139 Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 139)

ANNUAL REPORT

2005-2006

Corporate Information

EXECUTIVE DIRECTORS

Wong Howard *(Chairman & Chief Executive Officer)*
Wong Yat Fai
Wu Qing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tung Tat Chiu, Michael
Li Chi Ming
Wan Ngar Yin, David

AUDIT COMMITTEE

Tung Tat Chiu, Michael *(Chairman)*
Li Chi Ming
Wan Ngar Yin, David

REMUNERATION COMMITTEE

Li Chi Ming *(Chairman)*
Tung Tat Chiu, Michael
Wan Ngar Yin, David

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Szeto Pui Tong, Patrick

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1603-05
Harcourt House
39 Gloucester Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

COMPANY'S WEBSITE

www.139hk.com

STOCK CODE

139

BUSINESS REVIEW

The Group's revenue for the year was HK$10.3 million, representing a decrease of HK$29.5 million or 74% compared with last year. This decrease was mainly attributable to the loss of disposal of equity investments at fair value through profit or loss of HK$24.1 million which was included as part of the Group's revenue. The net loss for the year was HK$46.5 million, compared to a net profit of HK$25.1 million last year. The Group's net loss for the year was primarily attributable to the loss on disposal of equity investments at fair value through profit or loss of HK$24.1 million, a fair value loss on equity investments at fair value through profit or loss of HK$10.1 million and on conversion option derivative of HK$1.5 million.

During the year, the revenue from electronic products trading increased by HK$21.4 million to HK$29.2 million. The marked increase in revenue was mainly due to the sales of other non-car audio electronic products. With the lean cost structure and the contributions from the broader array of electronic products, the operating loss for this electronic products trading substantially reduced by HK$12.8 million or 81.5% to HK$2.9 million.

During the year, the Group's car audio market remained highly competitive in terms of rising raw material costs and the cut-throat price pressures. The costs of memory integrated circuits and plastic resin increased substantially and thus further eroded the profit margin of the car audio products. Coupled with the growing popularity of new digital car audio and video products, the demand for the traditional car audio products were severely affected. In order to compensate for the falling sales volumes and diminishing profit margin of car audio products, the Group has decided to put more efforts on developing the trading of other non-car audio electronic products covering broader spectrum of price points, product ranges and market niches.

During the year, the Group has put more resources and efforts in developing close relationships with large-volume distribution channels, strengthening its after-sales services and value-added services. Through reinforcing the sales and marketing team, cooperation with business partners and active participation in trade fair, the Group has traded a wide range of electronic products and expanded the trading business steadily. As a result, the electronic products trading started to contribute to the results of the Group.

The Group has continued to utilise its available fund in treasury investment during the Year. Due to the uncertainty in interest rate and volatile local equity market, this segment incurred a loss on disposal of equity investments at fair value through profit or loss of HK$24.1 million, a fair value loss on equity investments at fair value through profit or loss of HK$10.1 million and on conversion option derivative of HK$1.5 million.

PROSPECTS

The intense price pressure and rising material costs remain the unfavorable factors adversely affecting the electronic products market in the year to come. To be more competitive and flexible in the competitive electronic products market, the Group would continue to put strict cost control in place and secure more distribution and trading business of new and innovative electronic products.

Looking ahead, it is anticipated that the global economic environment is positive and economic growth momentum will continue, in particular in Mainland China. The fast economic growth in Mainland China will boost various business and industries and create enormous investment opportunities throughout the region. With these positive economic trends, the Group will continue to pursue its prudent strategy to explore business opportunities for diversifying its existing business and revenue streams.

FINANCIAL REVIEW

The Group's revenue for the year was HK$10.3 million, representing a decrease of HK$29.5 million or 74% compared with last year. The Group's revenue principally comprised the sales electronic products of HK$29.2 million and the loss on disposal of equity investments at fair value through profit or loss of HK$24.1 million. During the year, the revenue of electronic products increased by HK$21.4 million or 275% to HK$29.2 million.

The loss for the year was HK$46.5 million, comparing to profit for last year of HK$25.1 million. As at 31 March 2006, the Group's net asset value stood at HK$357.5 million (at 31 March 2005: HK$315.9 million). The Group maintained a sound financial position in terms of high assets liquidity and nil debt burden.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group has generally financed its operation with internally generated cash flow and banking facilities. The Group's cash and bank balances and time deposit as at 31 March 2006 amounted to HK$25.5 million (at 31 March 2005: HK$90.0 million).

As at 31 March 2006, there were no bank overdrafts, short and long term interest-bearing bank borrowings to the Group (at 31 March 2005: Nil).

As at 31 March 2006, the Group's current ratio was 30.1 times (at 31 March 2005: 34.2 times) based on current assets of HK$236.3 million (at 31 March 2005: HK$311.3 million) and current liabilities of HK$7.9 million (at 31 March 2005: HK$9.1 million).

As at 31 March 2006, the Group has no contingent liabilities or material commitments for the purchase of property, plant and equipment.

CAPITAL STRUCTURE

As at 31 March 2006, the Group's gearing ratio, being the total finance lease payables to net worth was 0.04% (31 March 2005: Nil).

The Group's bank deposits and borrowings are mainly denominated in Hong Kong dollars. Most of the Group's sales and purchases are made in United States dollars and Hong Kong dollars. Therefore, the exchange risks exposed to the Group is minimal.

SIGNIFICANT INVESTMENTS

As at 31 March 2006, the Group had convertible notes issued by a company listed on The Stock Exchange of Hong Kong Limited with carrying amount of HK$12.5 million. The related interest for the Year was HK$0.9 million.

As at 31 March 2006, the Group maintained a portfolio of equity investments (including available-for-sale equity investments and equity investments at fair value through profit or loss) with total carrying amount of HK$315.3 million. The related dividend income for the Year was HK$4.3 million.

DETAILS OF CHARGES ON ASSETS

At 31 March 2006, a fixed deposit of HK$6.7 million (2005: HK$6.6 million) were pledged to secure banking facilities granted to the Group.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Year, the Company has no material acquisition and disposal of subsidiaries and associate.

EMPLOYMENT, TRAINING AND DEVELOPMENT

At 31 March 2006, the Group had a total of 45 employees of which 22 are based in Hong Kong and 23 based in Mainland China. The Group has committed itself to its staff training and development and structured training programs for all employees.

Remuneration packages are maintained at competitive level and reviewed on a periodic basis. Bonus and share options are awarded to certain employees according to the assessment of individual performance and industry practice.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express our appreciation to all management and staff members for their contribution during the past year.

Wong Howard
Chairman

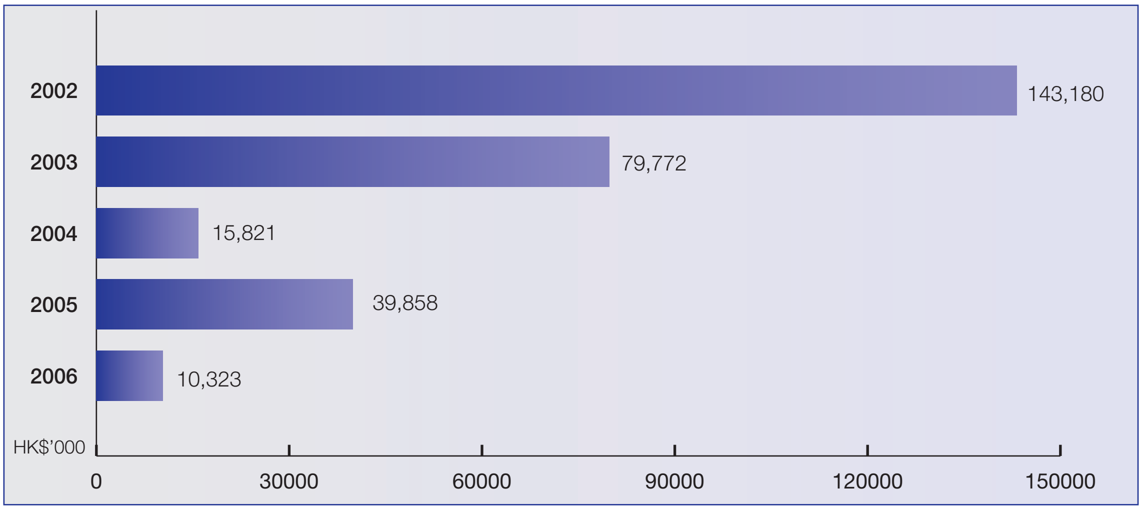
Hong Kong
20 July 2006

FINANCIAL HIGHLIGHTS

	2005/2006	2004/2005
Revenue	**HK$10,323,000**	HK$39,858,000
Profit/(loss) for the year attributable to ordinary equity holders of the parent	**(HK$46,482,000)**	HK$25,125,000
Basic earnings/(loss) per share attributable to ordinary equity holders of the parent	**(HK4.10 cents)**	HK2.67 cents

