

Notes to the Financial Statements

30 June 2005

1. GENERAL

The Company was an exempted limited company incorporated in the Cayman Islands on 13 November 2002.

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 27 October 2003.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

3. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs and Hong Kong Accounting Standards and Interpretations (collectively "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

4. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 30 June each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise 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.

The Company's interests in subsidiaries are stated at cost less impairment loss, if any. All significant intercompany transactions and balances among group companies are eliminated on consolidation.

(b) Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee except when the investment is acquired and held exclusively with a view to its subsequent disposal in the near future.

Investments in associates are accounted for in the consolidated financial statements under the equity method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the investees. The consolidated income statement reflects the Group's share of the results of operation of the investees.

In the Company's balance sheet, investments in associates are carried at cost less impairment losses, if any. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

4. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Revenue recognition

Sales of investments in securities are recognised on a trade date basis.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

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

(d) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. 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. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

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.

(e) Employee benefits

(i) Defined contribution pension plan

Obligations for contributions to defined contribution retirement plan are recognised as expense in the income statement as incurred.

(ii) Equity compensation benefits

When the Group grants employees options to acquire shares of the Company and the option exercise price equals or is below the market price of the underlying shares at the date of the grant, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received net of any transaction costs.

4. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Employee benefits (Cont'd)

(iii) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(f) Property, plant and equipment

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

When property, plant and equipment are sold or retired, their cost, accumulated depreciation and impairment losses are eliminated and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives at 25% per annum using the straight line method.

(g) Investments in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Securities which are held for an identified long-term purpose, are classified as investment securities. They are measured at subsequent reporting dates at cost, less any impairment loss that is other than temporary.

Securities not classified as investment securities or held-to-maturity securities are classified as other investments. Other investments are measured at fair value at subsequent reporting dates, with unrealised gains and losses included in net profit or loss for the period.

(h) Impairment

The carrying amounts of the Group's tangible assets are reviewed annually at each balance sheet date to determine whether they have been impaired during the year. Where an asset has been impaired, the recoverable amount of the asset is determined. Where the carrying amount exceeds the recoverable amount, the asset is written down to its recoverable amount. The resultant impairment loss is recognised as an expense in the income statement unless the asset is carried at revalued amounts and the revaluation surplus is recognised in equity in which case the impairment is recognised directly against the revaluation surplus to the extent the impairment loss does not exceed the surplus.

4. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Impairment (Cont'd)

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the reversed estimate of its recoverable amount, to the extent 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary asset and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the market rates of exchange ruling at the date. All exchange differences are dealt with in the income statement.

(j) Leases

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

Assets held under finance leases are recognised as assets of the Group at amounts equal to the lower of their fair value and present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Depreciation is provided at rates designed to write off the cost of the assets over their anticipated useful lives as set out in note 4(f) above. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Lease payments under operating leases are expensed on a straight-line basis over the accounting periods covered by the lease terms.

(k) Cash and cash equivalents

Cash includes cash on hand and demand deposits with any bank or other financial institution. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to an insignificant risk of changes in value.

(l) Related parties

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

5. TURNOVER AND REVENUE

The Group is principally engaged in investing in listed and unlisted companies. An analysis of turnover and other revenue is as follows:

	2005 HK\$	2004 HK\$
Turnover		
Proceeds from sale of investments in securities	63,516,614	102,732,059
Other revenue		
Dividend income from investments in listed securities	193,384	99,398
Interest income	488,266	2,277
Sundry income	74,288	56
	755,938	101,731
Total revenue	64,272,552	102,833,790

6. SEGMENT INFORMATION

The Group is principally engaged in investing in listed and unlisted companies. Accordingly, no further analysis by business segment is provided. In determining the Group's geographical segments, revenue and assets are attributed to the segments based on the location of assets.

The following tables present revenue and certain assets and expenditure information for the Group's geographical segments.

	Hong Kong		People's Republic of China		Consolidated	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Segment revenue:						
Proceeds from sales of investments in securities	63,516,614	102,732,059	–	–	63,516,614	102,732,059
Unrealised holding gains/(loss) on investments in securities, net	1,008,112	(6,278,525)	–	–	1,008,112	(6,278,525)
Other revenue	440,534	101,731	315,404	–	755,938	101,731
	64,965,260	96,555,265	315,404	–	65,280,664	96,555,265
Segment results	(8,696,565)	(13,213,343)	315,404	–	(8,381,161)	(13,213,343)
Unallocated corporate expenses					(590,656)	(210,221)
Loss from operations					(8,971,817)	(13,423,564)
Finance costs					(278,541)	(55,761)
Loss before taxation					(9,250,358)	(13,479,325)

6. SEGMENT INFORMATION (Cont'd)

	People's Republic of							
	Hong Kong		China		Others		Consolidated	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Segment assets	12,531,648	21,426,149	27,672,924	12,000,000	2,014,050	–	42,218,622	33,426,149
Interest in an associate	179,460	156,750	–	–	–	–	179,460	156,750
Total assets	12,711,108	21,582,899	27,672,924	12,000,000	2,014,050	–	42,398,082	33,582,899
Segment liabilities	7,674,863	363,552	–	–	–	–	7,674,863	363,552
Other segment information:								
Capital expenditure	1,307,764	–	–	–	–	–	1,307,764	–
Depreciation	267,531	164,963	–	–	–	–	267,531	164,963

