Notes to the Financial Statements

For the year ended 31st December, 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company is an investment holding company. The activities of its associate and principal subsidiaries are set out in notes 18 and 42 respectively.

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the consolidated net current liabilities of approximately HK$111.4 million at 31st December, 2006 and loss of approximately HK$60.6 million for the year then ended.

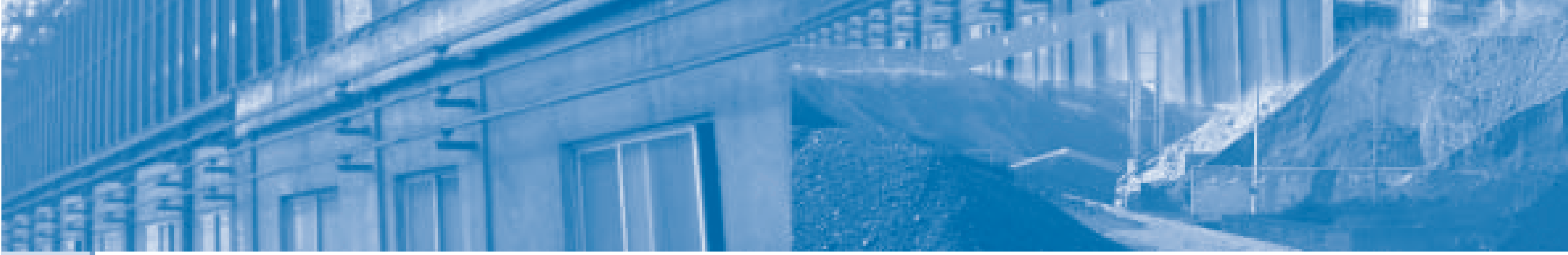
During the year ended 31st December, 2005, in order to take advantage of further growth opportunities, the Group explored the business opportunities in the coke industry. The Group entered into a subscription agreement ("Subscription Agreement") with Shanxi Changxing Yuci Coking Co, Limited ("Shanxi Changxing"), Mr. Yu-wen Jiang Ming ('Mr. Yu-wen") and Ms. Yu-wen Man Rui ("Ms. Yu-wen"), independent third parties, in February 2005 under which the Group and Mr. Yu-wen agreed to subscribe for a total of RMB64.3 million and RMB41.7 million, respectively, in the additional share capital of Shanxi Changxing.

Upon completion of the Subscription Agreement, Shanxi Changxing will be owned as to 51% by the Group, as to approximately 44.2% by Mr. Yu-wen and 4.8% by Ms. Yu-wen.

The principal activity of Shangxi Changxing is the manufacture and sale of coke and certain by-products in the Peoples' Republic of China (the "PRC"). The acquisition was approved by the shareholders of the Company at the special general meeting on 23rd June, 2005, details of which are set out in the circular of the Company dated 7th June, 2005.

During the year ended 31st December, 2005, the Group made an initial investment of RMB41.2 million and a further RMB23.1 million (equivalent to approximately HK$20.6 million) was committed to be injected into Shanxi Changxing in accordance with the Subscription Agreement, when all the terms and conditions under the Subscription Agreement are met.

Shanxi Changxing became a subsidiary of the Group when the Group obtained control of Shanxi Changxing by appointing the majority of directors to the board of directors of Shanxi Changxing, which has the power to govern the financial and operating policies of Shangxi Changxing, on 2nd July, 2005. Accordingly, the Group's has commenced to account for Shanxi Changxing as a subsidiary in accordance with Hong Kong Accounting Standard ("HKAS") 27 "Consolidated and Separate Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") from 2nd July, 2005.



2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

In accordance with the Group's strategic plan, the directors of the Company will assess and review the performance of the Company's subsidiaries on a timely basis. In the circumstances that those investments are non-performing, the Group will discontinue any further capital injection program in those investments to preserve the Group's financial and liquidity position in the short term as well as maintaining the long term growth and development of the Group.

Shanxi Changxing had sustained net current liabilities of HK$206.6 million at 31st December, 2006 and loss for the year of HK$46.0 million. Shanxi Changxing is currently focusing on strengthening its operations of manufacturing and sale of coke, and the management of Shanxi Changxing is implementing active cost-saving and value-adding measures to improve its operating cash flows and financial position.

At 31st December, 2006 and up to the date of this report, certain conditions of the Subscription Agreement have not been fulfilled and no payment has been made for the remaining RMB23.1 million injection.

The directors have given careful consideration to the financial performance and liquidity position of Shanxi Changxing since it became a subsidiary of the Company. Should Shanxi Changxing's operating results and cash flows be unable to improve, the Group may consider to cease any further capital injection, in accordance with the strategic plan discussed above.

On the basis that the Group can improve the Group's operating results and cash flows through the implementation of the measures described above, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Financial assets previously designated as at fair value through profit or loss reclassified as available-for-sale investments

The Group has applied Hong Kong Accounting Standard 39 (Amendments) "The Fair Value Option", where investment previously classified as fair value through profit or loss of HK$8.9 million have been retrospectively reclassified as available-for-sale investment and as the criteria for the fair value through profit or loss option cannot be met. This change in accounting policy has had no material effects on the results and the financial position of the current and prior year. Accordingly, no prior year adjustment is required.

Notes to the Financial Statements

For the year ended 31st December, 2006

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Financial assets previously designated as at fair value through profit or loss reclassified as available-for-sale investments *(Continued)*

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – Int 8	Scope of HKFRS 2[4]
HK(IFRIC) – Int 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – Int 10	Interim financial reporting and impairment[6]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – Int 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1st January, 2007
[2] Effective for annual periods beginning on or after 1st January, 2009
[3] Effective for annual periods beginning on or after 1st March, 2006
[4] Effective for annual periods beginning on or after 1st May, 2006
[5] Effective for annual periods beginning on or after 1st June, 2006
[6] Effective for annual periods beginning on or after 1st November, 2006
[7] Effective for annual periods beginning on or after 1st March, 2007
[8] Effective for annual periods beginning on or after 1st January, 2008

4. SIGNIFICANT ACCOUNTING POLICIES

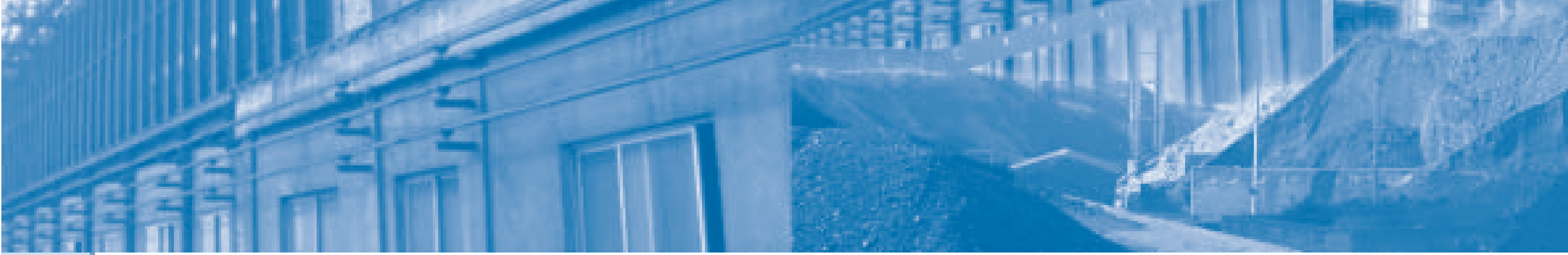
The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

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

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



Notes to the Financial Statements

For the year ended 31st December, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

Notes to the Financial Statements

For the year ended 31st December, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

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

Investments in associates

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

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

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

Revenue recognition

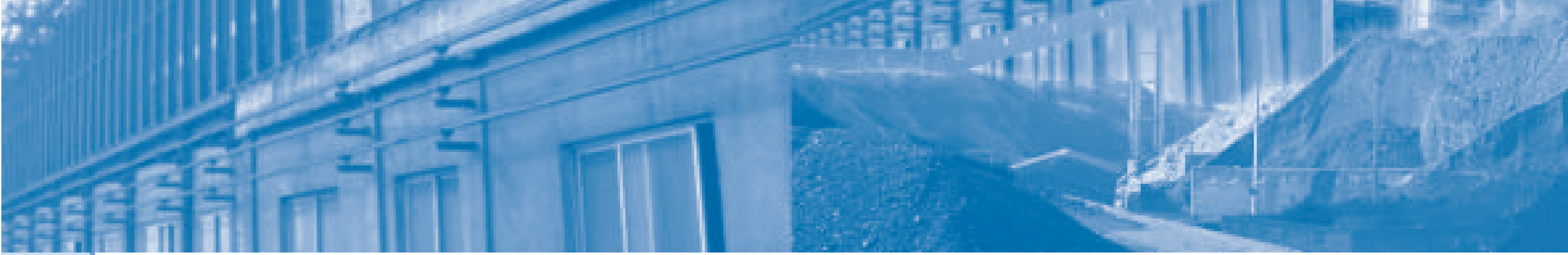
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Sales of investments in securities is recognised when the related brought and sold notes are executed.