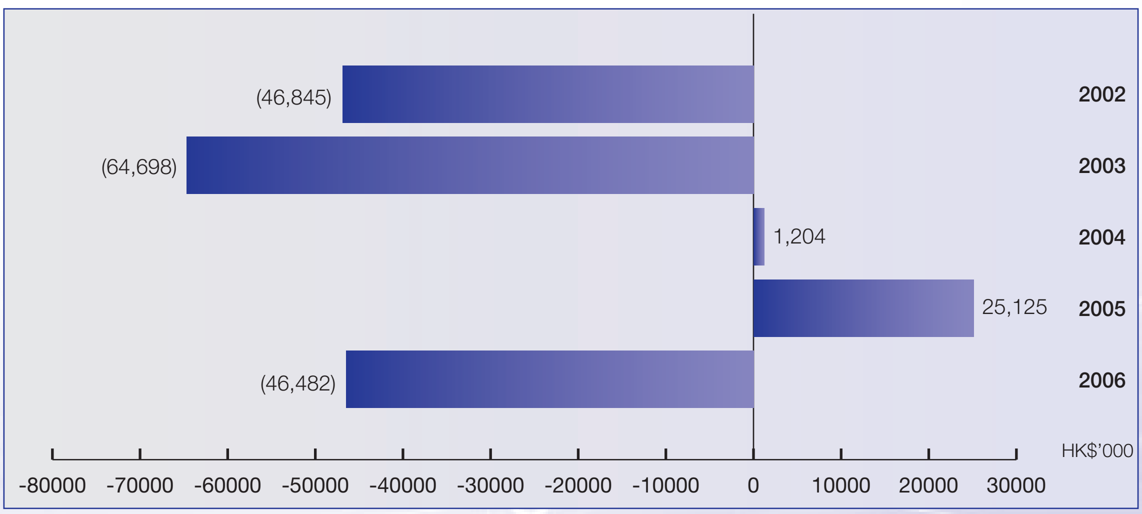
Revenue

(For the year ended 31 March)



Profit/(loss) for the year attributable to ordinary equity holders of the parent

(For the year ended 31 March)



EXECUTIVE DIRECTORS

Wong Howard, aged 50, joined the Group in February 2000, has over 20 years of senior management experience in overall strategy, business development and retail chain shops establishment. Mr. Wong had been a Managing Director of a listed Company in Hong Kong for two years before joining the Group.

Wong Yat Fai, aged 46, joined the Group in February 2000. Mr. Wong holds a professional diploma in banking from The Hong Kong Polytechnic University. Prior to joining the Group, Mr. Wong had over 13 years' working experience in an international banking group. He is an independent non-executive director of Yugang International Limited, Y.T. Realty Group Limited and The Cross-Harbour (Holdings) Limited.

Wu Qing, aged 49, joined the Group in February 2000, holds a Ph.D. degree of computer science from the University Bonn of Germany. In 1994, Mr. Wu joined a holding company as the R & D manager. During that time, he was in charge of the research and development and engaged in the marketing study of application softwares and e-commerce.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Chi Ming, aged 48, joined the Group in February 2000, holds an Honorary LL. B, P.C.LL. from Hong Kong University, and L.L.M. from City University. He was being a Partner of Messrs. Poon, Yeung & Li, solicitors over 17 years.

Tung Tat Chiu, Michael, aged 44, joined the Group in September 2000 and holds a Bachelor of Arts degree in law and accounting from the University of Manchester. Mr Tung is a practising solicitor in Hong Kong. Mr. Tung is also a non-executive director and an independent non-executive director of two Hong Kong listed companies and the company secretary of various listed companies in Hong Kong.

Wan Ngar Yin, David, aged 45, joined the Group in September 2004 and holds a bachelor degree in social sciences from the University of Hong Kong and a master degree in business administration from the University of Sydney (Australia). Mr. Wan is member of the Hong Kong Securities Institute, a member of the CPA Australia, an associate member of the Hong Kong Institute of Certified Public Accountants (formerly the Hong Kong Society of Accountants), an associate member of the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Mr. Wan is also the independent non-executive director of three other listed companies in Hong Kong.

SENIOR MANAGEMENT

Szeto Pui Tong, Patrick, aged 46, joined the Group in March 2000, is the Financial Controller and the Company Secretary of the Group. Before joining the Group, he has over 13 years of experience in finance and accounting field. He holds a master degree of business in accounting from Monash University in Australia and is an associate member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Company Secretaries, the Chartered Institute of Management Accountants and the Institute of Chartered Secretaries and Administrators.

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the trading and distribution of electronic products and other merchandise and securities investment and trading. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 March 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 100.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue					
Continuing operations	**10,323**	39,858	15,821	(5,061)	38,253
Discontinued operations	**–**	–	–	84,833	104,927
	10,323	39,858	15,821	79,772	143,180
Profit/(loss) before tax					
Continuing operations	**(46,482)**	25,125	1,204	(72,649)	(53,166)
Discontinued operations	**–**	–	–	6,241	4,870
	(46,482)	25,125	1,204	(66,408)	(48,296)
Tax					
Continuing operations	**–**	–	–	1,600	1,420
Discontinued operations	**–**	–	–	–	–
	–	–	–	1,600	1,420
Profit/(loss) before minority interests	**(46,482)**	25,125	1,204	(64,808)	(46,876)
Minority interests	**–**	–	–	110	31
Profit/(loss) for the year attributable to ordinary equity holders of the parent	**(46,482)**	25,125	1,204	(64,698)	(46,845)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 March				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**371,921**	325,003	242,533	225,699	408,061
Total liabilities	**14,401**	9,093	14,148	18,262	145,981
Minority interests	**–**	–	–	–	110
	357,520	315,910	228,385	207,437	261,970

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options, during the year are set out in notes 26 and 28 to the financial statements, respectively.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 23 August 2006 to Monday, 28 August 2006 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for attending the annual general meeting of the Company to be held on Monday, 28 August 2006, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 22 August 2006.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the Companies Act 1981 of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2006, the Company had no reserves available for distribution. The Company's share premium account and capital redemption reserve, with an aggregate balance of HK$310,556,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales of electronic products to the Group's five largest customers accounted for 90% of the sales from the electronic products segment for the year and sales to the largest customer included therein amounted to 45%. Purchases of electronic products from the Group's five largest suppliers accounted for less than 91% of the purchases from the electronic products segment for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Wong Howard
Mr. Wong Yat Fai
Mr. Wu Qing

Non-executive directors:

Mr. Li Chi Ming*
Mr. Tung Tat Chiu, Michael*
Mr. Wan Ngar Yin, David*

* Independent non-executive directors

The independent non-executive directors are appointed initially for one year and thereafter their appointment is subject to renewal on an annual basis in accordance with their employment contracts.

In accordance with bye-law 98 of the bye-laws of the Company, Mr. Wong Yat Fai and Mr. Wu Qing, the existing directors of the Company, will retire as directors of the Company by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election at the said meeting.

The Company has received annual confirmations of independence from Mr. Li Chi Ming, Mr. Tung Tat Chiu, Michael and Mr. Wan Ngar Yin, David and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 8 to 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Wong Howard has a service contract with the Company for a term of two years commencing on 1 February 2005, which is subject to termination by either party giving not less than three months' written notice.

The Company has service agreements with Mr. Wong Yat Fai and Mr. Wu Qing for a term of two years and of 16 months commencing on 1 April 2005 and 1 December 2005, respectively. The agreements are subject to termination by either party giving not less than three months' written notice.

All the independent non-executive directors have entered into letter of appointment with the Company for an initial term of one year and are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2006, the interests of the directors of the Company in the shares of the Company, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Capacity	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Wong Howard	Beneficial owner	21,299,000	1.88%
Mr. Wong Yat Fai	Beneficial owner	21,299,000	1.88%
Mr. Wu Qing	Beneficial owner	21,299,000	1.88%

In addition to the above, as at 31 March 2006, Mr. Wong Howard and Mr. Wong Yat Fai had non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the previous requirements of a minimum of two shareholders.

Save as disclosed above, as at 31 March 2006, none of the directors or chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was deemed or taken to have under such provisions of the SFO) or which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in shares" above and in the share option scheme disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

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

Name of substantial shareholder	Long/short position	Capacity	Number of ordinary shares	Percentage of the Company's issued share capital
Radford Capital Investment Limited *(note a)*	Long	Interests held by a controlled corporation	92,782,000	8.19%

Note:

a. Radford Capital Investment Limited held the interests in the share capital of the Company via its wholly-owned subsidiary "Winning Horsee Limited".

