

Growth...



Annual Report 2007

CSI

Capital Strategic Investment Limited

資本策略投資有限公司

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CORPORATE INFORMATION

Board of Directors

Non-Executive Director:

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

Executive Directors:

Hubert Chak

Kan Sze Man

Ma Wai Man, Catherine (*Company Secretary*)

Chow Hou Man (*Qualified Accountant*)

Independent Non-Executive Directors:

Lam Lee G.

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

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Hang Seng Bank Limited

The Bank of East Asia Limited

Industrial and Commercial Bank of China (Asia) Limited

Bank of China (Hong Kong) Limited

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Hong Kong Head Office and Principal Place of Business

3609-11

Two International Finance Centre

8 Finance Street

Central, Hong Kong

Shanghai Office

Suites 901B-902A

9/F., CITIC Square

1168, Nanjing Road West

Shanghai, 200041, China

Auditors

Deloitte Touche Tohmatsu

35/F., One Pacific Place

88 Queensway

Hong Kong

Principal Registrars

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM 08

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

Stock Code

497

Company Website

www.csigroup.hk

FINANCIAL REVIEW

Review of the Results for the year ended 31 March, 2007

The Group reported a turnover of approximately HK\$555.4 million for the year ended 31 March, 2007, which was mainly generated from rental income of approximately HK\$84 million, sales of properties of approximately HK\$17.6 million, securities investment of approximately HK\$453.8 million, representing an increase of 49.5% from approximately HK\$371.6 million reported in 2006.

The Group reported a consolidated profit attributable to the equity shareholders of the Company of HK\$276.6 million for the year ended 31 March, 2007, represented an increase of 97.1% compared with HK\$140.3 million reported in 2006.

Liquidity and Financial Resources

The Group maintained a healthy liquid position which included liquid investment held for trading of approximately HK\$118.8 million and bank balance and cash of approximately HK\$608.5 million. The Group generally financed its operations through its internal resources and bank facilities provided by its principal bankers.

As at 31 March, 2007, the Group had net current assets of approximately HK\$2,407.1 million (31 March, 2006: net current assets of approximately HK\$501.9 million) and a current ratio of 7.7 (31 March, 2006: 3.8).

The Group's short-term bank borrowing increased from approximately HK\$158.8 million as at 31 March, 2006 to approximately HK\$290.3 million as at 31 March, 2007, and long-term bank borrowing increased from approximately HK\$155.2 million as at 31 March, 2006 to approximately HK\$928.1 million as at 31 March, 2007. All the bank borrowings were utilized in financing the Group's investment properties in generating recurring rental income. As a result, the Group's total bank borrowing increased from approximately HK\$314 million as at 31 March, 2006 to approximately HK\$1,218.4 million as at 31 March, 2007, and the total debt-to-total assets ratio increased to 37.2% (31 March, 2006: 19.4%). All bank borrowings were denominated in Hong Kong dollars and were on a floating rate basis at short-term inter-bank offer rates. The maturity profile spread over a period of 10 years with approximately HK\$290.3 million repayable within one year, HK\$430.4 million repayable between one to five years, and HK\$497.7 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, result and operation of the Group.

FINANCIAL REVIEW

Contingent Liabilities

	2007 HK\$'000	2006 HK\$'000
Corporate guarantee given by the Group for banking facilities granted to associates	107,976	36,176
Corporate guarantee given by the Group for banking facilities granted to a jointly controlled entity	65,000	—
	172,976	36,176

Pledge of Assets

At 31 March, 2007, the following assets were pledged to secure banking facilities granted to the Group:

- (a) Investment properties with a carrying value of HK\$700,000,000 (2006: HK\$622,000,000).
- (b) Properties held for sale with carrying value of approximately HK\$1,480,615,000 (2006: HK\$92,890,000).
- (e) Bank deposits of HK\$272,396,000 (2006: HK\$165,366,000).

The Group also executed the assignment of rental income and sales proceeds or disposal of investment properties over the investment properties and properties held for sale to banks to secure the banking facilities granted to the Group.

Other than the above, the Group's banking facilities at 31 March, 2006 were also secured by property, plant and equipment and prepaid lease payments with carrying values of approximately HK\$1,760,000 and HK\$239,726,000 respectively.

Capital Commitments

	2007 HK\$'000	2006 HK\$'000
Capital expenditure in respect of		
— the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	5,321	1,527
— the establishment of a subsidiary in the People's Republic of China	13,082	—
	18,403	1,527

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 31 March, 2007.

Business Review and Outlook

We are pleased to report that the Group achieved a consolidated profit attributable to the equity shareholders of the Company of HK\$276.6 million in 2007, compared with HK\$140.3 million reported in 2006. Turnover for the Group was HK\$555.4 compared with HK\$371.6 million reported in 2006.

Hong Kong

During this year, momentum in the local property market continued to gather strength, and in creating value for our shareholders, we have realized our investment in a prime development site in Yiu Wa Street, Causeway Bay, Hong Kong.

We have been leveraging on our management's strength in identifying appropriate properties, repackaging and repositioning them to improve rental yield and thereby bringing capital value enhancement. Our capability in unlocking values was once again highlighted by the recent disposal of Paul Y. Centre, Kwun Tong, Hong Kong, one of the largest deals in the fast changing locality. We were able to materially improve rental income of this property with just over one year of ownership, and successfully enhanced the capital value of the property for us and our strategic partners, including Lehman Brothers and for whom we thank for entrusting us with the responsibility of managing this joint venture.

As for some of the Group's other investment properties in Hong Kong, we have during this year completed the purchase of approximately 150,000 square feet of prime retail and commercial spaces representing a majority stake in AXA Centre, Gloucester Road, Wanchai, Hong Kong, as well as three en-bloc properties in the prime retail hub of Tsimshatsui, Kowloon, namely Nos. 23-25 Ashley Road, No. 27 Ashley Road and No. 8 Hau Fook Street. The acquisition of another prime en-bloc property, Mohan's Building, situated at Nos. 14-16 Hankow Road, Tsimshatsui, Kowloon, was also completed subsequent to the financial year under review. The Group currently manages approximately 600,000 square feet of properties in Hong Kong.

CHAIRMAN'S STATEMENT

For the two Ashley Road properties, renovation and refurbishment work have been completed to convert them into "Ginza-style" vertical retail, food and beverages centres through improvement of appropriate tenant mixes. As regards No. 8 Hau Fook Street, we are confident that it will be redeveloped into a prime commercial and retail centre located in the heart of the shopping hub of Tsimshatsui, Kowloon.

China

With the establishment of our Shanghai office in September, 2006, we aim to extend our investment philosophy and replicate our proven property repositioning business model in major cities such as Shanghai and Beijing. Our Shanghai team is made up of seasoned managers and professionals from the local property sector, and we are confident that with their expertise, combined with our solid Hong Kong experience and track record, we are well positioned to capture investment opportunities in China as they arise.

In April, 2007, we, together with Lehman Brothers completed the acquisition of our first China property, a 600,000 square feet prime commercial complex in Hongkou district of Shanghai. The property is currently under renovation which we expect to complete in mid-2008 and should bring substantial recurrent income to the Group.

We are actively seeking for new projects in China and expect to increase the proportion of our China investments.

Corporate Activities

For the year ended 31 March, 2007, we successfully raised a total of approximately HK\$760 million through the issue of shares and convertible notes. Subsequent to the financial year under review, we further raised HK\$390 million from the issuance of convertible notes to renowned institutional investors including Citadel Equity Fund Ltd, Credit Suisse (Hong Kong) Limited and Harmony Investment Fund Limited, as well as our existing shareholders, Lehman Brothers and Stark Investments (Hong Kong) Limited. The expanded institutional investors base will provide further opportunities for us to co-invest with our strategic partners who may have keen interest in property investments. Our strengthened balance sheet will also allow us to capture sizeable investment opportunities in the near future.

Outlook

We are optimistic about the business prospect in Hong Kong and China. With our continued efforts, we are confident to further enhance value of our existing portfolio and successfully repeat our proven repositioning model in China to create further growth for our shareholders.

Appreciation

I would like to express my gratitude to the support of our board members, shareholders, business partners and bankers throughout the years. I would also like to thank our management and staff for their dedication and efforts contributed to the encouraging results of this year.

Chung Cho Yee, Mico

Non-Executive Chairman

Hong Kong, 19 July, 2007

CORPORATE GOVERNANCE REPORT

The Company is obliged to comply with the requirements for continuing listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and is committed to practice high standard of corporate governance in its daily management and operations. The Company follows and applies the principles of the Code on Corporate Governance Practices (the “Corporate Governance Code”) in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) in the year under review, except for those mentioned below.

The board of directors of the Company (the “Board”) acknowledged in this Corporate Governance Report that it is its responsibility for preparing the accounts for the year ended 31 March, 2007 together with the relevant notes. In this Corporate Governance Report, significant matters were discussed with appropriate cross-reference to relevant parts in this annual report.

The Board of Directors

The Board has 1 non-executive chairman, 4 executive directors (2 being appointed after 31 March, 2007) and 3 independent non-executive directors (“INED”). Biographies of all current directors are set out on pages 12 and 14 of this annual report. All directors pay sufficient time and attention to the affairs of the Company. Every member of the Board is fully aware of his responsibilities as a director of the Company under the applicable laws and regulations. Non-executive directors provide their skills and expertise and serve different board committees of the Company. The Company provides appropriate cover on directors and officers liabilities insurance and the latest policy was renewed in May, 2007.

Bye-laws 102 (A) and 102 (B) are amended by a special resolution passed on 25 August, 2005 to the effect that all directors are subject to rotation at least once every three years. No specific term is imposed on the non-executive directors who are required to retire in accordance with the bye-laws of the Company. Additional and new directors filling up casual vacancy are subject to election in the next following general meeting.

The Company does not have the position of Chief Executive Officer. The Board is chaired by the non-executive director. The roles of chairman were adopted on 21 July, 2005. The Company created the position of Group Chief Operating Officer on 1 April, 2007 to oversee the daily management and operations of the Company.

The Board has resolved to meet regularly 4 times a year. The Board met on 29 July, 24 October, and 29 December, 2006 and 19 March, 2007 and the attendance of each director is set out below:-

Name of Director	Number of Attendance
Chung Cho Yee, Mico	4/4
Ma Wai Man, Catherine	4/4
Chow Hou Man	4/4
Wong Sin Just	4/4
Lam Lee G.	4/4
Cheng Yuk Wo	4/4
Hubert Chak	Appointed on 1 June, 2007
Kan Sze Man	Appointed on 1 June, 2007

In addition to the above regular board meetings, all board members met on 31 January, 2007 and 2 written board resolutions were duly executed during the year. There were also various casual meetings and telephone conversations between non-executive directors and executive directors from time to time to discuss the businesses and overall direction of the Company.

CORPORATE GOVERNANCE REPORT

The Board of Directors (Continued)

Draft board minutes were circulated to all directors for comments after the meetings. The original board minutes are kept by the Company Secretary for inspection of the directors.

Board Committees

The Company has 4 board committees to oversee the businesses and corporate governance. All minutes are circulated to committee members and full records are kept by the Company Secretary.

Remuneration Committee, which comprises majority of INED, was established on 21 July, 2005. Its written terms of reference, which deal clearly with its authority and duties for a formal and transparent procedure to fix the remuneration package for all directors, were adopted on 21 July, 2005. The remuneration paid to the directors for the year ended 31 March, 2007 was set out on pages 50 to 52. The Remuneration Committee met on 29 July, 2006 and 19 March, 2007.

Audit Committee was established pursuant to the board meeting held on 2 June, 1999 with its terms of reference adopted on the same day and revised on 21 July, 2005. The Audit Committee met on 29 July, and 29 December, 2006.

Name of Non-executive Director	Number of Attendance Audit Committee	Number of Attendance Remuneration Committee
Chung Cho Yee, Mico	N/A	2/2
Wong Sin Just	1/2	N/A
Lam Lee G.	2/2	2/2
Cheng Yuk Wo	2/2	2/2

A General Executive Board Committee comprised of the executive directors was formed with terms of reference on 21 June, 2005. In addition, 3 executive board committees, with delegated power for specific purposes, were established in the year under review pursuant to board resolutions.

For the purpose of giving independent advice to independent shareholders of the Company for transactions contemplated during the year, 2 independent board committees comprised of only independent non-executive directors of the Company was formed.

The members of the above committees had full access to board minutes, records, materials as well as the management and staff of the Company. The Company provides full supports to the above committees and arranges for professional advisors to give incidental advice whenever necessary.

Directors' Dealing in Shares of the Company

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules relating to dealings in securities. Memorandum was sent to directors twice a year to draw their attention to the Model Code. The Company made specific enquiries to each director and had received their written confirmation of full compliance with the Model Code for the year ended 31 March, 2007.