Income from provision of freight forwarding agency services is recognised when the services are rendered.

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



4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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

Investment property

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

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

Property, plant and equipment

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

Construction in progress are stated at cost less accumulated loss which includes all construction costs and other direct costs attributable to the construction. Construction in progress are not depreciated until completion of construction. The cost of completed construction works is transferred to the appropriate categories of property, plant and equipment.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line or reducing balance method.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Leasing

The Group as lessee

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

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

Notes to the Financial Statements

For the year ended 31st December, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is classified as a finance lease.

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefit schemes

Payments to defined contribution retirement benefit plans, the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Financial instruments

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

Financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss *(Continued)*

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through income statements.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in income statements in the year in which they arise.

Loans and receivables

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

Available-for-sale financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Available-for-sale financial assets *(Continued)*

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

Financial liabilities and equity

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

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

Financial liabilities

Financial liabilities, including trade and other payables and other borrowings, are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

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

Convertible bonds

Convertible bonds issued by the Group that contain liability, conversion option and subscription option components are classified separately into respective items on initial recognition. Conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative. At the date of issue, both the liability, conversion option and subscription option components are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The conversion option and subscription option components are measured at fair value with changes in fair value recognised in profit or loss.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held for trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through income statements.

Derivative financial instrument is initially measured at fair value on the contract date, and is remeasured to fair value at subsequent reporting date.

Notes to the Financial Statements

For the year ended 31st December, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Derecognition

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

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees and others providing services similar to employees

The Group does not recognise the fair value of share options granted to employees and others providing services similar to employees prior to 1st January, 2005 and vested before such date. For share options granted to employees and others providing services similar to employees after 1st January, 2005, the fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

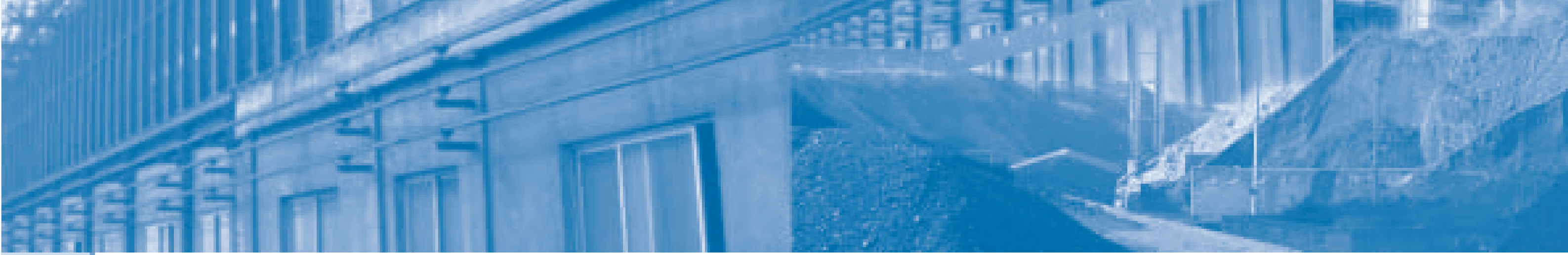
At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated loss.

Impairment loses (other than goodwill)

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

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



5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made the following estimates that have the most significant effect on the amounts recognised in the financial statements in the next financial year are discussed below.

Estimated impairment of property, plant and equipment

During the year, impairment losses on property, plant and equipment of approximately HK$6.5 million with respect to Shanxi Changxing, were recognised in the income statement. Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Details of the recoverable amount calculation are set out in note 16.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

6(a). Financial management objectives and policies

The Group's major financial instruments include trade and other receivables, short-term loan receivables, deposits placed with security brokers, pledged bank deposits, bank balances, available-for-sale investments, investment held for trading, other borrowings and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Fair value interest rate risk

The Group is exposed to fair value interest rate risk relating to pledged bank deposits and fixed rate bank borrowings. The Group currently does not have any interest rate hedging policy. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 29.

Price risk

The Group is exposed to equity security price risk through its held-for-trading investments. The management intended to manage this exposure by implementing a policy to maintain a portfolio of investments with different risk profiles.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

6(a). Financial management objectives and policies *(Continued)*

Credit risk (Continued)

The Group has no significant consideration of credit risk, with exposure spread over a number of counter parties and customers.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Directors have given careful consideration on the measures currently undertaken by the Group in respect of the Group's liquidity position. As detailed in note 2, the Directors believe that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

In addition to the above financial instruments related risks, the Group is also exposed to commodity price risk as it sources large quantities of coal for its manufacturing process. The Group currently does not have a commodity future hedging policy. However, management monitors its commodity price exposure and will consider hedging significant commodity price exposure should the need arises.

6(b). Fair value

The fair value of financial assets are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined on discounted cash flow analysis using prices from observable current market transactions;

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

7. TURNOVER

	2006	2005
	HK$'000	*HK$'000*
International air and sea freight forwarding	**12,488**	12,028
Proceeds from securities trading	**559,065**	217,351
Sales of coke	**84,642**	55,087
	656,195	284,466

Notes to the Financial Statements

For the year ended 31st December, 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purpose, the Group is currently organised into three operating divisions – (i) international air and sea freight forwarding; (ii) securities trading and (iii) manufacture and sales of coke. These divisions are the basis on which the Group reports its primary segment information.

	International air and sea freight forwarding *HK$'000*	Securities trading *HK$'000*	Manufacture and sales of coke *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
For the year ended 31st December, 2006					
Turnover					
External	12,488	559,065	84,642	–	656,195
Results					
Segment result	740	9,861	(37,853)	–	(27,252)
Unallocated corporate expenses					(28,998)
Other income					5,188
Finance costs					(8,314)
Share of results of associates					(412)
Loss before taxation					(59,788)
Taxation					(795)
Loss for the year					(60,583)
At 31st December, 2006					
ASSETS					
Segment assets	9,608	84,356	165,462	–	259,426
Interests in associates					3,722
Unallocated corporate assets					59,752
Total assets					322,900
LIABILITIES					
Segment liabilities	(5,033)	(7)	(210,155)	–	(215,195)
Unallocated corporate liabilities					(76,290)
Total liabilities					(291,485)

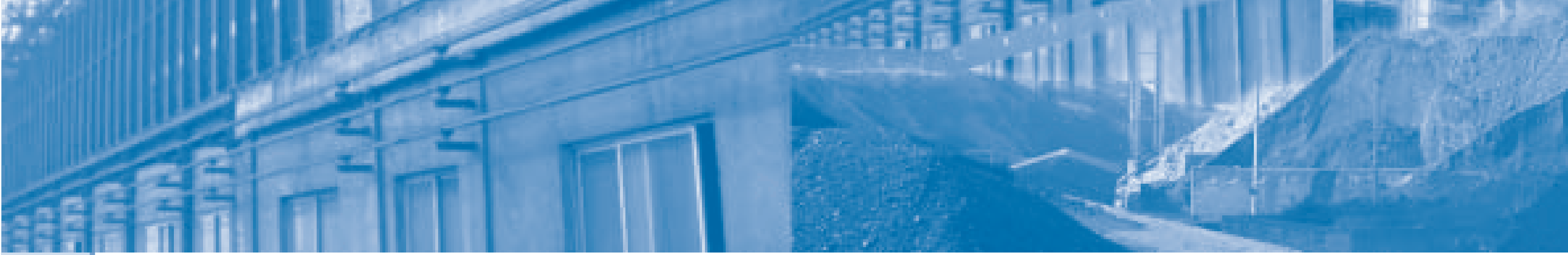
Notes to the Financial Statements

For the year ended 31st December, 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	International air and sea freight forwarding	Securities trading	Manufacture and sales of coke	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31st December, 2006					
OTHER INFORMATION					
Additions to property, plant and equipment	9	–	56,175	1,523	57,707
Depreciation on property, plant and equipment	23	–	4,977	678	5,678
Release of prepaid lease payments	–	–	82	–	82
(Gain) loss on disposal of property, plant and equipment	–	–	(119)	46	(73)
Impairment loss on trade receivables	–	–	370	–	370
Allowance on inventories	–	–	948	–	948
Impairment loss on property, plant and equipment	–	–	6,533	–	6,533



