



139 Holdings Limited
(Incorporated in Bermuda with limited liability)



Annual Report 2004-2005

Contents

	<i>Pages</i>
CORPORATE INFORMATION	2
MANAGEMENT DISCUSSION AND ANALYSIS	3–8
DIRECTORS AND SENIOR MANAGEMENT PROFILE	9–10
REPORT OF THE DIRECTORS	11–20
REPORT OF THE AUDITORS	21
AUDITED FINANCIAL STATEMENTS	
Consolidated:	
Profit and loss account	22
Balance sheet	23
Statement of changes in equity	24
Cash flow statement	25–26
Company:	
Balance sheet	27
Notes to financial statements	28–68

Corporate Information

Executive Directors

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

Independent Non-executive Directors

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

Company Secretary, 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 Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Hamilton
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

Management Discussion and Analysis

Business review

Driven by the strong mainland tourist and consumer spending and the strength of US economic recovery, the local economy for the year ended 31 March 2005 (the “Year”) has made a satisfactory growth with the rising property and stock prices. With the strong recovery in the local economy and the rebound in equity market, the Group has recorded appreciable profit growth for the Year. The net profit from ordinary activities attributable to shareholders for the Year was HK\$25.1 million, comparing to a net profit of HK\$1.2 million last year.

The Group’s turnover was HK\$39.9 million for the Year after taking into account of the segment of treasury investment of HK\$32.1 million. The Group’s turnover for the last corresponding year was restated as HK\$15.8 million accordingly. The increase in the Group’s net profit for the Year was primarily attributable to the contribution from treasury investment segment comprising of realised gain on other securities of HK\$28.0 million and unrealised gain of other securities of HK\$23.0 million.

During the Year, the turnover of car audio products decreased by HK\$7.6 million, or 49% to HK\$7.8 million. The decrease in the turnover of car audio business was mainly due to the continued decline in sales of the car audio products resulting from the squeezing profit margins and the increasing demand for new generation products in the existing highly competitive market. Stripping of the impairment charges of fixed assets of HK\$3.8 million and write-offs of slow moving inventory of HK\$2.7 million, the operational loss for this segment reduced by HK\$1.2 million or 11% to HK\$9.2 million.

During the Year, the Group continued to face challenging and difficult operating environment of the car audio market. The Group’s car audio market became hostile and was characterized by overcapacity, low profit margins and intense competition. With the fast development of MP3 and digital transmission technology, customers tended to change their needs and tastes more frequently and have strong desires for new car audio products with latest technological functions and features. The new generation products trend has made the existing product models obsolete very fast and substantially shortened the average product life cycle. As a result, the Group has suffered a significant decrease in the sales volume of its mainstream products including car cassette & CD. In addition, the rising raw material costs resulting from high oil price has also further eroded the profit margins of the manufacturing and outsourcing products.

Management Discussion and Analysis

In order to contain the operating loss, the Group has completed cost reduction program and substantially reduced the direct labor workforce. During the Year, the Group has subcontracted an assembly works of its products to the business partners. Such corrective action has mitigated partly the adverse effects of falling profit margin and the decreasing sales volume. The positive resulting effect of this cost reduction initiative will be fully reflected in the coming financial year.

Apart from relieving the burden of fixed manufacturing costs, the Group for the Year focused its efforts on strengthening the trading business by sourcing a wide range of products and expanding the existing sales network. Through the cooperation with the business partners, active participation in trade fair, and advertising & promotion, the Group has started to trade in several brought-in car audio products and recorded sales of certain trading orders.

As part of the Group's treasury investment management, the Group has been utilizing its available fund in securities investment and trading for generating and diversifying revenue streams for the past few years. Previously, these activities were not separately identified and were classified as unallocated item in the segmental information. In order to enable investors to better understanding the performance business of the Group, the Board believes that it is more appropriate and necessary to separately identify and report the treasury investment as one of the Group's major and ordinary courses of business. During the Year, the treasury investment business segment has brought positive contributions to the Group on the back of the strong rebound of local equity market and low interest rates. The turnover and the segment results of treasury investment for the Year was HK\$32.1 million and HK\$50.6 million respectively.

On 2 February 2005, the Group entered into an agreement to acquire the entire equity interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada, which is the owner and operator of Hotel Grandeur Macau, for HK\$500.0 million. Details of such transaction were disclosed in the Company's announcements dated 27 January 2005 and 4 February 2005 and the circular dated 10 June 2005.

However, the current overheating gaming business in Macau has adversely affected the overall market sentiments and weakened the business confidence of investors. The above proposed acquisition was not approved by the shareholders in the Special General Meeting of the Company held on 27 June 2005. Details of the result of the said shareholders' meeting were disclosed in the Company's announcement dated 27 June 2005. Despite of this, the financial position of the Group remains sound and the Group is well positioned to explore investment opportunities for the growth of new business.

Management Discussion and Analysis

Prospects

The squeezing profit margins and the increasing demand for the new generation products will be a continuing trend in the car audio market. This highly competitive market will continue to be dominated by several large manufacturers who offer the comparable products at very low costs. In order to avoid the direct cost competition and find a new niche in the market, the Group will continue to put the cost control measures in place and trade in a wider range of new generation car audio and other high-end audio-video products for the year to come. In anticipation of the improving sentiments in capital and equity market, the Group will also strengthen its treasury investment segment to increase shareholders' value.

Looking ahead, the Group will continue to pursue its strategy to diversify its existing business and revenue streams. The continued global and local economic growth will create an abundance of investment opportunities across various industries. The Group will be alive to the suitable investment opportunities and poised to seize them for its growth of new businesses.

Financial review

The Group's financial position for the Year remained strong, with the net asset value as at 31 March 2005 increased by 38.3% to HK\$315.9 million. (31 March 2004: HK\$228.4 million). The increase was mainly attributable to the net profit of HK\$25.1 million and new share placing of HK\$62.4 million (net of expenses). During the Year, the Group has further strengthened its financial position to support its operation and make new investments through the placement of new shares.

Liquidity and financial resources

During the Year, the Group generally financed its operation with internally generated cash flow, banking facilities and the placement of new shares. In March 2005, the Group raised approximately HK\$62.4 million (net of expenses) for working capital purpose by placing a total of 2,000,000,000 new shares at HK\$0.032 per placing share through the placing agent. As a result, the Group's bank and short-term deposits as at 31 March 2005 was increased to HK\$90.0 million.

During the Year, the bank overdrafts of the Group was repaid in full (at 31 March 2004: overdrafts of HK\$4.4 million). As at 31 March 2005, there were no bank overdrafts, short and long term interest bearing borrowings or material contingent liabilities to the Group. As at 31 March 2005, the Group's gearing ratio, being the total interest bearing bank borrowing to net worth was nil (31 March 2004: 2%).

Management Discussion and Analysis

As at 31 March 2005, the Group's current ratio was 34.2 times (at 31 March 2004: 16.6 times) based on current assets of HK\$311.3 million (at 31 March 2004: HK\$234.3 million) and current liabilities of HK\$9.1 million (at 31 March 2004: HK\$14.1 million).

Subsequent to the Year, the Group has obtained short-term unsecured loans of HK\$90.0 million in aggregate to finance the proposed acquisition of the entire equity interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada. At the date hereof, the above loans have been fully repaid by the Group.

