1,361,724,256	–	52.08%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS (Continued)

Name of shareholder	Capacity and nature of interest	Number of shares held	Number of share options held	Percentage of the Company's issued share capital
Sparta Assets Limited ("Sparta Assets")	Through controlled corporations (<i>Note 4</i>)	1,361,724,256	–	52.08%
Mr. Tjia Boen Sien	Through controlled corporations (<i>Note 5</i>)	1,361,724,256	–	52.08%
Mr. Wang Jing Ning	Through controlled corporations (<i>Note 5</i>)	1,361,724,256	–	52.08%

Notes:

1. Super Win holds 1,361,724,256 shares and 200,000,000 share options in the Company. By virtue of Super Win being a wholly-owned subsidiary of Asian Allied, Asian Allied is deemed to be interested in the 1,361,724,256 shares and 200,000,000 share options held by Super Win.
2. By virtue of the provisions of Part XV of the SFO, Deson Development Holdings Limited is deemed to be interested in the same block of 1,361,724,256 shares held by Super Win by virtue of a share mortgage in favour of it.
3. By virtue of the provisions of Part XV of the SFO, Deson, being the holding company of Deson Development Holdings Limited, is deemed to be interested in the same block of 1,361,724,256 shares in which Deson Development Holdings Limited is interested.
4. Sparta Assets is interested in approximately 45.72% of the entire issued share capital of Deson and is therefore entitled to exercise or control the exercise of one third or more of the voting power at general meetings of Deson. By virtue of the provisions of Part XV of the SFO, Sparta Assets is deemed to be interested in the same block of 1,361,724,256 shares in which Deson is interested.
5. Sparta Assets, a company incorporated in the British Virgin Islands, is beneficially owned as to 90% by Mr. Tjia Boen Sien and 10% by Mr. Wang Jing Ning.

Other than as disclosed above, the Company has not been notified of any other relevant interests in the issued share capital of the Company as at 31 March 2005.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

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

1. On 18 February 2004, the Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua Resources Investment Limited ("Xin Hua") and its related shareholders' loans for HK\$29,500,000 (the "Xin Hua Acquisition"). The consideration was satisfied by way of issuing 295,000,000 shares in the Company at HK\$0.10 each.

The Xin Hua Acquisition constituted a major transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Mr. Mo Shikang, a director of Xin Hua, was appointed as an executive director of the Company upon completion of the Xin Hua Acquisition, hence, the Xin Hua Acquisition also constituted a connected transaction for the Group under the Listing Rules. The Xin Hua Acquisition was approved by the shareholders of the Company at a special general meeting on 16 April 2004 and was completed on 30 April 2004.

2. On 18 February 2004, the Group entered into an agreement with Deson to acquire the entire issued share capital of Penmark Limited ("Penmark") and its related shareholder's loans (the at a consideration of HK\$7,500,000 (the "Penmark Acquisition"). The consideration was satisfied by issuing 75,000,000 shares in the Company at HK\$0.10 each to Deson or its nominee. The Company also granted Deson's nominee 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.

The Penmark Acquisition constituted a disclosable transaction for the Company under the Listing Rules. As Deson was a controlling shareholder of the Company having a shareholding interest of approximately 74.8% in the Company at the time of Penmark Acquisition, the Penmark Acquisition also constituted a connected transaction for the Company under the Listing Rules. The transaction was approved by the independent shareholders of the Company at a special general meeting on 16 April 2004 and was completed on 30 April 2004.

3. On 18 February 2004, the Group entered into an agreements with Deson to dispose of the entire issued share capital of Kenworth Group Limited and its shareholder's loan (the "Kenworth Disposal") for HK\$7,000,000 to Deson. The consideration was paid by Deson in cash and gave rise to a gain on disposal of approximately of HK\$7 million.

The Kenworth Disposal has been aggregated with the Subscription (defined below) and as a result, the Subscription and the Kenworth Disposal constituted major transactions for the Company under the Listing Rules. As Deson was a controlling shareholder of the Company having a shareholding interest of 74.8% in the Company at the time of Kenworth Disposal, the Subscription and the Kenworth Disposal also constituted connected transactions for the Company under the Listing Rules. The Subscription and the Kenworth Disposal were approved by the independent shareholders of the Company at a special general meeting on 16 April 2004 and were completed on 30 April 2004.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (Continued)

- On 18 February 2004, the Company entered into a subscription agreement with Super Win, the immediate holding company of the Company. The Company issued 325,000,000 new shares to Super Win at a price of HK\$0.10 per share 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.

The Subscription has been aggregated with the Kenworth Disposal and as a result, the Subscription and the Kenworth Disposal constituted major transactions for the Group under the Listing Rules. The Subscription and the Kenworth Disposal were approved by the independent shareholders of the Company at a special general meeting on 16 April 2004. The transactions were completed on 30 April 2004.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 27% of the total sales for the year, and sales to the largest customer included therein amounted to approximately 12%. Purchases from the Group's five largest suppliers accounted for approximately 59% of the total purchases for the year, and purchases from the largest supplier included therein amounted to approximately 47%.

None of the directors of the Company, or any of their associates or any other shareholders, which, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital, had any beneficial 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 compete with the business of the Group or has any other conflict of interests with the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

REPORT OF THE DIRECTORS

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.

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice as set out in Appendix 14 to the Listing Rules except that the independent non-executive directors were not appointed for a specific term as set out in Appendix 14 of the Listing Rules but are subject to retirement by rotation and re-election at annual general meetings in accordance with the bye-laws of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Throughout the year ended 31 March 2005, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Code") as its own code for dealing in securities of the Company by the directors. Having made specific enquiry of all directors, the Company conformed that all directors have complied with the required standard as set out in the Code during the year ended 31 March 2005.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received, from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

POST BALANCE SHEET EVENT

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

REPORT OF THE DIRECTORS

AUDITORS

During the year, Messrs. Ernst & Young, who acts as auditors for the period from 1 April 2002 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 the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

MO SHIKANG

MANAGING DIRECTOR

Hong Kong, 22 July 2005

REPORT OF THE AUDITORS



TO THE SHAREHOLDERS OF CHINESE PEOPLE GAS HOLDINGS COMPANY LIMITED

(FORMERLY KNOWN AS KEL HOLDINGS LIMITED)

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 23 to 69 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 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 judgments 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.