Notes to the Financial Statements

For the year ended 31st December, 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	International air and sea freight forwarding *HK$'000*	Securities trading *HK$'000*	Manufacture and sales of coke *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
For the year ended 31st December, 2005					
Turnover					
External	12,028	217,351	55,087	–	284,466
Results					
Segment result	560	(7,571)	(69,632)	–	(76,643)
Other income					3,238
Unallocated corporate expenses					(26,477)
Fair value adjustment on embedded derivatives					(19,720)
Share based payment expenses					(27,956)
Finance costs					(3,189)
Share of results of associates					(10,263)
Loss for the year					(161,010)
At 31st December, 2005					
ASSETS					
Segment assets	3,095	22,068	139,308	–	164,471
Interests in associates					4,134
Unallocated corporate assets					51,325
Total assets					219,930
LIABILITIES					
Segment liabilities	(2,157)	(2)	(127,671)	–	(129,830)
Unallocated corporate liabilities					(57,413)
Total liabilities					(187,243)

Notes to the Financial Statements

For the year ended 31st December, 2006

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	International air and sea freight forwarding	Securities trading	Manufacture and sales of coke	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31st December, 2005					
OTHER INFORMATION					
Additions to property, plant and equipment	27	–	25,838	135	26,000
Additions to property, plant and equipment on the acquisition of subsidiary	–	–	99,151	–	99,151
Depreciation on property, plant and equipment	20	–	3,092	364	3,476
Impairment loss on goodwill	–	–	21,910	–	21,910
Release of prepaid lease payments	–	–	38	–	38
Loss on disposal of property, plant and equipment	–	–	807	–	807
Impairment loss on trade receivables	–	–	3,765	–	3,765
Impairment loss on available-for-sale investments	–	7,950	–	–	7,950
Fair value adjustment on investments held for trading	–	1,066	–	–	1,066
Allowance on inventories	–	–	2,261	–	2,261
Impairment loss on property, plant and equipment	–	–	22,000	–	22,000

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

The Group's international air and sea freight forwarding are carried out in North and South America, securities trading division is located in Hong Kong while the manufacture and sales of coke is carried out in the PRC.

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

	Turnover	
	2006	2005
	HK$'000	*HK$'000*
North and South America	**6,421**	5,660
Hong Kong	**559,065**	217,351
PRC	**84,642**	55,086
Others	**6,067**	6,369
	656,195	284,466

The following is an analysis of the carrying amount of assets and capital additions analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	At 2006	At 2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
North and South America	**2,479**	1,190	**–**	–
Hong Kong	**80,746**	22,878	**1,484**	32
PRC	**174,056**	139,308	**56,214**	125,092
Others	**2,145**	1,095	**9**	27
	259,426	164,471	**57,707**	125,151

Notes to the Financial Statements

For the year ended 31st December, 2006

9. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Interest income	**2,144**	889
Dividend income from listed securities	**615**	847
Increase in fair value of investment property	**40**	260
Gain on disposal of property, plant and equipment	**73**	–
Sundry income	**2,316**	1,242
	5,188	3,238

10. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest payable on:		
Convertible bonds	**–**	83
Other borrowings wholly repayable within five years	**8,314**	3,106
Total borrowing costs	**8,314**	3,189

Notes to the Financial Statements

For the year ended 31st December, 2006

11. LOSS BEFORE TAXATION

	2006 HK$'000	2005 HK$'000
Loss before taxation has been arrived at after charging (crediting):		
Staff costs		
– directors' emoluments *(note 12(a))*	**2,005**	2,482
– share-based payment expenses *(note 32)*	**–**	1,982
– other staff costs	**9,080**	4,206
– retirement benefits scheme contributions, excluding directors contributions	**160**	132
Total staff costs	**11,245**	8,802
Depreciation of property, plant and equipment	**5,678**	3,476
Release of prepaid lease payments	**82**	38
Auditors' remuneration	**1,087**	1,013
Loss on disposal of property, plant and equipment	**–**	807
Impairment loss on trade receivables	**370**	3,765
Allowance on inventories	**948**	2,261
Other share-based payment expenses *(Note 32)*	**–**	25,974
Cost of inventories recognised as an expense	**97,657**	64,320

Notes to the Financial Statements

For the year ended 31st December, 2006

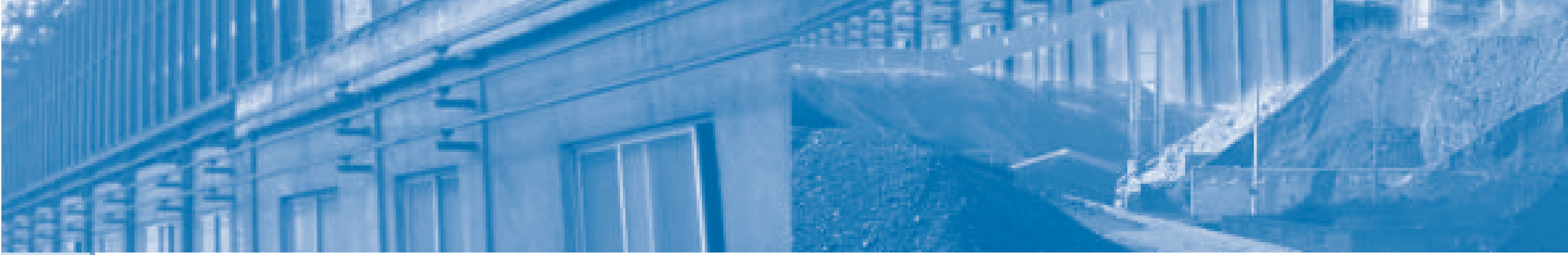
12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 10 (2005: 12) directors were as follows:

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31st December, 2006				
Executive directors				
Ms. Ma Jun Li	**–**	**235**	**–**	**235**
Mr. Ng Tang, David	**–**	**585**	**27**	**612**
Mr. Ren Zheng	**–**	**390**	**12**	**402**
Ms. Cheung Hoi Ping	**–**	**–**	**–**	**–**
Mr. Wang Da Yong	**–**	**250**	**6**	**256**
Mr. Zhang Jun	**–**	**120**	**–**	**120**
	–	**1,580**	**45**	**1,625**
Non-executive directors				
Ms. Chung Kwo Ling	**90**	**–**	**–**	**90**
Mr. Sun Yeung Yeung	**90**	**–**	**–**	**90**
Mr. Lee Yuen Kwong	**90**	**–**	**–**	**90**
Mr. Leung Chung Tak, Barry	**110**	**–**	**–**	**110**
	380	**–**	**–**	**380**
Total	**380**	**1,580**	**45**	**2,005**
For the year ended 31st December, 2005				
Executive directors				
Ms. Ma Jun Li	–	211	–	211
Mr. Ng Tang, David	–	505	23	528
Mr. Ren Zheng	–	390	12	402
Ms. Cheung Hoi Ping	–	–	–	–
Mr. Wang Da Yong	–	50	–	50
Mr. Zhang Jun	–	97	–	97
Mr. Wang Jian Hua	–	700	32	732
Mr. Bao Wen Bin	–	132	7	139
Mr. Pak Chung	–	50	3	53
	–	2,135	77	2,212
Non-executive directors				
Ms. Chung Kwo Ling	90	–	–	90
Mr. Sun Yeung Yeung	90	–	–	90
Mr. Lee Yuen Kwong	90	–	–	90
	270	–	–	270
Total	270	2,135	77	2,482

During the year ended 31st December, 2006 and 2005, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group.



Notes to the Financial Statements

For the year ended 31st December, 2006

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, two (2005: three) were directors of the Company whose emoluments are set out in (a) above. The aggregate emoluments of the remaining three (2005: two) individual were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**1,638**	979
Retirement benefits scheme contributions	**76**	37
	1,714	1,016

The emoluments of each of the employees are less than HK$1,000,000 for both years.

13. TAXATION

Pursuant to the relevant laws and regulations in the PRC, the tax for Shanxi Changxing is calculated at the statutory income tax rate of 33% (2005: 33%) on the assessable profit and it is exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the consolidated financial statements as Shanxi Changxing has no assessable profit for both years.

