

CSI

Capital Strategic Investment Limited

資本策略投資有限公司



Value and Growth
Annual Report 2005



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CORPORATE INFORMATION



BOARD OF DIRECTORS

Non-Executive Director:

Chung Cho Yee, Mico (*Non-Executive Chairman*)

Executive Directors:

Ma Wai Man, Catherine
Chow Hou Man

Independent Non-Executive Directors:

Lam Lee G.
Liu Yeau-Hwan, Pete
Wong Sin Just
Cheng Yuk Wo

AUDIT COMMITTEE

Lam Lee G.
Wong Sin Just
Cheng Yuk Wo

REMUNERATION COMMITTEE

Chung Cho Yee, Mico
Lam Lee G.
Cheng Yuk Wo

COMPANY SECRETARY

Ma Wai Man, Catherine

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

3609-11
Two International Finance Centre
8 Finance Street
Central, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
UBS AG
DBS Bank (Hong Kong) Limited
Goldman Sachs & Co.
JP Morgan Private Bank

AUDITORS

Deloitte Touche Tohmatsu
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL REGISTRARS

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East, Hong Kong



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report of Capital Strategic Investment Limited (the "Company") and its subsidiaries (together the "Group") for the financial year ended 31st March, 2005.

REVIEW OF THE RESULTS

The Group reported a turnover of approximately HK\$368.9 million for the year ended 31st March, 2005, representing a decrease of 11.2% from approximately HK\$415.3 million recorded in the last year. Compared with last year, the turnover generated from securities investment decreased by approximately HK\$151 million, while the turnover generated from the property investment, including sale and leasing of properties, increased by approximately HK\$107.3 million and become the main source of revenue for the Group. The Group achieved a net profit of approximately HK\$71.8 million for the year ended 31st March, 2005, representing an increase of approximately 134% from HK\$30.6 million recorded in the last year.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a healthy cash balance of HK\$211.2 million at the end of the year, most of the Group's surplus funds have been placed in time deposits with reputable financial institutions. The Group generally finances its operations through its internal resources and bank facilities provided by its principal bankers.

The Group's short-term and long-term bank borrowings have been increased from approximately HK\$47.6 million and HK\$131.5 million at 31st March, 2004 to approximately HK\$158.6 million and HK\$376.4 million as at 31st March, 2005. All the long-term bank borrowings were utilized in financing the Group's properties in generating recurring rental income. As a result, the Group's total bank borrowing has been increased from approximately HK\$179.1 million as at 31st March, 2004 to approximately HK\$535 million as at 31st March, 2005. The Group's gearing ratio at the end of the year was approximately 39.3% (At 31st March, 2004: 21.2%). The Group's gearing ratio is calculated by dividing total liabilities by total asset value. All bank borrowings were denominated in HK dollars and were on a floating rate basis at either bank prime rate or other short-term inter-bank offer rates. The maturity profile spread over a period of 10 years with approximately HK\$158.6 million repayable within one year, HK\$146 million repayable in two to five years, and HK\$230.4 million over five years.

FOREIGN CURRENCY EXPOSURE

The majority of the Group's assets and liabilities were denominated in Hong Kong dollars and US dollars. As such, the fluctuation of foreign currencies did not have a significant impact on the performance, results and operation of the Group.



CHAIRMAN'S STATEMENT

CORPORATE REVIEW AND PROSPECT

It is my greatest pleasure in reporting that 2004-2005 was another successful year of creating value and growth for our shareholders. As a result of our keen sense of identifying strategic investment opportunities, and of determining the best timing to make and unlock gains from such investments, we have achieved a net profit of approximately HK\$71.8 million, representing an increase of approximately 134% from that of last year, and extending our track record of another year of over 100% growth in net profit.

In particular, in capturing investment opportunities under the continuing surges in the local property prices, we have been actively making strategic property investments throughout this financial year in addition to those made since the fourth quarter of 2003. All of these property investments were prime commercial units, and in timely unlocking the capital gains resulting from appreciation in their values, most of these properties have either been successfully disposed of or agreed to be disposed of by us in our normal course of property trading business.

As for our other strategic investment focus, namely in various financial instruments and other debt securities, these investments have continued to result in significant contribution towards our revenue and profit from operations. Nevertheless, following the commencement in the cycle of interest rate hikes at the end of 2003, we have since reduced our investments in financial instruments, resulting in a decrease in our turnover generated from these investments.

Apart from investments in financial instruments, we have recently fully realized our investment in one of our listed associated company, Capital Estate Limited (HKSE Code: 193), so as better concentrate our internal resources for future growth. In addition, we have also been actively seeking out and evaluating numerous other potential strategic investment opportunities in the PRC and throughout other parts of the South-East Asia region, however, no such potential strategic investments were selected this year under our stringent investment criteria.

In March 2005 our investment making skills and solid track record have received recognition from some of the most notorious deal-makers in the region, namely Mr. Richard Li Tzar Kai, Mr. Francis Yuen Tin Fan (the Chairman and Deputy Chairman (amongst other offices) of PCCW Limited respectively) and ITC Corporation Limited, who collectively have subscribed for most of the HK\$108 million new shares placement by the Company, with completion of such placing having taken place in May 2005. In addition to enlarging our shareholders' base and strengthening our financial flexibility for capturing future opportunities in making larger scale strategic investments, both property and non-property related in Hong Kong and within South East Asia, we would also stand to further benefit from any future business developments and new investment opportunities that these notorious deal-makers, now as our strategic shareholders, may come across or be involved in from time to time.



CHAIRMAN'S STATEMENT

Prospects for 2005 are encouraging, both for us and for the local economy against the backbone of steady strong growths in the PRC as well as other South East Asia regions. Thus, with solid internal financial resources, enlarged shareholders' as well as recurring income base, and a much strengthened foundation for growth, we will continue to use our strengths to capture strategic investment opportunities, especially larger scale strategic investments where competition is less fierce and with more lucrative potential returns, so as to create further value and higher growth for our shareholders.

REWARD FOR EMPLOYEES

The Group's employees are remunerated in line with the prevailing market terms and individual performance, with the remuneration package and policies reviewed on a regular basis. In addition to salaries, discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and the individual employee.

APPRECIATION

On behalf of the Board, I would like to express my greatest appreciation for the valuable efforts of our Directors, our management and employees who have contributed to the performance of the Group for the year. Finally, I would also like to thank our shareholders, business associates and bankers for their continued support over the years.

Chung Cho Yee, Mico

NON-EXECUTIVE CHAIRMAN

Hong Kong, 21st July, 2005



DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 17 and note 19 to the financial statements respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sale during the year attributable to the Group's five largest customers were less than 30% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers was less than 30% of the Group's total purchases.

RESULTS

Details of the Group's results for the year are set out in the consolidated income statement on page 18.

The directors recommended the payment of a final dividend of HK\$16,959,000 representing HK3.5 cents per share (2004: Nil), payable to shareholders of the Company whose names are on the register of members on 25 August, 2005.

SHARE CAPITAL

During the year, the Company carried out a share consolidation whereby every four ordinary shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$0.04 each. 1,533,791,800 issued ordinary shares of HK\$0.01 each and 16,466,208,200 unissued ordinary shares of HK\$0.01 each were consolidated into 383,447,950 issued ordinary shares of HK\$0.04 each and 4,116,552,050 unissued ordinary shares of HK\$0.04 each, respectively. A further 1,092,500 ordinary shares in the Company of HK\$0.04 were issued upon the exercise of 1,092,500 share options at an exercise price of HK\$0.672 per share.

Details of other movements in the share capital of the Company during the year are set out in note 27 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

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

INVESTMENT PROPERTIES

During the year, the Group disposed of investment properties with a carrying value of approximately HK\$44,650,000 as a result of disposal of a subsidiary.

The Group revalued all of its investment properties at the balance sheet date and the surplus arising on revaluation of approximately HK\$146,554,000 is credited to the investment property revaluation reserve.

Details of these and other movements of investment properties of the Group during the year are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred expenditure of approximately HK\$15,421,000 on the acquisition of property, plant and equipment.

Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 15 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

In July 2004, the Group acquired a further approximately 4.59% interest in Capital Estate Limited ("Capital Estate"), a company incorporated in Hong Kong and whose shares are listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), for an aggregate cash consideration of approximately HK\$4,700,000. The Group's interest in Capital Estate was increased from 21.71% to 26.3% and further diluted from 26.3% to 21.13% following the allotment and issue of new shares by Capital Estate.

During the year, the Group disposed of its wholly owned subsidiaries, namely Ascot Limited ("Ascot") and Linkpower Worldwide Inc. ("Linkpower") for a total consideration of approximately HK\$139,000,000 to third parties. The major assets of Ascot and Linkpower are investment property and a 45% interest in Concord Way Limited.



DIRECTORS' REPORT

BORROWINGS

Details of bank loans and other borrowings of the Group are set out in note 26 to the financial statements. No interest was capitalised by the Group during the year.