CORPORATE GOVERNANCE REPORT

Audit and Internal Control

Deloitte Touche Tohmatsu was appointed as the auditors of the Company in the annual general meeting held on 29 August, 2006. The Audit Committee with the mandate given by the shareholders on the general meeting fixed the audit fee of HK\$800,000 for the financial year of 2007 (page 50 of this annual report). The Company also engages Deloitte Touche Tohmatsu on taxation and other services during the year at a total fee of HK\$320,000.

The Board acknowledged that it has the overall responsibility of the internal control system to enhance the awareness of risk management and assets protection. The internal control system is designed to provide reasonable policies and procedures to manage business risk and to avoid misstatement of the performance of the Company and its subsidiaries (the "Group"). The Company has a clearly defined organisation chart by functions, an effective filing system to maintain proper records for accounting and business transactions, well established procedures in approving payments and safeguarding the appropriate use of assets. The Group Legal Counsel of the Company also acts as the head of compliance to ensure the Group's compliance with applicable laws and regulations. The Company reviews its internal control system annually with the Audit Committee thereafter, taking effective actions on recommendation, if any, to improve its system.

Communication with Shareholders, General Meetings and Voting By Poll

All company announcements, circulars and notice of general meetings include an update list of directors with their designation. In the year under review, the Company had issued 14 announcements in the newspapers and 6 circulars, convened 2 special general meetings and 1 annual general meeting.

All company circulars relating to general meetings contains specific paragraph with reference to Bye-laws to clearly draw the attention of shareholders to procedures and their rights in demanding a poll vote. The chairman of general meetings provided extracts from Company's Bye-laws relating to voting procedures and the Chairman drew the attention of the shareholders to their rights to vote at the beginning of all meetings. With the assistance of the share registrar of the Company, all voting results are counted and recorded clearly. The results and the number of votes (for and against) were announced by the Chairman in the meeting and published in the newspapers on the following day.

DIRECTORS' REPORT

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

Principal Activities

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly-controlled entities are set out in notes 45, 21 and 20, respectively to the consolidated financial statements.

Results and Appropriations

Details of the Group's results for the year are set out in the consolidated income statement on page 23.

The directors recommended the payment of a final dividend 0.8 HK cents per share of HK\$0.008 each, payable to shareholders of the Company whose names are on the register of members on 28 August, 2007.

Investment Properties

During the year, the Group acquired an investment property at fair value of HK\$163,000,000 and disposed of investment properties with carrying values of approximately HK\$230,000,000, details of which are set out in note 34(a).

The Group revalued all of its investment properties at the balance sheet date. The increase in fair value of investment properties, which amounted to HK\$142,919,000, has been credited directly to the consolidated income statement.

Details of these and other movements in the investment properties of the Group during the year are set out in note 15 to the consolidated financial statements.

Property, Plant and Equipment

During the year, the Group incurred expenditure of approximately HK\$672,000 on the acquisition of property, plant and equipment.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

Share Capital

Details of the movements in the share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

DIRECTORS' REPORT

Borrowings

Details of bank borrowings of the Group are set out in note 30 to the consolidated financial statements. No interest was capitalised by the Group during the year.

Distributable Reserves of the Company

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:

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

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31 March, 2007 including contributed surplus and accumulated profits amounted to HK\$543,497,000 (2006: HK\$404,912,000).

Major Customers and Suppliers

The aggregate sale during the year attributable to the Group's five largest customers was 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.

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

Executive directors:

Ms. Ma Wai Man, Catherine

Mr. Chow Hou Man

Mr. Hubert Chak (appointed on 1 June, 2007)

Mr. Kan Sze Man (appointed on 1 June, 2007)

Independent non-executive directors:

Dr. Lam Lee G.

Dato' Wong Sin Just

Mr. Cheng Yuk Wo

DIRECTORS' REPORT

Directors (Continued)

Pursuant to Bye-law 99(A) of the Bye-Laws, Mr. Cheng Yuk Wo and Mr. Chow Hou Man shall retire by rotation. In addition, Mr. Hubert Chak and Mr. Kan Sze Man being directors appointed by the Board after the annual general meeting of the Company held on 29 August, 2006 will hold office until the forthcoming annual general meeting pursuant to Bye-laws 102(B). All retiring directors, being eligible, offer themselves for re-election.

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

Directors and Senior Management Profile

Non-Executive Chairman and Non-Executive Director

Mr. Chung Cho Yee, Mico, aged 46, 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, PCCW Limited and Hong Kong Construction (Holdings) Limited, all being companies listed on the Stock Exchange. He is also a director of JALECO Ltd., a company listed on Jasdaq Securities Exchange Inc.

Executive Directors

Ms. Ma Wai Man, Catherine, aged 41, 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 36, 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.

Mr. Hubert Chak, aged 46, joined the Company as Group Chief Operating Officer in April, 2007. He was an executive director of Pacific Century Premium Developments Limited and was also the company secretary and director of mergers and acquisitions of PCCW Limited until February, 2007. He is a non-executive director of Tradelink Electronic Commerce Limited. Prior to joining the Pacific Century group in 1999, he worked for a number of international investment banks in Hong Kong and has more than 10 years' experience in corporate finance transactions in the region. He was a graduate of the University of Wales (now known as Cardiff University) in the United Kingdom and holds a Master of Business Administration degree and a Bachelor of Science degree in Mechanical Engineering.

DIRECTORS' REPORT

Directors and Senior Management Profile (Continued)

Executive Directors (Continued)

Mr. Kan Sze Man, aged 35, joined the Company as Group General Counsel in 2001. Mr. Kan is a qualified solicitor by profession. He graduated from Wadham College, Oxford University, England in 1993 and qualified as 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 Tsushi International Limited (now known as China Oil and Gas Group Limited) as its senior vice president and legal counsel in early 2000. Mr. Kan was also an executive director of the Company from 2001 to 2003. Mr. Kan is the brother-in-law of Mr. Chung Cho Yee, Mico, the non-executive Chairman of the Company and the controlling shareholder of the Company.

Independent Non-Executive Directors

Dr. Lam Lee G., aged 47, 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 in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the UK, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 25 years of multinational general management, corporate governance, investment banking, and direct investment experience. He is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves on the board of a number of publicly-listed companies in the Asia Pacific region. He is a member of the Hong Kong Institute of Bankers, a member of the Young Presidents' Organization, a fellow of the Hong Kong Institute of Directors and the China Institute of Directors, and a member of the General Council of the Chamber of Hong Kong Listed Companies.

Dato' Wong Sin Just, aged 41, Independent Non-Executive Director, joined the Group in 2001. Dato' Wong possesses over 17 years of accounting, investment banking and venture capital experience. He held senior positions with a number of premier international investment banks and is currently the Executive Co-Chairman of E2-Capital (Holdings) Limited. Dato' Wong holds a Bachelor Degree in Engineering (First Class Honours) from Imperial College, University of London and was qualified as an associate of the Institute of Chartered Accountants, England and Wales. Dato' Wong is also the Vice Chairman and the Chief Executive Officer of Softbank Investment International (Strategic) Limited and an Independent Non-executive Director of China.com Inc.

Mr. Cheng Yuk Wo, aged 46, 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 an independent non-executive director 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.

DIRECTORS' REPORT

Directors and Senior Management Profile (Continued)

Senior Management

HONG KONG

Mr. Mak Chi Wing, aged 49, Deputy Head of the Group Property Division, joined the Group in 2007. Mr. Mak has more than 25 years experience in the property development business, and worked for major property developers including Sun Hung Kai, Swire and Hopewell. He has extensive practical experience in project management and development process from the inception stage, planning, design coordination, all the way to the handing over the finished product. Mr. Mak was a Development Consultant for 7 years and has handled numerous development studies, project management cases. He is a member of the Chartered Institute of Building.

Mr. Mak Wing Lung, aged 53, Director of the Group Property Division, joined the Group in 2006. Mr. Mak graduated from the University of Reading, England in 1982 and qualified as a Chartered Surveyor in 1985. He has over 30 years experience in managing sizable property portfolio in Hong Kong. Before joining the Group, Mr. Mak had held significant position in Hong Kong listed companies and international property management and investment firms.

Mr. Wong Chung Kwong, aged 56, General Manger of the Group Property Division, joined the Group in 2004, is responsible for 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, sales and marketing, tenders and property management. Before joining the Group, Mr. Wong had worked in property development and management companies in Mainland China and Hong Kong.

Mr. Ho Lok Fai, aged 46, Head of Marketing and Leasing of the Group Property Division, joined the Group in 2005, is responsible for the sales and leasing of properties of the Group. Mr. Ho possesses more than 15 years experience in the office and commercial property market in Hong Kong and is specialized in analyzing market data and trend. Mr. Ho had worked in several property agency companies before joining the Group.

SHANGHAI

Ms. Dong Yan, aged 38, General Manager of the Group's PRC Property Division, joined the Group in September 2006. Ms. Dong was the Deputy General Manager of the Shanghai Real Estate Co. Ltd. Group, one of the largest real estate players in Shanghai for over 10 years and sat on the board of several of its wholly owned or shareholding real estate development and project companies. In this capacity, Ms. Dong oversaw development phase master planning and design work, as well as market positioning and sales activities. Before she joined the Group, she was a vice president of H&Q Asia Pacific. Ms. Dong received a post-graduated diploma on urban planning and inner city renewal course from Institute of Housing and Urban Development Studies, Rotterdam, Netherlands in 1993 and a management master degree from Norwegian School of Management (BI), and an EMBA from Antai School of Management, Jiao Tong University.

Mr. Cheung Chun Pan Foley, aged 37, Executive Director, Investment of the Group's PRC Property Division, joined the Group in June, 2007. Mr Cheung graduated from Hong Kong Lingnan University, holds a MBA degree from University of Strathclyde, UK and a MSc degree from University of Hong Kong. Mr Cheung has over 10 years' PRC real estate experience covering distressed asset acquisitions, land acquisitions, project financing, joint venture structures, asset management, project sales and marketing, and corporate leasing. He worked as an Executive Director, Investment Division of Colliers International Property Services (Shanghai) Co Ltd and General Manager of a Shanghai listed property company before joining the Group.

DIRECTORS' REPORT

Directors' Interests in Shares

Save as disclosed in sections headed "Substantial Shareholders" and "Share Option Schemes", as at 31 March, 2007, 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Share Option Schemes

Particulars of the Company's share option schemes are set out in note 33 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the year:

	Option scheme type	Exercise price	Number of options outstanding at 1.4.2006	Exercised during the year	Lapsed during the year	Number of options outstanding at 31.3.2007
Directors						
Ma Wai Man, Catherine	2001	0.672	7,075,000	—	—	7,075,000
	2002 (Note 1)	0.560	3,125,000	—	—	3,125,000
Chow Hou Man	2001	0.672	837,500	—	—	837,500
	2002 (Note 1)	0.560	3,125,000	—	—	3,125,000
Total for directors			14,162,500	—	—	14,162,500
Employees and consultants						
	2001	0.672	11,162,500	(131,250)	—	11,031,250
	2002 (Note 1)	0.560	15,250,000	(1,000,000)	—	14,250,000
	2002	0.560	7,500,000	—	—	7,500,000
	2002	0.600	3,750,000	—	—	3,750,000
Total for employees and consultants			37,662,500	(1,131,250)	—	36,531,250
Grand total			51,825,000	(1,131,250)	—	50,693,750

DIRECTORS' REPORT

Share Option Schemes (Continued)

Notes:

- (1) 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 23 September, 2002 (until 22 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.
- (2) The closing prices of the Company's shares at the dates of exercise by the employees and consultants were HK\$1.35 and HK\$1.65 per share, respectively.
- (3) The above information has not been adjusted to reflect the effect of share sub-division as set out in note 44(2) to the consolidated financial statements.

Arrangements to Purchase Shares or Debentures

Save as disclosed above and in notes 31 and 33 to the consolidated financial statements, at no time during the year, was the Company or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Director's Interests in Contracts of Significance

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

Substantial Shareholders

As at 31 March, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Long position

Name	Capacity	Number of shares	Derivative interests (Number of shares to be issued upon conversion of the 2011 Convertible Notes as set out in note 32)	Approximate shareholding percentage
Chung Cho Yee, Mico ("Mr. Chung")	Beneficial owner (Note 1)	311,095,250		31.57%
			8,064,516	8.18%
Earnest Equity Limited ("Earnest Equity")	Interest of controlled corporation (Note 2)	310,675,250		31.53%
			8,064,516	8.18%
Stark Investments (Hong Kong) Limited	Investment manager (Note 3)	111,620,000		11.33%
			24,193,547	2.46%
Lehman Brothers Holdings Inc.	Beneficial owner (Note 4)	87,840,000		8.91%
			22,043,000	2.24%
Stark Master Fund, Ltd.	Beneficial owner (Note 5)	79,456,000		8.06%
			19,354,838	1.96%

DIRECTORS' REPORT

Substantial Shareholders (Continued)

Long position (Continued)

Notes:

1. Being the aggregate of personal interest of Mr. Chung of 420,000 shares and the corporate interest held by Earnest Equity of 310,675,250 shares and 2011 Convertible Notes of principal amount of HK\$15,000,000.
2. 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, 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 and that both Digisino and Earnest Equity are corporations wholly owned and controlled by him.
3. Stark Investments (Hong Kong) Limited, being an investment manager, is deemed to be interested in 111,620,000 shares and 2011 Convertible Notes of principal amount of HK\$45,000,000.
4. Lehman Brothers Commercial Corporations Asia Limited, a company that holds 87,840,000 shares and 2011 Convertible Notes of principal amount of HK\$41,000,000, is a company owned as to 50% by LBCCA Holdings I Inc. and owned as to 50% by LBCCA Holdings II Inc., respectively, which were, in turn wholly-owned subsidiaries of Lehman Brothers Holdings Inc.
5. Stark Master Fund, Ltd. is the beneficial owner of 79,456,000 shares and 2011 Convertible Notes of principal amount of HK\$36,000,000.
6. The above information has not been adjusted to reflect the effect of share sub-division as set out in note 44(2) to the consolidated financial statements.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 March, 2007.