Capital structure

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.

On 27 January 2005, the Company entered into an agreement with a placing agent for placement of 4,000,000,000 new shares at HK\$0.032 per placing shares, 2,000,000,000 shares were placed in March 2005 (the "First Placing") whilst the remaining 2,000,000,000 shares will be placed on a best effort basis (the "Second Placing"). The 4,000,000,000 placing shares represented approximately 42.86% of the issued share capital of the Company as at 27 January 2005. As at the date hereof, the Second Placing has not yet completed. Details of the First Placing and the Second Placing have been disclosed in the Company's announcements dated 27 January 2005 and 30 May 2005 and the circular dated 16 February 2005.

On 21 June 2005, the Group proposed a capital reorganisation including the consolidation of every ten existing shares of HK\$0.01 each in the issued share capital of the Company into one consolidated share of HK\$0.10 and the cancellation of HK\$0.09 paid-up capital for each consolidated share. In addition, the existing board lot of 2,000 shares will be changed to board lot of 10,000 reorganised shares. Details of the capital reorganisation were disclosed in the Company's announcement dated 21 June 2005 and circular dated 4 July 2005.

Significant investments

As at 31 March 2005, the Group had convertible notes issued by a company listed on The Stock Exchange of Hong Kong Limited with carrying amount of HK\$13.5 million.

As at 31 March 2005, the Group maintained a portfolio of other securities with fair value of HK\$ 194.7 million.

Management Discussion and Analysis

Details of Charges on Assets

At 31 March 2005, a fixed deposit of HK\$6.6 million (2004: HK\$6.5 million) and an unlisted investment fund of HK\$4.1 million (2004: HK\$4.0 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 2005, the Group had a total of 49 employees of which 23 were based in Hong Kong and 26 were based in the 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 a 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.

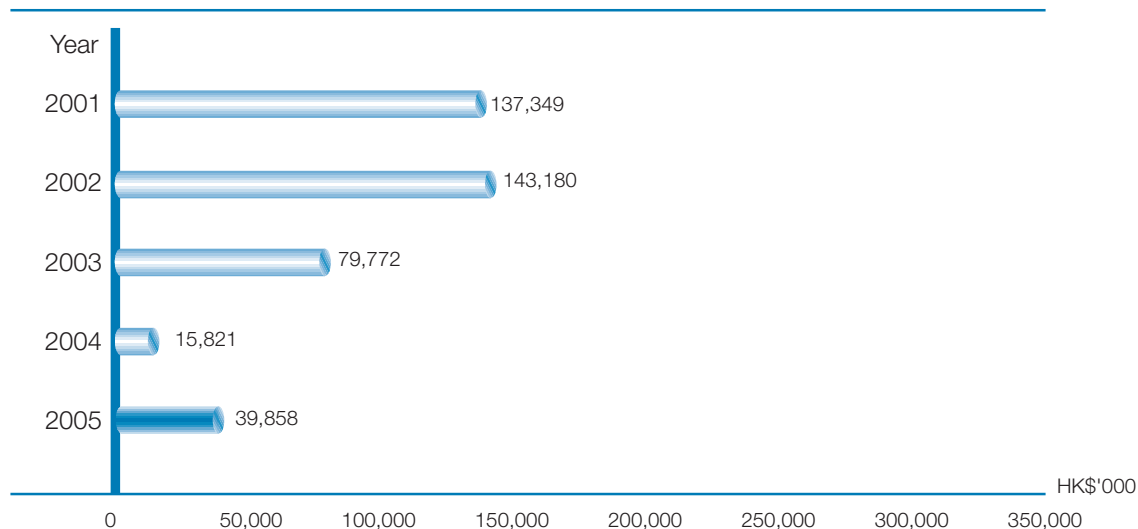
Management Discussion and Analysis

Financial Highlights

	2004/2005	2003/2004
Turnover	HK\$39,858,000	HK\$15,821,000
Net profit from ordinary activities attributable to shareholders	HK\$25,125,000	HK\$1,204,000
Basic earnings per share	HK0.27 cents	HK0.01 cents

Turnover

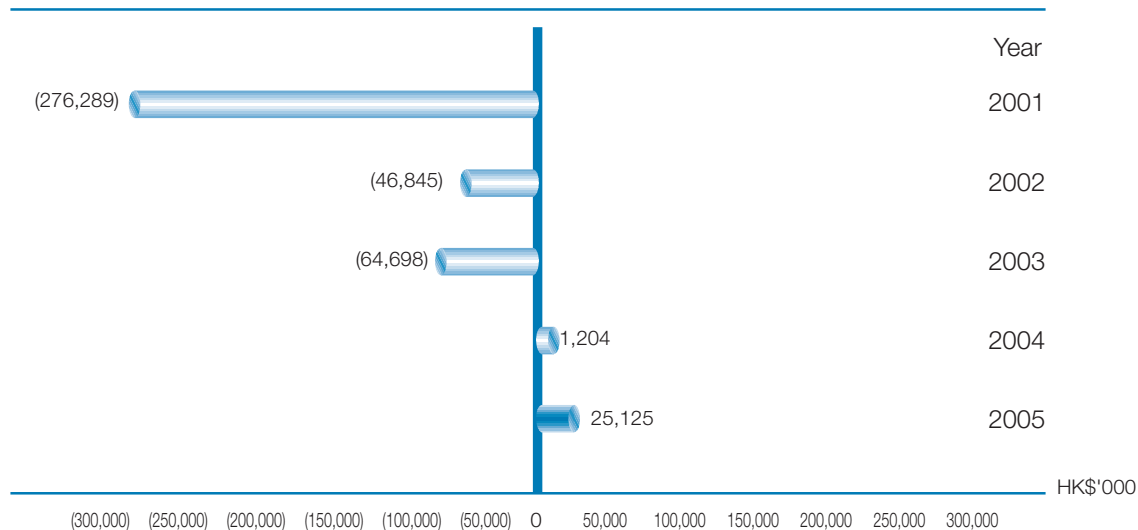
(For the year ended 31 March)



Net Profit/(Loss) From Ordinary Activities

Attributable to Shareholders

(For the year ended 31 March)



Directors and Senior Management Profile

EXECUTIVE DIRECTORS

Wong Howard, aged 49, 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.

Chan Chun Tung, John, aged 53, holds an Honorary Doctor of Philosophy degree in Business Administration from Southern California University for professional studies, USA. He is the co-founder of the Group. He was responsible for liaison with major customers, overall corporate strategy and planning of the Group. Before establishing the Group, he worked for over 15 years' experience in the finance and administration departments of several companies and held senior management position in a container and godown services company. He resigned as the Chairman of Board of our Company on 25 February 2002 but remained on the Board as an executive director until his retirement as director in August 2004.

Wong Yat Fai, aged 45, joined the Group in February 2000, graduated from the Hong Kong Polytechnic major in Banking. Prior to joining the Group, Mr. Wong had over 13 years' working experience in an international banking group. In addition, Mr. Wong had been a Finance Director of a listed company in Hong Kong for two years.

Wu Qing, aged 48, 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.