REPORT OF THE AUDITORS

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

22 July 2005

CONSOLIDATED INCOME STATEMENTS

For the Year Ended 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Turnover	4	78,787	38,243
Cost of sales		(35,177)	(35,246)
Gross profit		43,610	2,997
Other operating income		3,928	1,424
Administrative expenses		(15,725)	(15,135)
Allowance for properties held for sale		(6,000)	–
Write back of allowance for doubtful debts		–	2,233
Profit (loss) from operations	6	25,813	(8,481)
Finance costs	8	(641)	(518)
Share of results of associates		2,784	–
Share of result of a jointly-controlled entity		(1)	(25)
Profit (loss) before taxation		27,955	(9,024)
Taxation	9	(12,123)	(135)
Profit (loss) before minority interests		15,832	(9,159)
Minority interests		(496)	27
Net profit (loss) for the year		15,336	(9,132)
		HK cents	HK cents
Earnings (loss) per share			
Basic	10	0.61	(0.63)
Diluted	10	0.55	N/A

CONSOLIDATED BALANCE SHEET

At 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	11	119,198	279
Goodwill	13	38,895	–
Interest in a jointly controlled entity	14	–	556
Investment in securities	15	190	–
		<u>158,283</u>	<u>835</u>
Current assets			
Inventories	16	1,366	–
Properties held for sale	17	48,138	46,569
Trade and other receivables	18	42,441	15,870
Amounts due from fellow subsidiaries	19	–	1,695
Amounts due from contract customers	20	–	750
Pledged bank deposits	23	130	5,283
Bank balances and cash		9,993	1,051
		<u>102,068</u>	<u>71,218</u>
Current liabilities			
Trade and other payables	21	60,025	7,495
Retention money payable		–	1,146
Provision for scheme debts	22	1,047	1,047
Amounts due to contract customers	20	–	4,947
Amounts due to fellow subsidiaries	19	–	11,652
Amount due to ultimate holding company	19	–	202
Taxation payable		10,812	12
Borrowings-amount due within one year	23	9,922	4,778
		<u>81,806</u>	<u>31,279</u>
Net current assets		<u>20,262</u>	<u>39,939</u>
Total assets less current liabilities		<u>178,545</u>	<u>40,774</u>
Non-current liabilities			
Borrowings-amount due after one year	23	11,085	7,432
Deferred tax liabilities	28	61	–
		<u>11,146</u>	<u>7,432</u>
Minority interests		<u>1,834</u>	<u>274</u>
Net assets		<u>165,565</u>	<u>33,068</u>

CONSOLIDATED BALANCE SHEET

At 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Capital and reserves			
Share capital	24	183,030	106,380
Reserves		(17,465)	(73,312)
Shareholders' funds		<u>165,565</u>	<u>33,068</u>

The financial statements on pages 23 to 69 were approved and authorised for issue by the Board of Directors on 22 July 2005 and are signed on its behalf by:

Mo Shikang
DIRECTOR

Jin Song
DIRECTOR

BALANCE SHEET

At 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Non-current assets			
Interests in subsidiaries	12	135,369	28,812
Current assets			
Deposits and prepayments		3,908	3,314
Bank balances and cash		2,973	28
		6,881	3,342
Current liabilities			
Provision for scheme debts	22	1,047	1,047
Other payables		1,305	738
Amount due to ultimate holding company	19	–	202
Amount due to a fellow subsidiary	19	–	8,819
		2,352	10,806
Net current assets (liabilities)		4,529	(7,464)
Net assets		139,898	21,348
Capital and reserves			
Share capital	24	183,030	106,380
Reserves	27	(43,132)	(85,032)
Shareholders' funds		139,898	21,348

Mo Shikang
DIRECTOR

Jin Song
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 March 2005

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Contributed surplus HK\$'000 (Note b)	General reserve HK\$'000 (Note c)	Statutory	Discretionary	Capital contribution HK\$'000 (Note 29)	Accumulated losses HK\$'000	Total HK\$'000
						surplus reserve fund HK\$'000 (Note d)	surplus reserve fund HK\$'000 (Note d)			
At 1 April 2003	86,228	-	-	89,800	490,659	-	-	-	(670,516)	(3,829)
Capital reduction	(25,868)	-	-	-	-	-	-	-	25,868	-
Placement of shares	46,000	-	-	-	-	-	-	-	-	46,000
Transfer	-	-	-	-	(490,659)	-	-	-	490,659	-
Issue of shares upon exercise of convertible notes	20	9	-	-	-	-	-	-	-	29
Net loss for the year	-	-	-	-	-	-	-	-	(9,132)	(9,132)
At 31 March 2004 and 1 April 2004	106,380	9	-	89,800	-	-	-	-	(163,121)	33,068
Issue of shares for acquisition of a subsidiary and associates	25,900	11,100	-	-	-	-	-	-	-	37,000
Placement of shares	28,000	12,000	-	-	-	-	-	-	-	40,000
Subscription of shares	22,750	9,750	-	-	-	-	-	-	-	32,500
Expenses incurred in connection with issue of shares	-	(2,003)	-	-	-	-	-	-	-	(2,003)
Share of associates	-	-	2,182	-	-	-	-	-	-	2,182
Appropriation for the year	-	-	-	-	-	546	547	-	(1,093)	-
Capital contribution through disposal of subsidiaries	-	-	-	-	-	-	-	7,482	-	7,482
Net profit for the year	-	-	-	-	-	-	-	-	15,336	15,336
At 31 March 2005	183,030	30,856	2,182	89,800	-	546	547	7,482	(148,878)	165,565

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 March 2005

Notes:

- (a) The amount represents the share of revaluation surplus of Xin Hua Resources Investment Limited, a then associate of the Group, prior to the acquisition in October 2004.
- (b) The contributed surplus of the Group represents the difference between the nominal value of the Company's share capital issued as consideration in exchange for the nominal value of the issued share capital of the subsidiaries acquired at the time of the Company's listing in 1997.
- (c) The general reserve of the Group represents the total discharged liabilities of the Group as at 3 August 2000 pursuant to the schemes of arrangement established under Section 166 of the Hong Kong Companies Ordinance in prior year. During the year ended 31 March 2004, the directors decided to transfer the general reserve to the accumulated losses of the Group as this would provide a fairer presentation of the reserves of the Group and of the Group as at the balance sheet date.
- (d) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund and a discretionary surplus reserve fund, which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up its prior year losses, if any, and can be applied in conversion into capital by means of capitalisation issue.

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 March 2005

<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit (loss) from operations	25,813	(8,481)
Adjustments for:		
Interest income	(433)	(62)
Amortisation of goodwill	2,198	–
Depreciation	1,528	125
Allowance for properties held for sale	6,000	–
Loss (gain) on disposal of property, plant and equipment	1,941	(2)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	37,047	(8,420)
Decrease (increase) in amount due from a jointly-controlled entity	81	(81)
Increase in amount due to a jointly controlled entity	388	–
Increase in inventories	(288)	–
Increase in trade and other receivables	(5,175)	(7,717)
Decrease (increase) in amounts due from fellow subsidiaries	808	(824)
(Increase) decrease in amounts due from contract customers	(4,589)	253
(Decrease) increase in trade and other payables	(60,978)	4,528
Increase in retention money payable	207	429
Decrease in amounts due to contract customers	(623)	(1,533)
(Decrease) increase in amounts due to fellow subsidiaries	(7,940)	11,531
(Decrease) increase in amount due to the ultimate holding company	(202)	202
	<hr/>	<hr/>
Cash used in operations	(41,264)	(1,632)
PRC Enterprise Income Tax paid	(1,348)	–
Overseas taxes paid	–	(135)
	<hr/>	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	(42,612)	(1,767)

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Acquisition of subsidiaries	29	(23,156)	(454)
Purchase of property, plant and equipment		(8,223)	(37)
Repayment to the minority shareholders		(1,832)	(382)
Increase in pledged bank deposits		(30)	(161)
Disposal of subsidiaries	29	5,950	–
Interest received		433	62
Proceeds from disposal of property, plant and equipment		25	2
Capital contribution to a jointly-controlled entity		–	(500)
		<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES		(26,833)	(1,470)
FINANCING ACTIVITIES			
Proceeds from issue of new shares		72,500	–
New bank borrowings raised		22,878	8,500
Repayment of bank borrowings		(10,515)	(383)
Expenses incurred in connection with issue of new shares		(2,003)	–
Interest paid		(641)	(518)
Redemption of convertible notes		–	(9,646)
Increase in trust receipt loans		–	261
		<hr/>	<hr/>
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		82,219	(1,786)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		12,774	(5,023)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		(2,781)	2,242
		<hr/>	<hr/>
CASH AND CASH EQUIVALENT AT END OF THE YEAR		9,993	(2,781)
		<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		9,993	1,051
Bank overdrafts		–	(3,832)
		<hr/>	<hr/>
		9,993	(2,781)
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors of the Company, its ultimate holding company is Asian Allied Limited ("Asian Allied").