DIRECTORS

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

Non-executive director:

Mr. Chung Cho Yee, Mico	(appointed on 17th September, 2004 and redesignated as Non-executive Chairman on 29th June, 2005)
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Executive directors:

Dato' Choo Yeow Ming	(resigned on 29th June, 2005)
Ms. Ma Wai Man, Catherine	
Mr. Chow Hou Man	(appointed on 29th June, 2005)

Independent non-executive directors:

Dr. Lam Lee G.	
Dato' Wong Sin Just	
Mr. Liu Yeau-Hwan, Pete	
Mr. Cheng Yuk Wo	(redesignated as independent non-executive director on 23rd September, 2004)

Pursuant to Bye-law 99(A) of the Bye-laws, Mr. Liu Yeau-Hwan, Pete and Dr. Lam Lee G. shall retire by rotation. Mr. Liu Yeau-Hwan, Pete has expressed to the Company of his intention of not offering himself for re-election as a director at the annual general meeting. The Board would like to record its appreciation to Mr. Liu Yeau-Hwan, Pete for his valuable support and services to the Company since 2001. Dr. Lam Lee G., a director retiring in accordance with the Bye-law 99(A) of the Company, and, being eligible, offer himself for re-election at the annual general meeting. In addition, Mr. Chung Cho Yee, Mico and Mr. Chow Hou Man being directors appointed by the Board after the annual general meeting of the Company held on 30th August, 2004 will hold office only until the annual general meeting pursuant to Bye-law 102(B) of the Bye-laws and, being eligible, offer themselves for re-election as directors.



DIRECTORS' REPORT

DIRECTORS *(Continued)*

The directors proposed for re-election at the forthcoming annual general meeting do not have any service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive director is the period up to the retirement by rotation in accordance with the Company's Bye-laws.

BRIEF DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF

Directors

Mr. Chung Cho Yee, Mico, aged 44, Non-Executive Chairman and Non-Executive Director of the Company, joined the Group in 2004, graduated from the University College, University of London, England, with a law degree in 1983. He qualified as a solicitor in Hong Kong in 1986. Mr. Chung is currently holding directorships in E2-Capital (Holdings) Limited, Pacific Century Insurance Holdings Limited, PCCW Limited and Hong Kong Construction (Holdings) Limited, all being companies listed on The Stock Exchange of Hong Kong Limited. He is also a director of JALECO Ltd., a company listed on Jasdaq Securities Exchange Inc.

Ms. Ma Wai Man, Catherine, aged 39, Executive Director and Company Secretary of the Company, joined the Group in 2001. Ms. Ma, a graduate of the City University of Hong Kong, is a chartered secretary and a fellow of Association of Chartered Certified Accountants and a member of Hong Kong Institute of Certified Public Accountants. Ms. Ma has extensive management experience in companies with diversified interests ranging from manufacturing, telecommunications to infrastructure and property investments. She has also held executive directorship in a number of companies listed on local and overseas stock exchanges before joining the Company.

Mr. Chow Hou Man, aged 34, Executive Director and Chief Financial Officer of the Company, joined the Group in 2001. Mr. Chow graduated from the Baptist University and holds a MBA degree from the Hong Kong Polytechnic University. He has over 10 years of financial experience in various companies listed in Hong Kong and overseas and an international firm of certified public accountants. He is a member of both Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants.

BRIEF DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF *(Continued)*

Directors *(Continued)*

Mr. Cheng Yuk Wo, aged 44, Independent Non-Executive director, joined the Group in 2002. Mr. Cheng is a fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Cheng worked at Coopers and Lybrand in London and with Swiss Bank Corporation in Toronto. He has held senior management positions in a number of Hong Kong listed companies and is a co-founder of a Hong Kong merchant banking firm. He is consultant of several listed companies and the proprietor of a certified public accountant practice in Hong Kong. Mr. Cheng holds a M.Sc.(Econ) degree and a B.A.(Hon) degree.

Dr. Lam Lee G., aged 46, joined the Company as an Independent Non-Executive Director in 2001. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa, Canada, a Post-graduate Diploma in Public Administration from Carlton University, Canada, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 23 years of multinational business management, strategy consulting, corporate governance, investment banking, and direct investment experience. He is President & CEO, and Vice Chairman of the Board of Chia Tai Enterprises International Limited, Senior Executive Vice President of Chia Tai Group, a Member of the Board of TRUE Corporation PLC, and Vice Chairman of Shanghai Kinghill Ltd. A Fellow of the Hong Kong Institute of Directors, Dr. Lam has, over the past decade and across 13 countries/territories, served on the board of a number of publicly-listed and privately-held companies.

Mr. Liu Yeau-Hwan, Pete, aged 57, Independent Non-Executive Director of the Company, joined the Group in 2001. Mr. Liu is the founder and Chairman of WI Harper Group, a venture capital and investment-banking firm, with offices in San Francisco, Taipei, Hong Kong, and Beijing. Since 1989, Mr. Liu is also a general partner of International Network Capital Fund, a leading venture capital fund management firm providing high technology investment opportunities to its investors in the Asia Pacific Region and the United States. Previously, Mr. Liu was a founder and principal partner at Walden International Investment Group. Mr. Liu has counselled over 200 major high-tech companies throughout the U.S. and Asia.

Dato' Wong Sin Just, aged 39, Independent Non-Executive Director, joined the Group in 2001. Mr. Wong possesses over 10 years of investment banking experience having held positions with a number of premier international investment banks. Mr. Wong is currently the executive co-chairman of E2-Capital (Holdings) Limited. Prior to establishing E2-Capital Limited, Mr. Wong was the Managing Director and the Head of Equity Capital Markets at BNP Prime Peregrine Securities Limited. Mr. Wong holds a Bachelor Degree in Engineering (First Class Honours) from the Imperial College of Science, Technology and Medicine, University of London and was qualified with the Institute of Chartered Accountants in England and Wales. Mr. Wong is also an Executive Director and the Chief Executive Officer of Softbank Investment International (Strategic) Limited and an Independent Non-executive Director of hongkong.com Corporation.

DIRECTORS' REPORT



BRIEF DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT STAFF *(Continued)*

Senior Management Staff

Mr. Kan Sze Man, aged 33, General Counsel of the Group, joined the Group in 2001. Mr. Kan is a qualified solicitor by profession. Mr. Kan graduated from Wadham College, Oxford University, England in 1993 and qualified as a solicitor in Hong Kong in 1997. He has worked in the commercial department of a leading Hong Kong law firm and a U.K. city firm, until joining Hikari Tsushin International Limited (now known as Nippon Asia Investments Holdings Limited) as its senior vice president and legal counsel in early 2000.

Mr. Wong Chung Kwong, aged 54, General Manager of CSI Property Holdings Limited, joined the Group in 2004, is responsible for all property related investments of the Group. Mr. Wong has been working in the local and mainland real estate markets for 30 years and has solid experience in properties related projects such as leasing, sale and marketing, tenders and property management. Before joining the Group, Mr. Wong has worked in property developing and management companies in mainland China and Hong Kong.

Mr. Ho Lok Fai, aged 44, manager of CSI Property Holdings Limited, joined the Group in 2005, is responsible for the sale and leasing of all property of the Group. Mr. Ho possesses more than 15 years experience in the sale and leasing of office and commercial property and is specialized in analyzing market data and trend. Mr. Ho had worked in several property agency companies before joining the Group.

SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

Particulars of the Company's share option schemes are set out in note 28 to the financial statements.

The following table discloses movements in the Company's share options held by a director during the year:

	Option scheme type	Exercise price HK\$ (Note 3)	Number of options outstanding at 1.4.2004	Adjustment due to share consolidation	Number of options outstanding at 31.3.2005
Ma Wai Man, Catherine	2001 (Note 1)	0.168	31,500,000	(31,500,000)	—
		0.672	—	7,875,000	7,875,000
	2002 (Note 2)	0.140	12,500,000	(12,500,000)	—
		0.560	—	3,125,000	3,125,000
Total			<u>44,000,000</u>	<u>(33,000,000)</u>	<u>11,000,000</u>



SHARE OPTION SCHEMES AND DIRECTORS' RIGHTS TO ACQUIRE SHARES

(Continued)

Notes:

1. There is a limit on the number of share options under the 2001 Share Option Scheme that may be exercised by each grantee during each period of 12 months commencing from 30th August, 2001 (until 29th August, 2005), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the chairman of the Company to the exercise of share options exceeding such limit.
2. There is a limit on the number of share options under the 2002 Share Option Scheme that may be exercised by each grantee during each period of 12 months commencing from 23rd September, 2002 (until 22nd September, 2006), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the chairman of the Company to the exercise of share options exceeding such limit.
3. Following the share consolidation carried out by CSI during the year, the exercise prices of the share options were adjusted from their initial exercise prices of HK\$0.140 and HK\$0.168 to adjusted exercise prices of HK\$0.560 and HK\$0.672 respectively.

DIRECTORS' INTERESTS IN SHARES

Save as disclosed above and disclosed in section headed "Substantial Shareholders", as at 31st March, 2005, none of the Company's directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of the Securities and Futures Ordinance (SFO) and as recorded in the register kept by the Company under Section 352 of the Securities Future Ordinance or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that as at 31st March, 2005 the following shareholders had notified the Company of a relevant interest in the issued share capital of the Company.