Lo Ki Yan, Karen, aged 33, joined the Group in February 2000, holds a Bachelor of Arts degree from the University of Pennsylvania. She has over 5 years' experience in fashion business. She resigned in February 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Li Chi Ming, aged 47, 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 43, 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 of a Hong Kong listed company and the company secretary of various listed companies in Hong Kong.

Directors and Senior Management Profile

WAN Ngar Yin, David, aged 44, 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 two other listed companies in Hong Kong.

SENIOR MANAGEMENT

SZETO Pui Tong, Patrick, aged 45, joined the Group in March 2000, is the Financial Controller, 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.

Report of the Directors

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

Principal activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consisted of the manufacturing, trading and distribution of car audio equipment 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 profit for the year ended 31 March 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 22 to 68.

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

Closure of register of members

The Register of Members of the Company will be closed from Friday, 19 August 2005 to Thursday, 25 August 2005 (both days inclusive) during which period no transfer of shares of the Company will be registered.

In order to qualify for attending the Company's forthcoming Annual General Meeting to be held on Thursday, 25 August 2005, all transfer of shares of the Company accompanied by the relevant shares certificates and transfers forms must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 18 August 2005.

Summary financial information

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. The amounts for the three years ended 31 March 2003 in the five year summary have been adjusted for the effect of the retrospective changes in the accounting policy affecting income tax. This summary does not form part of the audited financial statements.

Report of the Directors

Results

	Year ended 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
Turnover					
Continuing operations	39,858	15,821*	(5,061)*	38,253*	17,983*
Discontinued operations	–	–	84,833	104,927	119,366
	39,858	15,821	79,772	143,180	137,349
Profit/(loss) before tax					
Continuing operations	25,125	1,204	(72,649)	(53,166)	(158,134)
Discontinued operations	–	–	6,241	4,870	(120,236)
	25,125	1,204	(66,408)	(48,296)	(278,370)
Tax					
Continuing operations	–	–	1,600	1,420	1,380
Discontinued operations	–	–	–	–	611
	–	–	1,600	1,420	1,991
Profit/(loss) before minority interests	25,125	1,204	(64,808)	(46,876)	(276,379)
Minority interests	–	–	110	31	90
Net profit/(loss) from ordinary activities attributable to shareholders	25,125	1,204	(64,698)	(46,845)	(276,289)

* the realised profit and loss, dividends and interest arising from securities investment and trading were included as part of the Group's turnover in the current year. The comparative amounts have been reclassified to conform with the current year's presentation.

Report of the Directors

Assets, Liabilities and Minority Interests

	As at 31 March				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
Fixed assets	172	8,263	12,703	44,221	51,125
Construction in progress	–	–	–	1,202	841
Investment securities	–	–	–	8,160	20,160
Convertible notes	13,500	–	10,500	18,000	50,000
Current assets	311,331	234,270	202,496	336,478	240,409
Total assets	325,003	242,533	225,699	408,061	362,535
Current liabilities	9,093	14,148	18,262	144,381	140,868
Interest-bearing bank and other loans	–	–	–	–	14,634
Finance lease payables	–	–	–	–	106
Deferred tax liabilities	–	–	–	1,600	3,020
Total liabilities	9,093	14,148	18,262	145,981	158,628
Minority interests	–	–	–	110	–
	315,910	228,385	207,437	261,970	203,907

Fixed assets

Details of movements in the fixed assets 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, together with the reasons therefor, are set out in notes 24 and 25 to the financial statements.

Report of the Directors

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 26(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable reserves

At 31 March 2005, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is thereafter able to pay off its debts as and when they fall due. The Company's share premium account and capital redemption reserve, with an aggregate balance of HK\$310,556,000 as at 31 March 2005, may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

In the year under review, the turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year. Purchases from the Group's five largest suppliers accounted for 51% of the total purchases for the year and purchases from the largest supplier included therein amounted to 20%.

As far as the directors are aware, 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 or suppliers.

Report of the Directors

Directors

The directors of the Company during the year were:

Wong Howard

Wong Yat Fai

Wu Qing

Chan Chun Tung, John (retired on 26 August 2004)

Lo Ki Yan, Karen (resigned on 21 February 2005)

Li Chi Ming *

Tung Tat Chiu, Michael *

Wan Ngar Yin, David * (appointed on 27 September 2004)

* *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 Howard and Mr. Li Chi Ming will retire as directors of the Company by rotation at the forthcoming annual general meeting. In addition, pursuant to bye-law 103(B) of the Company's bye-law, Mr. Wan Ngar Yin, David, who was appointed by the board of directors of the Company during the year, will retire at the Company's forthcoming annual general meeting. The above retiring directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

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.

Biographies of directors and senior management

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 9 to 10 of the annual report.

Report of the Directors

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 are 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 sixteen months commencing on 1 April 2003 and 1 August 2004, 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.

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' remuneration

The directors' fees are subject to shareholders' approval at general meetings. The directors' remuneration is 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 in note 30 to the financial statements, 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 or any of its subsidiaries was a party during the year.

Report of the Directors

Directors' interests and short positions in shares and underlying shares

At 31 March 2005, the interests of the directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange 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 position in ordinary shares of the Company:

Name of director	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Wong Howard	Beneficial owner	212,990,000	1.88%
Mr. Wong Yat Fai	Beneficial owner	212,990,000	1.88%
Mr. Wu Qing	Beneficial owner	212,990,000	1.88%

In addition to the above, as at 31 March 2005, 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 then minimum company membership requirements.

Save as disclosed above, as at 31 March 2005, none of the directors or chief executive of the Company had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' rights to acquire shares or debentures

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, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

Substantial shareholders' interests in shares and underlying shares

As at 31 March 2005, the following interests of 5% or more of the Company's issued share capital were recorded in the register of interests required to be kept pursuant to Section 336 of the SFO:

Name of shareholder	Long/Short position	Capacity	Number of ordinary shares interested	Percentage of the Company's issued share capital
Radford Capital Investment Limited (Note a)	Long	Interests held by a controlled corporation	927,820,000	8.19%
Dollar Group Limited (Note b)	Long	Beneficial owner	928,000,000	8.19%
Coupeville Limited (Note b)	Long	Interests held by a controlled corporation	928,000,000	8.19%
Heritage International Holdings Limited (Note b)	Long	Interests held by a controlled corporation	928,000,000	8.19%

Notes:

- a. Radford Capital Investment Limited held the interests in the share capital of the Company via its wholly owned subsidiary "Winning Horse Limited".
- b. Dollar Group Limited was wholly owned by Coupeville Limited which was a wholly-owned subsidiary of Heritage International Holdings Limited. Accordingly, Coupeville Limited and Heritage International Holdings Limited were deemed to be interested in the 928,000,000 shares of the Company held by Dollar Group Limited.
- c. As at 31 March 2005, Findco Enterprises Limited, China Travel Service (Hong Kong) Limited (the holding company of Findco Enterprises Limited), Alton Services Limited (the holding company of China Travel Service (Hong Kong) Limited), China Travel International Investment Hong Kong Limited (the holding company of Alton Services Limited), China Travel Service (Holdings) Hong Kong Limited (the holding company of China Travel International Investment Hong Kong Limited) and 中國之中國旅行社總社 (the holding company of China Travel Service (Holdings) Hong Kong Limited), were interested in the 2,500,000,000 underlying shares of the Company, being the convertible notes to be issued by the Company as partial consideration for the acquisition of the entire equity interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada. Subsequent to the balance sheet date, the aforesaid convertible notes were not issued due to the termination of the said acquisition.