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 35.

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. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. 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 made up to 31 March each year.

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisitions 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 consolidated balance sheet.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised upon completion of pipeline construction, which according to industry practice in the region coincides with the "fire ignition ceremony".

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

When the outcome of a construction contract can be estimated reliably, revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the value of work carried out during the period. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

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

Interest income is recognised on a time basis by reference to the principal outstanding and at the interest rates applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any identified impairment losses.

Construction in progress represents assets under construction, which is stated at cost less accumulated impairment losses, if any. Cost comprises direct attributable costs of acquisition or construction which include capitalised borrowing costs. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Land use right	Over the shorter of the term of the lease or the operation period of the relevant company
Building	Over the shorter of 40 years or the operation period of the relevant company
Leasehold improvements	Over the shorter of the terms of the leases, or 5 years
Furniture, fixtures and office equipment	20%
Plant, machinery and pipeline	2.5%-20%
Motor vehicles	20%

The gain or loss arising on the 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

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

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.

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 the net assets of the associates plus the goodwill in so far as it has not already been written off or amortised or released to income, less any identified impairment loss.

Inventories

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

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises of the cost of the land together with direct costs attributable to the completion of the properties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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. An impairment loss is recognised as an expense immediately.

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

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is the lessor, rentals receivable under operating leases are credited to income statement on a straight-line basis over the relevant lease term.

Where the Group is the lessee, rentals payable under operating leases are charged to income statement on a straight-line basis over the relevant lease term.

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 items that are never taxable or deductible.

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 profit 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities 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 to 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.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains 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 year in which the operation is disposed of.

Retirement benefit costs

Payments to retirement benefit schemes for Hong Kong staff are charged as an expense as they fall due.

The retirement benefit scheme contribution for the staff in the People's Republic of China (the "PRC") charged to the income statement represents the Group's contribution payable to the retirement funds scheme managed by local social security bureau in accordance with the government regulations of the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. SEGMENT INFORMATION

(a) Business segment

For management purposes the Group is currently organised into four operating divisions – property holding and investment, supply of natural gas, gas pipeline connection and glass product upon the completion of acquisition of certain subsidiaries as set out in note 29. These divisions are the basis on which the Group reports its primary segment information.

In prior year, the Group was organised into four operating divisions – building services (single-trade), packaged/design and build contracts, environmental engineering services and property holding and investments. Upon the completion of disposal of Kenworth Group as detailed in notes 5 and 29, the business of building services (single-trade), packaged/design and build contracts and environmental engineering services were discontinued.

Summary details of the business segments are as follows:

The following tables present turnover, profit (loss) and certain asset, liability and expenditure information for the Group's business segments.

	Property holding and investment		Supply of natural gas		Gas pipeline connection		Glass product		Discontinued operations		Environmental engineering services		Consolidated			
	2005	2004	2005	2004	2005	2004	2005	2004	Building services (single-trade)		Packaged/design and build contracts		2005	2004		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Turnover	-	-	28,632	-	41,738	-	6,680	-	309	10,107	419	26,433	1,009	1,703	78,787	38,243
Other operating income	2,293	1,351	540	-	180	-	477	-	-	2	-	6	5	1	3,495	1,360
	2,293	1,351	29,172	-	41,918	-	7,157	-	309	10,109	419	26,439	1,014	1,704	82,282	39,603
Segment results	(4,393)	904	3,674	-	34,457	-	1,320	-	(405)	(1,553)	(514)	(5,418)	(1,341)	(553)	32,798	(6,620)
Unallocated other operating income															433	64
Unallocated corporate expenses															(7,418)	(1,925)
Profit (loss) from operation															25,813	(8,481)
Finance costs															(641)	(518)
Share of results of associates	-	-	2,784	-	-	-	-	-	-	-	-	-	-	-	2,784	-
Share of result of a jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	(1)	(25)	(1)	(25)
Profit (loss) before taxation															27,955	(9,024)
Taxation															(12,123)	(135)
Profit (loss) before minority interests															15,832	(9,159)
Minority interests															(496)	27
Net profit (loss) for the year															15,336	(9,132)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. SEGMENT INFORMATION (Continued)

(a) Business segment (Continued)

	Property holding and investment		Supply of natural gas		Gas pipeline connection		Glass product		Discontinued operations						Consolidated	
									Building services (single-trade)		Packaged/ design and build contracts		Environmental engineering services			
	2005	2004	2005	2004	2005	2004	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	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	48,474	46,752	128,686	-	4,271	-	17,556	-	-	4,528	-	4,492	-	1,492	198,987	57,264
Goodwill	-	-	-	-	38,895	-	-	-	-	-	-	-	-	-	38,895	-
Interests in a jointly-controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	-	556	-	556
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	22,469	14,233	
Total assets														260,351	72,053	
Segment liabilities	1,069	8,940	11,054	-	43,049	-	2,755	-	-	4,110	-	9,094	-	830	57,927	22,974
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35,025	15,737
Total liabilities														92,952	38,711	
Other segment information:																
Depreciation	-	-	617	-	628	-	210	-	10	66	-	-	-	-	1,465	66
Unallocated amounts															63	59
															1,528	125
Allowance for properties held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,000	-
Amortisation of goodwill	-	-	-	-	2,198	-	-	-	-	-	-	-	-	-	2,198	-
Loss on disposal of property, plant and equipment	-	-	1,941	-	-	-	-	-	-	-	-	-	-	-	1,941	-
Capital expenditure																
Property, plant and equipment, through acquisition of subsidiaries	-	-	121,152	-	634	-	-	-	-	11	-	-	-	-	121,786	11
Unallocated amounts															897	26
															122,683	37
Investment in securities, through acquisition of subsidiaries	-	-	190	-	-	-	-	-	-	-	-	-	-	-	190	-
Properties held for sale, through acquisition of subsidiaries	7,569	-	-	-	-	-	-	-	-	-	-	-	-	-	7,569	46,569
															130,442	37
Goodwill	-	-	-	-	41,093	-	-	-	-	-	-	-	-	-	41,093	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

For the year ended 31 March 2005, over 90% of the Group's sales are made in the PRC and over 90% of the Group's assets are situated in the PRC. Accordingly, no segmental analysis of geographical segments is presented for the year.

The following table present revenue, and certain assets and expenditure information for the Group's geographical segments by locations of customers for the year ended 31 March 2004.