Save as disclosed above, as at 31 March 2006, no persons had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CORPORATE GOVERNANCE

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

AUDITORS

Ernst & Young will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wong Howard
Chairman

Hong Kong
20 July 2006

The Board of Directors of the Company (the "Board") is pleased to present this Corporate Governance Report of the Company for the year ended 31 March 2006.

Good corporate governance has always been recognized as vital to the Group's success and to sustain development of the Group. The Company is committed to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

The Company has applied the principles of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and complied with all the code provisions of the CG Code (the "Code Provisions") save for (i) the Code Provisions on internal controls which are to be implemented for accounting periods commencing on or after 1 July 2005 pursuant to the CG Code; and (ii) the Code Provision A.2.1 which requires the separation of the roles of Chairman and Chief Executive Officer. The details of such deviation of the Code Provision A.2.1 will be explained below.

The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code. The key corporate governance principles and practices of the Company are summarised as follows:–

A. THE BOARD

(1) Responsibilities

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the interests of the Company.

The Board reserves for its decisions all major matters of the Company including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the Executive Committee, the Chief Executive Officer and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any decision making or entering into any commitments on behalf of the Company.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Besides, all directors may seek independent professional advice in appropriate circumstances at the Company's expenses, upon making request to the Board.

(2) Composition

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. The Board currently comprises the following members:–

Executive directors

Mr Wong Howard, *Chairman of the Board & Executive Committee and Chief Executive Officer*
Mr Wong Yat Fai, *member of Executive Committee*
Mr Wu Qing, *member of Executive Committee*

Independent non-executive directors

Mr Tung Tat Chiu, Michael, *Chairman of Audit Committee and member of Remuneration Committee*
Mr Li Chi Ming, *Chairman of Remuneration Committee and member of Audit Committee*
Mr Wan Ngar Yin, David, *member of Audit Committee and Remuneration Committee*

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

During the year ended 31 March 2006, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

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

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

(3) Appointment and Re-election of Directors

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Each of the independent non-executive directors of the Company are appointed for a specific term. The term of office of Mr Li Chi Ming, Mr Tung Tat Chiu, Michael and Mr Wan Ngar Yin, David is 1 year up to 26 September 2006.

In accordance with the Company's Bye-laws, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a casual vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Though the Company has not set up a nomination committee, the Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

During the year ended 31 March 2006, the Board met once (with the presence of Mr Wong Howard, Mr Wong Yat Fai, Mr Wu Qing, Mr Li Chi Ming and Mr Wan Ngar Yin, David) and reviewed the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. In addition, the Company has adopted the Director Nomination Procedures which set out the procedures, process and criteria in nominating directors and re-election of the retiring directors of the Company.

In accordance with the Company's Bye-laws, Mr Wong Yat Fai and Mr Wu Qing shall retire by rotation and, being eligible, offer themselves for re-election at the Company's forthcoming annual general meeting. The Board recommended the re-appointment of these directors standing for re-election at the forthcoming annual general meeting of the Company. Detailed information of such directors standing for re-election is contained in the Company's circular to be despatched to the shareholders of the Company.

(4) Training and Continuing Development for Directors

Arrangements will be in place for providing to the directors a comprehensive, formal and tailored induction on the first occasion of his/her appointment and continuing briefing and professional development when and as necessary.

(5) Board Meetings

Number of Meetings and Directors' Attendance

The Board met regularly for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company as well as on an ad hoc basis, as required by business needs. In respect of the financial year ended 31 March 2006, the Board met five times of which four were regular Board meetings and the individual attendance record of each director at the Board meetings is set out below:–

Name of Directors	Attendance/Number of Meetings
Mr Wong Howard	5/5
Mr Wong Yat Fai	5/5
Mr Wu Qing	4/5
Mr Tung Tat Chiu, Michael	1/5
Mr Li Chi Ming	4/5
Mr Wan Ngar Yin, David	4/5

Practices and Conduct of Meetings

Annual meeting schedules and draft agendas of the meetings of the Board and the Board committees are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given. Board papers together with all appropriate, complete and reliable information are sent to all directors/committee members at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Company Secretary of the Company is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-laws also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

B. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Though Mr Wong Howard currently assumes the roles of both the Chairman of the Board and the Chief Executive Officer of the Company, the Board is of the view that this structure provides the Group with strong and consistent leadership and allows for more effective and efficient business planning and decisions as well as execution of long term business strategies.

The Board considers that the current structure of vesting the roles of Chairman and Chief Executive Officer in the same person will not impair the balance of power and authority between the Board and the management of the Company.

C. BOARD COMMITTEES

The Board has established 3 Board Committees, namely, the Remuneration Committee, the Audit Committee and the Executive Committee, for overseeing particular aspects of the Company's affairs. All these Board Committees have been established with defined written terms of reference, as approved by the Board, which set out the committees' major duties. The terms of reference of the Board Committees are available to shareholders upon request and are posted on the Company's website at www.139hk.com.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

(1) Audit Committee

The Audit Committee comprises the following three independent non-executive directors (including one independent non-executive director who possesses the appropriate professional qualifications or accounting or related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

Mr Tung Tat Chiu, Michael *(Chairman of the Committee)*
Mr Li Chi Ming
Mr Wan Ngar Yin, David

The main duties of the Audit Committee include the following:

(a) to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and to consider any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable accounting standard;

(c) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

(d) to ensure co-ordination where more than one audit firm is involved;

(e) to develop and implement policy on the engagement of an external auditor to supply non-audit services and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(f) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee shall focus particularly on:–

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit;

   (iv) the going concern assumptions and any qualifications;

   (v) compliance with accounting standards; and

   (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

(g) in regard to (f) above:–

   (i) members of the Audit Committee must liaise with the Company's Board, senior management and the person appointed as the Company's qualified accountant; and

   (ii) the Audit Committee shall consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;

(h) to review the Company's financial controls, internal control and risk management systems;

(i) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

(j) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(k) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

(l) to review the Group's financial and accounting policies and practices;

(m) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

(n) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(o) to report to the Board on the matters set out herein and, in particular, the matters required to be performed by the Audit Committee under the CG Code; and

(p) to discuss problems and reservations arising from the interim and final audits and any matters the auditor may wish to discuss (in the absence of the management where necessary).

During the year ended 31 March 2006, 2 Audit Committee meetings were held to review the financial results and reports for the year ended 31 March 2005 and for the six months ended 30 September 2005, financial reporting and compliance procedures, risk management review and processes and the appointment of the external auditors. The individual attendance record of each member at the Audit Committee meetings is set out below:

Name of Directors	Attendance/Number of Meetings
Mr Tung Tat Chiu, Michael	1/2
Mr Li Chi Ming	2/2
Mr Wan Ngar Yin, David	2/2

(2) Remuneration Committee

The Remuneration Committee normally meets annually for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters. The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee shall report to the Board about its recommendations on remuneration policy and structure and remuneration packages. The Remuneration Committee comprises the following members:–

Mr Li Chi Ming *(Chairman of the Committee)*
Mr Tung Tat Chiu, Michael
Mr Wan Ngar Yin, David

The main duties of the Remuneration Committee include the following:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such policy;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;

(c) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(e) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

(f) to ensure that no director or any of his associates is involved in deciding his own remuneration; and

(g) to advise shareholders on how to vote with respect to any service contracts of directors that require shareholders' approval under the Listing Rules.

During the year ended 31 March 2006, the Remuneration Committee met once and discussed the Company's remuneration policy and structure of the directors and senior management. The individual attendance record of each member at the Remuneration Committee meeting is set out below:

Name of Directors	Attendance/Number of Meeting
Mr Tung Tat Chiu, Michael	1/1
Mr Li Chi Ming	1/1
Mr Wan Ngar Yin, David	1/1

(3) Executive Committee

The Executive Committee comprises all the executive directors of the Company, with Mr Wong Howard acting as the Chairman.

The main duties of the Executive Committee include the following:

(a) to monitor the execution of the Company's strategic plans and operations of all business units of the Company;

(b) to discuss and make decisions on matters relating to the management and operations of the Company;

(c) to appoint and remove the operating management;

(d) to approve any changes to the scope of the authority delegated to the operational management and the corporate management;

(e) to approve any excess in authority delegated to the corporate and operating management;

(f) to exercise the functions and responsibilities of the Board between its regular meetings; and

(g) to review and discuss any other matters as may from time to time be delegated to it by the Board.

D. MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the directors and the directors confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 March 2006.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") in respect of the dealings in the Company's securities by employees who, because of such office or employment, are likely to be in possession of unpublished price-sensitive information of the Company or its securities. After making specific enquiry of the relevant employees of the Company, no incident of non-compliance of the Employees Written Guidelines was noted by the Company during the year ended 31 March 2006.

E. RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND AUDITORS' REMUNERATION

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements. The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 March 2006.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Auditors' Report" on page 33.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditors.

The remuneration paid to the external auditors of the Company in respect of audit services and non-audit services for the year ended 31 March 2006 amounted to HK$790,000 and HK$591,655 respectively. The nature of and the fees paid/payable on the said audit and non-audit services are analysed below:

Type of services provided by the external auditors	**Fees paid/payable (HK$)**
Audit services:	*Audit services:*
Audit of the annual financial statements for the year ended 31 March 2006	$790,000
Non-audit services:	*Non-audit services:*
1. Issuance of accountants' report on Very Substantial Acquisition	1. $450,000
2. Financial advisory services	2. $87,155
3. Tax compliance	3. $54,500
TOTAL:	$591,655

F. SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

Pursuant to the Bye-laws of the Company, shareholders of the Company holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to convene a special general meeting for the transaction of any specific issues of the Company. Besides, the Bye-laws of the Company contain the rights of shareholders and the procedures for demanding a poll voting on resolutions at shareholders' meetings. Details of such rights to demand a poll are included in all circulars to shareholders and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll procedures will be explained in the shareholders' meetings and the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the website of the Stock Exchange.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The Chairman of the Board as well as the chairmen of the Board Committees, or in their absence, other members of the respective Committees, are normally available to answer questions at the shareholders' meetings.

The Company continues to enhance communications and relationships with its investors. Designated executive directors and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's developments. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

As a channel to further promote effective communication, the Company also maintains a website at www.139hk.com, where information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are posted.

ERNST & YOUNG
安永會計師事務所

To the members
139 Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 34 to 100 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

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

Ernst & Young
Certified Public Accountants

Hong Kong
20 July 2006

Consolidated Income Statement

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
REVENUE	5		
Electronic products		**29,216**	7,794
Treasury investment		**(18,893)**	32,064
		10,323	39,858
Cost of electronic products sold		**(29,308)**	(15,522)
Brokerage and commission expenses		**(1,242)**	(241)
		(30,550)	(15,763)
		(20,227)	24,095
Other income and gains	5	**3,246**	698
Selling and distribution costs		**(303)**	(642)
Administrative expenses		**(16,247)**	(17,896)
Other operating expenses		**(415)**	(3,941)
Fair value losses, net:			
Equity investments at fair value through profit or loss		**(10,096)**	–
Conversion option derivative		**(1,479)**	–
Unrealised gain on other securities		**–**	22,961
Finance costs	7	**(961)**	(150)
PROFIT/(LOSS) BEFORE TAX	6	**(46,482)**	25,125
Tax	10	**–**	–
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	11	**(46,482)**	25,125
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
			(Restated)
Basic		**(4.10 cents)**	2.67 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**403**	172
Prepaid land lease payment	14	**–**	–
Convertible notes-loan portion/convertible notes	16	**12,480**	13,500
Available-for-sale equity investments/ investment securities	17	**122,743**	–
Total non-current assets		**135,626**	13,672
CURRENT ASSETS			
Equity investments at fair value through profit or loss/other securities	18	**192,558**	194,743
Inventories	19	**6**	379
Trade receivables	20	**10,235**	–
Prepayments, deposits and other receivables	21	**7,985**	26,132
Pledged time deposits	22	**6,731**	6,572
Cash and cash equivalents	22	**18,780**	83,505
Total current assets		**236,295**	311,331
CURRENT LIABILITIES			
Trade payables	23	**250**	196
Tax payable		**363**	363
Other payables and accruals	23	**7,170**	8,533
Finance lease payables	24	**78**	–
Bank overdrafts, secured	30	**–**	1
Total current liabilities		**7,861**	9,093
NET CURRENT ASSETS		**228,434**	302,238
TOTAL ASSETS LESS CURRENT LIABILITIES		**364,060**	315,910
NON-CURRENT LIABILITIES			
Finance lease payables	24	**69**	–
Deferred tax liabilities	25	**6,471**	–
Total non-current liabilities		**6,540**	–
Net assets		**357,520**	315,910

31 March 2006

	Notes	**2006** **HK$'000**	2005 HK$'000
Equity attributable to equity holders of the parent			
Issued capital	*26*	**11,332**	113,324
Reserves	*27(a)*	**346,188**	202,586
Total equity		**357,520**	315,910

Wong Howard
Director

Wong Yat Fai
Director

Year ended 31 March 2006

		Attributable to equity holders of the parent								
	Notes	Issued share capital HK$'000	Share premium account HK$'000	Goodwill reserve# HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Available-for-sale equity investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total equity HK$'000
At 1 April 2004		93,324	267,600	–	556	449,182	–	32	(582,309)	228,385
Issue of shares	26	20,000	44,000	–	–	–	–	–	–	64,000
Share issue expenses	26	–	(1,600)	–	–	–	–	–	–	(1,600)
Net profit for the year		–	–	–	–	–	–	–	25,125	25,125
At 31 March 2005 and 1 April 2005		113,324	310,000*	–*	556 *	449,182*	–*	32 *	(557,184)*	315,910
Opening adjustment	2.4	–	–	–	–	–	–	–	20,374	20,374
At restated		113,324	310,000	–	556	449,182	–	32	(536,810)	336,284
Capital reorganisation	26	(101,992)	–	–	–	101,992	–	–	–	–
Changes in fair values of available-for-sale equity investments		–	–	–	–	–	74,303	–	–	74,303
Deferred tax arising from changes in fair value of available-for-sale equity investments	25	–	–	–	–	–	(6,471)	–	–	(6,471)
Exchange realignment		–	–	–	–	–	–	(114)	–	(114)
Net loss for the year		–	–	–	–	–	–	–	(46,482)	(46,482)
At 31 March 2006		11,332	310,000 *	–*	556 *	551,174 *	67,832 *	(82)*	(583,292)*	357,520

* These reserve accounts comprise the consolidated reserves of HK$346,188,000 (2005: HK$202,586,000) in the consolidated balance sheet.

Goodwill arising from acquisition of certain subsidiaries prior to 1 April 2001 that amounted to HK$49,062,000 was previously eliminated against the consolidated reserve and remained eliminated against the consolidated reserve as at 31 March 2006. Such goodwill was fully impaired in prior years. The Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against consolidated reserve, and not be recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(46,482)**	25,125
Adjustments for:			
Interest income	5	**(1,931)**	(356)
Finance costs	7	**961**	150
Depreciation	6	**143**	4,513
Provision for impairment of items of property, plant and equipment	6	**–**	3,777
Gain on disposal of subsidiaries	5 & 29	**(1,173)**	–
Gain on disposal of items of property, plant and equipment	5	**(109)**	–
Provision/(write-back of provision) for inventories	6	**(1,232)**	2,707
Fair value losses, net:			
Equity investments at fair value through profit or loss		**10,096**	–
Conversion option derivative		**1,479**	–
Unrealised gain on other securities		**–**	(22,961)
Operating profit/(loss) before working capital changes		**(38,248)**	12,955
Increase in convertible notes-loan portion/convertible notes		**(459)**	(3,000)
Decrease/(increase) in equity investments at fair value through profit or loss/other securities		**(31,183)**	9,516
Decrease in inventories		**1,605**	1,309
Decrease/(increase) in trade receivables		**(10,235)**	728
Increase/(decrease) in prepayments, deposits and other receivables		**18,135**	(21,517)
Increase/(decrease) in trade payables		**54**	(1,487)
Increase/(decrease) in other payables and accruals		**(297)**	799
Cash used in operations		**(60,628)**	(697)
Interest paid		**(961)**	(150)
Net cash outflow from operating activities		**(61,589)**	(847)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(57)**	(199)
Purchases of available-for-sale equity investments		**(4,794)**	–
Interest received		**1,931**	906
Net cash inflow/(outflow) from investing activities		**(2,920)**	707

Year ended 31 March 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	26	–	64,000
Share issue expenses	26	–	(1,600)
New other loans		90,000	–
Repayment of other loans		(90,000)	–
Capital element of finance lease rental payments		(61)	–
Net cash inflow/(outflow) from financing activities		(61)	62,400
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(64,570)	62,260
Cash and cash equivalents at beginning of year		90,076	27,816
Effect of foreign exchange rate changes, net		5	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		25,511	90,076
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	7,643	2,583
Non-pledged time deposits with original maturity of less than three months when acquired	22	11,137	80,922
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	22	6,731	6,572
Bank overdrafts, secured		–	(1)
		25,511	90,076