DIRECTORS' REPORT



SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long position

Name	Capacity	Long position/ short position	Number of shares	Approximate shareholding percentage
Chung Cho Yee, Mico	Beneficial owner (Note 1)	Long position	170,067,250	44.26%
Earnest Equity Limited	Interest of controlled corporation (Note 2)	Long position	169,647,250	44.15%
Chan Kwok Keung, Charles	Interest of controlled corporation (Note 3)	Long position	40,000,000	10.41%
Ng Yuen Lan, Macy	Interest of controlled corporation (Note 3)	Long position	40,000,000	10.41%
Chinaview International Limited	Interest of controlled corporation (Note 3)	Long position	40,000,000	10.41%
Galaxyway Investments Limited	Interest of controlled corporation (Note 3)	Long position	40,000,000	10.41%
ITC Corporation Limited	Interest of controlled corporation (Note 3)	Long position	40,000,000	10.41%
ITC Investment Holdings Limited	Interest of controlled corporation (Note 3)	Long position	40,000,000	10.41%
New Oval Holdings Limited	Beneficial owner (Note 3)	Long position	40,000,000	10.41%
Li Tzar Kai, Richard	Interest of controlled corporation (Note 4)	Long position	25,000,000	6.5%
Eisner Investments Limited	Beneficial owner (Note 4)	Long position	25,000,000	6.5%



DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Long position *(Continued)*

Notes:

1. Being the aggregate of personal interest of Mr. Chung Cho Yee, Mico of 420,000 shares and the corporate interest held by Earnest Equity Limited of 169,647,250 shares.
2. Earnest Equity Limited ("Earnest Equity"), the entire issued share capital of which is held by Digisino Assets Limited ("Digisino") as trustee of a discretionary trust founded by Mr. Chung Cho Yee, Mico, who together with his spouse and children are the current discretionary beneficiaries. Further, the entire issued share capital of Digisino is held by Mr. Chung Cho Yee, Mico and that both Digisino and Earnest Equity are corporations wholly owned and controlled by him.
3. On 8 March, 2005, New Oval Holdings Limited ("New Oval") entered into an agreement with the Company to subscribe for 40,000,000 shares in the Company. New Oval a wholly-owned subsidiary of ITC Investment Holdings Limited ("ITC Investment"), which was, in turn a wholly-owned subsidiary of ITC Corporation Limited ("ITC"), Galaxyway Investments Limited, a wholly-owned subsidiary of Chinaview International Limited ("Chinaview"), owned approximately 33.50% of the issued ordinary share capital of ITC. Dr. Chan Kwok Keung, Charles owned the entire issued share capital of Chinaview, Dr. Chan Kwok Keung, Charles, Chinaview, Galaxyway, ITC and ITC Investment was deemed to be interested in the said 40,000,000 shares in the Company pursuant to the represent agreement entered into by New Oval. Ms. Ng Yuen Lan, Macy, the spouse of Dr. Chan Kwok Keung, Charles, was deemed to be interested in the said 40,000,000 shares in the Company pursuant to the represent agreement entered into by New Oval.
4. On 8 March, 2005, Eisner Investments Limited ("Eisner") entered into an agreement with the Company to subscribe for 25,000,000 shares in the Company. Eisner is a company wholly and beneficially owned by Mr. Li Tzar Kai, Richard.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital as at 31st March, 2005.



DIRECTORS' REPORT

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the board of directors on the basis of their merit, qualifications and competence.

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 28 to the financial statements.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st March, 2005 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which was in force prior to 1 January, 2005.

On 1 January, 2005, the Code of Best Practice set out in Appendix 14 of the Listing Rules was replaced by the new "Code on Corporate Governance Practices" and "Corporate Governance Report" was introduced in Appendice 23 of the Listing Rules. The Company's compliance of the new Appendices 14 and 23 will come into effect in the year ending 31 March, 2006.

The Company has adopted Appendix 10 of the Listing Rules as the Model Code for Securities Transactions by Directors of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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



DIRECTORS' REPORT

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in note 39 to the financial statements.

AUDITORS

A resolution will be submitted to the Annual General Meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chung Cho Yee, Mico
NON-EXECUTIVE CHAIRMAN

21st July, 2005

Deloitte.

德勤

TO THE MEMBERS OF CAPITAL STRATEGIC INVESTMENT LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 18 to 65 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company 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.

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 31st 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
21st July, 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Turnover	4	368,864	415,286
Cost of sales		(313,142)	(356,626)
Gross profit		55,722	58,660
Other operating income	6	9,641	13,870
Administrative expenses		(23,740)	(27,677)
Other expenses	7	(5,715)	(4,579)
Profit from operations	8	35,908	40,274
Finance costs	10	(5,361)	(1,911)
Amortisation of goodwill of interests in associates		(359)	(1,646)
Release of negative goodwill of associates		350	274
Share of results of associates		3,165	(9,153)
Net gain on disposal of interests in subsidiaries	30	47,228	6,171
Net gain on disposal of discontinuing operation	30	—	5,489
Net loss on dilution/disposal of interest in associates		(3,587)	(3,439)
Profit before taxation		77,344	36,059
Taxation	11	(5,935)	(5,011)
Profit before minority interests		71,409	31,048
Minority interests		363	(405)
Net profit for the year		71,772	30,643
Dividends	12	16,959	—
Earnings per share			
Basic	13	18.71 cents	8.00 cents
Diluted	13	18.18 cents	7.96 cents

CONSOLIDATED BALANCE SHEET

At 31st March, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Non-Current Assets			
Investment properties	14	818,000	482,650
Property, plant and equipment	15	15,080	5,740
Property held for development	16	16,000	—
Deposit paid for acquisition of subsidiaries	18	35,000	—
Interests in associates	19	30,119	63,138
Investments in securities	20	16,751	36,250
Deposits paid on acquisition of property, plant and equipment	21	—	2,596
Deferred tax asset	22	609	275
Goodwill	23	—	—
		931,559	590,649
Current Assets			
Trade and other receivables	24	5,562	16,785
Deposit held in stakeholders		4,531	5,807
Investments in securities	20	128,407	111,484
Properties held for sale	25	227,009	42,226
Taxation recoverable		919	189
Pledged bank deposits		5,230	5,219
Bank balances and cash		211,199	133,290
		582,857	315,000
Current Liabilities			
Accruals and other payables		41,304	10,351
Taxation payable		3,906	2,107
Bank borrowings — due with one year	26	158,610	47,582
		203,820	60,040
Net Current Assets			
		379,037	254,960
Capital and Reserves			
Share capital	27	15,382	15,338
Reserves		903,408	697,917
		918,790	713,255
Minority Interests			
Minority interests		—	—
Loan due to minority interests		13,016	—
		13,016	—
Non-Current Liabilities			
Bank borrowings — due after one year	26	376,430	131,476
Deferred tax liability	22	2,360	878
		378,790	132,354
		1,310,596	845,609

The financial statements on pages 18 to 65 were approved and authorised for issue by the Board of Directors on 21st July, 2005 and are signed on its behalf by:

Chung Cho Yee, Mico
DIRECTOR

Ma Wai Man, Catherine
DIRECTOR

BALANCE SHEET

At 31st March, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
Non-Current Assets			
Property, plant and equipment	15	104	1,040
Interests in subsidiaries	17	82,152	82,252
Deferred tax assets	22	759	275
		83,015	83,567
Current Assets			
Investments in securities	20	5,200	3,933
Amounts due from subsidiaries	17	424,224	601,551
Other receivables, deposits and prepayments		355	50
Tax recoverable		26	—
Bank balances and cash		3,073	31,791
		432,878	637,325
Current Liabilities			
Amounts due to subsidiaries	17	54,869	222,663
Other payables and accrued charges		306	148
Bank borrowings — due within one year	26	—	20,000
		55,175	242,811
Net Current Assets			
		377,703	394,514
Capital and Reserves			
Share capital	27	15,382	15,338
Reserves	29	445,336	462,743
		460,718	478,081

Chung Cho Yee, Mico
DIRECTOR

Ma Wai Man, Catherine
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2005

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Investment property revaluation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 31st March, 2003	15,338	23,225	276,058	—	153,488	468,109
Surplus arising on revaluation of investment properties	—	—	—	214,503	—	214,503
Net profit for the year	—	—	—	—	30,643	30,643
At 31st March, 2004	15,338	23,225	276,058	214,503	184,131	713,255
Surplus arising on revaluation of investment properties	—	—	—	146,554	—	146,554
Exercise of share option (note 27)	44	690	—	—	—	734
Released upon disposal of a subsidiary	—	—	—	(13,525)	—	(13,525)
Net profit for the year	—	—	—	—	71,772	71,772
At 31st March, 2005	<u>15,382</u>	<u>23,915</u>	<u>276,058</u>	<u>347,532</u>	<u>255,903</u>	<u>918,790</u>

The contributed surplus of the Group represents an amount arising from a capital reorganisation carried out by the Company during the year ended 31st March, 2003. Details of these are set out in the Company's circular dated 9th August, 2002.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2005