THE GROUP

	Hong Kong	2004 Mainland China	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:			
External sales	<u>38,243</u>	<u>–</u>	<u>38,243</u>
Other segment information:			
Segment assets	<u>25,301</u>	<u>46,752</u>	<u>72,053</u>
Capital expenditure	<u>37</u>	<u>–</u>	<u>37</u>

5. DISCONTINUED OPERATIONS

On 18 February 2004, the Group entered into an agreement to dispose of its entire 100% equity interest in Kenworth Group Limited ("Kenworth Group") and its related shareholder's loan to Deson Development International Holdings Limited ("Deson") for a consideration of HK\$7,000,000. Upon completion of the disposal of Kenworth Group on 30 April 2004, the Group discontinued its business in the provision of electrical and mechanical engineering services (single-trade), which includes building services, packaged/design and build contracts and environmental engineering services.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. DISCONTINUED OPERATIONS (Continued)

The turnover, other revenue, expenses and results of the discontinued operations for the period from 1 April 2004 to the date of discontinuance, which have been included in the consolidated financial statements are as follows:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Turnover	1,737	38,243
Cost of sales	(1,699)	(35,246)
Gross profit	38	2,997
Other operating income	5	73
Administrative expenses	(2,303)	(12,799)
Write-back of provision for doubtful debts	–	2,233
Loss from operating activities	(2,260)	(7,496)
Finance costs	(16)	(182)
Share of loss of a jointly-controlled entity	(1)	(25)
Loss before minority interests	(2,277)	(7,703)
Minority interests	1	27
Net loss attributable to shareholders	(2,276)	(7,676)

The net cash flows from the discontinued operations are as follows:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Operating	(1,775)	(4,202)
Investing	468	(1,016)
Financing	938	79
	(369)	(5,139)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. DISCONTINUED OPERATIONS (Continued)

The carrying amounts of the total assets and liabilities, relating to the discontinued operations are as follows:

	2005 HK\$'000	2004 HK\$'000
Total assets	22,496	31,723
Total liabilities	(22,705)	(23,547)
Minority interests	(273)	(274)
	<u> </u>	<u> </u>
Net (liabilities) assets of subsidiaries disposed of	<u>(482)</u>	<u>7,902</u>

6. PROFIT (LOSS) FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Staff costs (including directors' remuneration)	4,910	7,518
Retirement benefits schemes contributions net of forfeited contribution HK\$nil (2004: nil)	165	180
	<u> </u>	<u> </u>
Total staff costs	5,075	7,698
Auditors' remuneration	1,280	440
Depreciation	1,528	125
Amortisation of goodwill	2,198	–
Minimum lease payments under operating leases for land and buildings	392	418
Loss on disposal of property, plant and equipment	1,941	–
Cost of inventories recognised as expenses	26,174	–
after crediting:		
Interest income	433	62
Gain on disposal of property, plant and equipment	–	2
Rental income under operating leases, less outgoing of HK\$390,000 (2004: HK\$84,000)	1,903	1,267
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

7. DIRECTOR'S SUPERVISORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration:

	2005	2004
	HK\$'000	HK\$'000
Executive directors:		
Fees	606	–
Salaries and allowance	643	1,603
Retirement benefit scheme contributions	11	12
	<u>1,260</u>	<u>1,615</u>
Independent non-executive directors:		
Fees	79	60
	<u>1,339</u>	<u>1,675</u>

The number of directors whose remuneration fell within the following band is as follows:

	Number of directors	
	2005	2004
Nil to HK\$1,000,000	<u>13</u>	<u>8</u>

(b) Highest paid individuals emoluments:

The five highest paid employees during the year included three (2004: three) directors, details of whose remuneration are set out in (a) above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees are as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and allowance	96	1,095
Retirement benefit scheme contributions	1	24
	<u>97</u>	<u>1,119</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

7. DIRECTOR'S SUPERVISORS' AND EMPLOYEES' REMUNERATION (Continued)

(b) Highest paid individuals emoluments: (Continued)

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

	Number of employees	
	2005	2004
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

8. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest on convertible notes	–	81
Interest on bank loans and overdrafts:		
wholly repayable within five years	228	182
wholly repayable after five years	413	255
	<u>641</u>	<u>518</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

9. TAXATION

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
The charge comprises:		
Current tax		
PRC Enterprise Income Tax	11,603	135
Taxation attributable to the Company and its subsidiaries	11,603	135
Share of taxation attributable to associates	520	–
	<u>12,123</u>	<u>135</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not have any assessable profit in Hong Kong for both years.

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

Pursuant to the relevant law and regulations in the PRC, certain Company's PRC subsidiaries are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from PRC Enterprise Income Tax for the following three years. During the year, Enterprise Income Tax has been provided in the financial statements for one of the PRC subsidiaries at 50% of the applicable tax rate as it is under the income tax relief. For other PRC subsidiaries they were subject to income tax rate of 33% on their taxable profits.

No share of taxation attributable to jointly controlled entities by the Group as the jointly controlled entities did not have any taxable profit for both years.

Details of the deferred tax liabilities are set out in note 28.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

9. TAXATION (Continued)

The taxation for the year can be reconciled to the profit (loss) per the income statements as follows:

	2005	2004
	HK\$'000	HK\$'000
Profit (loss) before taxation	<u>27,955</u>	<u>(9,024)</u>
Tax at the applicable tax rate of 33% (2004: 17.5%)	9,225	(1,579)
Tax effect of share of results of associates	(399)	–
Tax effect of income not taxable in determining taxable profit	(747)	(83)
Tax effect of expenses not deductible for tax purpose	4,521	122
Tax loss not recognised	726	1,577
Tax effect of 50% income tax relief granted to a subsidiary	(1,863)	–
Effect of different tax rate of subsidiaries	544	–
Others	116	98
Taxation for the year	<u>12,123</u>	<u>135</u>

33% and 17.5% represent the applicable tax rate of PRC and Hong Kong. As the principal business is operated in the PRC, 33% is adopted for the current year.

10. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share is based on the following data:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Net profit (loss) for the year	<u>15,336</u>	<u>(9,132)</u>
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,524,716	<u>1,440,382</u>
Effect of dilutive potential ordinary shares:		
Options	<u>264,602</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>2,789,318</u>	

Diluted loss per share for the year ended 31 March 2004 has not assumed the conversion of the convertible notes expired in prior year because the conversion would decrease net loss per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

11. PROPERTY, PLANT AND EQUIPMENT

	Land use right <i>HK\$'000</i>	Building <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Plant, machinery and pipeline <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Con- struction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP								
COST								
At 1 April 2004	–	–	585	1,833	1,656	43	–	4,117
Acquisition of subsidiaries	4,733	8,264	–	438	18,521	1,217	81,287	114,460
Additions	377	167	–	122	7,254	38	265	8,223
Disposal of subsidiaries	–	–	(585)	(1,833)	(1,656)	(43)	–	(4,117)
Transfer	–	2,308	–	–	40,268	–	(42,576)	–
Disposals	–	–	–	–	–	–	(1,966)	(1,966)
At 31 March 2005	<u>5,110</u>	<u>10,739</u>	<u>–</u>	<u>560</u>	<u>66,043</u>	<u>1,255</u>	<u>37,010</u>	<u>120,717</u>
DEPRECIATION AND IMPAIRMENT LOSS								
At 1 April 2004	–	–	582	1,691	1,522	43	–	3,838
Provided for the year	47	126	–	53	1,203	99	–	1,528
Disposal of subsidiaries	–	–	(582)	(1,700)	(1,522)	(43)	–	(3,847)
At 31 March 2005	<u>47</u>	<u>126</u>	<u>–</u>	<u>44</u>	<u>1,203</u>	<u>99</u>	<u>–</u>	<u>1,519</u>
NET BOOK VALUES								
At 31 March 2005	<u>5,063</u>	<u>10,613</u>	<u>–</u>	<u>516</u>	<u>64,840</u>	<u>1,156</u>	<u>37,010</u>	<u>119,198</u>
At 31 March 2004	<u>–</u>	<u>–</u>	<u>3</u>	<u>142</u>	<u>134</u>	<u>–</u>	<u>–</u>	<u>279</u>