Balance Sheet

31 March 2006

	Notes	**2006** **HK$'000**	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**–**	–
Interests in subsidiaries	*15*	**–**	–
CURRENT ASSETS			
Due from subsidiaries	*15*	**277,673**	213,502
Prepayments, deposits and other receivables	*21*	**26**	376
Cash and cash equivalents	*22*	**320**	63,861
Total current assets		**278,019**	277,739
CURRENT LIABILITIES			
Tax payable		**354**	354
Accruals		**1,308**	2,005
Due to subsidiaries	*15*	**36,251**	31,088
Total current liabilities		**37,913**	33,447
NET CURRENT ASSETS		**240,106**	244,292
Net assets		**240,106**	244,292
EQUITY			
Issued capital	*26*	**11,332**	113,324
Reserves	*27(b)*	**228,774**	130,968
Total equity		**240,106**	244,292

Wong Howard
Director

Wong Yat Fai
Director

1. CORPORATE INFORMATION

139 Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The principal place of 139 Holdings Limited is located at Rooms 1603-5, 16/F., Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consisted of the trading and distribution of electronic products and other merchandise and securities investment and trading. There were no significant changes in the nature of the Group's principal activities during the year.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 33, 36, 37, 39 Amendment, HKFRSs 2 and 3 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

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

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

HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

At 31 March 2005, the Group classified its investments in securities into investment securities and other securities, which were stated in the balance sheet at cost less any impairment losses and at fair value, respectively. Any impairment losses on investment securities and changes in fair value on other securities were recognised in the income statement for the period in which they arise.

From 1 April 2005 onwards, the Group classified its investments in securities into the following categories, taking into account the purpose for which the investments are acquired:

Equity investments at fair value through profit or loss

Equity investments at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. They are carried at fair value in the balance sheet. Any change in fair value is recognised in the income statement.

Available-for-sale equity investments

Available-for-sale equity investments are non-derivative financial assets that are either designated in this category or not classified in any other categories. They are carried at fair value except for certain available-for-sale equity investments that do not have a published quoted price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any accumulated impairment losses. The impairment loss is charged to the income statement for the period in which they arise.

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

HKAS 32 and HKAS 39 – Financial Instruments (continued)

(i) Equity securities (continued)

Available-for-sale equity investments (continued)

For available-for-sale equity investments carried at fair value, any gain or loss arising from the change in fair value is recognised directly in equity except for impairment losses, until the financial asset is derecognised at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement.

When a decline in the fair value of an available-for-sale equity investment has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments shall not be reversed through profit or loss.

In accordance with the transitional provisions of HKAS 39, the Group re-designated equity securities as follows:

(1) other securities with total carrying amounts of HK$43,646,000 and HK$171,471,000 were re-designated into available-for-sale equity investments and equity investments at fair value through profit or loss on 1 April 2005, respectively.

In prior years, in accordance with paragraph 41 of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Investments in Securities", a discount was applied in determining the fair values of other securities with large size in holding to reflect the reduction in price likely to be incurred in disposing of the securities with such a large-sized holding.

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

HKAS 32 and HKAS 39 – Financial Instruments (continued)

(i) Equity securities (continued)

Available-for-sale equity investments (continued)

Upon the adoption of HKAS 39, the application of discount on the determination of the fair value of the large-sized holding securities is not permitted. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated and an adjustment of HK$20,374,000 was credited to the opening balance of accumulated losses to reflect the write-back of the discount made in previous years.

(2) Investment securities which carried at cost of HK$90,000,000 less an accumulated impairment loss of HK$90,000,000 were re-designated into available-for-sale equity investments at cost less any accumulated impairment losses on 1 April 2005. There is no effect on re-measurement as the accounting policy on measurement of the Group's investment securities as at 31 March 2005 is the same as that for available-for-sale equity investments which are carried at cost.

(ii) Convertible notes

In prior years, convertible notes which were held for long term purposes were stated at cost less any impairment losses. Upon the adoption of HKAS 39, convertible notes are separated into two components: (1) loan portion and (2) conversion option derivative.

Loan portion is carried at amortised cost using the effective interest method at subsequent balance sheet date. Conversion option derivative is carried at fair value at each balance sheet date, with changes in fair value recognised in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

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

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

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

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

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

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

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting			
At 1 April 2005	HKASs 32 and 39*	HKAS 39*	HKAS 39*	
Effect of new policies (Increase/(decrease))	Re-designation of equity securities	Convertible notes	Fair value measurement on financial instruments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Available-for-sale equity investments	43,646	–	–	43,646
Convertible notes	–	(13,500)	–	(13,500)
Convertible notes-loan portion	–	12,021	–	12,021
Conversion option derivative	–	1,479	–	1,479
Equity investments at fair value through profit or loss	171,471	–	–	171,471
Other securities	(215,117)	–	20,374	(194,743)
				20,374
Equity				
Accumulated losses	–	–	20,374	20,374

* Adjustments taken effect prospectively from 1 April 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 March 2006	Effect of adopting			
	HKASs 32 and 39	HKAS 39	HKAS 39	
Effect of new policies (Increase/(decrease))	Re-designation of equity securities	Convertible notes	Fair value measurement on financial instruments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Available-for-sale equity investments	122,743	–	–	122,743
Convertible notes	–	(13,500)	–	(13,500)
Convertible notes-loan portion	–	12,480	–	12,480
Equity investments at fair value through profit or loss	192,558	–	–	192,558
Other securities	(315,301)	–	37,928	(277,373)
				36,908
Liabilities/Equity				
Tax payable	(6,471)	–	–	(6,471)
Deferred tax liabilities	6,471	–	–	6,471
Available-for-sale equity investment revaluation reserve	67,832	–	–	67,832
Accumulated losses	(67,832)	(1,020)	37,928	(30,924)
				36,908

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(b) Effect on the consolidated income statement for the year ended 31 March 2006

At 31 March 2006	Effect of adopting			
	HKASs 32 and 39	HKAS 39	HKAS 39	
Effect of new policies	Re-designation of equity securities	Convertible notes	Fair value measurement on financial instruments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 March 2006				
Increase in revenue from treasury investment	–	459	–	459
Increase/(decrease) in fair value gains on equity investments at fair value through profit or loss	(74,303)	–	17,554	(56,749)
Increase in fair value losses on a conversion option derivative	–	(1,479)	–	(1,479)
Decrease in tax	6,471	–	–	6,471
Total increase/(decrease) in profit	(67,832)	(1,020)	17,554	(51,298)
Increase/(decrease) in basic earnings/(loss) per share	(5.9 cents)	(0.1 cents)	1.5 cents	(4.5 cents)

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" on 1 April 2002, goodwill arising on acquisition was eliminated against the consolidated reserves in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated reserves and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of assets

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

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

Related parties

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

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

(b) the party is a member of the key management personnel of the Group or its parent;

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

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

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

Land and buildings	50 years or over the lease terms, whichever is shorter
Leasehold improvements	Over the remaining lease terms or 3 years, whichever is shorter
Plant and machinery	7 to 10 years
Motor vehicles, furniture, fixtures and equipment	3 to 5 years

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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

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

Investments and other financial assets

Applicable to the year ended 31 March 2005:

The Group classified its equity investments, other than subsidiaries, as investment securities and other securities.

Investment securities

Investment securities are investments in listed and unlisted securities, intended to be held for long term purposes, and are stated at cost less any provisions for impairment in value on an individual basis.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 March 2005: (continued)

Investment securities (continued)

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

Other securities

Investments other than investment securities are classified as other securities. Other securities are held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair values of securities are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 March 2006:

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 March 2006: (continued)

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

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

Available-for-sale financial assets

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

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Applicable to the year ended 31 March 2006: (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

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

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

Assets carried at amortised cost

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Assets carried at amortised cost (continued)

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

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditure expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

(b) the profit or loss on the trading of equity investments at fair value through profit or loss on the transaction dates when the relevant contract notes are executed;

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

(d) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits schemes

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

Pursuant to the relevant regulations of Mainland China, subsidiaries of the Company operating in Mainland China participate in a local municipal government retirement benefits scheme (the "Mainland Scheme") whereby the subsidiaries are required to contribute a percentage of the basic salaries of their employees to the Mainland Scheme to fund their retirement benefits obligations of all existing and future retired employees of the subsidiaries. The only obligation of the Group with respect to the Mainland Scheme is to pay the ongoing required contributions under the Mainland Scheme mentioned above. Contributions under the Mainland Scheme are changed to the income statement as incurred. There are no provisions under the Mainland Scheme whereby forfeited contributions may be used to reduce future contributions.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rate or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Income tax

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Income tax (continued)

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable (i.e., more likely than not) that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilisation periods to allow utilisation of the carried forward tax losses, the asset balance will be reduced and charged to the income statement.