Appointment of Independent Non-executive Directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers all of the independent non-executive directors are independent.

Connected Transactions

The connected transactions undertaken by the Company during the year and up to date of this report are set out below:

- (a) Pursuant to the announcement dated 18 May, 2006 and the circular dated 27 May, 2006, on 17 May, 2006, the Group entered into:
 - (i) a conditional subscription agreement with Earnest Equity in relation to the placing of up to 102,000,000 new shares of HK\$0.04 each in the share capital of the Company at a placing price of HK\$1.59 per placing share (the "Earnest Equity Placing Agreement").

DIRECTORS' REPORT

Connected Transactions (Continued)

- (ii) A conditional subscription agreement with Earnest Equity and other third parties in relation to the subscription of convertible notes with aggregate principal amount of HK\$133,000,000 (the "2011 Convertible Notes"), of which HK\$15,000,000 was issued to Earnest Equity (the "Earnest Equity Note Subscription Agreement").

The holders of the 2011 Convertible Notes have the right to convert the 2011 Convertible Notes into shares of HK\$0.04 each of the Company at an initial conversion price of HK\$1.86 each (subject to adjustments) at any time during the period from the 7th day after the date of issue of the 2011 Convertible Notes up to and including the date which is 7 days prior to 13 June, 2011, the maturity date of the 2011 Convertible Notes.

Unless previously converted or purchased or redeemed by the Company, the Company will redeem the 2011 Convertible Notes on the maturity date at the redemption amount which is 110% of the principal amount of the 2011 Convertible Notes outstanding.

Upon full conversion of the 2011 Convertible Notes at the initial conversion price of HK\$1.86 (subject to adjustments), an aggregate of 71,505,376 conversion shares of HK\$0.04 each will be issued by the Company. (After adjusted for the share sub-division as stated in note 44(2) to the consolidated financial statements, the current conversion price of the 2011 Convertible Notes is HK\$0.372 and upon full conversion of the 2011 Convertible Notes, an aggregate of 357,526,881 conversion shares of HK\$0.008 each will be issued by the Company).

- (iii) a conditional agreement with the Aqua Sole Company Limited ("Aqua Sole") as the vendor, a company incorporated in Hong Kong and wholly owned by Mr. Chung, and Mr. Chung as the guarantor of the obligations of Aqua Sole for acquisition of the entire issued share capital of Sky Dragon Limited ("Sky Dragon"), a company incorporated in Hong Kong and the sole material asset of which is the property situated at No. 8 Hau Fook Street, Tsimshatsui, Kowloon, Hong Kong, and the outstanding shareholder's loan owed by Sky Dragon to Aqua Sole as at the completion of the agreement (the "Property Acquisition Agreement").

Earnest Equity is wholly and beneficially owned by a discretionary trust of which Mr. Chung is the founder and one of the discretionary beneficiaries whilst Aqua Sole is wholly owned by Mr. Chung. Since Mr. Chung is the non-executive Chairman of the Company and, through his personal interest and Earnest Equity, is beneficially interested in an aggregate of 191,687,250 shares of HK\$0.04 each in the share capital of the Company, representing approximately 32.78% of the issued share capital of the Company as at the date of the Earnest Equity Placing Agreement, the Earnest Equity Note Subscription Agreement and the Property Acquisition Agreement, each of Mr. Chung, Earnest Equity and Aqua Sole was a connected person of the Company under the Listing Rules. Accordingly, each of the Earnest Equity Placing Agreement, the Earnest Equity Note Subscription Agreement and the Property Acquisition Agreement constituted a connected transaction of the Company under the Listing Rules and was subject to, among other things, the approval of the independent shareholders at a general meeting of the Company. The transactions were completed on 13 June, 2006.

- (b) Pursuant to the announcement dated 7 June, 2007, the Company on the same day, entered into several conditional subscription agreements with Centar Investment (Asia) Limited ("Centar"), Lehman Brothers Commercial Corporation Asia Limited ("Lehman") and five independent third parties in relation to the subscription of HK\$390,000,000 2% convertible notes redeemable on the fifth anniversary from the date of issue (the "Maturity Date") (the "2012 Convertible Notes") with principal amounts of HK\$54,600,000, HK\$78,000,000 and HK\$257,400,000, respectively. Lehman is a substantial shareholder of one of the Company's non-wholly owned subsidiaries. Centar is a fund managed by Stark Investments (Hong Kong) Limited ("Stark Investments") and Stark Investments is a substantial shareholder of the Company. Therefore, Lehman and Stark Investments are connected persons of the Company under the Listing Rules. The transactions were completed on 13 July, 2007.

DIRECTORS' REPORT

Connected Transactions (Continued)

The holders of the 2012 Convertible Notes have the right to convert the 2012 Convertible Notes into shares of HK\$0.008 each of the Company at the initial conversion price of HK\$0.51 (subject to adjustments) at any time during the period from the 7th day after the date of issue of the 2012 Convertible Notes up to and including the date which is 7 days prior to the maturity date of the 2012 Convertible Notes.

Unless previously converted or purchased or redeemed by the Company, the Company will redeem the 2012 Convertible Notes at the redemption amount which is 119.38% of the principal amount of the 2012 Convertible Notes outstanding.

Upon full conversion of the 2012 Convertible Notes at the initial conversion price of HK\$0.51, an aggregate of 764,705,880 conversion shares of HK\$0.008 each will be issued by the Company. The net proceeds from the issue of the 2012 Convertible Notes of approximately HK\$387,000,000 is intended to be used for future property and property-related investments.

Emolument Policy

The emolument policy of the employees of the Group is set by the board of directors on the basis of their merit, qualifications and competence with reference to the prevailing market terms. In addition to salaries, discretionary bonuses may be rewarded to employees after assessment of the performance of the Group and the individual employee.

The emoluments of the directors of the Company are determined by the Remuneration Committee 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 33 to the consolidated financial statements.

Purchase, Sale and Redemption of Listed Shares

During the year, the Company repurchased its listed securities through the Stock Exchange as follows:

Month of repurchase	No. of shares of HK\$0.04 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
October	1,076,000	1.330	1.320	1,425
November	2,992,000	1.290	1.220	3,733

The above shares were cancelled upon repurchase.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

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.

DIRECTORS' REPORT

Corporate Governance

The Company is obliged to comply with the requirements for continuing listing on the Stock Exchange and is committed to practice high standard of corporate governance in its daily management and operations. The Company follows and applies the principles of the Code on Corporate Governance Practices in Appendix 14 to the Listing Rules in the year under review with exception of few deviations. Detailed information on the Company's corporate governance practices is set out in the Corporate Governance Report contained in pages 7 to 9 of this Annual Report.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 March, 2007.

Post Balance Sheet Events

Details of the significant post balance sheet events are set out in note 44 to the consolidated 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

19 July, 2007

INDEPENDENT AUDITOR'S REPORT

**TO THE MEMBERS OF CAPITAL STRATEGIC INVESTMENT LIMITED**

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Capital Strategic Investment Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 84, which comprise the consolidated balance sheet as at 31 March, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

19 July, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March, 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Turnover	6	555,363	371,638
Sales of properties and rental income		101,558	196,741
Cost of sales		(30,160)	(162,253)
Gross profit		71,398	34,488
Net increase in fair value of investments held for trading	3	64,500	17,724
Gain on disposal of prepaid lease payments		90,320	—
Other income	8	36,410	12,600
Administrative expenses		(51,327)	(28,723)
Finance costs	9	(42,110)	(18,010)
Increase in fair value of investment properties		142,919	100,000
Share of results of jointly-controlled entities		(369)	291
Share of results of associates		492	362
Gain on disposal of interests in investment properties	34a	9,060	—
Gain on disposal of interests in subsidiaries	34b	—	35,990
Gain on disposal of interest in associates		—	4,763
Profit before taxation		321,293	159,485
Taxation	10	(42,681)	(18,146)
Profit for the year	11	278,612	141,339
Attributable to:			
Equity holders of the parent		276,644	140,283
Minority interests		1,968	1,056
		278,612	141,339
Dividends paid	13	15,290	16,959
Dividends proposed	13	39,734	15,290
Earnings per share			
Basic	14	6.69 cents	6.44 cents (restated)
Diluted	14	6.18 cents	6.03 cents (restated)

CONSOLIDATED BALANCE SHEET

At 31 March, 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Non-Current Assets			
Investment properties	15	736,000	658,555
Property, plant and equipment	16	10,131	15,059
Prepaid lease payments	17	14,857	254,690
Available-for-sale investments	18	7,786	—
Club debentures	19	6,860	6,860
Interests in jointly-controlled entities	20	13,268	291
Interests in associates	21	7,868	96
Amount due from an associate	22	34,120	—
Deferred tax asset	23	1,467	1,470
		832,357	937,021
Current Assets			
Trade and other receivables	24	15,198	4,881
Prepaid lease payments	17	381	655
Deposit paid for acquisition of properties held for sales		185,256	27,730
Available-for-sale investments	18	—	8,815
Investments held for trading	18	118,797	104,155
Properties held for sale	25	1,789,030	104,928
Amount due from an investee	26	—	11,069
Amounts due from jointly-controlled entities	22	44,917	31,836
Amount due from an associate	22	5,023	8,102
Taxation recoverable		1,376	1,250
Pledged bank deposits	27	272,396	165,366
Bank balances and cash	27	336,093	215,218
		2,768,467	684,005
Current Liabilities			
Trade and other payables	28	39,566	15,231
Convertible notes — due within one year	32	1,596	—
Taxation payable		22,286	4,222
Amounts due to minority shareholders	29	7,604	3,875
Bank borrowings — due within one year	30	290,280	158,805
		361,332	182,133
Net Current Assets		2,407,135	501,872
		3,239,492	1,438,893

CONSOLIDATED BALANCE SHEET

At 31 March, 2007

NOTES	2007 HK\$'000	2006 HK\$'000
Capital and Reserves		
Share capital	31	39,413
Reserves		23,391
	2,062,609	1,187,697
Equity attributable to equity holders of the parent		2,102,022
Minority interests	—	1,211,088
		1,056
Total Equity	2,102,022	1,212,144
Non-Current Liabilities		
Bank borrowings — due after one year	30	928,118
Convertible notes — due after one year	32	119,606
Deferred tax liabilities	23	89,746
		155,243
		—
		71,506
	1,137,470	226,749
	3,239,492	1,438,893

The financial statements on pages 23 to 84 were approved and authorised for issue by the Board of Directors on 19 July, 2007 and are signed on its behalf by:

Chung Cho Yee, Mico
DIRECTOR

Hubert Chak
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March, 2007

	Attributable to equity holders of the parent									
	Share capital	Share premium	Capital redemption reserve	Convertible		Contributed surplus	Accumulated profits	Total	Minority interest	Total equity
				Capital reserve	note equity reserve					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 March, 2005	15,382	23,915	—	—	—	276,058	550,365	865,720	—	865,720
Profit for the year and total recognised income for the year	—	—	—	—	—	—	140,283	140,283	1,056	141,339
Issue of shares	7,800	214,150	—	—	—	—	—	221,950	—	221,950
Exercise of share options	209	3,308	—	—	—	—	—	3,517	—	3,517
Expenses related to issue of shares	—	(3,423)	—	—	—	—	—	(3,423)	—	(3,423)
Dividend paid	—	—	—	—	—	—	(16,959)	(16,959)	—	(16,959)
At 31 March, 2006	23,391	237,950	—	—	—	276,058	673,689	1,211,088	1,056	1,212,144
Profit for the year and total recognised income for the year	—	—	—	—	—	—	276,644	276,644	1,968	278,612
Share of changes in equity of an associate that recognised directly in equity	—	—	—	1,910	—	—	—	1,910	—	1,910
Issue of shares	16,140	616,425	—	—	—	—	—	632,565	—	632,565
Recognition of equity components of convertible notes	—	—	—	—	18,398	—	—	18,398	—	18,398
Exercise of share options	45	603	—	—	—	—	—	648	—	648
Expenses related to issue of shares	—	(18,765)	—	—	—	—	—	(18,765)	—	(18,765)
Shares repurchased and cancelled	(163)	—	163	—	—	—	(5,158)	(5,158)	—	(5,158)
Expense related to shares repurchased and cancelled	—	—	—	—	—	—	(18)	(18)	—	(18)
Dividend paid	—	—	—	—	—	—	(15,290)	(15,290)	(3,024)	(18,314)
At 31 March, 2007	39,413	836,213	163	1,910	18,398	276,058	929,867	2,102,022	—	2,102,022

The capital reserve represents the Group's share of the deemed capital contribution arising from interest free amounts granted to the associate by its shareholders.