The net book values of the properties shown above comprise:

	THE GROUP	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Medium term leasehold properties situated in the PRC, excluding Hong Kong	<u>15,676</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

12. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	5,764	118,655
Amounts due from subsidiaries	140,969	548,698
Amounts due to subsidiaries	(11,364)	(19,067)
	135,369	648,286
Less: Impairment loss recognised	–	(619,474)
	135,369	28,812

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The amounts will not be settled within the twelve months from the balance sheet date, accordingly, amounts are classified as non-current.

Particulars of the Company's principal subsidiaries as at 31 March 2005 are set out in note 35.

13. GOODWILL

	THE GROUP
	HK\$'000
COST	
Arising on acquisition of subsidiaries and balance at 31 March 2005	41,093
AMORTISATION AND IMPAIRMENT	
Charge for the year and balance at 31 March 2005	2,198
NET BOOK VALUE	
At 31 March 2005	<u>38,895</u>

On 30 April 2004, the Group acquired a 49% equity interest in Xin Hua Resources Investment Limited ("Xin Hua") and the shareholder's loan for a consideration of HK\$29,500,000 and a goodwill of HK\$3,619,000 was arisen. Details of the acquisition are set out in note 24(vii).

On 25 October 2004, the Group acquired the remaining 51% equity interest in Xin Hua and the shareholder's loan for a consideration of HK\$65,000,000 and a goodwill of HK\$37,474,000 was arisen.

The amortisation period adopted for goodwill is 10 years.

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	–	475
Due from a jointly-controlled entity	–	81
	<u>–</u>	<u>556</u>

The amount due from the jointly-controlled entity was unsecured and interest-free.

Particulars of the jointly-controlled entity were as follows:

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

The jointly-controlled entity was held through a former subsidiary which was disposed of during the year.

15. INVESTMENT IN SECURITIES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Investment securities:		
Unlisted equity investment outside Hong Kong, at cost	<u>190</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

16. INVENTORIES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Consumables	291	–
Raw materials	648	–
Finished goods	427	–
	<u>1,366</u>	<u>–</u>

All the inventories are carried at cost as at the balance sheet date.

17. PROPERTIES HELD FOR SALE

	2005	2004
	HK\$'000	HK\$'000
Properties held for sale	<u>48,138</u>	<u>46,569</u>

The properties held for sale are leased to third parties under operating leases, further details of which are included in note 32.

The Group's properties held for sale amounting to HK\$41,569,000 (2004: HK\$46,569,000) are pledged to secure bank loans granted to the Group (Note 23).

All the properties held for sale are stated at net realisable value as at 31 March 2005 and stated at cost as at 31 March 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

18. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
THE GROUP		
Current to 90 days	1,276	4,132
91 to 180 days	398	439
181 to 360 days	132	177
Over 360 days	–	250
	<hr/>	<hr/>
	1,806	4,998
Retention money receivable (<i>note 20</i>)	–	947
Deposit paid to Scheme Administrator (<i>note 22</i>)	2,614	2,614
Deposit paid to court	–	5,000
Advances to third parties	23,800	–
Payment in advance to suppliers	4,274	1,366
Deposit paid for investment	2,272	–
Others	7,675	945
	<hr/>	<hr/>
Total	42,441	15,870
	<hr/> <hr/>	<hr/> <hr/>

The Group allows a credit period ranging from 30 to 90 days to its customers. 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.

As at 31 March 2004, include in other receivables is HK\$5,000,000 deposit paid to court as security for the claim made by the creditors under the scheme of arrangement. Details of the scheme of arrangement are set out in note 22.

The balance of advances to third parties at 31 March 2005 of HK\$23,800,000 has no fixed term of repayment and is secured by a piece of land located in the PRC and a guarantee.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

19. AMOUNTS DUE FROM/TO GROUP COMPANIES

The balances with group companies were unsecured and interest-free. Certain amount of the balances were settled during the year and the remaining balances were disposed of during the year. Details are set out in note 29.

20. AMOUNTS DUE FROM/TO CONTRACT CUSTOMERS

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Contract costs incurred plus recognised profit less recognised losses to date	(i)	–	993,935
Less: Progress billings received and receivable	(i)	–	(998,132)
		<u>–</u>	<u>(4,197)</u>
Represented by:			
Amounts due from contract customers	(ii)	–	750
Amounts due to contract customers	(iii)	–	(4,947)
		<u>–</u>	<u>(4,197)</u>

Notes:

- (i) At 31 March 2004, the amounts were mainly related to construction contracts which had either been terminated or which had ceased, or had insignificant activities in prior year. Since there were numerous disputes and claims between the Group and its contract employers, suppliers, subcontractors and subcontractors' employees, the directors had not been able to negotiate and agree the final completion accounts for these terminated, ceased or inactive construction contracts.
- (ii) At 31 March 2004, retentions held by customers for contract works included in trade receivables under current assets amounted to HK\$947,000.
- (iii) At 31 March 2004, there were no advance received from customers for contract works included in trade payables under current liabilities.

The business relating to construction contracts was discontinued during the year upon completion of disposal of Kenworth Group. The details of disposal of Kenworth Group are set out in note 5.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

21. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Current to 90 days	6,492	3,736
91 to 180 days	361	–
Over 180 days	290	–
	<hr/>	<hr/>
	7,143	3,736
Deposits received from customers (<i>Note</i>)	44,199	–
Rental deposits received	350	302
Accruals	1,280	128
Others	7,053	3,329
	<hr/>	<hr/>
	60,025	7,495
	<hr/> <hr/>	<hr/> <hr/>

Note:

Deposits received from customers represent the gas pipeline connection fee received but the pipelines have not yet been completed.

22. PROVISION FOR SCHEME DEBTS

The Group had made a scheme debt provision 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.