Report of the Directors

Directors' interests in competing business

During the year and up to the date of this report, no directors are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

Post Balance Sheet Events

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

Code of Best Practice

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules in force prior to the accounting period commencing on 1 January 2005, throughout the accounting year covered by the annual report.

Model Code for Securities Transactions

The Company has adopted a code of conduct regarding securities transactions by directors (the "Own Code") on terms no less exacting than the required standard set out in the Model Code. Based on specific enquiry of the Company's directors, the directors confirmed that they complied with the required standard set out in the Model Code and the Own Code, throughout the accounting period covered by the annual report.

Report of the Directors

Audit committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee (the "Audit Committee") in 1999 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules, the terms of reference of the Audit Committee were revised on 26 July 2005 in terms substantially the same as the provisions set out in the Code on Corporate Governance Practices.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review the relationship with the auditors of the Company. The Audit Committee comprises three members, Mr. Tung Tat Chiu, Michael (Chairman of the Audit Committee), Mr. Li Chi Ming and Mr. Wan Ngar Yin, David who are the independent non-executive directors of the Company. The Audit Committee had reviewed with senior management of the Group and external auditors the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting process including the review of the Company's consolidated financial statements for the year ended 31 March 2005.

Auditors

Ernst & Young 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

Executive Director

Hong Kong
26 July 2005

Report of the Auditors

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 22 to 68 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 Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
26 July 2005

Consolidated Profit and Loss Account

Year ended 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
TURNOVER	5	39,858	15,821
Cost of sales		(15,763)	(20,837)
Gross profit/(loss)		24,095	(5,016)
Other revenue	5	698	133
Selling and distribution costs		(642)	(684)
Administrative expenses		(17,896)	(17,681)
Other operating expenses		(3,941)	(4,871)
Unrealised gain on other securities		22,961	29,597
PROFIT FROM OPERATING ACTIVITIES	6	25,275	1,478
Finance costs	7	(150)	(274)
PROFIT BEFORE TAX		25,125	1,204
TAX	10	–	–
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	25,125	1,204
EARNINGS PER SHARE	12		
Basic		0.27 cents	0.01 cents
Diluted		N/A	N/A

Consolidated Balance Sheet

31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	172	8,263
Convertible notes	17	13,500	–
Investment securities	15	–	–
		13,672	8,263
CURRENT ASSETS			
Other securities	15	194,743	181,298
Convertible notes	17	–	10,500
Inventories	18	379	4,395
Trade receivables	19	–	728
Prepayments, deposits and other receivables	20	26,132	5,165
Pledged time deposits	21	6,572	6,534
Cash and cash equivalents	21	83,505	25,650
		311,331	234,270
CURRENT LIABILITIES			
Trade payables	22	196	1,683
Tax payable		363	363
Other payables and accruals		8,533	7,734
Bank overdrafts, secured	23	1	4,368
		9,093	14,148
NET CURRENT ASSETS			
		302,238	220,122
		315,910	228,385
CAPITAL AND RESERVES			
Issued capital	24	113,324	93,324
Reserves	26(a)	202,586	135,061
		315,910	228,385

Wong Howard
Director

Wong Yat Fai
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2005

	Issued share capital HK\$'000	Share premium account HK\$'000	Goodwill reserve HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2003	86,194	259,399	(4,413)	556	449,182	32	(583,513)	207,437
Issue of shares	7,130	8,201	-	-	-	-	-	15,331
Impairment of goodwill	-	-	4,413	-	-	-	-	4,413
Net profit for the year	-	-	-	-	-	-	1,204	1,204
At 31 March 2004 and 1 April 2004	93,324	267,600	-	556	449,182	32	(582,309)	228,385
Issue of shares (note 24)	20,000	44,000	-	-	-	-	-	64,000
Share issue expenses (note 24)	-	(1,600)	-	-	-	-	-	(1,600)
Net profit for the year	-	-	-	-	-	-	25,125	25,125
At 31 March 2005	113,324	310,000*	-*	556*	449,182*	32*	(557,184)*	315,910

* These reserve accounts comprise the consolidated reserves of HK\$202,586,000 (2004: HK\$135,061,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		25,125	1,204
Adjustments for:			
Interest income	5	(356)	(921)
Finance costs	7	150	274
Depreciation	6	4,513	4,631
Provision for impairment of fixed assets	6	3,777	–
Loss on disposal of fixed assets	6	–	15
Impairment of goodwill	6	–	4,413
Provision against inventories	6	2,707	–
Unrealised gain on other securities		(22,961)	(29,597)
Operating profit/(loss) before working capital changes		12,955	(19,981)
Increase in convertible notes		(3,000)	–
Decrease/(increase) in trade receivables		728	(147)
Decrease in other securities		9,516	14,905
Decrease/(increase) in inventories		1,309	(801)
Increase in prepayments, deposits and other receivables		(21,517)	(2,012)
Decrease in trade payables		(1,487)	(1,067)
Increase in other payables and accruals		799	405
Cash used in operations		(697)	(8,698)
Interest paid		(150)	(274)
Net cash outflow from operating activities		(847)	(8,972)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	13	(199)	(208)
Proceeds from disposal of fixed assets		–	2
Interest received		906	1,799
Net cash inflow from investing activities		707	1,593
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	24	64,000	15,331
Share issue expenses	24	(1,600)	–
Net cash inflow from financing activities		62,400	15,331

Consolidated Cash Flow Statement (continued)

Year ended 31 March 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		62,260	7,952
Cash and cash equivalents at beginning of year		27,816	19,864
CASH AND CASH EQUIVALENTS AT END OF YEAR			
		90,076	27,816
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	2,583	20,214
Non-pledged time deposits with original maturity of less than three months when acquired	21	80,922	5,436
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	21	6,572	6,534
Bank overdrafts, secured		(1)	(4,368)
		90,076	27,816

Balance Sheet

31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	–	28
Investments in subsidiaries	16	–	–
		–	28
CURRENT ASSETS			
Due from subsidiaries	16	213,502	205,630
Prepayments, deposits and other receivables		376	732
Cash and cash equivalents	21	63,861	10,094
		277,739	216,456
CURRENT LIABILITIES			
Tax payable		354	354
Other payables and accruals		2,005	742
Due to subsidiaries	16	31,088	28,502
		33,447	29,598
NET CURRENT ASSETS			
		244,292	186,858
		244,292	186,886
CAPITAL AND RESERVES			
Issued capital	24	113,324	93,324
Reserves	26(b)	130,968	93,562
		244,292	186,886

Wong Howard
Director

Wong Yat Fai
Director

Notes to Financial Statements

31 March 2005

1. Corporate Information

The principal place of business 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 manufacturing, trading and distribution of car audio equipment 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. Impact of Recently Issued Hong Kong Financial Reporting Standards ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice ("SSAPs") 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 certain equity investments and investment fund, as further explained below.