The contributed surplus of the Group represented the amount arising from capital reorganisation carried out by the Company during the year ended 31 March, 2003.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March, 2007

	2007 HK\$'000	2006 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	321,293	159,485
Adjustments for:		
Dividend income	(664)	(52)
Finance costs	42,110	18,010
Interest income	(29,255)	(8,475)
Income from amortisation of financial guarantee contracts	(1,310)	—
Depreciation of property, plant and equipment	3,840	3,282
Release of prepaid lease payments	427	655
(Loss) gain on disposal of property, plant and equipment	1,760	(440)
Gain on disposal of prepaid lease payments	(90,320)	—
Increase in fair value of investment properties	(142,919)	(100,000)
Increase in fair value of investments held for trading	(11,141)	(12,386)
Allowance for other receivables	—	530
Share of results of jointly-controlled entities	369	(291)
Share of results of associates	(492)	(362)
Gain on disposal of interests in investment properties	(9,060)	—
Gain on disposal of interests in subsidiaries	—	(35,990)
Gain on disposal of interest in associates	—	(4,763)
Operating cash flow before movements in working capital	84,638	19,203
(Increase) decrease in investments held for trading	(3,501)	37,714
(Increase) decrease in trade and other receivables	(8,383)	12
Increase in deposit held in stakeholders	(157,526)	(23,199)
(Increase) decrease in properties held for sale	(900,202)	25,071
Increase (decrease) in accruals and other payables	14,759	(25,379)
Net cash (used in) generated from operations	(970,215)	33,422
Interest paid	(33,692)	(18,010)
Hong Kong Profits (refund) paid	(2,477)	(10,657)
NET CASH (USED IN) FROM OPERATIONS	(1,006,384)	4,755

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March, 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
INVESTING ACTIVITIES			
Interest received		27,461	8,475
Dividend received		—	52
Dividend received from an associate		890	—
Proceeds from disposal of associates	21	—	40,414
Proceeds from disposal of interests in investment properties (net of cash and cash equivalents disposed of)	34a	33,312	—
Proceeds from disposal of interests in subsidiaries (net of cash and cash equivalents disposed of)	34b	—	39,046
Proceeds from disposal of property, plant and equipment		—	440
Proceeds from disposal of investment properties		42,000	296,000
Proceeds from disposal of prepaid lease payments		330,000	—
Proceeds from disposal of available-for-sale investments		3,810	—
Purchase of property, plant and equipment		(672)	(3,261)
Increase in pledged bank deposits		(107,030)	(160,136)
Purchase of investment properties		(1,526)	(36,555)
Purchase of available-for-sale investments		(2,781)	—
Acquisition of assets (net of cash and cash equivalents acquired)	35	(851,386)	(205,000)
Increase in amounts due from associates		(33,142)	(5,162)
Decrease (increase) in amount due from an investee		11,069	(11,069)
Increase in amount due from a jointly-controlled entity		(3)	(31,836)
Investments in associates		—	(96)
NET CASH USED IN INVESTING ACTIVITIES		(547,998)	(68,688)
FINANCING ACTIVITIES			
New bank borrowings raised		1,127,720	233,300
Proceeds from issue of shares, net of issue expenses		614,448	222,044
Proceeds from issue of convertible notes		133,000	—
Advance (repayment to) from minority shareholders		3,729	(9,141)
Shares repurchased and cancelled		(5,176)	—
Dividends paid		(15,290)	(16,959)
Dividends paid to a minority shareholder of a subsidiary		(3,024)	—
Repayment of bank borrowings		(180,150)	(361,162)
NET CASH FROM FINANCING ACTIVITIES		1,675,257	68,082
INCREASE IN CASH AND CASH EQUIVALENTS		120,875	4,149
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		215,218	211,069
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		336,093	215,218

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of the registered office and principal place of business of the Company are disclosed in the section headed “Corporate Information” in the annual report.

The financial statements are presented in Hong Kong dollars, which is same as the functional currency of the Company.

The Company is an investment holding company. The activities of its principal subsidiaries, associates and jointly-controlled entities are set out in note 45, 21 and 20 respectively.

2. Application of Hong Kong Financial Reporting Standards/changes in accounting policies

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1 December, 2005, 1 January, 2006 or 1 March, 2006. The adoption of the new HKFRSs has resulted in a change to the Group’s accounting policy in the following area that has an effect on how the results for the current or prior accounting periods have been prepared and presented:

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard (“HKAS”) 39 and HKFRS 4 (Amendments) “Financial guarantee contracts” which is effective for annual periods beginning on or after 1 January, 2006.

A financial guarantee contract is defined by HKAS 39 “Financial Instruments: Recognition and Measurement” as “a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument”.

Upon application of these amendments, financial guarantee contracts granted by the Group and not designated as at fair value through profit or loss are recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the amount determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets”; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

2. Application of Hong Kong Financial Reporting Standards/changes in accounting policies (Continued)

Financial guarantee contracts (Continued)

In relation to financial guarantees granted to banks over the repayment of loans by associates and a jointly controlled entity, the Company has applied the transitional provisions in HKAS 39. The fair values of the financial guarantee contracts at the date of grant of HK\$3,495,000 and HK\$2,120,000, representing deemed capital contributions to the associates and the jointly controlled entity, have been adjusted to the carrying amounts of interests in associates and jointly controlled entities, respectively. This change in accounting policy has resulted in an increase in profit for the year of HK\$1,310,000.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and financial position of the Group except for HKAS 23 (Revised) on borrowing costs. The Group is not yet in a position to reasonably estimate the impact that may arise from the adoption of HKAS 23 (Revised).

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 23 (Revised)	Borrowing Costs ²
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) — Int 8	Scope of HKFRS 2 ³
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions ⁶
HK(IFRIC) — Int 12	Service Concession Arrangements ⁷

¹ Effective for annual periods beginning on or after 1 January, 2007

² Effective for annual periods beginning on or after 1 January, 2009

³ Effective for annual periods beginning on or after 1 May, 2006

⁴ Effective for annual periods beginning on or after 1 June, 2006

⁵ Effective for annual periods beginning on or after 1 November, 2006

⁶ Effective for annual periods beginning on or after 1 March, 2007

⁷ Effective for annual periods beginning on or after 1 January, 2008

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

3. Change in Presentation of Financial Statements

In the current year, the presentation of turnover, cost of sales and net increase in fair value of investments held for trading adopted in the consolidated income statement has been changed to reflect the nature of sales of investments held for trading in a more appropriate manner.

In the current year, the following items have been included in a new line item “net increase in fair value of investments held for trading”.

	2007 HK\$'000	2006 HK\$'000
Proceeds from sales of investments held for trading (previously included in turnover)	443,926	170,395
Cost of sales of investments held for trading (previously included in cost of sales)	(400,446)	(169,559)
Dividend income from investments held for trading (previously included in turnover)	9,879	4,502
Unrealised fair value adjustment of investments held for trading	11,141	12,386
	64,500	17,724

4. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain investment properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

4. Significant Accounting Policies (Continued)

Business combinations (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

4. Significant Accounting Policies (Continued)

Joint ventures

Jointly-controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly-controlled entities.

The results and assets and liabilities of jointly-controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly-controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly-controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly-controlled entity equals or exceeds its interest in that jointly-controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly-controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly-controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly-controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly-controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

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 from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

4. Significant Accounting Policies (Continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Leasehold land held for undetermined future use

Leasehold land held for undetermined future use is classified as a prepared lease payment under an operating lease. It is stated at cost and amortised on a straight line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

4. Significant Accounting Policies (Continued)

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 (including prepaid lease payments) 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.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit scheme

Payments to Mandatory Provident Fund Scheme are charged as an expense when employees have rendered services entitling them to the contributions.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

4. Significant Accounting Policies (Continued)

Foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

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 consolidated 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 recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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.

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 profit and loss, 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 31 March, 2007

4. Significant Accounting Policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits held in stakeholders, amount due from a jointly-controlled entity, amounts due from associates, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss and loans and receivables. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to minority shareholders and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Convertible notes

Convertible notes issued by the Group that contains both the liability and conversion option components are classified separately into respective items on initial recognition. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Convertible notes (Continued)

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the note into equity, is included in equity (convertible note equity reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into shares of the Company, will remain in convertible note equity reserve until the embedded option is exercised (in which case the balance stated in convertible note equity reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible note equity reserve will be released to the accumulated profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Upon repurchase of the Company's own shares, the respective shares are subsequently cancelled upon repurchase and accordingly, the issued share capital of the Company is reduced by the nominal value thereof. The premium payable on repurchase was charged against the Company's share premium account. An amount equal to the nominal value of the shares repurchased is transferred from accumulated profits to capital redemption reserve.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

4. Significant Accounting Policies (Continued)

Financial instruments (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Club debentures

Club debentures are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of club debentures are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Club debentures are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of club debenture is estimated to be less than its carrying amount, the carrying amount of the club debenture is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of club debenture is increased to the revised estimate of its recoverable amount.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company prior to 1 January, 2005

Prior to 1 April, 2005, the financial impact of share options granted is not recorded in the consolidated balance sheet until such time as the options are exercised, and no charge is recognised in the consolidated 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 their exercise date are removed from the register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

5. Financial Instruments

a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, deposits held in stakeholders, amounts due from associates, amount due from a jointly-controlled entity, pledged bank deposits, bank balances and cash, trade and other payables, amounts due to minority shareholders and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

(i) Interest rate risk

The Group's cash flow interest rate risk relates primarily to bank borrowings which are repriced every six months (see Note 30 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's fair value interest rate risk relates to the short-term fixed bank deposits, pledged bank deposits and debt securities. The directors consider the exposures in relation to bank deposits to be insignificant because of short deposit period. Moreover, the management has delegated a term responsible for monitoring the fluctuation of the interest rates of the debt securities. In this regard, the Group considers that the Group's fair value interest rate risk on the debt securities is significantly reduced.

(ii) Price risk

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

As at 31 March, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities disclosed in Note 38.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

5. Financial Instruments (Continued)

a. Financial risk management objectives and policies (Continued)

Credit risk (Continued)

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks and brokers with high-credit ratings assigned by international credit-rating agencies.

The credit risk on investments in listed debt securities is limited because the counterparties are corporations with high-credit-ratings.

The Groups has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets which are listed debt and equity securities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices;
- the fair value of the unlisted debt securities are determined by the banks and financial institutions with reference to quoted bid prices, and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

6. Turnover

	2007 HK\$'000	2006 HK\$'000
Rental income	83,978	34,314
Sales of properties	17,580	162,427
Proceeds from sales of investments held for trading	443,926	170,395
Dividend income from investments held for trading (Note)	9,879	4,502
	555,363	371,638

Note: Fair value changes in investments held for trading includes dividend income.