In prior years, the Company and certain of its then subsidiaries entered into a debt restructuring and share subscription agreement (the "DRA") with Wonderland Development Limited, Deson, the then holding companies of the Company, and certain of the Group's bank creditors. The DRA became unconditional on 10 August 2000. Three schemes of arrangement involving the Company and its two then subsidiaries, Kenworth Engineering Limited ("Kenworth") and Kenworth Group, were established under Section 166 of the Hong Kong Companies Ordinance (the "Schemes"), according to the terms of the restructuring proposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

22. PROVISION FOR SCHEME DEBTS (Continued)

Under the Schemes, for every HK\$10,000 of scheme debt, the Company, Kenworth and Kenworth Group, as appropriate, agreed to make a single cash payment to the scheme creditor in the amount of HK\$312.50 and the Company agreed to issue to the scheme creditor 5,000 new shares of HK\$0.10 each in the Company and convertible notes in the principal amount of HK\$187.50. The convertible notes would bear interest at a rate of 2% per annum and would be convertible into new shares in the Company at a conversion price of HK\$0.10 per share at any time up to the third anniversary of the issue date. For the Schemes of the Company and Kenworth Group, all admitted creditors were paid their entitlements in full in accordance with terms of the Schemes and the creditors were notified that the Schemes of the Company and Kenworth Group had been terminated on 13 November 2002. The convertible notes of the Company expired on 1 September 2003 at which date they were redeemed by the Company. The settlement arrangement for the portion of payment that would have been paid by way of convertible notes to the remaining creditors as at 1 September 2003 under the Scheme of Kenworth would be determined when their claims are admitted. The settlement of any and all of the debts due to the scheme creditors under the Schemes would constitute a full discharge and satisfaction of such debts. Any creditors who had initiated legal proceedings (including any winding-up petition) against the Group in connection with such debts were to pursue the termination of such proceedings.

As at 31 March 2005, an unclaimed amount of HK\$2,614,000 under the Scheme of Kenworth was kept by the Scheme Administrator and the balance has been included in other receivables in the financial statements.

On 12 April 2005, Kenworth and Nishimatsu Construction Co., Ltd. ("Nishimatsu"), a creditor of Kenworth, entered into a settlement agreement with respect to the terms of settlement of the disputes arising from certain contracts ("Settlement Agreement"), details of which are set out in the announcement of the Company dated 12 April 2005.

As a result of this settlement of the disputes between Kenworth and Nishimatsu, based on the notice of claims received under the Kenworth Scheme, all liabilities of the Company and Kenworth under Kenworth Scheme have been discharged or settled. The administrator of Kenworth Scheme is in the process of applying the release by the Court and all obligations of the administrator of the Kenworth Scheme will be discharged upon Court's Consent.

In the opinion of the directors, adequate provision for scheme debts has been made and no additional provision is required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

23. BANK BORROWINGS

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Bank overdrafts, secured	–	3,832
Bank loans, secured	21,007	8,117
Trust receipt loans, secured	–	261
	<u>21,007</u>	<u>12,210</u>
Bank overdrafts repayable on demand	–	3,832
Bank loans repayable:		
Within one year or on demand	9,922	685
In the second year	969	721
In the third to fifth years, inclusive	3,262	2,405
Over five years	6,854	4,306
	<u>21,007</u>	<u>8,117</u>
Trust receipt loans repayable within one year	–	261
	<u>21,007</u>	<u>12,210</u>
Portion classified as current liabilities	<u>(9,922)</u>	<u>(4,778)</u>
Long term portion	<u>11,085</u>	<u>7,432</u>

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

- (i) the Group's properties held for sale situated in the PRC amounting to HK\$41,569,000 (2004: HK\$46,569,000); and
- (ii) the pledged bank deposits amounting to HK\$130,000 (2004: HK\$5,283,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

24. SHARE CAPITAL

		2005	2004
		HK\$'000	HK\$'000
Authorised:			
4,999,999,999 (2004: 2,571,428,571) shares at HK\$0.07 (2004: HK\$0.07) each		<u>350,000</u>	<u>180,000</u>
Issued and fully paid:			
2,614,715,736 (2004: 1,519,715,736) ordinary shares of HK\$0.07 (2004: HK\$0.07) each		<u>183,030</u>	<u>106,380</u>
		Number of	Amount
	<i>Notes</i>	ordinary shares	<i>HK\$'000</i>
Authorised:			
At 1 April 2003		1,800,000,000	180,000
Capital reduction	(ii)	–	(54,000)
Increase in authorised capital	(iii)	<u>771,428,571</u>	<u>54,000</u>
At 31 March 2004		2,571,428,571	180,000
Increase in authorised capital	(iv)	<u>2,428,571,428</u>	<u>170,000</u>
At 31 March 2005		<u>4,999,999,999</u>	<u>350,000</u>
Issued and fully paid:			
At 1 April 2003		862,277,659	86,228
Capital reduction	(i)	–	(25,868)
Placement of shares	(v)	657,142,857	46,000
Issue of shares upon exercise of convertible notes	(vi)	<u>295,220</u>	<u>20</u>
At 31 March 2004		1,519,715,736	106,380
Issue of shares for acquisition of a subsidiary and associates	(vii)	370,000,000	25,900
Placement of shares	(viii)	400,000,000	28,000
Subscription of shares	(ix)	<u>325,000,000</u>	<u>22,750</u>
At 31 March 2005		<u>2,614,715,736</u>	<u>183,030</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

24. SHARE CAPITAL (Continued)

Notes:

- (i) Pursuant to certain special resolutions passed at a special general meeting of the Company held on 12 May 2003 and board resolutions passed on the same date, a capital reorganisation was implemented on 13 May 2003. The nominal value of each issued ordinary share of the Company was reduced from HK\$0.10 to HK\$0.07 by the cancellation of HK\$0.03 of the paid-up capital (the "Capital Reduction"), and the credit arising from the Capital Reduction of approximately HK\$25,868,000 was applied to set off against the accumulated losses of the Company.
- (ii) Upon the Capital Reduction becoming effective on 13 May 2003, the authorised share capital of the Company was reduced to HK\$126,000,000, comprising 1,800,000,000 shares of HK\$0.07 each.
- (iii) On the same date, the authorised share capital of the Company was increased to HK\$180,000,000 by the creation of 771,428,571 new shares of HK\$0.07 each.
- (iv) Pursuant to certain ordinary resolutions passed at a special general meeting of the Company held on 16 April 2004, the authorised share capital of the Company was increased to HK\$350,000,000 by the creation of 2,428,571,428 new shares of HK\$0.07 each.
- (v) On 14 May 2003, the Group acquired a 100% interest in certain subsidiaries from Deson. The purchase consideration of HK\$46,000,000 for the acquisition was satisfied by way of issuing 657,142,857 shares in the Company.
- (vi) The conversion rights attaching to HK\$29,522 convertible notes were exercised at the conversion price of HK\$0.10 per share, resulting in the issuance of 295,220 new ordinary shares of HK\$0.07 each. Share premium of HK\$8,857 has been included in the share premium account. Details of the convertible notes were set out in note 26.
- (vii) On 18 February 2004, the Group entered into agreements with independent third parties to acquire an aggregate 49% equity interest in Xin Hua and its related shareholder's loan for HK\$29,500,000 (the "Xin Hua Acquisition"). The consideration was satisfied by way of issuing 295,000,000 shares in the Company at HK\$0.10 each.

On 18 February 2004, the Group also entered into an agreement with Deson to acquire the entire issued share capital of Penmark Limited ("Penmark") and its related shareholder's loan at a consideration of HK\$7,500,000 (the "Penmark Acquisition"). The consideration was satisfied by issuing 75,000,000 shares in the Company at HK\$0.10 each to Deson or its nominee. The Company also granted Deson's nominee 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.