	NOTES	2005 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES			
Profit from operations		35,908	40,274
Adjustments for:			
Dividend income		(1,556)	(1,251)
Interest income		(5,085)	(4,692)
Depreciation of property, plant and equipment		1,482	2,166
Gain on disposal of property, plant and equipment		(781)	—
Loss on disposal of investment properties		—	1,449
Gain on disposal of property held for development		—	(530)
Revaluation (increase) decrease of investment properties		—	(4,194)
Unrealised holding gain on investment in securities		—	(2,250)
Unrealised holding loss on investment in securities		5,189	3,000
Amortisation and impairment loss of goodwill of subsidiaries		78	130
Operating cash flow before movements in working capital		35,235	34,102
(Increase) decrease in investments in securities		(18,613)	147,574
Decrease (increase) in trade and other receivables		11,285	(17,841)
Decrease (increase) in deposit held in stakeholders		1,276	(5,807)
Increase in properties held for sale		(184,783)	(42,226)
Increase in trade and other payables		31,070	11,719
Net cash generated from (used in) operations		(124,530)	127,521
Interest paid		(5,361)	(1,911)
Dividends received from investments		1,556	1,251
Hong Kong Profits paid		(3,718)	(379)
Hong Kong Profits Tax refunded		—	100
NET CASH (USED IN) FROM OPERATIONS		(132,053)	126,582
INVESTING ACTIVITIES			
Interest received		5,085	3,509
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	30	152,013	66,898
Proceeds from disposal of property, plant and equipment		5,380	—
Proceeds from disposal of investment properties		—	2,451
Proceeds from disposal of property held for development		—	4,530
Purchase of property, plant and equipment		(12,825)	(301)
Increase in pledged bank deposits		(11)	(41)
Deposits paid for acquisition of property, plant and equipment		—	(2,596)
Deposits paid for acquisition of subsidiaries		(35,000)	—
Purchase of investment properties		(233,446)	(202,453)
Purchase of subsidiary (net of cash and cash equivalents acquired)	31	3	(5,000)
Advance to associates		(36,673)	(40,197)
Investment in associates		(4,659)	(4,584)
NET CASH USED IN INVESTING ACTIVITIES		(160,133)	(177,784)



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2005

	2005	2004
	HK\$'000	HK\$'000
FINANCING ACTIVITIES		
New bank borrowings raised	394,470	152,600
Proceeds from issue of shares	734	—
Advance from minority interests	13,379	—
Repayment of bank borrowings	(33,620)	(5,970)
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	374,963	146,630
	<hr/>	<hr/>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	82,777	95,428
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	128,292	32,864
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	211,069	128,292
	<hr/>	<hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	211,199	133,290
Bank overdrafts	(130)	(4,998)
	<hr/>	<hr/>
	211,069	128,292
	<hr/>	<hr/>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

1. GENERAL

The Company is 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 “Hong Kong Stock Exchange”).

The Company is an investment holding company. The activities of its principal subsidiaries and associates are set out in note 17 and note 19 respectively.

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 (“HKAS”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005, except for HKFRS 3 Business Combinations. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has entered into agreements for business combination for which the agreement date after 1st January, 2005 and has adopted HKFRS 3 for these business combinations. The Group has assessed the amount of goodwill arising from these business combination and has identified an impairment loss of HK\$78,000, being the whole amount of goodwill, and charged to the consolidated income statement.

The Group has considered those new HKFRSs and identified that the following HKFRSs may have a material effect on the results of operations and financial position of the Group are prepared and presented as described below:

HKAS 40 “Investment Property”

HKAS 40 introduces both cost model and fair value model for the measurement of investment property. For fair value model, HKAS 40 requires fair value changes be recognised to the income statement in the year in which they arise. HKAS 40 encourages but not requires retrospective application. Currently, the Group recognises the fair value changes to the investment property revaluation reserve in the year in which they arise, which is required under the Statement of Standard Accounting Practice (“SSAP”) 13 “Accounting for Investment Properties”, issued by HKICPA the predecessor of HKAS 40. A surplus arising on revaluation of investment property of approximately HK\$146,554,000 has been recognised in the investment property revaluation reserve during the year ended 31st March, 2005 instead of recognition of fair value changes in the income statement as required under HKAS 40.

The Group has commenced considering the potential impact on the adoption of HKAS 40 but is not yet in a position to determine its impact on its results of operations and financial position.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS *(Continued)*

HKFRS 2 Share-based payment

HKFRS 2 “Share-based payment” requires the recognition of equity-settled share-based payments for services from employees at fair value at the date of grant and the recognition of liabilities for cash-settled share-based payments at the current fair value at each balance sheet date. Prior to the adoption of HKFRS 2, the Group did not recognise the financial effect of share-based payments until such payments were settled. The Group has commenced considering the potential impact on the adoption of HKFRS 2 but is not yet in a position to determine its impact on its results and financial position.

In relation to other new HKFRSs, the Group does not expect that their adoption will have a material effect on how the results of operations and financial positions of the Group are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investment properties and certain of its investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

The results of subsidiaries and associates which were 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 intra-group transactions and balances have been 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 or an associate at the date of acquisition.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisition after 1st January, 2001 but prior to 1st January, 2005 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisition of subsidiary on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised of the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

Negative goodwill

Negative goodwill represents the excess of the Group's interest in fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition. Negative goodwill arising on acquisition after 1st January, 2001 but prior to 1st January, 2005, is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Investments in subsidiaries

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments 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, interest in associates is stated at the Group's share of the net assets of the associates plus the goodwill/less the negative goodwill in as far as it has not already been written off/amortised/released to income, less any identified impairment loss.

Revenue recognition

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

Sales of investments in securities are recognised when the sale contracts become unconditional.

Sales of properties are recognised upon completion of the binding sales agreements or transfer of risk and reward of ownership, whichever is earlier.

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

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

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the period of the respective leases.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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, such 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at open market value based on professional valuation at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a revaluation decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the disposed property is transferred to the income statement.

No depreciation or amortisation is provided on investment properties except where the unexpired term, including the renewal period, of the relevant lease is twenty years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

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

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, using the straight line method, at the following rate per annum:

Furniture, fixtures and office equipment	20%
Motor vehicles	20%
Vessel	20%



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Properties held for development

Properties held for development where no decision has yet been taken to re-sell or hold for long term purposes are stated at cost less accumulated impairment losses. No depreciation and amortisation is provided on properties held for development until the construction is completed and the properties are ready for their intended use.

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.

Properties held for sale

Properties held for sale are stated at the lower of cost or net realisable value. Cost comprises all costs of purchase and other direct cost to acquire the properties. Net realisable value is calculated at the actual or estimated selling price less related costs of marketing and selling.

Operating leases

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

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

Retirement benefit scheme

Payments to Mandatory Provident Fund Scheme are charged as an expense as the fall due.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

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

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

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

4. TURNOVER

	2005	2004
	HK\$'000	HK\$'000
Provision of estate agency services	—	2,745
Rental income	32,605	18,263
Sales of properties	114,010	21,080
Sales of securities	222,249	373,198
	368,864	415,286

An analysis of the Group's turnover and contribution to results from operations by principal business segment and geographical segment are set out in note 5.

5. SEGMENTAL INFORMATION

Business segments

For management purposes, the Group is currently organised into two major operating divisions — property investment and securities investment.

These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property investment	—	Sale and leasing of properties
Securities investment	—	Sale of investments in securities

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

5. SEGMENTAL INFORMATION *(Continued)*

Business segments *(Continued)*

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

	Property investment HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
<i>For the year ended 31st March, 2005</i>			
TURNOVER			
External sales	146,615	222,249	368,864
RESULT			
Segment result	26,570	4,767	31,337
Unallocated corporate expenses			(2,070)
Interest income			5,085
Dividend income	—	1,556	1,556
Profit from operations			35,908
Finance costs			(5,361)
Amortisation of goodwill of interest in associates			(359)
Release of negative goodwill of associates			350
Share of results of associates			3,165
Net gain on disposal of interests in subsidiaries			47,228
Net loss on dilution/disposal of interests in associates			(3,587)
Profit before taxation			77,344
Taxation			(5,935)
Profit before minority interests			71,409
Minority interests			363
Net profit for the year			71,772

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

5. SEGMENTAL INFORMATION *(Continued)*

Business segments *(Continued)*

	Property investment	Securities investment	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Assets and liabilities as at 31st March, 2005</i>				
ASSETS				
Segment assets	1,169,241	274,324	—	1,443,565
Interest in associates				30,119
Unallocated total assets				40,732
Consolidated total assets				1,514,416
LIABILITIES				
Segment liabilities	2,724	42,793	—	45,517
Bank borrowings	15,000	520,040	—	535,040
Unallocated corporate liabilities				2,053
Consolidated total liabilities				582,610
<i>Other information for the year ended 31st March, 2005</i>				
Capital expenditure				
— Property, plant and equipment	—	—	15,421	15,421
Depreciation	—	—	1,482	1,482
Amortisation of goodwill of interests in associates	—	—	359	359
Release of negative goodwill of associates	—	—	350	350
Unrealised holding loss on investment in securities	—	5,189	—	5,189