Notes to Financial Statements

31 March 2005

3. Summary of Significant Accounting Policies (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2005. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company 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 profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

SSAP 30 "Business combinations" was adopted on 1 April 2002. Prior to that date, goodwill arising on acquisitions was eliminated against the consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against the consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

Notes to Financial Statements

31 March 2005

3. Summary of Significant Accounting Policies (continued)

Goodwill (continued)

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against the consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against the consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Medium term leasehold land and buildings	50 years or over the lease terms, whichever is shorter
Land use rights	Over the terms of the land use rights
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

Notes to Financial Statements

31 March 2005

3. Summary of Significant Accounting Policies (continued)

Fixed assets and depreciation (continued)

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an 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 an impairment loss is credited to the profit and loss account in the period in which it arises.

Operating leases

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 operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Notes to Financial Statements

31 March 2005

3. Summary of Significant Accounting Policies (continued)

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 values on an individual basis.

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 profit and loss account 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 profit and loss account to the extent of the amount previously charged.

Convertible notes

Convertible notes are intended to be held for long term purposes, and are stated at cost less any impairment losses.

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 profit and loss account in the period in which they arise.

Inventories

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

Notes to Financial Statements

31 March 2005

3. Summary of Significant Accounting Policies (continued)

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.

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 expenditures 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 profit and loss account.

Income tax

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

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, except 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.

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

Notes to Financial Statements

31 March 2005

3. Summary of Significant Accounting Policies (continued)

Income tax (continued)

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability 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 future 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 recognised to the extent that it is probable that sufficient future 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.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Notes to Financial Statements

31 March 2005

3. Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

For the purpose of the consolidated cash flow statement, the 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.

Employee benefits

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 those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Notes to Financial Statements

31 March 2005

3. Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Retirement benefits schemes (continued)

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. The local municipal government undertakes to assume the 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 charged to the profit and loss account as incurred. There are no provisions under the Mainland Scheme whereby forfeited contributions may be used to reduce future contributions.

Share option schemes

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

Notes to Financial Statements

31 March 2005

3. 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 and loss on the trading of other securities on the transaction dates when the relevant contract notes are executed;
- (c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

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 sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Notes to Financial Statements

31 March 2005

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 car audio segment manufactures and trades car audio equipment;
- (b) the treasury investment segment comprises securities investment and trading; and
- (c) the corporate and other segment comprises the trading of other merchandise, corporate income and expense items and the provision of Internet and Internet-related services.

Previously, the results, assets and liabilities from securities investment and trading business were classified as unallocated items in the segment information. Since the management of the Group anticipates that the securities investment and trading business will continue as part of the Group's principal activities in the future, the results, assets and liabilities of the securities investment and trading business have been separately disclosed as an individual segment for the year. Comparative amounts have been reclassified to conform with the current year's presentation.

In the prior year, the Internet segment, which comprised the provision of Internet and Internet-related services, was disclosed as a separate segment. Since the Internet segment had contributed and will continue to contribute less than 10% of the total of Group's results, assets and liabilities, the Internet segment has not been disclosed separately for the year. The results, assets and liabilities of the Internet segment have been included in the corporate and other segment. Comparative amounts have been reclassified to conform with the current year's presentation.

Notes to Financial Statements

31 March 2005

4. Segment Information (continued)

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.

(a) Business segments

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

Group

	Car audio		Treasury investment		Corporate and other		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Turnover	7,794	15,410	32,064	411	-	-	39,858	15,821
Segment results	(15,721)	(14,848)	50,581	29,282	(9,392)	(12,672)	25,468	1,762
Interest income, gains and unallocated revenue							696	133
Unallocated expenses							(889)	(417)
Profit from operating activities							25,275	1,478
Finance costs							(150)	(274)
Profit before tax							25,125	1,204
Tax							-	-
Net profit from ordinary activities attributable to shareholders							25,125	1,204

Notes to Financial Statements

31 March 2005

4. Segment Information (continued)

(a) Business segments (continued)

Group

	Car audio		Treasury investment		Corporate and other		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	648	13,835	204,465	196,416	65,294	11,474	270,407	221,725
Unallocated assets							54,596	20,808
Total assets							325,003	242,533
Segment liabilities	4,975	6,590	-	-	3,210	2,579	8,185	9,169
Unallocated liabilities							908	4,979
Total liabilities							9,093	14,148
Other segment information:								
Depreciation	4,378	4,439	-	-	132	188	4,510	4,627
Unallocated depreciation							3	4
							4,513	4,631
Impairment losses recognised in the profit and loss account	3,777	4,413	-	-	-	-	3,777	4,413
Other non-cash expenses	2,821	158	-	-	-	-	2,821	158
Unallocated other non-cash expenses							-	1,761
							2,821	1,919
Capital expenditure	160	203	-	-	39	5	199	208

Notes to Financial Statements

31 March 2005

4. Segment Information (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group	People's Republic of China (including Hong Kong)		United States of America and Europe		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue:						
Turnover	32,064	411	7,794	15,410	39,858	15,821
Other segment information:						
Segment assets	325,003	241,814	-	719	325,003	242,533
Capital expenditure	199	208	-	-	199	208

Notes to Financial Statements

31 March 2005

5. Turnover and Other Revenue

Turnover represents revenue arising from the trading of car audio equipment and other merchandise, net of sale returns and trade discounts, and realised profits and losses, dividend and interest income arising from securities investment and trading.

An analysis of the Group's turnover and other revenue is as follows:

	2005	2004
	HK\$'000	HK\$'000
Turnover		
Sale of goods	7,794	15,410
Realised profits/(losses) on securities investment and trading*	28,220	(1,451)
Dividends	3,655	1,057
Interest income from investments in convertible notes	189	805
	39,858	15,821
Other revenue		
Bank interest income	167	116
Other income	531	17
	698	133

* Previously, the realised profits and losses, dividend and interest income arising from securities investment and trading were classified as other revenue. In the opinion of the directors, the securities investment and trading business will continue in the future as part of the principal activities of the Group. Accordingly, the realised profits and losses, dividend and interest income arising from securities investment and trading have been included as part of the Group's turnover.

Notes to Financial Statements

31 March 2005

6. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging:

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Cost of inventories sold		9,361	13,501
Depreciation*	13	4,513	4,631
Provision for impairment of fixed assets	13	3,777	–
Loss on disposal of fixed assets		–	15
Impairment of goodwill **	14	–	4,413
Provision against inventories*		2,707	–
Staff costs (including directors' remuneration-note 8):*			
Wages and salaries		10,245	10,516
Retirement benefits scheme contributions ***		375	584
		10,620	11,100
Minimum lease payments under operating leases in respect of land and buildings		1,461	1,351
Auditors' remuneration		690	700
Exchange losses, net		114	143

* The cost of sales includes approximately HK\$6,718,000 (2004: HK\$4,153,000) in staff costs, depreciation and provision against inventories which is also included in the respective total amounts disclosed separately above for each of these types of expenses.

** The impairment of fixed assets and goodwill is included in "Other operating expenses" on the face of the profit and loss accounts.

*** At 31 March 2005, the Group had no forfeited contributions available to reduce its contributions to the retirement benefits scheme in future years (2004: Nil).