7. 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 and property development
- Securities investment — Trading of securities

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

7. 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 31 March, 2007</i>			
TURNOVER			
External sales	101,558	453,805	555,363
RESULT			
Segment result	276,366	47,950	324,316
Unallocated corporate expenses			(6,506)
Other income			36,410
Finance costs			(42,110)
Share of results of jointly-controlled entities	(369)	—	(369)
Share of results of associates	492	—	492
Gain on disposal of interests in investment properties			9,060
Profit before taxation			321,293
Taxation			(42,681)
Profit for the year			278,612

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

7. Segmental Information (Continued)

Business segments (Continued)

	Property investment HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
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For the year ended 31 March, 2006

TURNOVER			
External sales	196,741	174,897	371,638
RESULT			
Segment result	117,140	12,188	129,328
Unallocated corporate expenses			(5,839)
Other income			12,600
Finance costs			(18,010)
Share of results of jointly-controlled entities	291	—	291
Share of results of associates	362	—	362
Gain on disposal of interests in subsidiaries			35,990
Gain on disposal of interests in associates			4,763
Profit before taxation			159,485
Taxation			(18,146)
Profit for the year			141,339

	Property investment HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
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Assets and liabilities as at 31 March, 2007

ASSETS			
Segment assets	2,738,813	118,891	2,857,704
Interests in jointly-controlled entities	13,268	—	13,268
Interests in associates	7,868	—	7,868
Unallocated total assets			721,984
Consolidated total assets			3,600,824
LIABILITIES			
Segment liabilities	23,564	1,154	24,718
Unallocated corporate liabilities			1,474,084
Consolidated total liabilities			1,498,802

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

7. Segmental Information (Continued)

Business segments (Continued)

	Property investment	Securities investment	Consolidated
	HK\$'000	HK\$'000	HK\$'000

*Other information for the year ended
31 March, 2007*

Capital expenditure			
— Investment properties	164,526	—	164,526
— Property, plant and equipment	672	—	672
Depreciation	3,840	—	3,840
Release of prepaid lease payments	427	—	427

	Property investment	Securities investment	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

*Assets and liabilities as at
31 March, 2006*

ASSETS				
Segment assets	1,122,134	444,754	—	1,566,888
Interests in jointly-controlled entities	291	—	—	291
Interest in associates	96	—	—	96
Unallocated total assets				53,751
Consolidated total assets				1,621,026
LIABILITIES				
Segment liabilities	12,795	2,430	—	15,225
Unallocated corporate liabilities				393,657
Consolidated total liabilities				408,882

*Other information for the year ended
31 March, 2006*

Capital expenditure				
— Property, plant and equipment	3,261	—	—	3,261
Depreciation	3,180	102	—	3,282
Release of prepaid lease payments	655	—	—	655
Allowance on other receivables	—	—	530	530

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

7. Segmental Information (Continued)

Geographical segments

The following provides an analysis of the Group's turnover by geographic market, irrespective of the origin of the goods/services:

	Turnover	
	2007 HK\$'000	2006 HK\$'000
Overseas	160,715	95,563
Hong Kong	394,648	276,075
	555,363	371,638

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

8. Other Income

	2007 HK\$'000	2006 HK\$'000
Interest income	29,255	8,475
Income from amortisation of financial guarantee contracts	1,310	—
Dividend income from an associate (Note)	664	—
Gain on disposal of property, plant and equipment	—	440
Others	5,181	3,685
	36,410	12,600

Note: The amount represents the excess of dividend income from an associate over the carrying amount of interest in that associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

9. Finance Costs

	2007 HK\$'000	2006 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	5,406	17,323
Bank borrowings with instalments repayable over five years	30,104	687
Convertible notes	6,600	—
	42,110	18,010

10. Taxation

	2007 HK\$'000	2006 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
— Current year	23,262	11,990
— Under (over) provision in prior years	1,176	(949)
	24,438	11,041
Deferred taxation (note 23)	18,243	7,105
Taxation attributable to the Company and its subsidiaries	42,681	18,146

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

10. Taxation (Continued)

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

	2007 HK\$'000	2006 HK\$'000
Profit before taxation	321,293	159,485
Taxation at Hong Kong Profits Tax rate of 17.5%	56,226	27,910
Tax effect of income not taxable for tax purposes	(18,374)	(10,918)
Tax effect of expenses not deductible for tax purposes	4,835	3,391
Tax effect of share of results of jointly-controlled entities	64	(51)
Tax effect of share of results of associates	(86)	(63)
Tax effect of tax losses not recognised	17	373
Utilisation of tax losses previously not recognised	—	(1,475)
Under(over)provision in respect of prior year	1,176	(949)
Overprovision of deferred tax liabilities in respect of prior year	(1,136)	—
Others	(41)	(72)
Tax charge for the year	42,681	18,146

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

11. Profit for the Year

	2007 HK\$'000	2006 HK\$'000
Profit for the year has been arrived at after charging:		
Directors' remuneration (note 12(a)):		
Fees	300	300
Other emoluments	10,145	4,978
Other staff costs	7,660	4,785
Retirement benefit scheme contributions	519	191
Total staff costs	18,624	10,254
Auditor's remuneration		
Current year	800	650
Under (over) provision in prior year	50	(30)
Depreciation of property, plant and equipment	3,840	3,282
Release of prepaid lease payments	427	655
Allowance for other receivables	—	530
Cost of properties held for sale recognised as an expense	17,695	129,999
Loss on disposal of property, plant and equipment	1,760	—
and after crediting:		
Net rental income in respect of premises after outgoings of HK\$12,465,000 (2006: HK\$5,154,000)	61,954	29,160

12. Directors' and Employees' Remuneration

(a) Directors' remuneration

	2007 HK\$'000	2006 HK\$'000
Directors' fees		
Executive directors	—	—
Non-executive director		
— Mr. Chung Cho Yee, Mico	—	—
Independent non-executive directors		
— Dr. Lam Lee G	100	100
— Dato' Wong Sin Just	100	100
— Mr. Cheng Yuk Wo	100	100
Total directors' fees	300	300

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

12. Directors' and Employees' Remuneration (Continued)

(a) Directors' remuneration (Continued)

	2007 HK\$'000	2006 HK\$'000
Other emoluments		
Executive directors		
(i) Salaries and other benefits and bonus		
— Dato' Choo Yeow Ming	—	—
— Ms. Ma Wai Man, Catherine	1,760	1,560
— Mr. Chow Hou Man	1,045	800
	2,805	2,360
(ii) Retirement benefit scheme contributions		
— Dato' Choo Yeow Ming	—	—
— Ms. Ma Wai Man, Catherine	88	78
— Mr. Chow Hou Man	52	40
	140	118
Non-executive director		
(i) Salaries and other benefits and bonus		
— Mr. Chung Cho Yee, Mico	7,200	2,500
Independent non-executive directors	—	—
Total other emoluments	10,145	4,978
Total directors' remuneration	10,445	5,278

No directors have waived any emoluments during both years.

During both years, 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 31 March, 2007

12. Directors' and Employees' Remuneration (Continued)

(b) Employees' remuneration

The five highest paid individuals in the Group included three directors (2006: 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:

	2007 HK\$'000	2006 HK\$'000
Salaries and other benefits	2,637	2,300
Retirement benefit scheme contributions	132	115
	2,769	2,415

HK\$	2007 Number of employees	2006 Number of employees
Nil to 1,000,000	1	2
1,000,001 to 1,500,000	—	—
1,500,001 to 2,000,000	1	1

13. Dividends

	2007 HK\$'000	2006 HK\$'000
Final dividend of HK1.7 cents (2006: HK3.5 cents) per share recognised as distribution during the year	15,290	16,959
Proposed final dividend of HK0.8 cents (2006: HK1.7 cents) per share	39,734	15,290

The final dividend of HK0.8 cents (2006: HK1.7 cents) per share has been proposed by the directors and is subject to approval by shareholders in general meeting.

If the final dividends for 2006 and 2005 were adjusted for the effect of the share-subdivision as set out in note 44(2), the final dividend per share would be HK0.34 cents and HK0.7 cents, respectively.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

14. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the equity holders of the parent is based on the following data:

	2007 HK\$'000	2006 HK\$'000
Earnings		
Earnings for the purpose of calculating basic earnings per share: (profit for the year attributable to equity holders of the parent)	276,644	140,283
Effect of dilutive potential share: Interest on convertible notes	6,600	—
Earnings for the purpose of diluted earnings per share	283,244	140,283
Number of shares		
Weighted average number of shares for the purpose of calculating basic earnings per share (in thousands)	4,134,048	2,178,160
Effect of diluted potential shares (in thousands): Share options	148,478	148,175
Convertible notes	302,675	—
Weighted average number of shares for the purpose of calculating diluted earnings per share (in thousands)	4,585,201	2,326,335

The weighted average number of shares for both years for the purpose of calculating the basic and diluted earnings per share has been adjusted to reflect the effect of share sub-division as set out in note 44(2).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

15. Investment Properties

	HK\$'000
FAIR VALUE	
At 1 April, 2005	818,000
Additions	36,555
Disposals	(296,000)
Increase in fair value recognised in the consolidated income statement	100,000
At 31 March, 2006	658,555
Additions	1,526
Acquisition of assets	163,000
Disposals	(42,000)
Eliminated on disposal of a subsidiary (Note 34)	(188,000)
Increase in fair value recognised in the consolidated income statement	142,919
At 31 March, 2007	736,000

The fair value of the Group's investment properties at 31 March, 2007 and 2006 has been arrived at on the basis of a valuation carried out on that date by Skyland Surveyors Co. (2006: DTZ Debenham Tie Leung Limited and Skyland Surveyors Co.), independent qualified professional valuers not connected with the Group. Skyland Surveyors Co. (2006: DTZ Debenham Tie Leung Limited and Skyland Surveyors Co.) are members of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to the Valuation Standards on Properties of the Hong Kong Institute of Surveyors (2006: International Valuation Standards), was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties. As at 31 March, 2007, the carrying amount of such property interests amounted to HK\$736,000,000 (2006: HK\$658,555,000).

The Group's investment properties amounting to approximately HK\$700,000,000 (2006: HK\$622,000,000) have been pledged to secure general banking facilities granted to the Group.

The carrying value of the investment properties comprises properties held under long-term lease in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

16. Property, Plant and Equipment

	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Vessel HK\$'000	Total HK\$'000
COST				
At 1 April, 2005	1,935	1,654	13,997	17,586
Additions	1,760	1,501	—	3,261
Disposals	—	(1,431)	—	(1,431)
At 31 March, 2006	3,695	1,724	13,997	19,416
Additions	—	672	—	672
Disposals	(1,760)	—	—	(1,760)
At 31 March, 2007	1,935	2,396	13,997	18,328
DEPRECIATION				
At 1 April, 2005	308	1,654	544	2,506
Provided for the year	441	42	2,799	3,282
Eliminated on disposals	—	(1,431)	—	(1,431)
At 31 March, 2006	749	265	3,343	4,357
Provided for the year	273	768	2,799	3,840
Eliminated on disposals	—	—	—	—
At 31 March, 2007	1,022	1,033	6,142	8,197
CARRYING VALUES				
At 31 March, 2007	913	1,363	7,855	10,131
At 31 March, 2006	2,946	1,459	10,654	15,059

The above items of property, plant and equipment are depreciated on a straight-line method at the following rates per annum:

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

At 31 March, 2006, furniture, fixtures and office equipment with carrying amount of approximately HK\$1,760,000 were pledged to banks to secure general banking facilities granted to the Group. The pledge was released during the year ended 31 March, 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

17. Prepaid Lease Payments

	2007 HK\$'000	2006 HK\$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Long lease	—	239,726
Medium-lease	15,238	15,619
	15,238	255,345
Analysed for reporting purposes as:		
Current asset	381	655
Non-current asset	14,857	254,690
	15,238	255,345

18. Available-for-sale Investments/Investments Held for Trading

Available-for-sale investments comprises:

	2007 HK\$'000	2006 HK\$'000
Unlisted equity securities	5,005	5,005
Unlisted debt securities	2,781	3,810
	7,786	8,815

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

18. Available-for-sale Investments/Investments Held for Trading (Continued)

Investments held for trading comprise:

	2007 HK\$'000	2006 HK\$'000
Listed equity securities	69,000	70,955
Debt securities		
Listed	7,934	33,200
Unlisted	41,863	—
	49,797	33,200
	118,797	104,155
Total and reported as:		
Listed		
Hong Kong	58,236	61,959
Elsewhere	18,698	42,196
Unlisted	41,863	—
	118,797	104,155

The carrying value of unlisted equity securities in Hong Kong at 31 March, 2007, represents a 5% (2006: 5%) interest in MC.Founder Limited ("MC.Founder"). MC.Founder is incorporated in Hong Kong and engaged in trading of mobile phones. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

The carrying value of listed debt securities at 31 March, 2007 represents bonds carrying interest ranging from 5.45% to 8.125% (2006: 5.45% to 8.25%) per annum. The maturity date of the listed debt securities are from 21 February, 2008 to 24 November, 2010 (2006: from 21 February, 2008 to 24 November, 2010). Included in the listed debt securities, there were securities of approximately HK\$7,934,000 (2006: HK\$33,200,000) denominated in the United States dollars, which is, currency other than the functional currencies of the relevant group entities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

18. Available-for-sale Investments/Investments Held for Trading (Continued)

The carrying value of unlisted debt securities at 31 March, 2007 represents fixed interest rate institutional bonds carrying interest ranging from 8.5% to 9% (2006: 6.125% to 8.25%) per annum. The maturity date of the unlisted debt securities are from 12 October, 2008 to 22 September, 2013 (2006: from 15 September, 2006 to 15 November, 2006). The quoted prices of the unlisted debt securities are readily and regularly available from brokers, banks and financial institutions in an over-the-counter market. Included in the unlisted debt securities, there were securities of approximately HK\$41,863,000 (2006: nil) denominated in the United States dollars, which is other than the functional currency of the relevant group entities.

19. Club Debentures

	2007 HK\$'000	2006 HK\$'000
Club debentures, at cost	6,860	6,860

The directors are of the opinion that there were no impairment on the club debentures since the market price are higher than its carrying value.