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

5. SEGMENTAL INFORMATION *(Continued)*

Business segments *(Continued)*

	Discontinuing operation	Continuing operations			Consolidated
	Estate agency	Property investment	Securities investment	Others	
	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (As restated)
<i>For the year ended 31st March, 2004</i>					
TURNOVER					
External sales	2,745	39,343	373,198	—	415,286
RESULT					
Segment result	2,089	22,206	36,978	—	61,273
Unallocated corporate expenses					(26,942)
Interest income					4,692
Dividend income	—	—	1,251	—	1,251
Profit from operations					40,274
Finance costs					(1,911)
Amortisation of goodwill of interest in associates					(1,646)
Release of negative goodwill of associates					274
Share of results of associates					(9,153)
Net gain on disposal of interest in a subsidiary					6,171
Net gain on disposal of discontinuing operation					5,489
Net loss on dilution/disposal of interests in associates					(3,439)
Profit before taxation					36,059
Taxation					(5,011)
Profit before minority interests					31,048
Minority interests					(405)
Net profit for the year					30,643

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

5. SEGMENTAL INFORMATION *(Continued)*

Business segments *(Continued)*

	Discontinuing	Continuing operations			Consolidated
	operation	Property	Securities	Others	
	Estate	investment	investment		
	agency	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note)				
<i>Assets and liabilities as at</i>					
<i>31st March, 2004</i>					
ASSETS					
Segment assets	—	549,833	285,097	7,110	842,040
Interest in associates	—	—	—	—	63,138
Unallocated total assets					471
Consolidated total assets					905,649
LIABILITIES					
Segment liabilities	—	8,937	729	—	9,666
Bank borrowings	—	139,060	39,998	—	179,058
Unallocated corporate liabilities					3,670
Consolidated total liabilities					192,394
<i>Other information for the year ended 31st March, 2004</i>					
Capital expenditure					
— Property, plant and equipment	67	—	—	234	301
— Investment properties	—	207,453	—	—	207,453
Depreciation	—	—	—	2,166	2,166
Amortisation of goodwill of interests in associates	—	—	—	1,372	1,372
Impairment loss of goodwill arising from acquisition of a subsidiary	—	—	130	—	130
Loss on disposal of investment properties	—	1,449	—	—	1,449
Unrealised holding loss on investment in securities	—	—	3,000	—	3,000



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

5. SEGMENTAL INFORMATION *(Continued)*

Business segments *(Continued)*

Note:

On 5th September, 2003, the Group entered into an agreement to dispose of its entire interest in Consecutive Profits Limited and its subsidiaries, which were mainly engaged in the provision of estate agency services. The disposal was completed on 31st January, 2004 and accordingly, the business segment of provision of estate agency services was regarded as discontinuing operation in 2004 and resulted in gain on disposal of discontinuing operation of approximately HK\$5,489,000.

Geographical segments

Turnover, carrying amount of segment assets and capital additions by geographical segment has not been prepared as all the Group's turnover, carrying amount of assets and capital additions were derived from Hong Kong.

6. OTHER OPERATING INCOME

	2005 HK\$'000	2004 HK\$'000
Interest income	5,085	4,692
Dividend income from investments in listed securities	1,556	1,251
Unrealised holding gain on investment in securities	—	2,250
Revaluation increase of investment properties	—	4,194
Gain on disposal of property, plant and equipment	781	—
Gain on disposal of property held for development	—	530
Others	2,219	953
	9,641	13,870



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

7. OTHER EXPENSES

	2005	2004
	HK\$'000	HK\$'000
Impairment loss of goodwill arising from acquisition of a subsidiary	78	130
Unrealised holding loss on investment in securities	5,189	3,000
Loss on disposal of investment in securities	448	—
Loss on disposal of investment properties	—	1,449
	5,715	4,579

8. PROFIT FROM OPERATIONS

	2005	2004
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 9(a)):		
Fees	400	400
Other emoluments	2,385	3,382
Other staff costs	4,191	7,577
Retirement benefit scheme contributions	295	254
Total staff costs	7,271	11,613
Auditors' remuneration		
Current year	530	670
Depreciation of property, plant and equipment	1,482	2,166
and after crediting:		
Net rental income in respect of premises after outgoings of HK\$8,815,000 (2004: HK\$3,585,000)	23,790	14,678

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

	2005 HK\$'000	2004 HK\$'000
Fees		
— Executive directors	—	—
— Non-executive director	—	100
— Independent non-executive directors	400	300
	400	400
Other emoluments		
— Executive directors		
Salaries and other benefits	2,014	1,730
Bonus	257	1,550
Retirement benefit scheme contributions	114	102
— Non-executive director	—	—
— Independent non-executive directors	—	—
	2,385	3,382
	2,785	3,782

The number of directors whose remuneration falls within the bands set out below is as follows:

HK\$	2005 Number of directors	2004 Number of directors
Nil to 1,000,000	5	5
1,000,001 to 1,500,000	2	—
2,000,001 to 2,500,000	—	1
	7	6

During the year, no emoluments were paid by the Group to any director as an inducement to join or upon joining the Group or as compensation for loss of office.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

9. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

(b) Employees' remuneration

The five highest paid individuals in the Group included two directors (2004: two directors) of the Company, details of whose remuneration are set out above. The aggregate remuneration of the remaining highest paid individuals, who are employees of the Group, is as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and other benefits	2,084	5,339
Retirement benefit scheme contributions	104	79
	<u>2,188</u>	<u>5,418</u>

HK\$	2005	2004
	Number of	Number of
	employees	employees
Nil to 1,000,000	2	1
1,000,001 to 1,500,000	1	—
1,500,001 to 2,000,000	—	1
3,500,001 to 4,000,000	—	1
	<u>—</u>	<u>1</u>

10. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	115	—
Bank borrowings with instalments repayable over five years	5,246	1,911
	<u>5,361</u>	<u>1,911</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

11. TAXATION

	2005	2004
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
— Current year	4,744	2,201
— Underprovision in prior years	43	98
	4,787	2,299
Deferred tax (note 22)	1,148	2,712
Taxation attributable to the Company and its subsidiaries	5,935	5,011

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

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

	2005	2004
	HK\$'000	HK\$'000
Profit before taxation	77,344	36,059
Taxation at Hong Kong Profits Tax rate of 17.5%	13,535	6,310
Tax effect of income not taxable in determining taxable profit	(10,246)	(7,915)
Tax effect of expenses not deductible for tax purposes	3,882	5,147
Tax effect of share of results of associates	(554)	1,602
Underprovision in respect of prior year	43	98
Tax effect of tax losses not recognised	207	969
Utilisation of tax losses previously not recognised	(911)	(1,032)
Increase in opening deferred tax resulting from an increase in applicable tax rate	—	(198)
Others	(21)	30
Tax expense for the year	5,935	5,011



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

12. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Proposed final dividend of HK3.5 cents per share (2004: Nil)	<u>16,959</u>	<u>—</u>
	<u>16,959</u>	<u>—</u>

The directors have resolved to recommend the payment of a final dividend of HK\$16,959,000 representing HK3.5 cents per share (2004: Nil) in respect of the year ended 31 March, 2005.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

13. EARNINGS PER SHARE

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

	2005 HK\$'000	2004 HK\$'000
Earnings for the purpose of calculating basic and diluted earnings per share:		
Net profit for the year	<u>71,772</u>	<u>30,643</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	383,517	383,448
Effect of dilutive potential ordinary shares (in thousands):		
Share options	<u>11,273</u>	<u>1,390</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share (in thousands)	<u>394,790</u>	<u>384,838</u>



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

13. EARNINGS PER SHARE *(Continued)*

The adjustment to the comparative basic and diluted earnings per share, arising from the share consolidated shown in note 27, is as follows:

	Basic HK Cents	Diluted HK Cents
Reconciliation of 2004 earnings per share:		
Reported figure before adjustments	2.00	1.99
Adjustments arising from share consolidation shown in note 27	6.00	5.97
Restated	8.00	7.96

14. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
VALUATION	
At 1st April, 2004	482,650
Addition	233,446
Eliminated on disposal of a subsidiary	(44,650)
Revaluation increase	146,554
At 31st March, 2005	818,000

The Group's investment properties were revalued at its open market value at 31st March, 2005 by Skyland Surveyors Co., an independent firm of professional property valuers, on an open market value basis. This valuation gave rise to a revaluation increase of HK\$146,554,000 and the whole revaluation increase was credited to the investment property revaluation lease.

The Group's investment properties are held for rental purpose under operating leases.