Notes to Financial Statements

31 March 2005

7. Finance Costs

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest on bank overdrafts		
wholly repayable within five years	150	274

8. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	400	300
	400	300
Other emoluments:		
Basic salaries, housing, allowances and benefits in kind for executive directors	4,031	3,250
Retirement benefits scheme contributions to executive directors	160	163
	4,191	3,413
	4,591	3,713

Notes to Financial Statements

31 March 2005

8. Directors' Remuneration (continued)

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

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	6	7
HK\$1,000,001 – HK\$1,500,000	2	–
	8	7

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

Mr. Chan Chun Tung, John (“Mr. Chan”), an executive director of the Company, waived his director’s fee for the year ended 31 March 2005 in the amount of HK\$721,000 (2004: HK\$2,160,000). During the year, Mr. Chan retired as a director of the Company. Save as aforesaid, 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 four (2004: four) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining one (2004: one) non-director, highest paid employee for the year are as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Basic salaries, housing, allowances and benefits in kind	650	650
Retirement benefits scheme contributions	33	33
	683	683

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

Notes to Financial Statements

31 March 2005

10. Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits during the year (2004: 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 (2004: Nil).

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

Group – 2005

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Total <i>HK\$'000</i>
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)	–	–	–

Notes to Financial Statements

31 March 2005

10. Tax (continued)

Group – 2004

	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Profit/(loss) before tax	6,680	(5,476)	1,204
Tax at the applicable tax rates	(1,169)	1,807*	638
Lower tax rate for specific provinces or local authority	–	(310)	(310)
Income not subject to tax	349	–	349
Expenses not deductible for tax	(916)	–	(916)
Tax losses utilised	1,736	–	1,736
Tax losses for the year not recognised	–	(1,497)	(1,497)
Tax credit/(charge)	–	–	–

* The standard corporate income tax of Mainland China is 33%.

11. Net Profit from Ordinary Activities Attributable to Shareholders

The net loss from ordinary activities attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK\$4,994,000 (2004: HK\$35,882,000) (note 26(b)).

12. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$25,125,000 (2004: HK\$1,204,000), and the weighted average of 9,425,581,163 (2004: 8,697,505,136) ordinary shares in issue during the year.

A diluted earnings per share amount for the year ended 31 March 2005 has not been disclosed as no diluting events existed during the year.

A diluted earnings per share amount for the year ended 31 March 2004 has not been shown as the exercise prices of the outstanding share options of the Company were higher than the average market price of the Company's shares during the year, and therefore the share options were not dilutive.

Notes to Financial Statements

31 March 2005

13. Fixed Assets

Group

	Leasehold land and buildings <i>HK\$'000</i>	Land use rights <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles, furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:						
At beginning of year	13,238	821	427	13,691	5,049	33,226
Additions	–	–	–	135	64	199
At 31 March 2005	13,238	821	427	13,826	5,113	33,425
Accumulated depreciation:						
At beginning of year	9,249	821	427	10,608	3,858	24,963
Provided during the year	1,891	–	–	1,863	759	4,513
Impairment during the year recognised in the profit and loss account	2,098	–	–	1,355	324	3,777
At 31 March 2005	13,238	821	427	13,826	4,941	33,253
Net book value:						
At 31 March 2005	–	–	–	–	172	172
At 31 March 2004	3,989	–	–	3,083	1,191	8,263

The Group is required to pay an annual fee of HK\$57,000 in respect of certain land in Mainland China used by the Group for its car audio business up to 2006 with an annual increment of 5% commencing from 1993. The annual fee paid by the Group during the year which had been charged to the profit and loss account for the year, was HK\$101,000 (2004: HK\$96,000). The Group's legal counsel confirmed that the Group properly owns the legal right to use the land for the period granted.

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

Notes to Financial Statements

31 March 2005

13. Fixed Assets (continued)

Company

	Leasehold improvements	Furniture, fixtures and equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:			
At beginning of year and at 31 March 2005	299	415	714
Accumulated depreciation:			
At beginning of year	299	387	686
Provided during the year	–	28	28
At 31 March 2005	299	415	714
Net book value:			
At 31 March 2005	–	–	–
At 31 March 2004	–	28	28

Notes to Financial Statements

31 March 2005

14. Goodwill

The amount of the goodwill remaining in the Group's consolidated reserves as at 31 March 2005, arising from the acquisition of subsidiaries prior to 1 April 2001 and the adoption of SSAP 30 in 2002, is as follows:

Group	Goodwill eliminated against consolidated reserves <i>HK\$'000</i>
Cost:	
At 1 April 2004 and at 31 March 2005	49,062
Accumulated impairment:	
At 1 April 2004	49,062
Provided during the year	–
At 31 March 2005	49,062
Net amount:	
At 31 March 2005	–
At 31 March 2004	–

The Group had goodwill arising from the acquisition of Sino Electronics Limited and its subsidiaries (collectively the "SE Group"), which carried out the car audio business of the Group, previously eliminated against the consolidated reserves.

The Group has made a provision for impairment loss on the remaining balance of HK\$4,413,000 which was charged to the profit and loss account for the year ended 31 March 2004. The impairment loss was estimated by the directors based on the recoverable amounts of the goodwill. In the opinion of the directors, such impairment loss arose from the intense competition in the car audio industry which adversely affected the profitability of the business.

Notes to Financial Statements

31 March 2005

15. Securities

Investment securities

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unlisted equity investments outside Hong Kong, at cost	90,000	90,000
Provision for impairment in values	(90,000)	(90,000)
	<u>–</u>	<u>–</u>

Other securities

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Listed equity investments in Hong Kong, at fair value	190,676	177,283
Unlisted investment fund, at fair value	4,067	4,015
	<u>194,743</u>	<u>181,298</u>

The market value of the Group's listed other securities at the date of approval of these financial statements was approximately HK\$245,200,000 (2004: HK\$171,675,000).

At 31 March 2005, the unlisted investment fund of HK\$4,067,000 (2004: HK\$4,015,000) was pledged to secure banking facilities granted to the Group (note 23).

Notes to Financial Statements

31 March 2005

16. Interests in Subsidiaries

	Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–
Due from subsidiaries	513,577	505,705
Less: Provision for impairment	(300,075)	(300,075)
	213,502	205,630

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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 car audio equipment
Dongguan Chongqing Electrical Limited +	People's Republic of China	RMB13,675,000	–	100	Manufacturing of car audio equipment

Notes to Financial Statements

31 March 2005

16. Interests in Subsidiaries (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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	Trading of securities

+ Wholly-owned foreign enterprise.

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.

Notes to Financial Statements

31 March 2005

17. Convertible Notes

On 31 May 2001, the Group subscribed for convertible notes issued by Wonson International Holdings Limited (the “Wonson Convertible Notes”), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and independent of the Group. The convertible notes bore interest at the rate of 7% per annum, were unsecured and matured on 2 July 2004. The Wonson Convertible Notes were convertible into approximately 642,857,000 ordinary shares of Wonson at an initial price of HK\$0.028 per share. The conversion prices would be HK\$0.031 and HK\$0.034 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 were subject to adjustment. Upon maturity on 2 July 2004, Wonson International Holdings Limited repaid all the outstanding principal amount of the Wonson Convertible Notes, together with interest accrued, in cash to the Group.