Estimation uncertainty

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

Impairment test of assets

The Group determines whether an asset is impaired at least on an annual basis. This requires an estimation of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

4. SEGMENT INFORMATION

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

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

(a) the electronic products segment trades electronic products;

(b) the treasury investment segment comprises securities investment and trading; and

(c) the corporate and others segment comprises corporate income and expenses items.

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

There are no intersegment sales and transfers between the business segments.

4. SEGMENT INFORMATION (continued)

(a) Business segments

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

Group

	Electronic products		Treasury investment		Corporate and others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**29,216**	7,794	**-**	–	**-**	–	**29,216**	7,794
Gains/(losses) from treasury investment	**-**	–	**(18,893)**	32,064	**-**	–	**(18,893)**	32,064
Total	**29,216**	7,794	**(18,893)**	32,064	**-**	–	**10,323**	39,858
Segment results	**(2,916)**	(15,721)	**(35,687)**	50,581	**(9,035)**	(9,392)	**(47,638)**	25,468
Interest income, gains and unallocated gains							**3,109**	696
Unallocated expenses							**(992)**	(889)
Finance costs							**(961)**	(150)
Profit/(loss) before tax							**(46,482)**	25,125
Tax							**-**	–
Profit/(loss) for the year							**(46,482)**	25,125
Assets and liabilities								
Segment assets	**12,835**	648	**338,687**	204,465	**1,224**	65,294	**352,746**	270,407
Unallocated assets							**19,175**	54,596
Total assets							**371,921**	325,003
Segment liabilities	**5,447**	4,975	**120**	–	**2,301**	3,210	**7,868**	8,185
Unallocated liabilities							**6,533**	908
Total liabilities							**14,401**	9,093
Other segment information:								
Depreciation	**20**	4,378	**-**	–	**120**	132	**140**	4,510
Unallocated depreciation							**3**	3
							143	4,513
Impairment losses recognised in the income statement	**-**	3,777	**-**	–	**-**	–	**-**	3,777
Other non-cash expenses	**-**	2,821	**-**	–	**-**	–	**-**	2,821
Capital expenditure	**-**	160	**-**	–	**375**	39	**375**	199

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

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

	People's Republic of China (including Hong Kong)		United States of America and Europe		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Electronic products	**27,315**	–	**1,901**	7,794	**29,216**	7,794
Treasury investment	**(18,893)**	32,064	**–**	–	**(18,893)**	32,064
	8,422	32,064	**1,901**	7,794	**10,323**	39,858
Other segment information:						
Segment assets	**371,921**	325,003	**–**	–	**371,921**	325,003
Capital expenditure	**375**	199	**–**	–	**375**	199

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and gains/(losses) on disposal of trading securities, dividend income arising from listed investments and interest income from convertible notes during the year.

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

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**29,216**	7,794
Gains/(losses) on disposal of equity investments at fair value through profit or loss/other securities	**(24,066)**	28,220
Dividend income from listed securities	**4,289**	3,655
Interest income from convertible notes	**884**	189
	10,323	39,858
Other income and gains		
Bank interest income	**1,931**	167
Gain on disposal of subsidiaries *(note 29)*	**1,173**	–
Gain on disposal of items of property, plant and equipment	**109**	–
Others	**33**	531
	3,246	698

6. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		**29,945**	9,361
Depreciation	*13*	**143**	4,513
Provision for impairment of items of property, plant and equipment**	*13*	**–**	3,777
Provision/(write-back of provision) for inventories*		**(1,232)**	2,707
Employee benefit expenses (including directors' remuneration (note 8):*			
Wages and salaries		**7,190**	10,245
Retirement benefits scheme contributions***		**343**	375
		7,533	10,620
Minimum lease payments under operating leases in respect of buildings		**1,566**	1,461
Auditors' remuneration		**790**	690
Foreign exchange differences, net		**4**	114

* The employee benefit expenses of HK$87,000 (2005: HK$128,000) and the write-back of provision for inventories of HK$1,232,000 (2005: provision for inventories of HK$2,707,000) are included in "Cost of electronic products sold" on the face of the income statement.

** The provision for impairment of items of property, plant and equipment is included in "Other operating expenses" on the face of the income statement.

*** At 31 March 2006, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2005: Nil).

7. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on bank overdrafts wholly repayable within five years	**1**	150
Interest on other loans	**949**	–
Interest on finance lease	**11**	–
	961	150

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Fees	**400**	400
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**2,665**	4,031
Pension scheme contributions	**133**	160
	2,798	4,191
	3,198	4,591

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

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

	2006 HK$'000	2005 HK$'000
Mr. Li Chi Ming	**150**	150
Mr. Tung Tat Chiu, Michael	**150**	150
Mr. Wan Ngar Yin, David	**100**	100
	400	400

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

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006				
Executive directors:				
Mr. Wong Howard	**–**	**1,040**	**52**	**1,092**
Mr. Wong Yat Fai	**–**	**975**	**49**	**1,024**
Mr. Wu Qing	**–**	**650**	**32**	**682**
	–	**2,665**	**133**	**2,798**

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors (continued)

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2005				
Executive directors:				
Mr. Wong Howard	–	1,866	52	1,918
Mr. Wong Yat Fai	–	975	49	1,024
Mr. Wu Qing	–	650	33	683
Ms. Lo Ki Yan, Karen	–	540	26	566
Mr. Chan Chun Tung, John	–	–	–	–
	–	4,031	160	4,191

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,021**	650
Performance related bonuses	**25**	–
Pension scheme contributions	**53**	33
	1,099	683

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**2**	1

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits during the year (2005: Nil). No provision for Mainland China corporate income tax has been made as the Group did not generate any assessable profits in Mainland China during the year (2005: Nil).

A reconciliation of the tax applicable to profit/(loss) before tax using the statutory rates in Hong Kong of 17.5% (2005: 17.5%) and Mainland China of 33% (2005: 33%) in which the Company and the majority of its subsidiaries are domiciled to the effective tax rates is as follows:

10. TAX (continued)

Group – 2006

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Profit/(loss) before tax	**(46,212)**	**(270)**	**(46,482)**
Tax at the applicable tax rates	**8,087**	**89**	**8,176**
Lower tax rate for specific provinces or local authority	**–**	**(4)**	**(4)**
Income not subject to tax	**1,092**	**–**	**1,092**
Expenses not deductible for tax	**(1,113)**	**–**	**(1,113)**
Tax losses for the year not recognised	**(8,066)**	**(85)**	**(8,151)**
Tax credit/(charge)	**–**	**–**	**–**

Group – 2005

	Hong Kong *HK$'000*	Mainland China *HK$'000*	Total *HK$'000*
Profit/(loss) before tax	37,350	(12,225)	25,125
Tax at the applicable tax rates	(6,536)	4,034	(2,502)
Lower tax rate for specific provinces or local authority	–	(716)	(716)
Income not subject to tax	660	–	660
Expenses not deductible for tax	(176)	–	(176)
Tax losses utilised	8,850	–	8,850
Tax losses for the year not recognised	(2,798)	(3,318)	(6,116)
Tax credit/(charge)	–	–	–

11. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net loss from ordinary activities attributable to the equity holders of the parent for the year ended 31 March 2006 dealt with in the financial statements of the Company, was HK$4,186,000 (2005: HK$4,994,000) (note 27(b)).

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings/(loss) per share is based on the net loss for the year attributable to ordinary equity holders of the parent for the year of HK$46,482,000 (2005: net profit for the year attributable to equity holders of the parent of HK$25,125,000), and the weighted average number of 1,133,243,047 (2005: 942,558,116) ordinary shares in issue during the year. The weighted average number of shares in 2005 is adjusted to reflect the changes in the number of ordinary shares as a result of the capital reorganisation (note 26) of the Company during the year.