The above transactions were approved by independent shareholders and shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

24. SHARE CAPITAL (Continued)

Notes: (Continued)

(viii) On 18 February 2004, the Company entered into a placing agreement with a placing agent to place up to 800,000,000 new shares in the Company at a price of HK\$0.10 per share (the "Placing"). The placing agent agreed to place to not less than six independent placees (a) 200,000,000 placing shares on a fully underwritten basis and (b) 600,000,000 placing shares on a best endeavours basis. An aggregate of 400,000,000 placing shares were successfully placed. Pursuant to the placing agreement, the Company granted each placee a placing option which will entitle the placee to subscribe for one option share for every two placing shares subscribed for by the placee at the option exercise price of HK\$0.105 per option share.

The above transactions were approved by independent shareholders and shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

(ix) On 18 February 2004, the Company entered into a subscription agreement with Super Win Development Limited ("Super Win"), the immediate holding company of the Company. The Company issued 325,000,000 new shares to Super Win at a price of HK\$0.10 per share 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.

The above transactions were approved by independent shareholders and shareholders of the Company at a special general meeting on 16 April 2004 and completed on 30 April 2004.

All the above shares rank *pari passu* in all respects with other shares in issue.

Options

As detailed in note (vii), (viii) and (ix) above, a total of 400,000,000 options were issued pursuant to the agreements of Xin Hua Acquisition, Penmark Acquisition, Placing and Subscription. Each option entitles holder thereof to subscribe for one ordinary share of HK\$0.07 each at a subscription price of HK\$0.105 per share, payable in cash and subject to adjustment, from 28 October 2004 to 27 October 2006, both dates inclusive.

None of these option were exercised during the year. At the balance sheet date, the Company had 400,000,000 options outstanding. The exercise in full of such options would, under the present capital structure of the Company, result in the issue of 400,000,000 new shares of HK\$0.07 each with gross issue proceeds of approximately HK\$42,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

25. SHARE OPTIONS

The Company operates a share option scheme (the "Option 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 Option Scheme include full-time employees (including executive directors) of the Group. The Option Scheme became effective on 4 April 1997 and, unless otherwise amended or altered, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme is limited to 25% of the aggregate number of shares for the time being issued and are issuable under the Option Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than three years from the date of the offer of the share options or the expiry date of the Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors at their discretion and will be the higher of a price being not less than 80% of the average of the closing price of the shares on the Stock Exchange for the five trading days immediately preceding the offer date, and the nominal value of the shares of the Company.

On 1 September 2001, the Stock Exchange amended Chapter 17 (Share Option Schemes) of the Listing Rules. In accordance with the revised rules, it is possible for the Company to grant further options from its existing scheme only if the options granted are in accordance with the requirements of the new rules of Chapter 17. Accordingly to the new rules of Chapter 17, the total number of shares in respect of which options may be granted under the Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issue in respect of which options granted and may be granted to any individual in any one year is not permitted exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

No share option was outstanding under the Option Scheme and none of the Company's directors or the Group's employees were granted share options during the year ended 31 March 2005 and 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

26. CONVERTIBLE NOTES

	THE GROUP AND THE COMPANY
	<i>HK\$'000</i>
At 1 April 2003	9,675
Exercise of convertible notes	(29)
Redemption of convertible notes	(9,646)
	<hr/>
At 31 March 2004 and 31 March 2005	<hr/> <hr/> —

Under the Schemes, as detailed in note 22, for every HK\$10,000 of scheme debt, the Company issued convertible notes in the principal amount of HK\$187.50 to the scheme creditors on 30 August 2000. The notes bore interest at a rate of 2% per annum and would be convertible into new shares in the Company at a conversion price of HK\$0.10 per share (the "Conversion Price") at any time up to 1 September 2003, being the third anniversary of the date of the issue. The Conversion Price was subject to certain adjustments as defined in the note instrument.

Upon maturity of the convertible notes on 1 September 2003, the Company repaid the principal amount outstanding to the convertible note holders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

27. RESERVES

THE COMPANY

	Share premium account	Contributed surplus	General reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2003	–	101,689	490,659	(700,740)	(108,392)
Capital reduction	–	–	–	25,868	25,868
Transfer	–	–	(490,659)	490,659	–
Issue of shares upon exercise of convertible notes	9	–	–	–	9
Net loss for the year	–	–	–	(2,517)	(2,517)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	9	101,689	–	(186,730)	(85,032)
Issue of shares for acquisition of a subsidiary and associates	11,100	–	–	–	11,100
Placement of shares	12,000	–	–	–	12,000
Subscription of shares	9,750	–	–	–	9,750
Expenses incurred in connection with issue of shares	(2,003)	–	–	–	(2,003)
Net profit for the year	–	–	–	11,053	11,053
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	<u>30,856</u>	<u>101,689</u>	<u>–</u>	<u>(175,677)</u>	<u>(43,132)</u>

The contributed surplus of the Company represents the difference between the nominal value of the Company's share capital issued in exchange for the aggregate net asset value of the subsidiaries acquired at the date of the reorganisation at the time of the Company's listing in 1997. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution to shareholders of the Company under certain circumstances which the Company cannot currently meet.

The general reserve of the Company represents the total discharged liabilities of the Company as at 3 August 2000 pursuant to the Schemes. During the year ended 31 March 2004, the directors decided to transfer the general reserve to the accumulated losses of the Company as this would provide a fairer presentation of the reserves of the Company as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

28. DEFERRED TAX LIABILITIES

The follows are the major deferred tax liabilities and assets recognised and movements thereon during the current reporting period:

THE GROUP

	Accelerated tax depreciation <i>HK\$'000</i>
At 1 April 2003 and 1 April 2004	–
Acquisition of subsidiaries	61
	<hr/>
At 31 March 2005	61
	<hr/> <hr/>

At the balance sheet date, the Group has unrecognised tax losses of HK\$2,200,000 (2004: HK\$nil) available to offset against future profits. No deferred tax asset has been recognised in respect of the unrecognised tax losses due to the unpredictability of future profit streams. Such unrecognised tax losses will be carried forward for five years from date of origination.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiaries

As detailed in note 24(vii), the Group acquired a 49% equity interest in Xin Hua and the entire issued share capital of Penmark on 30 April 2004 satisfied by issuing of new shares. On 25 October 2004, the Group acquired the remaining 51% equity interest in Xin Hua and a shareholder's loan at a consideration of HK\$66,447,000, including acquisition cost of HK\$1,447,000.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net assets acquired:		
Property, plant and equipment	114,460	–
Investment in securities	190	–
Inventories	1,078	–
Properties held for sale	7,569	46,569
Trade and other receivables	31,077	112
Amounts due from former fellow subsidiaries	–	372
Bank balance and cash	15,473	105
Trade and other payables	(121,376)	(587)
Shareholder's loan	(27,818)	–
Deferred tax liabilities	(61)	–
Taxation payable	(545)	–
Borrowings	(5,714)	–
Minority interests	(3,169)	(12)
	<u>11,164</u>	<u>46,559</u>
Acquisition of shareholder's loan	27,818	–
Goodwill on acquisition	37,474	–
	<u>76,456</u>	<u>46,559</u>
Satisfied by:		
Issue of shares (<i>note 30</i>)	7,500	46,000
Reclassification of interests in associates	30,327	–
Cash	38,629	559
	<u>76,456</u>	<u>46,559</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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

Acquisition of subsidiaries (Continued)

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

	2005	2004
	HK\$'000	HK\$'000
Cash consideration	(38,629)	(559)
Cash and bank balances acquired	15,473	105
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(23,156)</u>	<u>(454)</u>