20. Interests in Jointly-controlled Entities

	2007 HK\$'000	2006 HK\$'000
Cost of unlisted investments in jointly-controlled entities	11,226	—
Share of post-acquisition (losses) profits	(78)	291
Capital contribution – Financial guarantee contracts	2,120	—
	13,268	291

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

20. Interests in Jointly-controlled Entities (Continued)

As at 31 March, 2007, the Group had interests in the following jointly-controlled entities:

Name of entity	Form of business structure	Place/ Country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group %	Principal activity
Favor Win Limited	Incorporated	British Virgin Islands	Hong Kong	Ordinary	50	Investment holding
Winner Ever Limited ("Winner Ever")	Incorporated	British Virgin Islands	Hong Kong	Ordinary	50	Investment holding

As at 31 March, 2006, the Group had interests in the following jointly-controlled entities:

Name of entity	Form of business structure	Place/ Country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital held by the Group %	Proportion of voting power held %	Principal activity
Favor Win Limited	Incorporated	British Virgin Islands	Hong Kong	Ordinary	50	50	Investment holding
Gain Resources Limited	Incorporated	British Virgin Islands	Hong Kong	Ordinary	25	25	Investment holding and property leasing

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

20. Interests in Jointly-controlled Entities (Continued)

The summarised financial information in respect of the Group's interests in jointly-controlled entities which are accounted for using the equity method is set out below:

	2007 HK\$'000	2006 HK\$'000
Non-current assets	62,298	195,000
Current assets	53,052	23,478
Total assets	115,350	218,478
Non-current liabilities	8,972	213,500
Current liabilities	95,230	4,687
Total liabilities	104,202	218,187
Net assets	11,148	291
Revenue	1,060	2,976
Expenses	(1,429)	2,685
(Loss) profit for the year	(369)	291

The Group has discontinued recognition of its share of losses of certain jointly-controlled entities. The amounts of unrecognised share of results of those jointly-controlled entities, both for the year and cumulatively, are as follows:

	2007 HK\$'000	2006 HK\$'000
Unrecognised share of losses of jointly-controlled entities for the year	964	—
Accumulated unrecognised share of losses of jointly controlled entities.	964	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

21. Interests in Associates

	2007 HK\$'000	2006 HK\$'000
Costs of unlisted investment in associates	96	96
Share of post-acquisition profits, net of dividend received	2,367	—
Share of capital reserve of an associate	1,910	—
Capital contribution — Financial guarantee contracts	3,495	—
	7,868	96

During the year, the Group acquired a 25% equity interest in Expert Vision Limited and its subsidiary, Great Felicity Limited for a consideration of HK\$195.

Particulars of the associates at 31 March, 2007 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
Femville Pte. Ltd.	Singapore	Singapore	20%	Property investment, securities trading, estate agency and related investment
Orient Centre Limited	Hong Kong	Hong Kong	25%	Property investment
Expert Vision Limited	British Virgin Islands	Hong Kong	25%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

21. Interests in Associates (Continued)

Particulars of the associates at 31 March, 2006 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
Femville Pte. Ltd.	Singapore	Singapore	20%	Property investment, securities trading, estate agency and related investment
Orient Centre Limited	Hong Kong	Hong Kong	25%	Property investment

In May, 2005, the Group disposed of its entire interest in Capital Estate Limited (a company whose shares are listed on the Stock Exchange), a 21.13% associate of the Group as at 31 March, 2005 for a consideration of approximately HK\$40,414,000 and resulted in a gain on disposal of an associate of approximately HK\$4,763,000.

The summarised financial information in respect of the Group's interest in associates which are accounted for using the equity method is set out below:

	2007 HK\$'000	2006 HK\$'000
Total assets	33,491	8,090
Total liabilities	(29,118)	(7,994)
Net assets (liabilities)	4,373	(96)
Revenue	25,015	4,534
Expenses	(24,523)	(4,172)
Profit for the year	492	362

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

22. AMOUNTS DUE FROM JOINTLY-CONTROLLED ENTITIES/ASSOCIATES

	2007 HK\$'000	2006 HK\$'000
Amounts due from jointly-controlled entities	44,917	31,836
Amounts due from associates	39,143	8,102
	84,060	39,938
Classified under		
Amounts due from jointly-controlled entities included in current assets (note i)	44,917	31,836
Amounts due from associates included in:		
— non-current assets (note ii)	34,120	—
— current assets (note i)	5,023	8,102
	39,143	8,102

Notes:

- (i) The amounts are unsecured, non-interest bearing and repayable on demand.
- (ii) The amount is unsecured, non-interest bearing and repayable on demand. The amount included a loss of HK\$2,101,000 (2006 :nil) allocated in excess of cost of investment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

23. Deferred Taxation

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

	Revaluation of investment properties HK\$'000	Accelerated tax depreciation HK\$'000	Subtotal HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 31 March, 2005	61,180	2,360	63,540	(609)	62,931
Charge (credit) to income for the year	17,500	1,413	18,913	(861)	18,052
Disposal of investment properties	(10,947)	—	(10,947)	—	(10,947)
At 31 March, 2006	67,733	3,773	71,506	(1,470)	70,036
Charge (credit) to income for the year	27,929	1,454	29,383	(1,406)	27,977
Disposal of investment properties and interests in investment properties	(9,734)	—	(9,734)	—	(9,734)
At 31 March, 2007	85,928	5,227	91,155	(2,876)	88,279

As at 31 March, 2007, the Group had unused tax losses of approximately HK\$20,843,000 (2006: HK\$12,721,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$17,892,000 (2006: HK\$8,400,000). No deferred tax asset has been recognised in respect of the remaining unused tax losses of HK\$4,408,000 (2006: HK\$4,310,000) due to unpredictability of future profits streams. Such tax losses can be carried forward indefinitely.

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

	2007 HK\$'000	2006 HK\$'000
Deferred tax asset	1,467	1,470
Deferred tax liabilities	(89,746)	(71,506)
	(88,279)	(70,036)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

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 are as follows:

	2007 HK\$'000	2006 HK\$'000
0 – 30 days	3,984	535
Other receivables	11,214	4,346
	15,198	4,881

25. Properties Held for Sale

The carrying amounts of HK\$296,076,000 (2006: Nil) and HK\$1,492,954,000 (2006: HK\$104,928,000) of properties held for sale comprises properties held under short and long term leases, respectively, in Hong Kong.

In the opinion of the directors, the properties held for sale are expected to realise in the next twelve months.

26. Amount Due From an Investee

At 31 March, 2006, the amount was unsecured, non-interest bearing and repayable on demand. The amount was fully repaid during the year ended 31 March, 2007.

27. Pledged Bank Deposits and Bank Balances and Cash

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK\$272,396,000 (2006: HK\$165,366,000) have been pledged to secure bank overdrafts, short term bank borrowings and undrawn facilities and are therefore classified as current assets.

The pledged bank deposits carry interest ranged from 3.62% to 5.21% per annum (2006: 3.19% to 4.68% per annum). The pledge bank deposits will be released upon the settlement of relevant bank borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

27. Pledged Bank Deposits and Bank Balances and Cash (Continued)

Included in the pledged bank deposits, deposits of approximately HK\$224,010,000 (2006: HK\$7,818,000) and HK\$16,667,000 (2006: Nil) are denominated in the United States dollars and the Singapore dollars which are other than the functional currencies of the relevant group entities.

Bank balances and cash comprises bank balances and cash held by the Group and short-term bank deposits that are interest-bearing at market interest rate. All bank deposits are with maturity of three months or less. The bank deposits carry fixed interest rates ranging from 3.0% to 5.21% (2006: 0.9% to 4.723%) per annum.

28. Trade and Other Payables

The following is an aged analysis of trade and other payables at the balance sheet dates:

	2007 HK\$'000	2006 HK\$'000
Trade creditors aged 0-60 days	2,667	—
Other payables	36,899	15,231
	39,566	15,231

29. Amounts Due to Minority Shareholders

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

30. Bank Borrowings

	2007 HK\$'000	2006 HK\$'000
Secured bank loans	1,218,398	314,048
Repayable as follows:		
Within one year	290,280	158,805
Between one to two years	77,900	15,225
Between two to three years	101,100	15,225
Between three to four years	123,665	15,225
Between four to five years	127,704	16,265
Over five years	497,749	93,303
	1,218,398	314,048
Less: Amount due within one year included under current liabilities	(290,280)	(158,805)
Amount due after one year	928,118	155,243

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

30. Bank Borrowings (Continued)

The secured bank borrowings were secured by the Group's investment properties, prepaid lease payments, bank deposits and properties held for sale. The carrying amount of the assets pledged are disclosed in note 39.

At 31 March, 2007, the effective interest rate ranged from 4.40% to 5.89% per annum (2006: ranged from 4.680% to 4.875% per annum), which are also equal to contracted interest rates, for bank loans, interest is repriced every six months.

31. Share Capital

	Notes	Number of shares	Amount HK\$'000
Shares of HK\$0.04 each			
Authorised:			
Shares of HK\$0.04 each at 1 April, 2005, 31 March, 2006 and 31 March, 2007		4,500,000,000	180,000
Issued and fully paid:			
Shares of HK\$0.04 each at 1 April, 2005		384,540,450	15,382
Issue of new shares	(i)	195,000,000	7,800
Exercise of share options	(ii)	5,235,000	209
Shares of HK\$0.04 each at 31 March, 2006		584,775,450	23,391
Issue of new shares	(iii)	403,500,000	16,140
Exercise of share options	(iv)	1,131,250	45
Shares repurchased and cancelled		(4,068,000)	(163)
Shares of HK\$0.04 each at 31 March, 2007		985,338,700	39,413

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

31. Share Capital (Continued)

Notes:

- (i) Pursuant to a resolution passed at a special general meeting held on 6 May, 2005, the Company completed the subscription agreements with independent third parties in which the independent third parties subscribed for an aggregate of 75,000,000 new shares of HK\$0.04 each at the subscription price of HK\$1.08 per share. Pursuant to the resolution passed on the same special general meeting, the Company completed the placing agreement with a placing agent in which the placing agent procured subscribers to subscribe for 25,000,000 new shares of HK\$0.04 each at the subscription price of HK\$1.08 per share. All the shares issued rank pari passu with the then existing shares in all respects.

On 22 February, 2006, 50,000,000 shares of HK\$0.04 each held by Earnest Equity Limited ("Earnest Equity"), one of the Company's substantial shareholders, were placed to the independent third parties at HK\$1.10 per share. On 3 March, 2006, 50,000,000 shares of HK\$0.04 each of the Company were issued and allotted to Earnest Equity for cash at HK\$1.10 per share to raise additional working capital. All the shares issued during the year rank pari passu with the then existing shares in all respects.

On 22 March, 2006, 45,000,000 shares of HK\$0.04 each held by Earnest Equity were placed to the independent third parties at HK\$1.31 per share. On 30 March, 2006, 45,000,000 shares of HK\$0.04 each of the Company were issued and allotted to Earnest Equity for cash at HK\$1.31 per share to raise additional working capital. All the shares issued during the year rank pari passu with the then existing shares in all respects.

- (ii) During the year ended 31 March, 2006, 5,235,000 shares of HK\$0.04 each of the Company were issued upon the exercise of 5,235,000 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.

- (iii) Pursuant to a resolution passed at a special general meeting held on 12 June, 2006, the Company entered into a subscription agreement with Earnest Equity in which Earnest Equity subscribed for an aggregate of 102,000,000 new shares of HK\$ 0.04 each at the subscription price of HK\$1.59 per shares. On the same day, the Company entered into a placing agreement with a placing agent in which a placing agent procured to subscribe for 211,500,000 new shares of HK\$ 0.04 each at the subscription price of HK\$1.59 per share. All the shares issued during the year rank pari passu with the then existing shares in all respects.

On 1 February, 2007, 90,000,000 shares of HK\$0.04 each of the Company held by Earnest Equity were placed to more than six independent third parties at HK\$1.49 per share. On 12 February, 2007, 90,000,000 ordinary share of HK\$0.04 each of the Company were issued and allotted to Earnest Equity for cash at HK\$1.49 per share. All the shares issued during the year rank pari passu with the then existing ordinary share in all respects. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on 29 August, 2006 and rank pari passu with other shares in issue in all respects.

- (iv) During the year ended 31 March, 2007, 1,131,250 shares of HK\$0.04 each of the Company were issued upon the exercise of 131,250 and 1,000,000 share options at exercise prices of HK\$0.672 and HK\$0.560 per share, respectively. 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 31 March, 2007

31. Share Capital (Continued)

During the year, the Company repurchased its listed securities shares through the Stock Exchange as follows:

Month of repurchase	No. of Shares of HK\$0.04 each	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
October	1,076,000	1.330	1.320	1,425
November	2,992,000	1.290	1.220	3,733

The above shares were cancelled upon repurchase.