The Group's investment properties amounting to approximately HK\$818,000,000 (2004: HK\$482,650,000) have been pledged to secure general banking facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

14. INVESTMENT PROPERTIES *(Continued)*

The carrying value of the investment properties comprises:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Properties held under long-term leases in Hong Kong	818,000	438,000
Properties held under medium-term leases in Hong Kong	—	44,650
	818,000	482,650

15. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixtures and office equipment	Motor vehicles	Vessel	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP COST				
At 1st April, 2004	1,903	1,654	6,000	9,557
Additions	1,624	—	13,797	15,421
Disposal	(1,592)	—	(5,800)	(7,392)
At 31st March, 2005	1,935	1,654	13,997	17,586
DEPRECIATION				
At 1st April, 2004	863	1,654	1,300	3,817
Provided for the year	402	—	1,080	1,482
Eliminated on disposal	(957)	—	(1,836)	(2,793)
At 31st March, 2005	308	1,654	544	2,506
NET BOOK VALUES				
At 31st March, 2005	1,627	—	13,453	15,080
At 31st March, 2004	1,040	—	4,700	5,740



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

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

	Furniture, fixtures and office equipment HK\$'000
<hr/>	
THE COMPANY	
COST	
At 1st April, 2004	1,903
Disposals	<u>(1,592)</u>
At 31st March, 2005	<u>311</u>
DEPRECIATION	
At 1st April, 2004	863
Provided for the year	301
Eliminated on disposals	<u>(957)</u>
At 31st March, 2005	<u>207</u>
NET BOOK VALUES	
At 31st March, 2005	<u>104</u>
At 31st March, 2004	<u>1,040</u>
<hr/>	

16. PROPERTY HELD FOR DEVELOPMENT

The property held for development was situated in the Hong Kong under medium-term land use rights.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

17. INTERESTS IN SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Investments in subsidiaries		
Unlisted shares, at cost	82,152	82,252
Receivables due from subsidiaries		
Amounts due from subsidiaries	727,075	904,402
Less: Allowance	(302,851)	(302,851)
	424,224	601,551
Payables due to subsidiaries		
Amounts due to subsidiaries	54,869	222,663

The amounts due from/to subsidiaries are unsecured, non-interest bearing and are repayable on demand.

Particulars of the principal subsidiaries at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Bless Top Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Investment holding
Gain Master Assets Limited	British Virgin Islands/ Hong Kong	US\$1	—	100	Investment holding
Infast Limited	Hong Kong	HK\$2	—	100	Property holding
Island Town Limited	Hong Kong	HK\$2	—	100	Property holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

17. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid ordinary share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly %	Indirectly %	
Mark Well Investment Limited	Hong Kong	HK\$100	—	100	Sale of securities and investment holding
Capital Strategic Investment (B.V.I.) Limited	British Virgin Islands/ Hong Kong	US\$40,000	100	—	Investment holding
Ocean Information System (China) Limited	Hong Kong	HK\$2	—	100	Investment holding
CSI Investment Limited	Hong Kong	HK\$2	100	—	Property holding and leasing of property
Sennor Holdings Limited	Hong Kong	HK\$2	—	100	Property holding and leasing of property
Gaintech International Development Limited	Hong Kong	HK\$10,000	—	100	Holding of property held for development



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

17. INTERESTS IN SUBSIDIARIES *(Continued)*

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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

18. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

On 15th January, 2005, the Group entered into conditional agreements to acquire 100% interest in Fook Shing Limited (“Fook Shing”) and Yieldson Development Limited (“Yieldson”) for an aggregate consideration of approximately HK\$240,000,000 whilst an amount of HK\$35,000,000 were paid as deposit as at 31st March, 2005. Fook Shing and Yieldson are property holding companies and their property is located in Hong Kong. The acquisition was completed in April, 2005. The unaudited assets held by Yieldson and Fook Shing comprising property held for development of approximately HK\$240 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

19. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Interests in associates		
Share of net assets	28,394	20,176
Goodwill		
At 1st April	7,690	53,349
Arising from acquisition of associates	—	26
Less: Amortisation	(359)	(1,646)
Released upon dilution/disposal of interest in associates	(446)	(44,039)
At 31st March	6,885	7,690
Negative goodwill		
At 1st April	(4,925)	—
Arising from acquisition of associates	(3,535)	(5,199)
Released to the income statement	350	274
At 31st March	(8,110)	(4,925)
	27,169	22,941
Amounts due from associates	2,950	40,197
	30,119	63,138
Market value of listed shares of associates	16,337	13,043

In July 2004, the Group acquired a further approximately 4.59% interest in Capital Estate Limited ("Capital Estate", a company incorporated in Hong Kong whose shares were listed on the Hong Kong Stock Exchange), for an aggregate cash consideration of approximately HK\$4,700,000. The Group's interest in Capital Estate increased from 21.71% to 26.3% and further diluted from 26.3% to 21.13% following the allotment and issue of new shares by Capital Estate.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

19. INTERESTS IN ASSOCIATES *(Continued)*

The Group disposed of its wholly-owned subsidiary, namely Linkpower Worldwide Inc. ("Linkpower") for a consideration of approximately HK\$107,600,000. The major assets of Linkpower is 45% interest in Concord Way Limited, which is engaged in business in Hong Kong.

The goodwill arising on acquisition of associates is amortised over 20 years.

The negative goodwill is released to the income statement over the useful life of the depreciable assets of that associates.

Particulars of the principal associates at 31st March, 2005 are as follows:

Name of associate	Place of incorporation	Place of operation	Proportion of nominal value of issued share capital held indirectly by the Company	Principal activities
Capital Estate Limited*	Hong Kong	Hong Kong	21.13%	Property investment, securities trading, estate agency and related investment
Orient Centre Limited	Hong Kong	Hong Kong	25%	Property investment

* The shares of the associate are listed on the Hong Kong Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

20. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Other investments				
Equity securities:				
Listed	44,332	48,655	—	—
Unlisted	5,005	6,505	—	—
	49,337	55,160	—	—
Debt securities				
Listed	80,708	48,764	—	—
Unlisted	8,253	42,360	—	3,933
	88,961	91,124	—	3,933
Club debenture	6,860	1,450	5,200	—
Total and reported as:				
Listed				
Hong Kong	44,332	48,655	—	—
Elsewhere	80,708	48,764	—	—
Unlisted	20,118	50,315	5,200	3,933
	145,158	147,734	5,200	3,933
Classified under				
Current	128,407	111,484	5,200	3,933
Non-current	16,751	36,250	—	—
	145,158	147,734	5,200	3,933
Market value of listed securities	125,040	97,419	—	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

21. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

During the year ended 31st March, 2004, the Group entered into an agreement to acquire a motor yacht and a deposit of HK\$2,596,000 had been paid by the Group as at 31st March, 2004. The acquisition was completed during the year ended 31st March, 2005.

22. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements during the current and prior accounting periods:

THE GROUP

	Accelerated tax depreciation	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2003	—	(2,109)	(2,109)
Effect of a change in tax rate	—	(198)	(198)
Charge to the consolidated income statement	878	2,032	2,910
At 31st March, 2004	878	(275)	603
Charge to the consolidated income statement	1,482	(334)	1,148
At 31st March, 2005	<u>2,360</u>	<u>(609)</u>	<u>1,751</u>

As at 31st March, 2005, the Group had unused tax losses of approximately HK\$6,798,000 (2004: HK\$9,267,000) available for offset against future profits. No deferred tax assets had been recognised in respect of the unused tax losses in respect of HK\$3,314,000 (2004: HK\$7,695,000) due to unpredictability of future profits streams.

THE COMPANY

	Tax losses
	HK\$'000
At 1st April, 2003	(576)
Charge to the income statement	301
At 31st March, 2004	(275)
Credit to the income statement	(484)
At 31st March, 2005	<u>(759)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

23. GOODWILL

	THE GROUP
	HK\$'000
COST	
At 1st April, 2004	9,107
Arising on acquisition of a subsidiary	78
At 31st March, 2005	9,185
AMORTISATION AND IMPAIRMENT	
At 1st April, 2004	9,107
Impairment loss recognised	78
At 31st March, 2005	9,185
NET BOOK VALUES	
At 31st March, 2005	—
At 31st March, 2004	—

24. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers with a credit period normally ranging from 30 days to 90 days. The aged analysis of the trade receivables at the balance sheet dates is as follows:

	2005	2004
	HK\$'000	HK\$'000
0 — 30 days	239	144
Other receivables	5,323	16,641
	5,562	16,785

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

25. PROPERTIES HELD FOR SALE

	HK\$'000
At 1st April, 2004	42,226
Additions	278,166
Disposal	(93,383)
At 31st March, 2005, at cost	<u>227,009</u>

The carrying value of properties held for sale comprises:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Properties held under long leases in Hong Kong	<u>227,009</u>	<u>42,226</u>

26. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans	534,910	174,060	—	20,000
Bank overdrafts	130	4,998	—	—
	<u>535,040</u>	<u>179,058</u>	<u>—</u>	<u>20,000</u>
Repayable as follows:				
Within one year	158,610	47,582	—	20,000
Between one to two years	28,890	8,304	—	—
Between two to five years	117,150	41,362	—	—
Over five years	230,390	81,810	—	—
	<u>535,040</u>	<u>179,058</u>	<u>—</u>	<u>20,000</u>
Less: Amount due within one year included under current liabilities	(158,610)	(47,582)	—	(20,000)
Amount due after one year	<u>376,430</u>	<u>131,476</u>	<u>—</u>	<u>—</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

26. BANK BORROWINGS *(Continued)*

Of the bank borrowings of the Group, HK\$535,040,000 (2004: HK\$154,060,000) are secured by investment properties of HK\$818,000,000 (2004: HK\$482,650,000) and bank deposits of HK\$5,230,000 (2004: HK\$5,219,000).