The subsidiaries acquired during the year contributed HK\$77,051,000 to the Group's turnover and a profit of HK\$26,416,000 to the Group's net profit attributable to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

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

Disposal of subsidiaries

As referred to in note 5, the Group discontinued its provision of electrical and mechanical engineering service operations at the time of disposal of Kenworth Group. The net assets of Kenworth Group at the date of disposal were as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Net assets disposed of		
Property, plant and equipment	270	–
Interest in a jointly controlled entity	474	–
Trade and other receivables	9,681	–
Amounts due from fellow subsidiaries	887	–
Gross amounts due from contract customers	5,339	–
Pledged bank deposits	5,183	–
Bank balances and cash	1,050	–
Trade and other payables	(7,868)	–
Retention money payable	(1,353)	–
Gross amounts due to contract customers	(4,324)	–
Amounts due to fellow subsidiaries	(3,712)	–
Amount due to a jointly controlled entity	(388)	–
Borrowings	(5,448)	–
Minority interests	(273)	–
Net liabilities disposed	(482)	–
Capital contribution through disposal of subsidiaries to Deson (<i>Note 5</i>)	7,482	–
Total consideration	<u>7,000</u>	<u>–</u>
Satisfied by:		
Cash	<u>7,000</u>	<u>–</u>
Net cash inflow arising on disposal:		
Cash consideration	7,000	–
Bank balances and cash disposed of	(1,050)	–
	<u>5,950</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

30. MAJOR NON-CASH TRANSACTIONS

- (a) On 14 May 2003, the Group acquired a 100% interest in certain subsidiaries from Deson. The purchase consideration of HK\$46,000,000 for the acquisition was satisfied by way of issuing 657,142,857 shares in the Company.
- (b) As detailed in note 24(vii), the Group acquired 49% equity interest in Xin Hua and the entire issued share capital of Penmark. The consideration were satisfied by way of issuing 370,000,000 shares in the Company.

31. CONTINGENT LIABILITIES

	THE COMPANY	
	2005	2004
	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	12,000	16,500

As at 31 March 2005, the above bank facilities utilised by the subsidiaries amounted to HK\$12,000,000 (2004: HK\$12,939,000).

32. OPERATING LEASES ARRANGEMENTS

(a) The Group as lessor

The Group leases its properties held for sale, as set out in note 17, under operating lease arrangements with leases negotiated for terms ranging from one to five 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.

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Within one year	2,304	1,205
In the second to fifth years, inclusive	904	970
After five years	84	–
	3,292	2,175

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

32. OPERATING LEASES ARRANGEMENTS (Continued)

(b) The Group as lessee

Certain office properties leased by the Group are under operating lease arrangements. Leases for properties are negotiated for terms of two years.

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Within one year	611	140
In the second to fifth years, inclusive	520	129
	<u>1,131</u>	<u>269</u>

33. RELATED PARTY TRANSACTIONS

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

	<i>Notes</i>	2005	2004
		HK\$'000	HK\$'000
Construction contracting income received			
from the fellow subsidiaries	(i)	–	6,422
Rental expense paid to a fellow subsidiary	(ii)	48	–
Acquisition of subsidiaries from the			
ultimate holding company	(iii)	7,500	46,000
Disposal of subsidiaries to the ultimate holding	(iii)	7,000	–
Issue of new shares	(iv)	<u>32,500</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

33. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) The directors consider that the construction contracts were entered into according to conditions similar to those offered to the major customers of the Group.
- (ii) The rental expense was based on rates approximating those of the market at the time the initial lease was entered into. The rental expense was waived by the fellow subsidiary.
- (iii) During the year, the Group acquired certain subsidiaries and disposed of certain subsidiaries from and to Deson and its subsidiaries. The consideration was determined between Deson and the Company by reference to the market value of the property held by that Company or the unaudited consolidated net asset value of those companies as at 31 December 2003. Further details of the transaction are included in note 29.
- (iv) On 18 February 2004, the Company entered into a subscription agreement with Super Win. The Company issued 325,000,000 new shares to Super Win at a price of HK\$0.10 per share for an aggregate consideration of HK\$32,500,000. 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. The subscription was completed on 30 April 2004.

34. POST BALANCE SHEET EVENT

On 27 June 2005, the Group disposed of certain properties held for sale at a consideration of approximately HK\$14,000,000. The loss on disposal amounted to approximately HK\$351,000.

35. PRINCIPAL SUBSIDIARIES

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

Name of company	Place of incorporation/ operation	Capital contributed by the Group	Proportion of nominal value of registered capital held by the Group		Principal activities
			Directly	Indirectly	
			%	%	
Billion Treasure Holdings Limited	British Virgin Islands ("BVI")	US\$1,000	100	–	Investment holding
Bless Honour Limited	Hong Kong	HK\$2	–	100	Property holding
Brilliant China Investments Limited	BVI	US\$1	100	–	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

35. PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operation	Capital contributed by the Group	Proportion of nominal value of registered capital held by the Group		Principal activities
			Directly %	Indirectly %	
Penmark Limited	Hong Kong	HK\$30	100	–	Property holding
Xin Hua Resources Investment Limited	BVI/People's Republic of China ("PRC")	US\$50,000	–	100	Investment holding
Beijing Zhong Min Gas Co., Ltd. "北京中民燃氣有限公司"	PRC*	US\$7,042,720	–	100	Investment holding
Mian Zhu City Hong Sen Natural Gas Co., Ltd. "綿竹市紅森天然氣有限責任公司"	PRC**	RMB16,308,800	–	99.99	Distribution and supply of piped natural gas
Mian Zhu City Long Teng Gas Installation Co. Ltd. "綿竹市龍騰燃氣安裝有限責任公司"	PRC**	RMB7,633,400	–	99.99	Installation of natural gas distribution facilities
LongXin (Yan Ting) Natural Gas Company Limited "鹽亭龍興燃氣有限責任公司"	PRC**	RMB3,018,900	–	99	Distribution and supply of piped natural gas and installation of natural gas distribution facilities
Mian Zhu City Hongsen Glass Products Company Limited "綿竹市紅森玻璃製品有限責任公司"	PRC**	RMB1,000,000	–	69.99	Manufacturing and sale of glass products

Wholly foreign-owned enterprises registered in the PRC.

Sino-foreign joint equity enterprises registered in the PRC.

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

FIVE-YEAR FINANCIAL SUMMARY

The following is a summary of the published results and of the assets, liabilities and minority interests of the Group for the five financial years ended 31 March 2005.

	Year ended 31 March				
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
RESULTS					
TURNOVER	78,787	38,243	31,136	19,117	14,095
PROFIT/(LOSS) BEFORE TAX	27,955	(9,024)	(8,805)	(10,874)	33,760
Tax	(12,123)	(135)	–	–	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	15,832	(9,159)	(8,805)	(10,874)	33,760
Minority interests	(496)	27	45	14	5
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	15,336	(9,132)	(8,760)	(10,860)	33,765
As at 31 March					
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	260,351	72,053	17,274	22,459	19,308
TOTAL LIABILITIES	(92,952)	(38,711)	(20,420)	(16,803)	(18,368)
MINORITY INTERESTS	(1,834)	(274)	(683)	(728)	(40)
NET ASSETS/(LIABILITIES)	165,565	33,068	(3,829)	4,928	900