Diluted earnings/(loss) per share amounts for the years ended 31 March 2006 and 2005 have not been disclosed as no diluting events existed during these years.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Motor vehicles, furniture, fixtures and equipment HK$'000	Total HK$'000
Cost:					
At 1 April 2004	13,238	427	13,691	5,049	32,405
Additions	–	–	135	64	199
At 31 March 2005 and 1 April 2005	13,238	427	13,826	5,113	32,604
Additions	–	–	–	375	375
Disposals	–	–	–	(238)	(238)
At 31 March 2006	13,238	427	13,826	5,250	32,741
Accumulated depreciation:					
At 1 April 2004	9,249	427	10,608	3,858	24,142
Provided during the year	1,891	–	1,863	759	4,513
Impairment	2,098	–	1,355	324	3,777
At 31 March 2005 and 1 April 2005	13,238	427	13,826	4,941	32,432
Provided during the year	–	–	–	143	143
Disposals	–	–	–	(237)	(237)
At 31 March 2006	13,238	427	13,826	4,847	32,338
Net carrying amount:					
At 31 March 2006	–	–	–	403	403
At 31 March 2005	–	–	–	172	172

13. PROPERTY, PLANT AND EQUIPMENT (continued)

All the Group's buildings included above are stated at cost and are held under medium term leases outside Hong Kong.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles, furniture, fixtures and equipment at 31 March 2006 amounted to HK$265,000 (2005: Nil).

The provision for impairment of HK$3,777,000 charged to the income statement for the year ended 31 March 2005 mainly represented the write-down of certain items of property, plant and equipment in Mainland China in the "Electronic products" segment to their recoverable amounts. The recoverable amount estimation was based on fair value less costs to sell.

Company

	Leasehold improvements *HK$'000*	**Furniture, fixtures and equipment** *HK$'000*	**Total** *HK$'000*
Cost:			
At 1 April 2004, 31 March 2005, 1 April 2005 and 31 March 2006	299	415	714
Accumulated depreciation:			
At 1 April 2004	299	387	686
Provided during the year	–	28	28
At 31 March 2005, 1 April 2005 and 31 March 2006	299	415	714
Net carrying amount:			
At 31 March 2006	–	–	–
At 31 March 2005	–	–	–

14. PREPAID LAND LEASE PAYMENT

	Group
	HK$'000
Cost:	
At 1 April 2004, 31 March 2005, 1 April 2005 and 31 March 2006	821
Accumulated amortisation:	
At 1 April 2004, 31 March 2005, 1 April 2005 and 31 March 2006	821
Net carrying amount:	
At 31 March 2006	–
At 31 March 2005	–

The Group is required to pay an annual fee of HK$57,000 with an annual increment of 5% in respect of certain land in Mainland China used by the Group for its electronic products business up to 2006 commencing from 1993. The annual fee paid by the Group during the year which had been charged to the income statement for the year, was HK$110,000 (2005: HK$101,000). The Group's legal counsel confirmed that the Group properly owns the legal right to use the land for the period granted.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Due from subsidiaries	**577,710**	513,577
Less: Provision for impairment	**(300,037)**	(300,075)
	277,673	213,502

15. INTERESTS IN SUBSIDIARIES (continued)

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

Particulars of the principal subsidiaries during the year are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Hoshing Limited	British Virgin Islands	Ordinary US$1	100	–	Investment holding
Sino Electronics Limited	British Virgin Islands/ Hong Kong	Ordinary US$2	–	100	Investment holding
Chongqing Electronics Limited	Hong Kong	Ordinary HK$2	–	100	Trading of electronic products
139 Enterprises Limited	Hong Kong	Ordinary US$2	–	100	Provision of administrative services
Chaifa Finance Limited	Hong Kong	Ordinary HK$2	–	100	Provision of finance services
Main Purpose Investments Limited	British Virgin Islands/ Hong Kong	Ordinary US$1	–	100	Investment in and trading of securities

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.

16. CONVERTIBLE NOTES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Unlisted convertible notes, at cost	**–**	13,500
Unlisted convertible notes		
– Loan portion	**12,480**	–

On 31 March 2005, the Group subscribed for convertible notes issued by China Sci-Tech Holdings Limited (the "CST Convertible Notes"), a company listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and independent of the Group. The CST Convertible Notes bear interest at the rate of 3% per annum, are unsecured and mature on 30 March 2008. The CST Convertible Notes are convertible into approximately 45,000,000 ordinary shares of China Sci-Tech Holdings Limited at an initial conversion price of HK$0.3 per share. The conversion price will be HK$0.35 and HK$0.40 per share for the period from the date immediately following the first anniversary from the date of issue of the convertible notes (the "Issue Date") to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date, respectively. These conversion prices are subject to adjustment. Upon maturity, China Sci-Tech Holdings Limited will repay the outstanding principal amount of the convertible notes, together with the interest accrued, in cash to the Group.

From 1 April 2005 onwards, the Group has classified and measured convertible notes in accordance with the requirements of HKAS 39. In accordance with HKAS 39, the CST Convertible Notes of HK$13,500,000 at 31 March 2005 has been separated into two components at 1 April 2005, with the loan portion of the CST Convertible Notes valued at HK$12,021,000 and the conversion option derivative of the CST Convertible Notes valued at HK$1,479,000.

The fair value of the conversion option derivative is determined by using the binomial model.

The fair value of the loan portion of the CST Convertible Notes at 31 March 2006 approximated to the corresponding carrying amount, and its effective interest rate was 7.1%.

17. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/INVESTMENT SECURITIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at fair value	**122,743**	–
Unlisted equity investments outside Hong Kong, at cost	**–**	90,000
Provision for impairment in values	**–**	(90,000)
	122,743	–

The market value of the Group's listed equity investments at the date of approval of these financial statements was approximately HK$105,296,000.

At 31 March 2006, the carrying amount of the Group's shareholding in the following companies exceeded 10% of the total assets of the Group.

Name	Place of incorporation	Particulars of issued share capital	Percentage of capital held	Principal activities
Qualipak International Holdings Limited	Bermuda	Ordinary shares of HK$0.01 each	4.8%	Manufacturing and sales of watch boxes, gift boxes and brief cases
Y.T. Realty Group Limited	Bermuda	Ordinary shares of HK$0.1 each	4.0%	Property trading, investment and management service

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER SECURITIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Listed equity investments in Hong Kong, at fair value	**192,558**	190,676
Unlisted investment fund, at fair value	**–**	4,067
	192,558	194,743

At 31 March 2005, the unlisted investment fund of HK$4,067,000 was pledged to secure banking facilities granted to the Group (note 31).

The above equity investments at 31 March 2006 were classified as held for trading.

The market value of the Group's equity investments at fair value through profit or loss at the date of approval of these financial statements was approximately HK$139,219,000.

At 31 March 2006, the carrying amount of the Group's shareholding in the following companies exceeded 10% of the total assets of the Group.

Name	**Place of incorporation**	**Particulars of issued share capital**	**Percentage of capital held**	**Principal activities**
The Cross-Habour (Holdings) Limited	Hong Kong	Ordinary share of HK$1 each	2.6%	Operation of motoring school, tunnels and an electronic toll collection system
China Strategic Holdings Limited	Hong Kong	Ordinary share of HK$0.1 each	4.7%	Manufacturing and sales of battery products, sand mining and trading of land
Willie International Holdings Limited	Hong Kong	Ordinary share of HK$0.1 each	4.8%	Money lending and property investment

19. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**–**	168
Finished goods	**6**	211
	6	379

20. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**8,709**	–
1 to 2 months	**736**	–
2 to 3 months	**790**	–
	10,235	–

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Included in the balance at 31 March 2005 was an amount of HK$25 million which represented a deposit paid for the proposed acquisition of the entire interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada (the "Acquisition"), a company incorporated under the laws of Macau with limited liability. The Acquisition was cancelled and the deposit was refunded during the year.

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**7,643**	2,583	**320**	1,461
Time deposits	**17,868**	87,494	**–**	62,400
	25,511	90,077	**320**	63,861
Less: Pledged time deposits for bank overdraft facilities *(note 31)*	**(6,731)**	(6,572)	**–**	–
Cash and cash equivalents	**18,780**	83,505	**320**	63,861

At the balance sheet date, cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$211,000 (2005: HK$138,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

23. TRADE PAYABLES/OTHER PAYABLES AND ACCRUALS

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 month	**210**	14
1 to 2 months	**–**	68
2 to 3 months	**–**	68
Over 3 months	**40**	46
	250	196
Other payables and accruals	**7,170**	8,533
	7,420	8,729

Trade payables are non-interest-bearing and are normally settled on 60-day terms. Other payables and accruals are non-interest bearing and have an average term of three months.

24. FINANCE LEASE PAYABLES

The lease is classified as a finance lease and has a remaining lease term of two years.