27. SHARE CAPITAL

	Notes	Number of shares	Amount HK\$'000
Authorised:			
Ordinary share of HK\$0.01 each at 1st April, 2003 and 31st March, 2004	(i)	18,000,000,000	180,000
Shares consolidation		(13,500,000,000)	—
Ordinary shares of HK\$0.04 each at 31st March, 2005		<u>4,500,000,000</u>	<u>180,000</u>
Issued and fully paid:			
Ordinary shares of HK\$0.01 each at 1st April, 2003 and 31st March, 2004		1,533,791,800	15,338
Shares consolidation	(i)	(1,150,343,850)	—
Ordinary shares of HK\$0.04 each Exercise of share options	(ii)	<u>383,447,950</u> <u>1,092,500</u>	<u>15,338</u> <u>44</u>
Ordinary shares of HK\$0.04 each at 31st March, 2005		<u>384,540,450</u>	<u>15,382</u>

Notes:

- (i) During the year ended 31st March, 2005, the Company carried out a share consolidation whereby every four ordinary shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one ordinary share of HK\$0.04 each. 1,533,791,800 issued ordinary shares of HK\$0.01 each and 16,466,208,200 unissued ordinary shares of HK\$0.01 each were consolidated into 383,447,950 issued ordinary shares of HK\$0.04 each and 4,116,552,050 unissued ordinary shares of HK\$0.04 each, respectively.
- (ii) During the year ended 31st March, 2005, 1,092,500 ordinary shares in the Company of HK\$0.04 were issued upon the exercise of 1,092,500 share options at an exercise price of HK\$0.672 per share. The shares issued during the year rank pari passu with the then existing shares in all respects.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

28. SHARE OPTIONS

2001 Scheme

On 13th June, 2001, the Company adopted a new share option scheme (“2001 Scheme”), for the primary purpose of providing incentives to directors and eligible employees. The 2001 Scheme will expire on 12th June, 2011. Under the 2001 Scheme, the board of directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the 2001 Scheme is not permitted to exceed the higher of 10% of the shares of the Company in issue at any point in time excluding any shares issued pursuant to the 2001 Scheme or such other limit as may be permitted under Rules Governing the Listing of the Hong Kong Stock Exchange (“Listing Rules”). The number of shares in respect of which options may be granted to any individual is not permitted to exceed the higher of 25% of the number of shares issued and issuable under the 2001 Scheme or any other limit as may be permitted under the Listing Rules.

Options granted must be taken up within 60 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will not be less than the higher of the 80% of average closing price of the Company’s shares for the five business days immediately preceding the date of grant, and the nominal value of the Company’s shares.

The 2001 Scheme was terminated on 26th August, 2002.

2002 Scheme

On 26th August, 2002, the Company adopted a new share option scheme (“2002 Scheme”), for the primary purpose of providing incentives to directors and eligible employees. The 2002 Scheme will expire on 25th August, 2012. Under the 2002 Scheme, the board of directors of the Company may grant options to eligible employees, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme (excluding those options that have already been granted by the Company prior to the date of approval of the 2002 Scheme) must not in aggregate exceed 10% of the shares in issue at the Adoption Date unless the Company obtains a fresh approval from its shareholders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

28. SHARE OPTIONS (Continued)

2002 Scheme (Continued)

Options granted must be taken up within 60 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised at any time from the date of grant to the 10th anniversary of the date of grant. In each grant of options, the board of directors may at their discretion determine the specific exercise period. The exercise price is determined by the directors of the Company, and will not be less than the higher (i) the closing price, (ii) the average closing price of the Company's shares of the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

At 31st March, 2005, the number of shares in respect of which options had been granted and remained outstanding under the 2001 Scheme and 2002 Scheme were 24,932,500 and 32,750,000, representing 6.48% and 8.52% of the issued share capital of the Company at that date respectively.

The following table discloses movements in the Company's share option schemes during the year ended 31st March, 2005:

	Option scheme type	Exercise price HK\$ (Note 3)	Number of shares under option at 1.4.2004	Adjustment due to share consolidation	Exercised during the year	Surrendered/lapsed during the year	Number of shares under option at 31.3.2005
Directors							
Ma Wai Man, Catherine	2001 (Note 1)	0.168	31,500,000	(31,500,000)	—	—	—
		0.672	—	7,875,000	—	—	7,875,000
	2002 (Note 2)	0.140	12,500,000	(12,500,000)	—	—	—
		0.560	—	3,125,000	—	—	3,125,000
Total for director			44,000,000	(33,000,000)	—	—	11,000,000
Employees and consultants							
	2001 (Note 1)	0.168	73,125,000	(73,125,000)	—	—	—
		0.672	—	18,281,250	(1,092,500)	(131,250)	17,057,500
	2002 (Note 2)	0.140	103,500,000	(103,500,000)	—	—	—
		0.560	—	25,875,000	—	—	25,875,000
	2002 (Note 2)	0.150	15,000,000	(15,000,000)	—	—	—
		0.600	—	3,750,000	—	—	3,750,000
Total for employees and consultants			191,625,000	(143,718,750)	(1,092,500)	(131,250)	46,682,500
Grand total			235,625,000	(176,718,750)	(1,092,500)	(131,250)	57,682,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

28. SHARE OPTIONS *(Continued)*

2002 Scheme *(Continued)*

The closing prices of the Company's shares at dates of exercise by the employees were HK\$1.26, HK\$1.18 and HK\$1.52 respectively.

The following table discloses movements in the Company's share option schemes during the year 31st March, 2004:

	Option scheme type	Exercise price	Outstanding at 1.4.2003	Granted during year	Surrendered/ lapsed during year	Outstanding at 31.3.2004
Director						
Ma Wai Man, Catherine	2001 (Note 1)	0.168	31,500,000	—	—	31,500,000
	2002 (Note 2)	0.140	12,500,000	—	—	12,500,000
Total for director			44,000,000	—	—	44,000,000
Employees and consultants						
	2001 (Note 1)	0.168	73,650,000	—	(525,000)	73,125,000
	2002 (Note 2)	0.14	73,500,000	30,000,000	—	103,500,000
	2002 (Note 2)	0.15	—	15,000,000	—	15,000,000
Total for employees and consultants			147,150,000	45,000,000	(525,000)	191,625,000
Grand Total			191,150,000	45,000,000	(525,000)	235,625,000



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

28. SHARE OPTIONS *(Continued)*

2002 Scheme *(Continued)*

Notes:

1. There is a limit on the number of share options under the 2001 Scheme that may be exercised by each grantee during each period of 12 months commencing from 30th August, 2001 (until 29th August, 2005), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the chairman of the Company to the exercise of share options exceeding such limit.
2. There is a limit on the number of share options under the 2002 Scheme that may be exercised by each grantee during each period of 12 months commencing from 23rd September, 2002 (until 22nd September, 2006), namely, the aggregate of (a) 20% of the total number of such share options granted and (b) any unused limits accumulated during previous period(s), subject to the written consent of the chairman of the Company to the exercise of share options exceeding such limit.
3. Following the share consolidation carried out by CSI during the year, the exercise prices of the share options were adjusted from their initial exercise prices of HK\$0.140, HK\$0.150 and HK\$0.168 to adjusted exercise prices of HK\$0.560, HK\$0.60 and HK\$0.672 respectively.

Consideration received during the year ended 31st March, 2004 from employees and consultants for taking up the options granted was insignificant.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

29. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
THE COMPANY				
At 1st April, 2002	23,225	338,410	83,692	445,327
Profit for the year	—	—	17,416	17,416
At 31st March, 2004	23,225	338,410	101,108	462,743
Exercise of share options (note 27)	690	—	—	690
Loss for the year	—	—	(18,097)	(18,097)
At 31st March, 2005	<u>23,915</u>	<u>338,410</u>	<u>83,011</u>	<u>445,336</u>

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

At 31st March, 2005, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$421,421,000 (2004: HK\$439,518,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

30. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of its subsidiaries, namely Ascot Limited and Linkpower Worldwide Inc. which are engaged in property holding and investment holding respectively. The net assets of disposed subsidiaries at the date of disposal were as follows:

	2005	2004
	HK\$'000	HK\$'000
Net assets disposed of:		
Investment properties	44,650	—
Amount due from an associate	73,920	54,540
Property, plant and equipment	—	71
Trade and other receivables	4	7,910
Bank balances and cash	80	116
Trade and other payables	(264)	(6,266)
Bank loans and overdraft	(12,840)	(14)
Minority interest	—	(534)
	105,550	55,823
Release of investment property revaluation reserve upon disposal	(13,525)	—
	92,025	55,823
Gain on disposal of a subsidiary	47,228	6,171
Gain on disposal of discontinuing operation	—	5,489
	139,253	67,483
Satisfied by:		
Cash	139,253	67,000
Interest in associates	—	483
	139,253	67,483
Analysis of the net inflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	139,253	67,000
Bank balances and cash disposed of	(80)	(116)
Bank overdraft disposed of	12,840	14
Net inflow of cash and cash equivalents	152,013	66,898

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

30. DISPOSAL OF SUBSIDIARIES *(Continued)*

The subsidiaries disposed of during the year did not make any significant contribution to the results and cash flow of the Group during the year.