Taxation charge for the year ended 31st December, 2006 represented Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the year. No tax is payable on the profit for the year ended 31st December, 2005 arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

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

Notes to the Financial Statements

For the year ended 31st December, 2006

13. TAXATION *(Continued)*

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

	2006 *HK$'000*	2005 *HK$'000*
Loss before taxation	**(59,788)**	(161,010)
Tax at the income tax rate of 33% *(note)*	**(19,730)**	(53,133)
Tax effect of share of results of associates	**136**	3,387
Tax effect of expenses that are not deductible in determining taxable profit	**3,256**	14,074
Tax effect of income that are not taxable in determining taxable profit	**(823)**	(134)
Tax effect of utilisation of tax loss not previously recognised	**(892)**	(524)
Tax effect of tax losses and deductible temporary difference not recognised	**17,347**	22,611
Effect of different tax rates of subsidiaries operating in other jurisdictions	**1,501**	13,719
Taxation charge for the year	**795**	–

Note: the domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used, which is PRC Tax rate.

The major deferred tax liabilities (assets) recognised and movements thereon during the current year and prior year are summarised below:

	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
Balance at 1st January, 2005	80	(80)	–
Charge (credit) to consolidated income statement for the year	(5)	5	–
Balance at 31st December, 2005	75	(75)	–
Charge (credit) to consolidated income statement for the year	108	(108)	–
Balance at 31st December, 2006	183	(183)	–

13. TAXATION *(Continued)*

At 31st December, 2006, the Group has unutilised tax losses of approximately HK$209,537,000 (2005: HK$173,633,000) available to offset against future profits. A deferred tax asset has been recognised in respect of tax losses approximately HK$1,045,000 (2005: HK$425,000). No deferred tax asset has been recognised of remaining tax losses due to the unpredictability of future profit streams. The tax losses attributable to subsidiaries in Hong Kong of HK$160,108,000 (2005: HK$147,390,000) will not expire under the current tax legislation in Hong Kong and all other tax losses will expire from 2007 to 2010.

At balance sheet date, the Group has deductible temporary difference of HK$48,738,000 (2005: HK$31,455,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

14. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$45,768,000 (2005: HK$136,992,000) and on weighted average number of 5,905,076,564 (2005: 5,217,336,753) ordinary shares in issue during the year.

No diluted loss per share is presented for both years as the exercise of the share options would result in a decrease in the loss per share for both years and the conversion of the convertible bonds would be anti-dilutive for the year ended 31st December, 2005.

15. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1st January, 2005	1,200
Increase in fair value	260
At 1st January, 2006	1,460
Increase in fair value	40
At 31st December, 2006	1,500

The fair value of the Group's investment properties at 31st December, 2006 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, independent qualified professional valuers. Knight Frank Petty Limited is a member of the Hong Kong Institute of Surveyors ("HKIS"). The valuation, which conforms to HKIS Valuation Standards on Properties published by the HKIS was arrived at by reference to market evidence of transaction prices for similar properties.

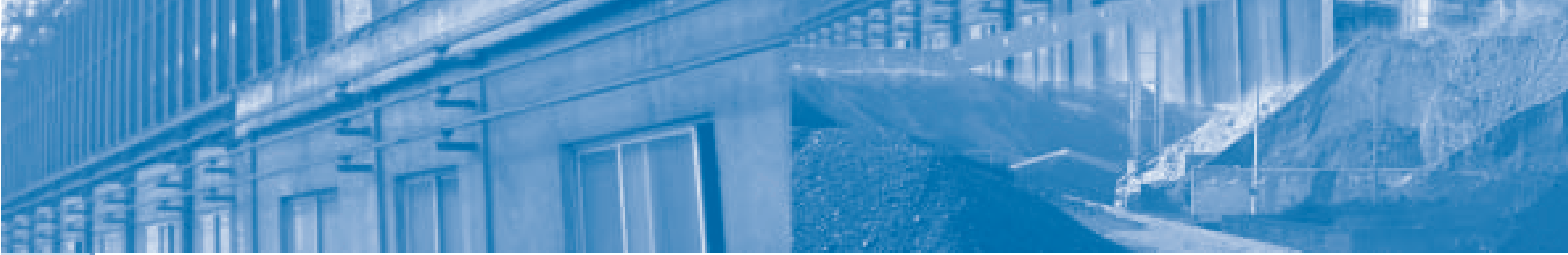
The investment property was under medium term lease and situated in Hong Kong. All of the Group's property interests held for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Notes to the Financial Statements

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress HK$'000	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST								
At 1st January, 2005	–	–	–	144	807	1,067	2,617	4,635
Acquired on acquisition of a subsidiary	93,178	3,138	1,807	–	–	181	847	99,151
Exchange realignment	2,113	77	240	–	(9)	11	62	2,494
Additions	21,673	104	–	91	27	77	4,028	26,000
Disposals/written off	–	(962)	–	–	(38)	(36)	(183)	(1,219)
Reclassification	(105,873)	51,269	54,604	–	–	–	–	–
At 31st December, 2005	11,091	53,626	56,651	235	787	1,300	7,371	131,061
Exchange realignment	410	1,982	1,984	3	38	36	244	4,697
Additions	53,476	–	185	110	36	94	3,806	57,707
Disposals/written off	–	–	(300)	(70)	(19)	(161)	(1,381)	(1,931)
Reclassification	(5,608)	1,566	4,042	–	–	–	–	–
At 31st December, 2006	59,369	57,174	62,562	278	842	1,269	10,040	191,534
DEPRECIATION AND IMPAIRMENT LOSS								
At 1st January, 2005	–	–	–	135	688	715	872	2,410
Exchange realignment	–	5	106	–	(8)	3	15	121
Provided for the year	–	817	1,962	19	32	96	550	3,476
Impairment loss recognised for the year	–	–	22,000	–	–	–	–	22,000
Eliminated on disposals/ written off	–	(159)	–	–	(37)	(28)	(132)	(356)
At 31st December, 2005	–	663	24,068	154	675	786	1,305	27,651
Exchange realignment	–	57	851	1	35	25	42	1,011
Provided for the year	–	1,782	2,452	74	37	146	1,187	5,678
Impairment loss recognised for the year	6,533	–	–	–	–	–	–	6,533
Eliminated on disposals/ written off	–	–	(73)	(70)	(15)	(119)	(130)	(407)
At 31st December, 2006	6,533	2,502	27,298	159	732	838	2,404	40,466
CARRYING VALUES								
At 31st December, 2006	52,836	54,672	35,264	119	110	431	7,636	151,068
At 31st December, 2005	11,091	52,963	32,583	81	112	514	6,066	103,410



Notes to the Financial Statements

For the year ended 31st December, 2006

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

The above items of property, plant and equipment are depreciated at the following rates per annum:

Buildings	Over the shorter of the term of the lease or 20 – 30 years (straight-line)
Plant and machinery	5% – 10% (straight-line)
Leasehold improvements	15% or over the term of the lease, whichever is shorter (straight-line)
Furniture and fixtures	10% – 33.33% (reducing balance)
Office equipment	10% – 20% (reducing balance)
Motor vehicles	16.67% – 33.33% (reducing balance)

At 31st December, 2006, the directors, after considering the economic conditions, market situations and the liquidity position of Shanxi Changxing, reviewed the carrying value of the Shanxi Changxing's production facilities, including construction in progress, buildings, and plant and equipment, in the PRC, with reference to independent professional valuation made using the fair value less cost to sell method and determined that the recoverable amounts of the assets have declined below its carrying value. Accordingly, the carrying value of construction in progress related to the facilities on the new line of by-product of coke was reduced by approximately HK$6,533,000 (2005: HK$22,000,000) to reflect this impairment.

As at 31 December 2006, legal title to buildings with net book values of approximately HK$54,672,000 (2005: HK$52,963,000) has not been granted by relevant government authorities. In the opinion of the directors, the formal title to these buildings will be granted to Shanxi Changxing in due course.

17. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise land use rights in the PRC under medium-term lease	**3,744**	3,691
Analysed for reporting purposes as:		
Non-current asset	**3,725**	3,600
Current asset	**19**	91
	3,744	3,691

As at 31st December, 2005, legal title of the land use right in the carrying amount of approximately HK$2,882,000 has not been granted by relevant government authorities and was held under the name of a shareholder of Shanxi Changxing. During the year ended 31st December, 2006, the legal title has been transferred and granted to Shanxi Changxing.