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 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 price of HK\$0.3 per share. The conversion prices 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 interest accrued, in cash to the Group.

Notes to Financial Statements

31 March 2005

17. Convertible Notes (continued)

	Group	
	2005	2004
	HK\$'000	<i>HK\$'000</i>
Wonson Convertible Notes	–	10,500
CST Convertible Notes	13,500	–
	13,500	10,500
Portion classified as current assets	–	(10,500)
Non-current portion	13,500	–

18. Inventories

	Group	
	2005	2004
	HK\$'000	<i>HK\$'000</i>
Raw materials	168	2,716
Work in progress	–	1,187
Finished goods	211	492
	379	4,395

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$92,000 (2004: HK\$1,096,000) as at 31 March 2005.

Notes to Financial Statements

31 March 2005

19. Trade Receivables

An aged analysis of the Group's trade receivables as at the balance sheet date is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
0 – 120 days	–	719
121 – 210 days	–	9
Over 210 days	–	–
	<u>–</u>	<u>728</u>

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Invoices are normally payable within three months of issuance, except for established customers where the terms are extended to six months. Each customer has a maximum credit limit, which is granted and approved by senior management. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. The Group's trade receivables are recognised and carried at their original invoiced amount less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debt is written off as incurred.

20. Prepayments, Deposits and Other Receivables

Included in the balance at 31 March 2005 was an amount of HK\$25 million which represented the deposit paid for the proposed acquisition of the entire interest in Sociedade De Fomento Predial Fu Wa (Macau) Limitada ("Fu Wa"), a company incorporated under the law of Macau with limited liability (note 31(a)). The deposits had subsequently been refunded.

Notes to Financial Statements

31 March 2005

21. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	2,583	20,214	1,461	10,094
Time deposits	87,494	11,970	62,400	–
	90,077	32,184	63,861	10,094
Less: Pledged time deposits for bank overdraft facilities (note 23)	(6,572)	(6,534)	–	–
Cash and cash equivalents	83,505	25,650	63,861	10,094

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$138,000 (2004: HK\$279,000). 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.

22. Trade Payables

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

	Group	
	2005 HK\$'000	2004 HK\$'000
0 – 120 days	160	1,601
121 – 210 days	3	77
Over 210 days	33	5
	196	1,683

Notes to Financial Statements

31 March 2005

23. Pledge of Assets

As at 31 March 2005, the Group's banking facilities were secured by the following:

- (a) Fixed deposits of HK\$6,572,000 (2004: HK\$6,534,000) owned by the Group (note 21); and
- (b) An unlisted investment fund of HK\$4,067,000 (2004: HK\$4,015,000) owned by the Group (note 15).

24. Share Capital

Shares

	2005 HK\$'000	2004 HK\$'000
Authorised:		
60,000,000,000 ordinary shares of HK\$0.01 each	600,000	600,000
Issued and fully paid:		
11,332,430,478 (2004: 9,332,430,478) ordinary shares of HK\$0.01 each	113,324	93,324

Notes to Financial Statements

31 March 2005

24. Share Capital (continued)

A summary of the movements in the issued share capital of the Company is as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 April 2003	8,619,360,478	86,194	259,399	345,593
Share options exercised [#]	713,070,000	7,130	8,201	15,331
31 March 2004 and 1 April 2004	9,332,430,478	93,324	267,600	360,924
Issue of shares [*]	2,000,000,000	20,000	44,000	64,000
Share issue expenses	–	–	(1,600)	(1,600)
Issued share capital as at 31 March 2005	11,332,430,478	113,324	310,000	423,324

713,070,000 share options were exercised at the subscription price of HK\$0.0215 per share, resulting in the issue of 713,070,000 ordinary shares of HK\$0.01 each for a total cash consideration of approximately HK\$15,331,000. The proceeds were applied as additional working capital of the Group.

* The Company entered into a placing agreement (the "Placing Agreement") with Tai Fook Securities Company Limited ("Tai Fook"), 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 which is applied as general working capital of the Group.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 25.

Notes to Financial Statements

31 March 2005

25. Share Option Schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

On 22 February 1994, the Company adopted a share option scheme (the "Old Scheme") in order to attract, retain and motivate high-calibre employees of the Group. Under the Old Scheme, the directors could, on or before 21 February 2004, at their discretion, make an offer to any employee of the Company or any of its subsidiaries, including directors of the Company or any such subsidiary, for the grant of options to subscribe for shares of the Company. The subscription price would be the higher of 80% of the average of the closing share prices on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares. The maximum number of shares in respect of which options could be granted under the Old Scheme would not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time. The maximum number of shares in respect of which options could be granted to any one employee or director would not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Old Scheme. The offer for the grant of share options could be accepted within 40 days from the date of the offer. An amount of HK\$1 was to be payable by the grantee of an option upon acceptance of the grant of the option. The Old Scheme was terminated on 27 August 2003. There was no share option granted under the Old Scheme which remained outstanding as at 31 March 2004.

A new share option scheme (the "New Scheme"), which complies with new requirements of Chapter 17 of the Listing Rules on granting options under share option schemes of listed companies, was adopted pursuant to the ordinary resolution passed by the shareholders at the annual general meeting of the Company held on 27 August 2003.

Under the New Scheme, eligible participants include the Company's directors, including independent non-executive directors, other employees of the Group or of any invested entity, suppliers of goods or services to the Group or of any invested entity, customers of the Group or of any invested entity, shareholders of the Group or of any invested entity, holders of securities of the Group or of any invested entity and persons or entities that provide research, development or other technological support to the Group or of any invested entity. The New Scheme became effective on 27 August 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Notes to Financial Statements

31 March 2005

25. Share Option Schemes (continued)

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the New Scheme is an amount equivalent to 10% of the shares of the Company in issue as at the date of approval of the New Scheme, i.e. 861,936,047 shares, unless approval for refreshing the 10% limit from the Company's shareholders has been obtained. The maximum number of shares issued and to be issued upon exercise of the share options granted to each eligible participant in the New 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 New 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.

The offer of a grant of share options under the New Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such period shall not be more than 10 years from the date of adoption of the New Scheme subject to the provisions for early termination set out in the New 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 the share options granted under the New 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 the offer; and (iii) the nominal value of a share of the Company on the date of the offer.

Notes to Financial Statements

31 March 2005

25. Share Option Schemes (continued)

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

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

The movements of the share options granted under the Old Scheme during the year ended 31 March 2004 are as follows:

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$	Price of Company's shares	
	At 1 April 2003	Lapsed during the year	Exercised during the year	At 31 March 2004				At grant date of options*** HK\$	At exercise date of options*** HK\$
Directors									
Mr. Chan Chun Tung, John	#2,400,000	(2,400,000)	-	-	29 September 1997	27 March 2000 to 21 February 2004	#0.1888	0.155	-
Mr. Wong Howard	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
Mr. Wong Yat Fai	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
Mr. Wu Qing	212,990,000	-	(212,990,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
	641,370,000	(2,400,000)	(638,970,000)	-					
Other employees									
In aggregate	80,100,000	(6,000,000)	(74,100,000)	-	17 August 2001	21 August 2001 to 21 February 2004	0.0215	0.026	0.031
	721,470,000	(8,400,000)	(713,070,000)	-					

There were no share options granted or cancelled during the year ended 31 March 2004.