Save as disclosed above, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

32. Convertible Notes

On 17 May, 2006, the Company entered into nine subscription agreements with eight independent third parties and Earnest Equity, whereby Earnest Equity and the independent third parties agreed to subscribe for HK\$133,000,000 unsecured 1.5% convertible notes due 2011 ("2011 Convertible Notes") issued by the Company with principal amount of HK\$15,000,000 and HK\$118,000,000, respectively.

The 2011 Convertible Notes bear interest at 1.5% per annum and will mature on 13 June, 2011. The holders of the 2011 Convertible Notes have the right to convert their 2011 Convertible Notes into shares of HK\$0.04 each of the Company at any time during the period from the 7th day after the date of the issue of the 2011 Convertible Notes up to and including the date which is 7 days prior to 13 June, 2011.

Unless previously converted, the Company will redeem the convertible notes on the maturity date at 110% of the principal amount of the convertible notes then outstanding.

Upon full conversion of the 2011 Convertible Notes at the initial conversion price of HK\$1.86 per share of HK\$0.04 each of the Company (subject to anti-dilutive adjustments), a total of 71,505,376 new shares, would be issued by the Company (after adjusted for the share sub-division effective on 23 May 2007 (see note 44(2)), the current conversion price is HK\$0.372 per share, and upon full conversion of the 2011 Convertible Notes, a total of 357,526,880 new shares would be issued by the Company).

During the year ended 31 March, 2007, none of the 2011 Convertible Notes were converted.

The 2011 Convertible Notes contain two components, liability and equity elements. The equity element is presented in equity under the heading of "convertible note equity reserve". The effective interest rate of the 2011 Convertible Notes is 6.59% per annum.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

32. Convertible Notes (Continued)

As at the date of issuance, the 2011 Convertible Notes contain:

	2007 HK\$'000	2006 HK\$'000
Liability component	114,602	—
Equity component	18,398	—
	133,000	—

The movement of the liability component of the 2011 Convertible Notes for the year is set out below:

	2007 HK\$'000	2006 HK\$'000
Carrying amount at the beginning of the year	—	—
Issue of convertible notes	114,602	—
Interest charge	6,600	—
Interest paid	—	—
Carrying amount at the end of the year	121,202	—
Analysed for reporting purposes as:		
Current liability	1,596	—
Non-current liability	119,606	—
	121,202	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

33. Share Option Schemes

2001 Scheme

On 13 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 12 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 the 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 26 August, 2002.

2002 Scheme

On 26 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 25 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 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.

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 (i) the closing price, (ii) the average price of the Company's shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

33. Share Option Schemes (Continued)

2002 Scheme (Continued)

At 31 March, 2007, the number of shares in respect of which options had been granted and remained outstanding under the 2001 Scheme and the 2002 Scheme were 18,943,750 and 31,750,000, representing 1.92% and 3.22% of the issued share capital of the Company at that date respectively.

The following table discloses movements in the Company's share options during the year ended 31 March, 2007:

	Option scheme type	Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1.4.2006	Exercised during the year	Lapsed during the year	Number of options outstanding at 31.3.2007
Directors								
Ma Wai Man, Catherine	2001 (Note 1)	30.8.2001	0.672	30.8.2001 - 12.6.2011	7,075,000	—	—	7,075,000
	2002 (Note 2)	23.9.2002	0.560	23.9.2002 - 25.8.2012	3,125,000	—	—	3,125,000
Chow Hou Man	2001 (Note 1)	30.8.2001	0.672	30.8.2001 - 12.6.2011	837,500	—	—	837,500
	2002 (Note 2)	23.9.2002	0.560	23.9.2002 - 25.8.2012	3,125,000	—	—	3,125,000
Total for directors					14,162,500	—	—	14,162,500
Employees and consultants								
	2001 (Note 1)	30.8.2001	0.672	30.8.2001 - 12.6.2011	11,162,500	(131,250)	—	11,031,250
	2002 (Note 2)	23.9.2002	0.560	23.9.2002 - 25.8.2012	15,250,000	(1,000,000)	—	14,250,000
	2002	8.1.2004	0.560	8.1.2004 - 25.8.2012	7,500,000	—	—	7,500,000
	2002	9.1.2004	0.600	9.1.2004 - 25.8.2012	3,750,000	—	—	3,750,000
Total for employees and consultants					37,662,500	(1,131,250)	—	36,531,250
Grand total					51,825,000	(1,131,250)	—	50,693,750
Exercisable at the end of the year								50,693,750

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

33. Share Option Schemes (Continued)

2002 Scheme (Continued)

The following table discloses movements in the Company's share option during the year ended 31 March, 2006:

	Option scheme type	Date of grant	Exercise price HK\$	Exercisable period	Number of options outstanding at 1.4.2005	Reclassification (Note 3)	Exercised during the year	Lapsed during the year	Number of options outstanding at 31.3.2006	
Directors										
	Ma Wai Man, Catherine	2001 (Note 1)	30.8.2001	0.672	30.8.2001 - 12.6.2011	7,875,000	—	(800,000)	—	7,075,000
		2002 (Note 2)	23.9.2002	0.560	23.9.2002 - 25.8.2012	3,125,000	—	—	—	3,125,000
	Chow Hou Man	2001 (Note 1)	30.8.2001	0.672	30.8.2001 - 12.6.2011	—	1,137,500	(300,000)	—	837,500
		2002 (Note 2)	23.9.2002	0.560	23.9.2002 - 25.8.2012	—	3,125,000	—	—	3,125,000
	Total for directors					11,000,000	4,262,500	(1,100,000)	—	14,162,500
Employees and consultants										
		2001 (Note 1)	30.8.2001	0.672	30.8.2001 - 12.6.2011	17,057,500	(1,137,500)	(4,135,000)	(622,500)	11,162,500
		2002 (Note 2)	23.9.2002	0.560	23.9.2002 - 25.8.2012	18,375,000	(3,125,000)	—	—	15,250,000
		2002	8.1.2004	0.560	8.1.2004 - 25.8.2012	7,500,000	—	—	—	7,500,000
		2002	9.1.2004	0.600	9.1.2004 - 25.8.2012	3,750,000	—	—	—	3,750,000
	Total for employees and consultants					46,682,500	(4,262,500)	(4,135,000)	(622,500)	37,662,500
	Grand total					57,682,500	—	(5,235,000)	(622,500)	51,825,000
	Exercisable at the end of the year									51,825,000

The weighted average share prices of the Company's shares at dates of exercise by the employees and consultants (2006: directors, employees and consultants) were HK\$1.35 and HK\$1.65 (2006: HK\$1.26, HK\$1.18 and HK\$1.52) per share, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

33. Share Option Schemes (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 30 August, 2001 (until 29 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 executive 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 23 September, 2002 (until 22 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 executive chairman of the Company to the exercise of share options exceeding such limit.
3. Mr. Chow Hou Man was appointed as director of the Company on 29 June, 2005 and his holding of shares options were reclassified under the category of directors upon his appointment.

34. Disposal of Interests in Investment Properties/Subsidiaries

a. Disposal of interests in investment properties

On 30 November, 2006, the Group disposed of 50% interests in certain investment properties through the disposal of its 50% interests in a subsidiary, Winner Ever (which holds 100% interests in Sky Dragon), which holds certain investment properties, for a cash consideration of HK\$33,364,000. In relation to the disposal of interests in these investment properties, bank balances and cash of HK\$52,000 were disposed of together with the disposal of interest in investment properties. After completion of the disposal, Winner Ever became a jointly-controlled entity. Amounts of HK\$11,226,000 and HK\$13,078,000 were recognised as interests in jointly-controlled entities and amounts due from jointly-controlled entities as set out in notes 20 and 22.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

34. Disposal of Subsidiaries (Continued)

b. Disposal of interests in subsidiaries

On 28 March, 2006, the Group disposed of its subsidiaries, Rapid Growth Profits Limited, Metrorich World Wide Limited and Island Town Limited, which were engaged in sale and leasing of property.

The net assets of disposed subsidiaries at the date of disposal were as follows:

	2006 HK\$'000
Net assets disposed of:	
Trade and other receivables	139
Property held for sale	97,010
Bank balances and cash	2
Trade and other payables	(694)
Taxation payable	(399)
Bank loans and overdraft	(93,000)
	3,058
Gain on disposal of subsidiaries	35,990
	39,048
Satisfied by:	
Cash	39,048
	39,048
Net cash inflow arising on disposal:	
Cash consideration received	39,048
Bank balances and cash disposed of	(2)
	39,046

The subsidiaries disposed of during the year ended 31 March, 2006 contributed approximately HK\$6,826,000 to the Group's turnover and contributed approximately HK\$3,332,000 to the Group's profit before taxation for the period between 1 April, 2005 and the date of disposal.

The subsidiary disposed of during the year ended 31 March, 2006 utilised approximately HK\$130,000 in the Group's net operating cash flows and generated HK\$1,364,000 in respect of financing activities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

35. Acquisition of Assets

On 13 June, 2006, 8 August, 2006, 15 August, 2006 and 2 November, 2006, the Group acquired investment properties through the purchase of the entire interest in the issued share capital of Sky Dragon for cash consideration of HK\$69,000,000 and properties held for sale through the purchase of the entire interest in Hoxberry Limited, King's Land Limited (formerly known as "AXA Centre (H.K.) Limited"), Join Max Limited and 151 Gloucester Road Property Management Company Limited (formerly Known as "AXA China Region Property Management Company Limited") for cash considerations of HK\$300,000,000, HK\$478,000,000, HK\$5,000,000 and HK\$540,000, respectively. These transactions have been accounted for as acquisition of assets as the subsidiaries are not businesses.

In relation to the acquisition of assets, bank balances and cash and bank loans of HK\$2,054,000 and HK\$77,280,000 respectively were acquired together with the acquisition of assets.

During the year ended 31 March, 2006, the Group acquired a piece of land located in Hong Kong through acquisition of 100% interests in Yieldson Development Limited and Fook Shing Limited for an aggregate consideration of approximately HK\$240,000,000. The acquisition had been accounted for as acquisition of assets.

36. Major Non-cash Transactions

During the year ended 31 March, 2007, the Group disposed of 50% interest in subsidiaries, namely Winner Ever and Sky Dragon as set out in note 34. After the disposal, Winner Ever and Sky Dragon becomes jointly controlled entities and their net assets of HK\$11,226,000 were transferred to interests in jointly controlled entities as set out in note 20.

During the year ended 31 March, 2006, the acquisition of subsidiaries was partially satisfied by the deposits of HK\$35,000,000 paid for acquisition of subsidiaries in the previous year.

37. Operating Lease Commitments

The Group has made approximately HK\$745,000 (2006: HK\$1,446,000) minimum lease payments under operating leases during the year in respect of office premises.

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:

	2007 HK\$'000	2006 HK\$'000
Within one year	745	1,631
In the second to fifth years inclusive	—	745
	745	2,376

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

37. Operating Lease Commitments (Continued)

The Group as lessor

Property rental income earned during the year was HK\$83,978,000 (2006: HK\$34,314,000). Certain of the properties have tenants committed for next two to three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2007 HK\$'000	2006 HK\$'000
Within one year	88,017	25,629
In the second to fifth year inclusive	96,677	26,136
	184,694	51,765

38. Contingent Liabilities

	2007 HK\$'000	2006 HK\$'000
Corporate guarantee given by the Group for banking facilities granted to associates	107,976	36,176
Corporate guarantee given by the Group for banking facilities granted to a jointly controlled entity	65,000	—
	172,976	36,176

39. Pledge of Assets

At 31 March, 2007, the following assets were pledged to secure banking facilities granted to the Group:

- (a) Investment properties with a carrying value of HK\$700,000,000 (2006: HK\$622,000,000).
- (b) Properties held for sale with carrying value of approximately HK\$1,480,615,000 (2006: HK\$92,890,000).
- (c) Bank deposits of HK\$272,396,000 (2006: HK\$165,366,000).

The Group also executed the assignment of rental income and sales proceeds on disposal of investment properties over the investment properties and properties held for sale to banks to secure the banking facilities granted to the Group.

Other than the above, the Group's banking facilities at 31 March, 2006 were also secured by property, plant and equipment and prepaid lease payments with carrying values of approximately HK\$1,760,000 and HK\$239,726,000, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

40. Capital Commitment

	2007 HK\$'000	2006 HK\$'000
Capital expenditure in respect of		
– the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	5,321	1,527
– the establishment of a subsidiary in the People's Republic of China	13,082	–
	18,403	1,527

41. Retirement Benefit Scheme

With effect from 1 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 consolidated income statement of HK\$659,000 (2006: HK\$309,000) represent contributions payable to the scheme by the Group at rates specified in the rules of the schemes.