Notes to the Financial Statements

For the year ended 31st December, 2006

18. INTERESTS IN ASSOCIATE

	2006 HK$'000	2005 HK$'000
Cost of investment	3,678	3,678
Share of post-acquisition profits	44	456
	3,722	4,134

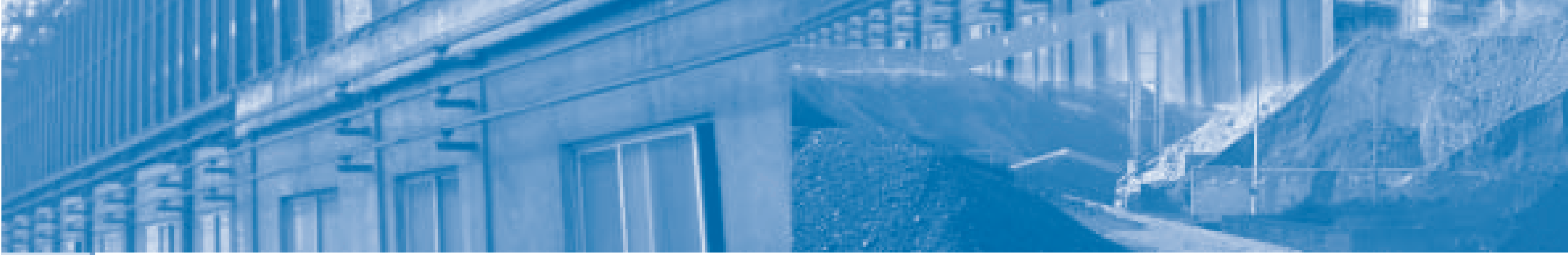
Particulars of the associate at 31st December, 2006 are as follows:

Name of associate	Form of business structure	Place of registration and operation	Proportion of nominal value of registered capital held indirectly by the Company %	Principal activities
Shanghai International Airlines Services Co. Ltd. ("Shanghai Airlines")	Sino-foreign Equity Joint Ventures	PRC	40	Provision of air freight forwarding business

The summarised financial information in respect of the Group' associates are set out below:

	2006 HK$'000	2005 HK$'000
Total assets	20,109	21,970
Total liabilities	(10,804)	(11,635)
Net assets	9,305	10,335
Group's share of net assets of associate	3,722	4,134

	2006 HK$'000	2005 HK$'000
Revenue	21,186	39,366
Loss for the year	(1,030)	(21,743)
Group's share of loss of associate for the year	(412)	(10,263)



Notes to the Financial Statements

For the year ended 31st December, 2006

19. AVAILABLE-FOR-SALE INVESTMENTS

	2006 & 2005
	HK$'000
Unlisted equity securities	38,250
Less: impairment losses	(29,400)
	8,850

In 2002, the Group, through the acquisition of a wholly-owned subsidiary, acquired 30,000,000 promoters' shares in Beijing Beida Jade Bird Universal Sci-Technology Company ("BBJB") (the "Promoters' Shares") of RMB0.01 each at a consideration of HK$38,250,000, which is equivalent to 2.53% of total issued share capital (including H shares and Promoters' Shares) of BBJB.

BBJB is a joint stock company with limited liability incorporated in the PRC with its H shares listed on the Growth Enterprise Market of the Stock Exchange (the "GEM Board"). Promoters' Shares were unlisted share capital issued by BBJB when it was initially listed on the GEM Board in 2000. According to the Company Law in the PRC, the Promoters' Shares were not transferable within three years from the date of incorporation of BBJB on 29th March, 2000. Upon expiry of the three years lock up period on 28th March, 2003, those Promoters' Shares could be applied for listing on the GEM Board. The Group has been informed by BBJB that BBJB is in the process of applying for listing of the Promoters' Shares on the GEM Board and the application is still under progress. In the opinion of the directors, this investment will be able to enhance the strategic relationship between the Group and BBJB.

An impairment loss of approximately HK$29,400,000 was recognised to the consolidated income statement in prior years, of which HK$7,950,000 was recognised during the year ended 31st December, 2005, with reference to the market value of the listed shares of BBJB.

20. CLUB DEBENTURE

	2006	2005
	HK$'000	*HK$'000*
Club debenture, at cost	**514**	514

The above club debenture represent club membership in a PRC golf club. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is significant. The Directors of the Company are of the opinion that its fair values cannot be measured reliably.

Notes to the Financial Statements

For the year ended 31st December, 2006

21. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	4,575	5,756
Finished goods	210	1,387
	4,785	7,143

22. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers with credit periods normally ranging from 30 days to 60 days. Included in trade and other receivables are trade receivables with the following aged analysis:

	2006 HK$'000	2005 HK$'000
0-30 days	7,138	14,687
31-60 days	831	340
61-90 days	4,285	138
Over 90 days	806	138
	13,060	15,303
Advance to suppliers	1,732	306
Deferred consideration *(note 34)*	–	9,000
Deposits and prepayments	3,087	3,256
Pledged deposits	1,384	1,018
	19,263	28,883

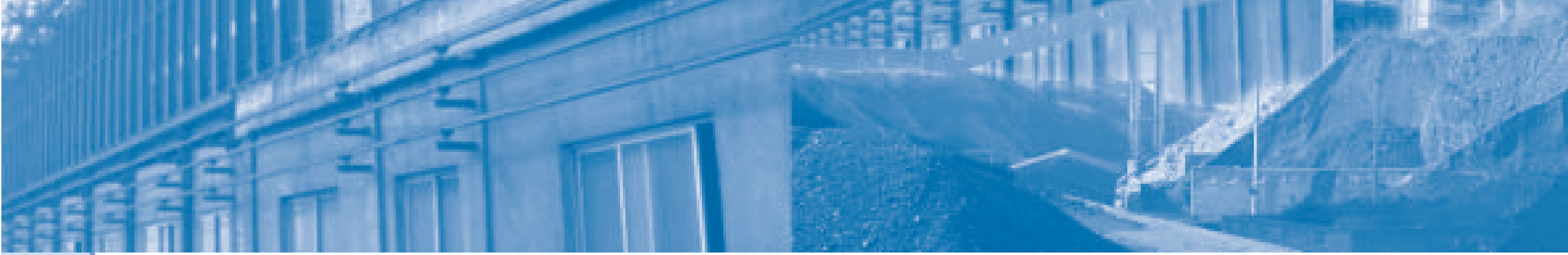
Included in trade receivables are bills receivables with aggregate carrying amount of HK$3,984,000 (2005: Nil).

23. SHORT-TERM LOAN RECEIVABLES

As at 31st December, 2006, the advances made to independent third parties were unsecured, carried interest at 8% per annum and were fully settled on 31 March, 2007.

24. INVESTMENTS HELD FOR TRADING

	2006 HK$'000	2005 HK$'000
Held for trading investments:		
Listed equity securities in Hong Kong	70,820	22,040
Market value of listed equity securities	70,820	22,040



25. DEPOSITS PLACED WITH SECURITY BROKERS

The amount, which represents margin deposits placed with security brokers, carries interest at approximately 3% per annum.

26. PLEDGED BANK DEPOSITS

The pledged bank deposits are pledged to lenders to secure facilities granted to the Group and carry fixed interest rates of 2.7% (2005:2.7%) per annum. The pledge will be released upon the settlement of the relevant short term bank borrowings.

27. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and bank balances that are interest-bearing at prevailing market interest rate ranging from 2.25% to 2.75% (2005: 2% to 2.25%) and have original maturity of three months or less.

28. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables with the following aged analysis:

	2006	2005
	HK$'000	*HK$'000*
0-30 days	**4,731**	3,398
31-60 days	**3,324**	4,312
61-90 days	**23,959**	2,871
Over 90 days	**29,337**	20,843
Trade and bills payables	**61,351**	31,424
Receipt in advance from customers	**101,301**	61,356
Accrued charges and other payables	**28,024**	22,336
Construction payables	**32,367**	24,417
	223,043	139,533

Included in construction payables are bills payables with aggregate carrying amount of HK$6,203,000 (2005: HK$24,417,000).