* The vesting period of the share options was from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Notes to Financial Statements

31 March 2005

25. Share Option Schemes (continued)

*** The price of the Company's share disclosed regarding the grant of the share options was the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options. The price of the Company's shares disclosed regarding the exercise of the share options was the weighted average of the Stock Exchange closing price of the shares immediately before the date on which the options were exercised.

The number of shares exercisable and the exercise price of the share options granted were adjusted following the rights issue of shares of the Company on 27 March 2000.

The 713,070,000 share options exercised during the year ended 31 March 2004 resulted in the issue of 713,070,000 additional ordinary shares of the Company for a total cash consideration of approximately HK\$15,331,000 (note 24).

26. 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 24 of the financial statements.

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years were eliminated against the consolidated reserves as explained in note 14 to the financial statements.

The contributed surplus of the Group arose as a result of the Group reorganisation on the listing of the Company's shares in 1994, and represents 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 share capital of the Company 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 account of approximately HK\$448,992,000 was transferred to the contributed surplus account.

Notes to Financial Statements

31 March 2005

26. Reserves (continued)

(b) Company

	Share premium account <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	259,399	556	492,681	(631,393)	121,243
Premium upon issue of shares (<i>note 24</i>)	8,201	–	–	–	8,201
Net loss for the year	–	–	–	(35,882)	(35,882)
At 31 March 2004 and at 1 April 2004	267,600	556	492,681	(667,275)	93,562
Premium upon issue of shares (<i>note 24</i>)	44,000	–	–	–	44,000
Share issue expenses (<i>note 24</i>)	(1,600)	–	–	–	(1,600)
Net loss for the year	–	–	–	(4,994)	(4,994)
At 31 March 2005	310,000	556	492,681	(672,269)	130,968

Note:

The contributed surplus of the Company arose as a result of the Group reorganisation scheme 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 share capital of the Company issued in exchange therefor.

In addition, the reduction in share capital described in (a) above also resulted in a credit of approximately HK\$448,992,000 being transferred to the Company's contributed surplus account.

Notes to Financial Statements

31 March 2005

27. Operating Lease Arrangements

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

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within one year	873	1,440
In the second to fifth years, inclusive	689	142
	1,562	1,582

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 car audio business up to 2006 with an annual increment of 5% commencing from 1993. The total future annual fee payable within one year and in the second to fifth years, inclusive, from the balance sheet date amounted to HK\$107,000 and HK\$65,000, respectively.

28. Commitments

Apart from the operating lease commitment detailed in note 27 above, the Group and the Company did not have any significant commitments at 31 March 2005.

Notes to Financial Statements

31 March 2005

29. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Bills discounted with recourse	-	109

As at 31 March 2005 and 31 March 2004, the credit facilities granted to a subsidiary of the Company in respect of securities investment and trading subject to unlimited corporate guarantees provided by the Company were not utilised.

30. Related Party Transactions

During the year ended 31 March 2004, the Company provided corporate guarantees to the extent of HK\$12,997,000 for banking facilities granted to Chaifa Investment Limited, a company which was disposed of by the Group during year ended 31 March 2003 and in which Mr. Chan Chun Tung, John, was a director, for nil consideration. The corporate guarantees were released during the year ended 31 March 2004.

Notes to Financial Statements

31 March 2005

31. Post Balance Sheet Events

- (a) On 19 January 2005 and 2 February 2005, the Company, Walterford Company Limited, an indirect wholly-owned subsidiary of the Company incorporated in the British Virgin Islands, entered into a preliminary agreement and a sale and purchase agreement respectively, with China Travel Services (Hong Kong) Limited and Findco Enterprises Limited, subsidiaries of China Travel International Investment Hong Kong Limited (“CTII”), and CTII, in respect of the acquisition (the “Acquisition”) of the entire interest in Fu Wa for a total consideration of HK\$500 million. The consideration was to be settled as to HK\$250 million in cash, of which a deposit of HK\$25 million was placed in an escrow amount as at 31 March 2005, and as to HK\$250 million by convertible notes to be issued by the Company in connection with the Acquisition. Further details of the Acquisition and the convertible notes were set out in the Company’s circular dated 10 June 2005.

The principal activities of Fu Wa consist of property investment holdings and hotel operations in Macau, and the principal assets of Fu Wa comprise the Hotel Grandeur Macau.

A special meeting of the Company’s shareholders was held on 27 June 2005 where the Acquisition was not approved by the shareholders by way of poll. Therefore, the Acquisition would not be completed.

- (b) On 12 May 2005, the Group obtained a short term unsecured loan of HK\$30,000,000, repayable on or before 11 February 2006 with interest charged at the best lending rate quoted by the Hong Kong and Shanghai Banking Corporation Limited from time to time plus 3.5% per annum, from an authorised financial institute. On 20 May 2005, the Group obtained a long term unsecured loan of HK\$60,000,000, repayable on or before 31 July 2006 with interest charged at the best lending rate quoted by Liu Chong Hing Bank Limited from time to time plus 5% per annum, from another authorised financial institute. The above unsecured loans had been obtained for the purpose of financing the proposed Acquisition. The above unsecured loans had been fully repaid before the date of issue of these financial statements.

Notes to Financial Statements

31 March 2005

31. Post Balance Sheet Events (continued)

- (c) Pursuant to the Company's announcement dated 21 June 2005 and the related circular dated 4 July 2005, the Company proposed to hold a special general meeting of shareholders to consider the following special resolutions:
- (i) every 10 shares of HK\$0.01 each in the issued share capital of the Company be and are hereby consolidated into one share of HK\$0.10 in the capital of the Company (a "Consolidated Share");
 - (ii) every issued Consolidated Share be and is hereby reduced in nominal amount by cancelling HK\$0.09 of the paid-up capital on each issued Consolidated Share so as to form (after the share consolidation) one share of HK\$0.01 in the capital of the Company (each a "Reorganised Share");
 - (iii) fractional entitlements to Reorganised Shares shall not be issued and all fractions of the Reorganised Shares to which holders of issued shares of HK\$0.01 each in the capital of the Company would otherwise be entitled shall be aggregated and sold for the benefit of the Company;
 - (iv) the credit arising from the Capital Reorganisation be transferred to the contributed surplus account of the Company; and
 - (v) any one of the directors of the Company be and is hereby authorised generally to do all things appropriate to effect and implement any of the foregoing.

32. Comparative Amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation. These include, principally, the inclusion of the realised profits and losses, dividend and interest income arising from securities investment and trading of HK\$32,064,000 (2004: HK\$411,000) as part of the Group's turnover since the management of the Group anticipates that the securities investment and trading business will continue in the future as part of the principal activities of the Group. Accordingly, the comparative amounts of the results, assets and liabilities of securities investment and trading business in note 4 have been disclosed as a separate segment to conform with the current year's presentation. Previously, the realised profits or losses, dividend and interest income arising from securities investment and trading were classified as other revenue in the profit and loss account and were included as unallocated items in the note on segment information.

33. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 July 2005.