42. Related Party Transactions

(a) During the year, the Group entered into the following significant transactions with related parties:

Name of Company	Nature of transactions	Notes	2007 HK\$'000	2006 HK\$'000
Cycle Company Limited and Gunnell Properties Limited	Management fee received and receivable by the Group	(i)	1,418	201
Top Mount Limited	Rental income received and receivable by the Group	(ii)	–	24

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

42. Related Party Transactions (Continued)

(a) (Continued)

Notes:

- (i) Cycle Company Limited and Gunnell Properties Limited were wholly-owned subsidiaries of the jointly-controlled entities.
 - (ii) Top Mount Limited was a wholly-owned subsidiary of Capital Estate Limited, a former associate of the Group.
- (b) Pursuant to the announcement dated 18 May, 2006 and the circular dated 27 May, 2006, on 17 May, 2006, the Group entered into:
- (i) a conditional subscription agreement with Earnest Equity in relation to the placing of up to 102,000,000 new shares of HK\$0.04 each in the share capital of the Company at a placing price of HK\$1.59 per placing share (the "Earnest Equity Placing Agreement")
 - (ii) a conditional subscription agreement with Earnest Equity in relation to the subscription of the 2011 Convertible Notes, of which HK\$15,000,000 was issued to Earnest Equity (the "Earnest Equity Note Subscription Agreement") as set out in note 32.
 - (iii) a conditional agreement with Aqua Sole Company Limited ("Aqua Sole") as the vendor, a company incorporated in Hong Kong and wholly owned by Mr. Chung Cho Yee, Mico ("Mr. Chung"), and Mr. Chung as the guarantor of the obligations of Aqua Sole for acquisition of the entire issued share capital of Sky Dragon, and the outstanding shareholder's loan owed by Sky Dragon to Aqua Sole as at the completion of the agreement (the "Property Acquisition Agreement"). Winner Even holds 100% interests in Sky Dragon. The major assets of Sky Dragon are investment properties situated at No. 8, Hau Fook Street, Tsimshatsui, Kowloon, Hong Kong

Earnest Equity is wholly and beneficially owned by a discretionary trust of which Mr. Chung is the founder and one of the discretionary beneficiaries. Aqua Sole is wholly owned by Mr. Chung. Mr. Chung is the non-executive Chairman of the Company and, through his personal interest and Earnest Equity, is beneficially interest in an aggregate of 191,687,250 shares of HK\$0.04 each in the share capital of the Company, representing approximately 32.78% of the issued share capital of the Company as at the date of the Earnest Equity Placing Agreement, the Earnest Equity Note Subscription Agreement and the Property Acquisition Agreement. The Earnest Equity Placing Agreement, the Earnest Equity Note Subscription Agreement and the Property Acquisition Agreement was subject to, among other things, the approval of the independent shareholders at a general meeting of the Company. The transactions were completed on 13 June, 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

42. Related Party Transactions (Continued)

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007 HK\$'000	2006 HK\$'000
Short-term benefits	12,145	6,720
Post-employment benefits	232	196
	12,377	6,916

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

43. Balance Sheet of the Company

The balance sheet of the Company as at 31 March, 2007 is as follows:

	2007 HK\$'000	2006 HK\$'000 (restated)
Assets		
Investment in subsidiaries	27,522	84,077
Investment in associate	3,494	—
Amount due from subsidiaries	1,697,495	689,181
Investment in jointly controlled entity	2,120	—
Club debentures	5,200	5,200
Bank balances and cash	15,963	2,454
Other assets	1,777	287
Total assets	1,753,571	781,199
Liabilities		
Amounts due to subsidiaries	177,832	113,314
Convertible notes	121,202	—
Other liabilities	16,853	1,632
	315,887	114,946
	1,437,684	666,253
Capital and Reserves		
Share capital	39,413	23,391
Reserves (Note)	1,398,271	642,862
	1,437,684	666,253

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

43. Balance Sheet of the Company (Continued)

Note:

Reserves

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Convertible note equity reserve HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1 April, 2005 as originally stated	23,915	—	—	338,410	83,011	445,336
Effects of changes in accounting policies (Note)	—	—	—	—	202	202
At 1 April, 2005 as restated	23,915	—	—	338,410	83,213	445,538
Issue of new shares	214,150	—	—	—	—	214,150
Expenses related to issue of shares	(3,423)	—	—	—	—	(3,423)
Exercise of share options	3,308	—	—	—	—	3,308
Profit for the year and total recognised income for the year	—	—	—	—	248	248
Dividend paid	—	—	—	—	(16,959)	(16,959)
At 31 March, 2006	237,950	—	—	338,410	66,502	642,862
Profit for the year and total recognised income for the year	—	—	—	—	159,051	159,051
Issue of new shares	616,425	—	—	—	—	616,425
Recognition of equity components on convertible notes	—	—	18,398	—	—	18,398
Expenses related to issue of shares	(18,765)	—	—	—	—	(18,765)
Exercise of share options	603	—	—	—	—	603
Share repurchase	—	163	—	—	(5,176)	(5,013)
Dividend paid	—	—	—	—	(15,290)	(15,290)
At 31 March, 2007	836,213	163	18,398	338,410	205,087	1,398,271

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

43. Balance Sheet of the Company (Continued)

Note:

As set out in note 2, the Group has applied HKAS 39 and HKFRS 4 which are effective for annual periods beginning on or after 1 January, 2006.

Prior to 1 January, 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 "Insurance Contract". A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

In relation to financial guarantees granted to banks over the repayment of loans by the subsidiaries of the Company, the Company has applied the transitional provisions in HKAS 39. The fair value of the financial guarantee contracts at the date of grant of HK\$3,249,000, representing a deemed capital contribution to the subsidiaries, has been adjusted to the carrying amount of interests in subsidiaries. The cumulative amortisation as at 1 April, 2005 of HK\$202,000 and the unamortised amount of HK\$3,047,000 have been adjusted against accumulated profits and recognised as financial liabilities for the financial guarantee contracts, respectively. This change in accounting policy has resulted in increases in profit for the years ended 31 March, 2006 and 2007 of HK\$311,000 and HK\$469,000, respectively.

44. Post Balance Sheet Events

- (1) On 13 March, 2007, Gain Resources Limited, a wholly owned subsidiary of the jointly-controlled entity of the Group, entered into a conditional agreement in connection to the disposal of Paul Y. Centre located at No. 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong at a consideration of HK\$1,150 million. The transaction was completed on 13 June, 2007.
- (2) Pursuant to an announcement dated 19 April, 2007 and a special general meeting held on 22 May, 2007, a share subdivision was proposed in which each of the then existing issued and unissued shares of HK\$0.04 each in the share capital of the Company be subdivided into 5 shares of HK\$0.008 each (the "Share Subdivision"). The Share Subdivision is conditional upon the fulfillment of the conditions as stated in the announcement. The Share Subdivision was effective on 23 May, 2007.
- (3) Pursuant to the announcement dated 7 June, 2007, the Company, on the same day, entered into seven conditional subscription agreements with Centar Investment (Asia) Limited ("Centar"), Lehman Brothers Commercial Corporation Asia Limited ("Lehman") and five independent third parties in relation to the subscription of HK\$390,000,000 2% convertible notes due the fifth anniversary from the date of issue (the "Maturity Date") (the "2012 Convertible Notes") with principal amounts of HK\$54,600,000, HK\$78,000,000 and HK\$257,400,000, respectively. Lehman is a substantial shareholder of one of the Company's subsidiary. Centar is a fund managed by Stark Investments (Hong Kong) Limited ("Stark Investments") and Stark Investments is a substantial shareholder of the Company. The transaction was completed on 13 July, 2007.

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For the year ended 31 March, 2007

44. Post Balance Sheet Events (Continued)

The holders of the 2012 Convertible Notes have the right to convert the 2012 Convertible Notes into shares of HK\$0.008 each of the Company at an initial conversion price of HK\$0.51 (subject to adjustments) at any time during the period from the 7th day after the date of issue of the 2012 Convertible Notes up to and including the date which is 7 days prior to the maturity date of the 2012 Convertible Notes.

Unless previously converted or purchased or redeemed by the Company, the Company will redeem the 2012 Convertible Notes at the redemption amount which is 119.38% of the principal amount of the 2012 Convertible Notes outstanding.

Upon full conversion of the 2012 Convertible Notes at the initial conversion price of HK\$0.51, an aggregate of 764,705,880 conversion shares will be issued by the Company. The net proceeds of approximately HK\$387,000,000 will be used for future property and property-related investments.

- (4) On 16 July, 2007, Asset Manage Limited (“AML”), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with AREIF Investment Holdings Pte. Ltd., an independent third party, to dispose of the entire issued share capital of Global Equity Limited (“Global Equity”), an indirect wholly-owned subsidiary of the Company, and the amount of HK\$89,483,500 owed to AML by Global Equity at 16 July, 2007 for a total consideration of HK\$783,000,000 (subject to adjustment).

The sole asset of Global Equity is its equity investment in CSI Investment Limited, which holds the property located at 88 Gloucester Road and 17 car parking spaces at 77 Gloucester Road, Wanchai, Hong Kong. The transaction has not yet been completed at the date of this report.

45. Particulars of Principal Subsidiaries of the Company

Particulars of the principal subsidiaries at 31 March, 2007 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
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March, 2007

45. Particulars of Principal Subsidiaries of the Company (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 %	
CSI Investment 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
City Plan Limited	Hong Kong	HK\$1	—	100	Property holding and leasing of property
Golden United Limited	Hong Kong	HK\$1	—	100	Property holding and leasing of property
Shine Wise Limited	Hong Kong	HK\$1	—	100	Property holding and leasing of property
Earn Centre Limited	Hong Kong	HK\$2	—	100	Property holding and leasing of property
Base Mark Limited	Hong Kong	HK\$1	—	100	Property holding and leasing of property
Sun Force Limited	Hong Kong	HK\$1	—	100	Property holding and leasing of property
Central Mate Limited	Hong Kong	HK\$1	—	100	Property holding and leasing of property
CSI Investment Consultancy (Shanghai) Limited	The People Republic of China	US\$422,000	—	100	Consultancy
CSI (China) Limited	Hong Kong	HK\$2	—	100	Shanghai representative office

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.

FINANCIAL SUMMARY

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

(a) Results

	Year ended 31 March,				2007 HK\$'000
	2003 HK\$'000 (Note 1)	2004 HK\$'000 (restated) (Note 2)	2005 HK\$'000 (restated) (Note 2)	2006 HK\$'000	
Turnover	672,194	415,286	373,332	371,638	555,363
Profit before taxation	10,332	250,562	212,740	159,485	321,293
Taxation	(3,131)	(42,911)	(31,582)	(18,146)	(42,681)
Profit for the year	7,201	207,651	181,158	141,339	278,612
Attributable to:					
Equity holders of the parent	7,176	207,246	181,521	140,283	276,644
	25	405	(363)	1,056	1,968
Minority interests	7,201	207,651	181,158	141,339	278,612

(b) Assets and liabilities

	At 31 March,				2007 HK\$'000
	2003 HK\$'000 (Note 1)	2004 HK\$'000 (restated) (Note 2)	2005 HK\$'000 (restated) (Note 2)	2006 HK\$'000	
Total assets	494,108	905,649	1,514,416	1,621,026	3,600,824
Total liabilities	25,999	230,294	656,806	408,882	1,498,802
	468,109	675,355	857,610	1,212,144	2,102,022
Equity attributable to equity holders of the parent	467,980	675,355	857,610	1,211,088	2,102,022
Minority interests	129	—	—	1,056	—
	468,109	675,355	857,610	1,214,144	2,102,022

Notes:

- The amounts have not been restated for the effect of new Hong Kong Financial Reporting Standards which are effective on or after 1 January, 2005 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").
- The amounts have been restated upon the adoption of a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations which are effective on or after 1 January, 2005 issued by the HKICPA.

SCHEDULE OF PROPERTIES HELD BY THE GROUP

As at 31 March, 2007

Major Properties

Particulars of major properties held by the Group at 31 March, 2007 as follows:

Investment Properties

Location	Use	Group's interest	Status of development
No. 88 Gloucester Road & 17 Carparks in Fortis Bank Tower, No. 77 Gloucester Road, Hong Kong	Commercial	100%	Completely leased out
G/F, No. 44 Nullah Road, Kowloon, Hong Kong	Commercial	100%	Completely leased out

Properties Held for Sale

Location	Use	Group's interest
Portion of Basement Portion of G/F, 1/F, Sky-sign on Roof 17/F – 24/F & 89 Carparks in AXA Centre, No. 151 Gloucester Road, Hong Kong	Commercial	100%
9/F, Far East Finance Centre, No. 16, Harcourt Road, Hong Kong	Commercial	100%
Unit 2101, 21/F, China Merchants Tower No. 168 – 200 Connaught Road Central, Hong Kong	Commercial	100%
No. 27 Ashley Road, Kowloon, Hong Kong	Commercial	100%
Nos. 23, 25 Ashley Road Kowloon, Hong Kong	Commercial	100%
Nos. 77, 79, 81, 83, 85, Jervois Street, Hong Kong, (except unit 1006 on 10/F)	Residential	100%
4 houses at Nos. 12 – 16 Tai Tam Road, Hong Kong	Residential	100%