Notes to the Financial Statements

For the year ended 31st December, 2006

29. OTHER BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Other borrowings	**67,647**	47,710
Analysed as:		
Secured	**26,533**	19,210
Unsecured	**41,114**	28,500
	67,647	47,710
Carrying amount repayable:		
On demand or within one year	**41,114**	47,710
More than one year, but not exceeding two years	**26,533**	–
	67,647	47,710
Less: Amounts due within one year shown under current liabilities	**(41,114)**	(47,710)
	26,533	–

The exposure of the Group's borrowings to interest rate risks is as follows:

	2006	2005
	HK$'000	*HK$'000*
Fixed-rate borrowings (denominated in Renminbi)	**67,647**	44,797
Variable-rate borrowings (denominated in Hong Kong Dollar)	**–**	2,913
	67,647	47,710

29. OTHER BORROWINGS *(Continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2006	2005
Effective interest rates:		
Fixed-rate borrowings	**9.34% to 36% per annum**	9.34% to 11.35% per annum
Variable-rate borrowings (Hong Kong Prime rate plus 3%)	**–**	8% to 10.75% per annum

There are no borrowings that are denominated in currencies other than the functional currencies of the relevant group entities.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS

(i) Convertible bonds

	2005 *HK$'000*
Nominal value of convertible bonds	19,500
Embedded derivatives	(1,980)
Convertible bonds issued and at 1st January, 2005 on adoption of HKAS 32 and HKAS 39	17,520
Issue of convertible bonds during the year	52,560
Conversion during the year	(70,080)
Convertible bonds at 31st December, 2005 and 2006	–

On 2nd December, 2004, the Company entered into a subscription agreement with an independent third party (the "subscriber") for the issue of two redeemable convertible bonds with aggregate principal amount of US$5,000,000. The Company also granted an option to the subscriber for subscription of two additional redeemable convertible bonds with aggregate principal amount of US$5,000,000 ("Subscription Option"). Each redeemable convertible bond bears interest at the rate of 1% per annum and is due on the maturity date, which is the date falling on the second anniversary from the date of issue of such redeemable convertible bond. The conversion price is HK$0.089 per share at the time of subscription and subjected to changes three months afterwards. A total of 876,404,493 shares will be allotted and issued upon the conversions in full of the convertible bonds. The Company shall redeem the convertible bonds at 100% of the respective outstanding principal amount, together with their unpaid interest on maturity date.

Notes to the Financial Statements

For the year ended 31st December, 2006

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(i) Convertible bonds *(Continued)*

On 16th December, 2004, the Company issued redeemable convertible bonds to the subscriber with principal amount of US$2,500,000 (equivalent to approximately HK$19,500,000) and none of the redeemable convertible bonds had been converted into ordinary shares of the Company as at 31st December, 2004.

At the date of issuing of the convertible bonds, embedded derivatives of approximately HK$1,980,000 were related to the conversion option and Subscription Option.

On 2nd March, 2005, the Company issued additional redeemable convertible bonds to the subscriber with principal amount of US$2,500,000 (equivalent to approximately HK$19,500,000). On the same date, the subscriber also exercised the option granted by the Company for the subscription of two additional redeemable convertible bonds in amount of US$5,000,000 (equivalent to approximately HK$39,000,000).

During the year ended 31st December, 2005, the subscriber converted all the redeemable convertible bonds of HK$70,080,000 into 876,404,493 ordinary shares of HK$0.05 each in the Company at a conversion price at HK$0.089 per share.

(ii) Derivative financial instruments

	HK$
Derivatives embedded in the convertible notes issued during the nine months ended 31st December, 2004 and at 31st December, 2004, as restated	1,980
Changes in fair value	(1,128)
At 1st January, 2005	852
Changes in fair value	19,720
Derivatives embedded in the convertible notes issued during the year	5,940
Derecognised during the year upon conversion of convertible notes	(26,512)
Embedded derivative at 31st December, 2005 and 2006	–

On 1st January, 2005, the Group adopted HKAS 39 and accounted for the embedded derivatives separately at fair value at each balance sheet date. The embedded derivatives were derecognised on 1st March, 2005, which was the date the subscriber fully exercised the Subscription Option into the redeemable convertible bonds.

The conversion options and Subscription Option were fair valued by the management on 1st January, 2005 and 1st March, 2005, at approximately HK$852,000 and HK$26,512,000, respectively. The changes in fair value of approximately HK$19,720,000 have been recognised in the consolidated income statement during the year ended 31st December, 2005.

30. CONVERTIBLE BONDS AND DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(ii) Derivative financial instruments *(Continued)*

The inputs used in the model adopted by the management in determining the fair values at the respective dates were as follows:

	1st January, 2005	1st March, 2005
Share price	HK$0.129	HK$0.157
Exercise price	HK$0.089	HK$0.089
Expected discount	25%	25%
Expected life	1 year	1 year
Expected dividend yield	Nil	Nil
Fair value per share	HK$0.0775	HK$0.03025

31. SHARE CAPITAL

	Notes	Number of shares '000	Value HK$'000
Authorised:			
Ordinary shares of HK$0.05 each at 1st January, 2005, 31st December, 2005 and 31st December, 2006		**12,000,000**	600,000
Issued and fully paid:			
Ordinary shares of HK$0.05 each			
At 1st January, 2005		**4,402,382**	220,119
Exercise of share options		**187,200**	9,360
Exercise of convertible bonds		**876,404**	43,820
At 31st December, 2005		**5,465,986**	273,299
Exercise of share options	*a*	**100,000**	5,000
Issue of shares by way of private placement	*b*	**483,000**	24,150
At 31st December, 2006		**6,048,986**	302,449

Notes to the Financial Statements

For the year ended 31st December, 2006

31. SHARE CAPITAL *(Continued)*

Notes:

a. During the year, the Company issued 100,000,000 ordinary shares of HK$0.05 each at a cash consideration of HK$0.083 per share pursuant to the exercise of the share options granted.

b. On 23rd March, 2006, a placing and subscription agreement was entered into among Best Chance Holdings Limited ("Best Chance"), the Company and a placing agent ("Placing Agent") under which (i) Best Chance has appointed the Placing Agent to place 483,000,000 ordinary shares of HK$0.05 each ("Placing Shares") in the Company at a price of HK$0.109 per Placing Share; and (ii) Best Chance to subscribe for 483,000,000 new ordinary shares of HK$0.05 each ("Subscription Shares") in the Company at a price of HK$0.109 per Subscription Share. The issued price of HK$0.109 represented a discount of 15.5% to the closing price of HK$0.129 per share on 22nd March, 2006. The Subscription Shares were issued under the general mandate granted to the Directors of the Company on 27th May, 2005. The net proceeds of HK$51,850,000 will be used for general working capital purpose. The transaction was completed on 31st March, 2006.

   Best Chance is a company wholly-owned by Mr. Wang Jian Hua, the spouse of Ms. Ma Jun Li, the Chairlady and an executive director of the Company.

   Details of the above are set out in the announcements to the shareholders of the Company dated 24th March, 2006 and 3rd April, 2006.

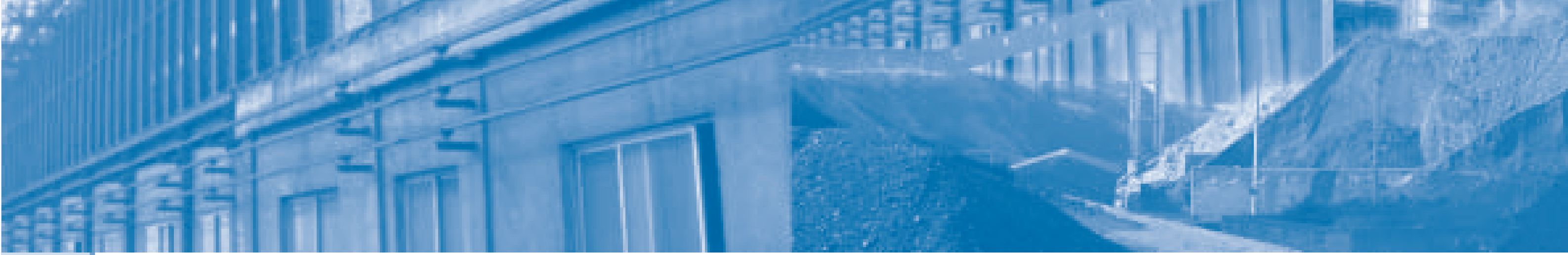
The shares issued during the year rank pari passu with the then existing shares in issue in all respects.

32. SHARE OPTION SCHEMES

(a) The 1996 Scheme

Pursuant to the share option scheme adopted on 5th March, 1996 (the "1996 Scheme") and effective for a period of ten years after the date of adoption of the scheme, the Company granted options to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company for the primary purpose of providing incentives to directors and eligible employees. Options granted must be taken up within 28 days from the date of grant. Upon acceptance of the option, the grantee shall pay HK$1 to the Company by way of consideration for the grant. The subscription price, subject to adjustment, shall not be less than 80% of the average of the closing prices of the shares of the Company on the five trading days immediately before the options were offered. Options granted are exercisable for a period of four and a half years commencing on the expiry of six months after the date on which the options are granted. The total number of shares in respect of which options may be granted and had already been granted under the 1996 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The total number of shares in respect of which options may be granted and had already been granted to any individual is not permitted to exceed 25% of the maximum aggregate number of shares in the capital of the Company in respect of which options may at that time be granted under the 1996 Scheme.