31. PURCHASE OF A SUBSIDIARY

On 31st March, 2005, the Group acquired 100% interest in Newslink Holdings Limited for consideration of HK\$16,000,000. Newslink Holdings Limited is an investment holding company and its subsidiaries are engaged in property holding. The directors are of the view that it is impracticable to disclose the revenue and the result of Newslink Holdings Limited and its subsidiaries for the year ended 31st March, 2005 as if the acquisition had been effected at the beginning of the year since such financial information was not provided by the vendor.

	2005	2004
	HK\$'000	HK\$'000
Net assets acquired:		
Properties under development	16,000	—
Investments in securities	—	4,870
Other receivables	66	—
Bank balances and cash	3	—
Other payables	(147)	—
	15,922	4,870
Goodwill arising on acquisition	78	130
	16,000	5,000
Satisfied by:		
Cash	—	5,000
Unlisted debt securities	16,000	—
	16,000	5,000
Analysis of the net outflow of cash and cash equivalents in connection with the purchase of subsidiary:		
Cash consideration paid	—	(5,000)
Bank balances and cash acquired	3	—
Inflow (outflow) of cash and cash equivalents in connection with the purchase of a subsidiary	3	(5,000)



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

31. PURCHASE OF A SUBSIDIARY *(Continued)*

The subsidiaries acquired during the year did not make any significant contribution to the results and cash flow of the Group during the year.

The fair values of the assets and liabilities acquired equal to their carrying amounts immediately before the combination.

32. MAJOR NON-CASH TRANSACTION

During the year ended 31st March, 2005, the major non-cash transactions are as follows:

- (a) Addition of property, plant and equipment of was partially satisfied by the deposits of HK\$2,596,000 paid for acquisition of property, plant and equipment in the previous year.

During the year ended 31st March, 2004, the major non-cash transactions were as follows:

- (a) Addition of investment properties was partially satisfied by the deposit of HK\$5,000,000 paid for acquisition of investment properties in the previous year.

33. OPERATING LEASE COMMITMENTS

The Group has made approximately HK\$767,000 (2004: HK\$802,000) minimum lease payments under operating leases during the year in respect of office premises and vessels.

The Group as lessee

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

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Within one year	1,491	1,061
In the second to fifth years inclusive	2,372	—
	3,863	1,061



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

33. OPERATING LEASE COMMITMENTS *(Continued)*

Operating lease payments represent rentals payable by the Group for its office premise. Leases are negotiated for a term of three years and rentals are fixed for three years.

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

The Group as lessor

Property rental income earned during the year was HK\$32,605,000 (2004: HK\$18,263,000). These properties are expected to generate rental yield of 3.99% on an ongoing basis, which calculated based on the valuation amount of the investment properties. Certain of the properties have committed tenants for next two to three years.

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	26,045	22,097
In the second to fifth years inclusive	30,550	42,422
	56,595	64,519

The Company did not have any lease contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Corporate guarantee given by the Company for banking facilities granted to subsidiaries	—	—	503,986	142,815
Corporate guarantee given by the Group for banking facilities granted to an associate	—	101,000	—	101,000
	—	101,000	503,986	243,815

As at 31st March, 2004, the banking facilities utilised by the associate were amounted to approximately HK\$77,000,000.

35. PLEDGE OF ASSETS

At 31st March, 2005, the following assets were pledged to secure banking facilities granted to the Group:

- (a) Investment properties with a carrying value of HK\$818,000,000 (2004: HK\$482,650,000).
- (b) Bank deposits of HK\$5,230,000 (2004: HK\$5,219,000).

36. CAPITAL COMMITMENTS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	—	10,430
Capital expenditure in respect of acquisition of subsidiary contracted for but not provided in the financial statements (Note 18)	205,000	—
	205,000	10,430



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2005

37. RETIREMENT BENEFIT SCHEME

With effect from 1st December, 2000, the Group has joined a mandatory provident fund scheme (“MPF Scheme”). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contributions payables in the future years.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the income statement of HK\$295,000 (2004: HK\$254,000) represent contributions payable to the scheme by the Group at rates specified in the rules of the schemes.

38. RELATED PARTY TRANSACTIONS

During the year ended 31st March, 2004, the Group disposed of its entire 80% interest in Consecutive Profits Limited and its subsidiaries to a wholly-owned subsidiary of Capital Estate Limited, for a consideration of HK\$6,000,000. The transaction were carried out at terms agreed between the relevant parties.

39. POST BALANCE SHEET EVENTS

- (1) In April 2005, the Group disposed of the investment property amounting to HK\$233,446,000 at a consideration of approximately HK\$296,000,000. The transactions was completed by the date of this report.
- (2) In May 2005, Success Field Group Limited, a wholly-owned subsidiary of the Company, entered into an agreement to dispose of the entire interests in Capital Estate, for an aggregate consideration of approximately HK\$40,413,000. The transaction was completed at the date of this report. The disposal resulted in gain on disposal of an associate of approximately HK\$13,000,000.
- (3) Pursuant to a resolution passed at a special general meeting held on 6th May, 2005, the Company entered into subscription agreements with the independent third parties in which the independent third parties agreed to subscribe an aggregate of 75,000,000 new ordinary shares of the HK\$0.04 each at the subscription price of HK\$1.08 per share. On the same date, the Company entered into a placing agreement with placing agent in which the placing agent agreed to procure subscribers to subscribe 25,000,000 new ordinary shares of HK\$0.04 each at the subscription price of HK\$1.08 per share on a best-efforts basis. Details of which are set out in circular to the shareholders of the Company dated 18th April, 2005.

FINANCIAL SUMMARY



Summary of the consolidated results and of the assets and liabilities of the Group for each of the five years ended 31st March, 2005 is set out below:

(a) Results

	Year ended 31st March,				
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000 (As restated) (Note)	2004 HK\$'000	2005 HK\$'000
Turnover	641,292	297,937	672,194	415,286	368,864
Profit (loss) before taxation	(322,408)	13,738	10,332	36,059	77,344
Taxation	(291)	(376)	(3,131)	(5,011)	(5,935)
Profit (loss) before minority interests	(322,699)	13,362	7,201	31,048	71,409
Minority interests	1,767	558	(25)	(405)	363
Net profit (loss) for the year	(320,932)	13,920	7,176	30,643	71,772

FINANCIAL SUMMARY



(b) Assets and liabilities

	At 31st March,				
	2001 HK\$'000	2002 HK\$'000 (As restated) (Note)	2003 HK\$'000 (As restated) (Note)	2004 HK\$'000	2005 HK\$'000
Investment properties	7,000	65,550	60,400	482,650	818,000
Property, plant and equipment	32,028	2,370	7,676	5,740	15,080
Property held for development	4,000	4,000	4,000	—	16,000
Interests in associates	—	—	86,378	63,138	30,119
Receivables due from associates	17,167	—	—	—	—
Investments in securities	1,288	1,850	22,450	36,250	16,751
Deposits paid on acquisition of investment properties	—	—	5,000	—	—
Deposits paid on acquisition of property, plant and equipment	—	—	—	2,596	—
Deposit paid for acquisition of subsidiaries	—	—	—	—	35,000
Goodwill	—	8,678	—	—	—
Deferred tax asset	—	5,036	2,109	275	609
Net current assets	287,334	375,258	306,095	254,960	379,037
	348,817	462,742	494,108	845,609	1,310,596
Share capital	81,086	128,379	15,338	15,338	15,382
Reserves	263,966	306,829	452,771	697,917	903,408
Shareholders' funds	345,052	435,208	468,109	713,255	918,790
Minority interests	1,265	104	129	—	13,016
Non-current liabilities	2,500	27,430	25,870	132,354	378,790
	348,817	462,742	494,108	845,609	1,310,596

Note: The figures were restated as a result of prior period adjustment on adoption of Statement of Standard Accounting Practice 12 (Revised) "Income Taxes" issued by the Hong Kong Institute of Certified Public Accountants ("SSAP 12"). However, the financial impact in respect of the adoption of SSAP 12 has not been accounted for in this summary for the year ended 31st March, 2001.

SCHEDULE OF PROPERTIES HELD BY THE GROUP

As at 31st March, 2005

MAJOR PROPERTIES

Particulars of major properties held by the Group at 31st March, 2005 as follows:

(a) Investment properties:

Location	Use	Group's interest	Approx. site area (sq.ft.)	Approx. gross floor area (sq.ft.)	Status of development
House No. 9 including the covered yard, the yard and the lawn thereof, the Beachfront, No. 7 Belleview Drive, Repulse Bay, Hong Kong	Residential	100%	N/A	3,047	Vacant
No. 88 Gloucester Road & 17 Carparks in Fortise Tower, No. 77 Gloucester Road, Hong Kong	Commercial	100%	6,243	95,638	Completely leased out
Fullcorp Centre 53-55 Chatham Road South Kowloon, Hong Kong	Commercial	100%	3,900	49,590	Approx. 48% leased out

(b) Properties held for sale

Location	Use	Group's interest	Approx. gross floor area (sq.ft.)
31/F & 4 Car Parking Spaces of Bank of America Tower, No. 12 Harcourt Road, Hong Kong	Commercial	100%	13,881
6/F, Tower 1 Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Commercial	100%	23,783