At 31 March 2006, the total future minimum lease payments under a finance lease and their present values were as follows:

Group	**Minimum lease payments 2006 *HK$'000***	Minimum lease payments 2005 *HK$'000*	**Present value of minimum lease payments 2006 *HK$'000***	Present value of minimum lease payments 2005 *HK$'000*
Amounts payable:				
Within one year	**86**	–	**78**	–
In the second year	**71**	–	**69**	–
Total minimum finance lease payments	**157**	–	**147**	–
Future finance charges	**(10)**	–		
Total net finance lease payables	**147**	–		
Portion classified as current liabilities	**(78)**	–		
Non-current portion	**69**	–		

At 31 March 2006, the effective interest rate of the finance lease payables was 7.1% per annum.

25. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

Deferred tax liabilities

Group

	Fair value gains on available-for-sale equity investments *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 April 2005	–	–	–
Deferred tax debited to equity during the year	13,003	(6,532)	6,471
At 31 March 2006	13,003	(6,532)	6,471

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

The Group has tax losses arising in Hong Kong of HK$104,128,000 (2005: HK$95,364,000) and in Mainland China of HK$4,594,000 (2005: HK$4,337,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

26. SHARE CAPITAL

Shares

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
60,000,000,000 ordinary shares of HK$0.01 each	**600,000**	600,000
Issued and fully paid:		
1,133,243,047 (2005: 11,332,430,478) ordinary shares of HK$0.01 each	**11,332**	113,324

A summary of the transactions during the year, with reference to the above movements in the Company's issued share capital is as follows:

	Notes	**Number of shares in issue**	**Issued share capital**	**Share premium account**	**Total**
			HK$'000	*HK$'000*	*HK$'000*
At 1 April 2004		9,332,430,478	93,324	267,600	360,924
Issue of shares	*(i)*	2,000,000,000	20,000	44,000	64,000
Share issue expenses	*(i)*	–	–	(1,600)	(1,600)
At 31 March 2005 and 1 April 2005		11,332,430,478	113,324	310,000	423,324
Capital reorganisation	*(ii)*	(10,199,187,431)	(101,992)	–	(101,992)
At 31 March 2006		1,133,243,047	11,332	310,000	321,332

26. SHARE CAPITAL (continued)

Shares (continued)

Notes:

(i) The Company entered into a placing agreement with Tai Fook Securities Company Limited, the placing agent, on 27 January 2005, for the subscription of 2,000,000,000 new shares of the Company of HK$0.01 each at a price of HK$0.032 per share. 2,000,000,000 shares of HK$0.01 each of the Company were issued and cash proceeds of HK$64,000,000, net of share issue expenses of HK$1,600,000, were received by the Company. The proceeds were applied as the general working capital of the Group.

(ii) A capital reorganisation scheme was approved by the shareholders under a special resolution on 28 July 2005, details of the which are as follows:

(a) Every ten shares of HK$0.01 each in the issued share capital of the Company were consolidated into one consolidated share of HK$0.10;

(b) Every issued consolidated share was reduced in nominal amount by cancelling HK$0.09 of the capital paid up for each issued consolidated share so as to form (after the share consolidation) one reorganised share of HK$0.01; and

(c) The credit arising from the capital reorganisation was transferred to the contributed surplus of the Company.

The value of the authorised share capital of the Company before and after the capital reorganisation remains unchanged and is HK$600,000,000.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

27. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37 of the annual report.

The contributed surplus of the Group arose as a result of the Group reorganisation upon listing of the Company's shares in 1994, and represented the difference between the nominal value of the shares of the former holding company of the Group prior to the Group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

In addition, pursuant to special and ordinary resolutions passed at the special general meeting held on 22 September 2000, the issued and fully paid share capital of the Company was reduced by HK$448,992,000 through a reduction in the nominal value of the share capital of the Company. The credit arising as a result of the reduction of the share capital of approximately HK$448,992,000 was transferred to the contributed surplus.

During the year, a credit of HK$101,992,000 arising from the capital reorganisation was transferred to the contributed surplus as explained in note 26 to the financial statements.

27. RESERVES (continued)

(b) Company

	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2004	267,600	556	492,681	(667,275)	93,562
Premium upon issue of shares *(note 26)*	44,000	–	–	–	44,000
Share issue expenses *(note 26)*	(1,600)	–	–	–	(1,600)
Net loss for the year	–	–	–	(4,994)	(4,994)
At 31 March 2005 and 1 April 2005	310,000	556	492,681	(672,269)	130,968
Capital reorganisation *(note 26)*	–	–	101,992	–	101,992
Net loss for the year	–	–	–	(4,186)	(4,186)
At 31 March 2006	310,000	556	594,673	(676,455)	228,774

Note:

The contributed surplus of the Company arose as a result of the Group reorganisation referred to in (a) above and represents the excess of the then combined net assets of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

In addition, the capital reorganisation described in (a) above also resulted in an aggregate credit balance of approximately HK$550,984,000 being transferred to the Company's contributed surplus.

28. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants include the Company's directors, including independent non-executive directors, other employees of the Group or any invested entity, suppliers of goods or services to the Group or any invested entity, customers of the Group or any invested entity, shareholders of the Group or any invested entity, holders of securities of the Group or any invested entity and persons or entities that provide research, development or other technological support to the Group or any invested entity. The Scheme became effective on 27 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of approval of the Scheme, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The total number of shares of the Company available for issue under the Scheme is 86,193,604 shares, representing approximately 7.6% of the issued share capital of the Company as at the date of this annual report. The maximum number of share issued and to be issued upon exercise of the share options granted to each eligible participant in the Scheme (including exercised, cancelled and outstanding options) within any 12-month period, is limited to 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Under the Scheme, share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates are subject to approval in advance by the independent non-executive directors. In addition, any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5,000,000 is subject to shareholders' approval in advance in a general meeting.

28. SHARE OPTION SCHEME (continued)

The offer of a grant of share options under the Scheme may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such period shall not be more than 10 years from the date of adoption of the Scheme subject to the provisions for early termination set out in the Scheme. Unless otherwise determined by the directors at their sole discretion, there is no requirement of a minimum period for which an option must be held before it can be exercised.

The exercise price of share options granted under the Scheme is determined by the directors, but shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

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

Since the date of adoption of the Scheme, no options have been granted under the Scheme.

There were no share options granted, lapsed, exercised or cancelled during the year ended 31 March 2006 (2005: Nil).

29. DISPOSAL OF SUBSIDIARIES

	2006 HK$'000	2005 HK$'000
Net assets disposed of:		
Prepayments and other receivables	12	–
Other payables and accruals	(1,185)	–
	(1,173)	–
Gain on disposal of subsidiaries	1,173	–
	–	–
Satisfied by:		
Cash	–	–

The results of subsidiaries disposed of in the year ended 31 March 2006 had no significant impact on the Group's consolidated turnover or loss after tax for the year.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(i) During the year, the Group acquired certain convertible notes that amounted to HK$27,000,000. These convertible notes were converted into 39,705,882 shares of a company listed on the Stock Exchange at a conversion price of HK$0.68 per share which were subsequently disposed of during the year.

(ii) During the year, the Group entered into a finance lease arrangement in respect of the property, plant and equipment with a total capital value at the inception of the leases of HK$208,000 (2005: Nil). Pursuant to the finance lease agreement, the Group disposed of a motor vehicle with a carrying value of HK$1,000 in exchange for a reduction of HK$110,000 in the price of the property, plant and equipment acquired.

31. PLEDGE OF ASSETS

At 31 March 2006, the Group's banking facilities were secured by the Group's fixed deposits of HK$6,731,000 (note 22).

At 31 March 2005, the Group's banking facilities were secured by the Group's fixed deposits of HK$6,572,000 (note 22) and an unlisted investment fund of HK$4,067,000 (note 18).

32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**952**	873
In the second to fifth years, inclusive	**15**	689
	967	1,562

In addition, the Group is required to pay an annual fee of HK$57,000 in respect of the use of certain land in Mainland China for its electronic products business up to 2006 with an annual increment of 5% commencing from 1993. The total future annual fee payable within one year from the balance sheet date amounted to HK$67,000.

33. RELATED PARTY TRANSACTIONS

The Group considers the directors of the Company to be the key management personnel, whose compensation has been disclosed in note 8 to the financial statements.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include equity investments, convertible notes, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables. Details of the major financial instruments and the Group's accounting policies in relation to them are disclosed in note 2.5 to the financial statements.

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

Cash flow interest rate risk

The Group does not have any significant exposure to the risk of changes in market interest rates, and therefore it does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

The Group has currency exposures as its sales were denominated in United States dollars. As United States dollars and Hong Kong dollars are pegged, the Group does not expect any significant movements in exchange rates in the foreseeable future.

The Group currently does not have a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposures should the need arise.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The Group reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale equity investments and equity investments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Group's available cash and its available banking facilities.

35. COMPARATIVE AMOUNTS

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

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 July 2006.