Pursuant to the special resolution passed by shareholders of the Company on 18th March, 2002, the Company adopted a new share option scheme (the "2002 Scheme") and terminated the 1996 Scheme. Upon termination of the 1996 Scheme, no further options will be granted thereafter, but in all other respects, the provisions of the 1996 Scheme shall remain in force and all outstanding options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.



Notes to the Financial Statements

For the year ended 31st December, 2006

32. SHARE OPTION SCHEMES *(Continued)*

(a) The 1996 Scheme *(Continued)*

At 31st December, 2005, all the share options which could be exercisable under the 1996 Scheme have lapsed.

No options were granted to, exercised or cancelled by the directors and employees of the Group during the year ended 31st December, 2006.

The following table discloses movements in the Company's share options granted under the 1996 Scheme during the year ended 31st December, 2005:

				Number of share options				
	Date of grant	Exercisable period	Exercise price *HK$*	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Surrendered/ lapsed during the year	Outstanding at 31.12.2005
Director	17.11.2000	17.5.2001 to 17.11.2005	0.144	2,000,000	–	–	(2,000,000)	–
Other employees	7.3.2000	7.9.2000 to 7.3.2005	0.250	200,000	–	–	(200,000)	–
	11.4.2000	11.10.2000 to 11.4.2005	0.295	200,000	–	–	(200,000)	–
Sub-total				400,000	–	–	(400,000)	–
Total				2,400,000	–	–	(2,400,000)	–
Exercisable at the end of the year								–
Weighted average exercise price				0.165	–	–	0.165	–

(b) The 2002 Scheme

On 18th March, 2002, the Company adopted the 2002 Scheme under which the board of directors may at its discretion offer to any director (including non-executive director), employee, suppliers, customers, any person or entity that provides research, development or other technological support to the Group, shareholders of any member of the Group or any entity in which the Group holds an equity interests and any other group or classes of persons or entities who have contributed to the development and growth of the Group ("Participant") to subscribe for shares in the Company in accordance with the terms of the 2002 Scheme. The principal purpose of the 2002 Scheme is to provide incentive or rewards for the participant's contributions to the Group.

32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme *(Continued)*

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company in issue as at the date of adoption of the 2002 Scheme, unless a refresh approval from the shareholders of the Company has been obtained. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company (including the 1996 Scheme) shall not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The subscription price of the option shares granted under the 2002 Scheme shall be a price to be determined by the directors of the Company being not less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; (iii) the nominal value of a share.

The total number of shares issued and may be issued upon exercise of the options granted to any individual under the 2002 Scheme and any other share option schemes of the Company must not exceed 1% of the shares in issue.

The 2002 Scheme does not contain any requirement of a minimum period and the board of directors may in its absolute discretion impose a minimum period requirement for each option granted will be made by the board of directors on a case by case basis and will not be made to the advantage of the Participants.

The 2002 Scheme will remain in force for a period of ten years commencing from the date of adoption of the 2002 Scheme, after which no further options will be granted but the options which are granted during the life of the 2002 Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the 2002 Scheme shall in all other respects remain in full force and effect in respect thereof.

Options granted under the 2002 Scheme must be taken up within 21 days of the date of grant. Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

Notes to the Financial Statements

For the year ended 31st December, 2006

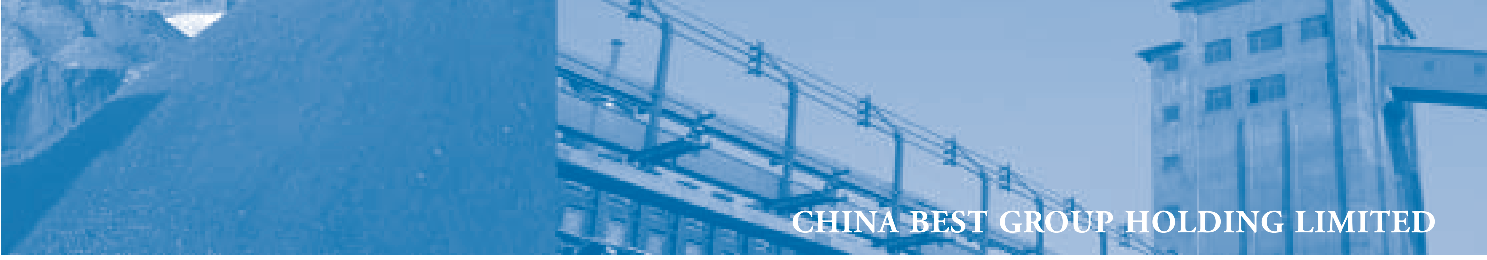
32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme *(Continued)*

For the year ended 31st December, 2006

The following table disclose movements in the Company's share options granted under the 2002 Scheme during the year ended 31st December, 2006:

	Date of grant	Exercisable period	Exercise price *HK$*	Number of share options: Outstanding at 1.1.2006	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2006
Directors	8.11.2002	8.11.2002 to 8.11.2005	0.119	–	–	–	–	–
	19.9.2002	19.9.2002 to 19.9.2005	0.119	–	–	–	–	–
Sub-total				–	–	–	–	–
Employees	19.9.2002	19.9.2002 to 19.9.2005	0.119	–	–	–	–	–
	5.10.2004	5.10.2004 to 5.10.2014	0.0712	24,000,000	–	–	(9,000,000)	15,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	36,700,000	–	–	(9,500,000)	27,200,000
Sub-total				60,700,000	–	–	(18,500,000)	42,200,000
Other eligible persons	23.9.2004	23.9.2004 to 23.9.2014	0.070	190,000,000	–	–	–	190,000,000
	5.10.2004	5.10.2004 to 5.10.2014	0.0712	67,000,000	–	–	–	67,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	481,000,000	–	(100,000,000)	–	381,000,000
Sub-total				738,000,000	–	(100,000,000)	–	638,000,000
				798,700,000	–	(100,000,000)	(18,500,000)	680,200,000
Exercisable at the end of the year								680,200,000
Weighted average exercise price				0.079	–	0.083	0.077	0.078



Notes to the Financial Statements

For the year ended 31st December, 2006

32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme *(Continued)*

For the year ended 31st December, 2005

The following table disclose movements in the Company's share options granted under the 2002 Scheme during the year ended 31st December, 2005:

	Date of grant	Exercisable period	Exercise price *HK$*	Number of share options: Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Surrendered/ lapsed during the period	Outstanding at 31.12.2005
Directors	8.11.2002	8.11.2002 to 8.11.2005	0.119	373,900,000	–	(22,000,000)	(351,900,000)	–
	19.9.2002	19.9.2002 to 19.9.2005	0.119	9,000,000	–	(2,000,000)	(7,000,000)	–
Sub-total				382,900,000	–	(24,000,000)	(358,900,000)	–
Employees	19.9.2002	19.9.2002 to 19.9.2005	0.119	17,800,000	–	(4,200,000)	(13,600,000)	–
5.10.2004	5.10.2004	5.10.2004 to 5.10.2014	0.0712	38,000,000	–	(14,000,000)	–	24,000,000
26.9.2005	26.9.2005	26.9.2005 to 25.9.2015	0.083	–	36,700,000	–	–	36,700,000
Sub-total				55,800,000	36,700,000	(18,200,000)	(13,600,000)	60,700,000
Other eligible	23.9.2004	23.9.2004 to 23.9.2014	0.070	200,000,000	–	(10,000,000)	–	190,000,000
persons	5.10.2004	5.10.2004 to 5.10.2014	0.0712	202,000,000	–	(135,000,000)	–	67,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	–	481,000,000	–	–	481,000,000
Sub-total				402,000,000	481,000,000	(145,000,000)	–	738,000,000
				840,700,000	517,700,000	(187,200,000)	(372,500,000)	798,700,000
Exercisable at the end of the year								798,700,000
Weighted average exercise price				0.094	0.083	0.078	0.119	0.079

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.155 (2005: HK$0.225).

32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme *(Continued)*

These fair values on the options granted during the year ended 31st December, 2005 were calculated using the binominal model. The inputs into the model were as follows:

	2005
Share price on grant date	HK$0.081
Exercise price	HK$0.083
Expected volatility	81.84%
Expected life	10 years
Risk-free rate	4.081%
Expected dividend yield	Nil
Fair value per option granted	HK$0.054

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 48 months. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

As the services performed by others who perform similar as employees of the Group, the fair value of such services is also measured with reference to the fair value of share options granted using the binomial option pricing model.

The estimated fair values of approximately HK$1,982,000 and HK$25,974,000 with respect to share options granted to employees and others providing similar services to the Group, respectively, on 26th September, 2005, were charged to the income statement during the year ended 31st December, 2005

The closing price of the Company's shares immediately before 26th September, 2005, the date of grant of the 2002 Scheme's option, was HK$0.084.

Total consideration received from employees and other person for taking up the options granted in 2005 amounted to HK$26.

Notes to the Financial Statements

For the year ended 31st December, 2006

33. ACQUISITION OF A SUBSIDIARY

On 2nd July, 2005, Shanxi Changxing became a subsidiary of the Group. The carrying amount and fair value of the net liabilities of Shanxi Changxing at that date, and the goodwill arising, are as follows:

	2005
	HK$'000
Net liabilities assumed:	
Property, plant and equipment	99,151
Prepaid lease payments	3,372
Inventories	23,556
Trade and other receivables	22,135
Pledged bank deposits	751
Bank balances and cash	12,782
Trade and other payables	(142,119)
Other borrowings	(43,804)
	(24,176)
Minority interest	2,266
Impairment of goodwill *(note)*	21,910
Consideration	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	
Cash and cash equivalents acquired	12,782

For the year ended 31st December, 2005, Shanxi Changxing contributed turnover of approximately HK$55.1 million and loss of approximately HK$26.9 million to the Group's loss for their year for the period between the date of acquisition to 31st December, 2005.

If the acquisition had been completed on 1st January, 2005, total group turnover for the period would have been approximately HK$294.8 million, and loss for the year would have been approximately HK$165.9 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

33. ACQUISITION OF A SUBSIDIARY *(Continued)*

Note:

Goodwill arisen on the acquisition of Shanxi Changxing was related to the cash generating unit of manufacture and sale of coke.

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period and extrapolated for the next five years using a steady 8% growth rate and discount rate of 16.9%. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development.

The market value on coke prices fluctuates with a significant decrease during the year ended 31st December, 2005. Accordingly, the Group recognised an impairment loss of approximately HK$21,910,000 and HK$22,000,000 in relation to goodwill arisen on the acquisition of Shanxi Changxing and property, plant and equipment respectively, in the income statement.

34. DISPOSAL OF A SUBSIDIARY

On 13th October, 2005, the Company entered into a sale and subscription agreement with World Flex Investment Limited, an independent third party, for the disposal of the 100% equity interest in Starstruck Investments Limited ("Starstruck") for a cash consideration of HK$20 million. The transaction was completed on 30th October, 2005.

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

	2005 *HK$'000*
Net assets dispose of:	
Interests in associates and total consideration	20,000
Satisfied by:	
Cash	11,000
Deferred consideration *(note 22)*	9,000
	20,000
Net cash inflow arising on disposal:	
Cash consideration	11,000

The deferred consideration was fully settled in cash by the purchaser during 2006.

Notes to the Financial Statements

For the year ended 31st December, 2006

35. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	*HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**38,212**	42,067

Note:

In 2004, the Group entered into a letter of intent to acquire not less than 51% interests in Gu Jiao Yi Yi Mei Jiao Company Limited ("Gu Jiao"), at a consideration of RMB160 million. Gu Jiao is a company incorporated in the PRC and is mainly engaged in the business of processing and sale of coke and its by-products in the PRC. This transaction is under negotiation up to date of this report.

On 27th July, 2006, the Group entered into a letter of intent with an independent third party for the acquisition of not less than 51% interest in Heiji City Taixing Coke Chemical Company Limited ("Taixing"). Taixing is a company incorporated in the PRC and is mainly engaged in the business of processing and sale of coke and its by-products in the PRC. This transaction is under negotiation up to the date of this report. Details of which are set out in the announcement of the Company dated 27th July, 2006.

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group has made approximately HK$2,548,000 (2005: HK$1,552,000) minimum lease payments under operating leases during the year in respect of office premises.

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

	2006	2005
	HK$'000	*HK$'000*
Within one year	**1,704**	2,522
In the second to fifth years inclusive	**174**	1,682
	1,878	4,204

Leases are negotiated for a range of one to two years and rentals are fixed for a range of one to two years.

37. PLEDGE OF ASSETS

At the balance sheet dates, the Group had pledged the following assets to secure the Group's borrowings:

	2006	2005
	HK$'000	*HK$'000*
Bank deposits	**24,349**	11,129
Buildings	**54,672**	52,963
Prepaid lease payments	**3,744**	3,691
Other deposits	**1,384**	1,018
	84,149	68,801

38. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2006, the Group had no major non-cash transactions.

During the year ended 31st December, 2005, the Group had the following non-cash transactions:

(i) share base payment of HK$27,956,000 was settled through the issue of share options as set out in note 31.

(ii) The Company issued and allotted 876,404,493 ordinary shares of HK$0.05 each upon the exercise of the conversion rights by the holders of the convertible bonds.

39. RETIREMENT BENEFIT SCHEMES

Hong Kong

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and the MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there were no significant forfeited contributions, which arose upon employees leaving the MPF Scheme and ORSO Scheme and which are available to reduce the contributions payable in future years.

Notes to the Financial Statements

For the year ended 31st December, 2006

39. RETIREMENT BENEFIT SCHEMES *(Continued)*

PRC

The employees of the Group's subsidiary in Shanxi Changxing are members of a state-managed retirement benefit scheme in the PRC. The subsidiary is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme. No forfeited contributions are available to reduce the contribution payable in the future years.

40. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remunerations of directors and other members of key management were disclosed in note 12.

41. BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Total assets		
Property, plant and equipment	**1,047**	–
Interests in subsidiaries	**2,000**	2,000
Other receivable	**137**	10,472
Amount due from subsidiaries	**108,151**	–
Bank balances and cash	**1,966**	21,124
	113,301	33,596
Total Liability		
Trade and other payables	**7,301**	6,146
	106,000	27,450
Capital and Reserves		
Share capital	**302,449**	273,299
Reserves *(note)*	**(196,449)**	(245,849)
	106,000	27,450

41. BALANCE SHEET OF THE COMPANY

Note:

Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1st January, 2005	51,358	48,311	16,713	(285,080)	(168,698)
Loss for the year and total recognised expenses for the year	–	–	–	(163,184)	(163,184)
Exercise of share options	11,370	–	(6,065)	–	5,305
Conversion of convertible bonds	52,772	–	–	–	52,772
Recognition of equity-settled share-based payment	–	–	27,956	–	27,956
At 31st December, 2005	115,500	48,311	38,604	(448,264)	(245,849)
Profit for the year and total recognised expenses for the year	–	–	–	18,398	18,398
Exercise of share options	8,700	–	(5,400)	–	3,300
Forfeit of share options	–	–	(513)	513	–
Shares issued at premium	28,497	–	–	–	28,497
Share issue expenses	(795)	–	–	–	(795)
At 31st December, 2006	151,902	48,311	32,691	(429,353)	(196,449)

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation prior to the listing of the Company's shares on the Main Board of the Stock Exchange in 1996 over the nominal value of the Company's shares issued in exchange thereof.

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

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

42. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation and operation	Nominal value of issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Clearmind Investments Limited	BVI	US$1	100	–	Inactive
Dragon Air Investments Limited	Samoa/ Hong Kong	US$50,000	–	100	Investment holding

42. PRINCIPAL SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation and operation	Nominal value of issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Funeway Investments Limited ("Funeway")	BVI/PRC	US$1	100	–	Investment holding
Fortune Zone International Limited	BVI	US$1	100	–	Investment holding
Heatwave Industries Limited	BVI/ Hong Kong	US$1	–	100	Security investment
Jet Air (Singapore) Private Limited	Singapore	S$500,000	–	93	Air freight forwarding and brokers for airline and shipping companies
Jet Dispatch Limited	United States of America	US$3,000	–	100	Freight forwarding agent
Shanxi Changxing *(note)*	PRC	RMB62,152,000	–	51%	Sale of coke
Square Profits Group Inc.	British Virgin Islands ("BVI")/ Hong Kong	US$1	100	–	Investment holding
國華捷亞物流咨詢有限公司 ("國華捷亞")	PRC	RMB29,937,600	100	–	Inactive

Note: Shanxi Changxing is an indirect 51% subsidiary of the Company pursuant to HKAS 27 issued by the HKICPA where the Group obtained control by appointing the majority of directors to the board of directors of Shanxi Changxing from 2nd July, 2005.

Except for 國華捷亞 and Shanxi Changxing which are wholly owned foreign enterprises in the PRC, all other subsidiaries are limited companies incorporated in the respective jurisdictions.

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period 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.