7. LOSS FROM OPERATIONS

	2005 HK\$	2004 HK\$
The Group's loss from operations has been arrived at after charging:		
Directors' remuneration:		
Fees	1,077,371	702,075
Provident fund contributions	16,000	18,000
Other emoluments	552,620	231,000
Staff costs		
Salaries	906,600	1,071,200
Provident fund contributions	68,230	60,505
Total staff costs (including directors' remuneration)	2,620,821	2,082,780
Auditors' remuneration	217,000	142,000
Depreciation on property, plant and equipment		
– owned assets	147,531	164,963
– leased assets	120,000	–
Operating lease rentals of land and buildings	356,087	220,000
Loss on disposal/write-off of property, plant and equipment	531,672	–
Net realised losses on disposal of investments in securities	1,831,508	–
and after crediting:		
Net realised gain on investments in securities	–	854,626
Bank interest income	1,523	2,277
Dividend income	193,384	99,398

8. FINANCE COSTS

	Group	
	2005 HK\$	2004 HK\$
Interest expense on:		
Bank overdrafts	1,606	155
Other loan wholly repayable within five years	141,630	55,606
Obligation under finance lease	135,305	–
	278,541	55,761

9. DIRECTORS' REMUNERATION

The aggregate amounts of the directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

Name of director	Fees HK\$	Salaries, allowances and benefits HK\$	Bonus HK\$	Retirement scheme contributions HK\$	2005	2004
					Total remuneration HK\$	Total remuneration HK\$
Executive Directors						
Walter Gilbert Mearns Nimmo	130,000	–	–	5,000	135,000	234,000
Pong Po Lam	240,000	–	–	–	240,000	180,000
Yau Chung Hong	240,000	352,620	200,000	9,000	801,620	429,000
Chui Tak Keung, Duncan	103,871	–	–	2,000	105,871	–
Non-executive Directors						
Wang Zeng Jie	26,000	–	–	–	26,000	18,000
Cheung Hung	–	–	–	–	–	75
Ma Kwok Keung, Kenneth	128,333	–	–	–	128,333	–
Chow Ka Wo, Alex	25,000	–	–	–	25,000	–
Independent Non-Executive Directors						
Hui Sham Ling, Teresa	5,000	–	–	–	5,000	45,000
Lam Kwan	60,000	–	–	–	60,000	45,000
Chan Ming Sun, Jonathan	64,167	–	–	–	64,167	–
Shiu Siu Tao	55,000	–	–	–	55,000	–
Total 2005	1,077,371	352,620	200,000	16,000	1,645,991	951,075
Total 2004	702,075	231,000	–	18,000		

9. DIRECTORS' REMUNERATION (Cont'd)

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

During the year, no remuneration was paid to directors as an inducement to join the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2004: two) highest paid, non-director employees are as follows:

	Group	
	2005 HK\$	2004 HK\$
Basic salaries, housing benefits, other allowances and benefits in kind	525,400	326,000
Provident fund contributions	28,200	9,200
	553,600	335,200

Their remuneration were within the following band:

	Number of individuals	
	2005	2004
Nil to HK\$1,000,000	3	2

During the year, no remuneration was paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

11. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group has no assessable profit for the year (2004: Nil).

The tax expense for the year can be reconciled to the loss per the consolidated income statement as follows:

	2005 HK\$	2004 <i>HK\$</i>
Loss before taxation	(9,250,358)	(13,479,325)
Tax calculated at the domestic income tax rate of 17.5% (2004:17.5%)	(1,618,813)	(2,358,882)
Tax effect of expenses not deductible and income not taxable in determining taxable profit	31,486	128,818
Tax effect of tax losses not recognised	1,587,327	2,230,064
Income tax expenses	-	-

Details of the potential deferred tax asset not recognised in the year are set out in note 31.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss for the year of HK\$9,250,358 (2004: HK\$13,479,325) and the weighted average number of 62,409,315 (2004: 36,117,487) ordinary shares in issue during the year. The diluted loss per share for both the current and prior years have not been presented because there were no potential dilutive shares.

13. DIVIDENDS

The directors do not recommend the payment of final dividend for the year ended 30 June 2005 (2004: Nil).

14. PROPERTY, PLANT AND EQUIPMENT

Group	Leasehold improvement <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Office equipment <i>HK\$</i>	Computers <i>HK\$</i>	Motor vehicle <i>HK\$</i>	Total <i>HK\$</i>
COST						
At 1 July 2004	371,550	250,050	66,989	111,676	–	800,265
Additions	467,504	166,595	18,927	14,738	640,000	1,307,764
Disposals	–	(74,968)	–	–	–	(74,968)
Write-off	(371,550)	(182,282)	(72,704)	(109,474)	–	(736,010)
At 30 June 2005	467,504	159,395	13,212	16,940	640,000	1,297,051
ACCUMULATED DEPRECIATION						
At 1 July 2004	89,938	48,946	8,579	17,500	–	164,963
Depreciation	76,595	36,200	12,834	21,902	120,000	267,531
Elimination on disposals	–	(21,866)	–	–	–	(21,866)
Write-off	(128,641)	(53,847)	(18,644)	(34,519)	–	(235,651)
At 30 June 2005	37,892	9,433	2,769	4,883	120,000	174,977
NET BOOK VALUE						
At 30 June 2005	429,612	149,962	10,443	12,057	520,000	1,122,074
At 30 June 2004	281,612	201,104	58,410	94,176	–	635,302

14. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company	Leasehold improvement HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Computers HK\$	Total HK\$
COST					
At 1 July 2004	371,550	250,050	66,989	111,676	800,265
Additions at cost	467,504	166,595	18,927	14,738	667,764
Disposals	–	(74,968)	–	–	(74,968)
Write-off	(371,550)	(182,282)	(72,704)	(109,474)	(736,010)
At 30 June 2005	467,504	159,395	13,212	16,940	657,051
ACCUMULATED DEPRECIATION					
At 1 July 2004	89,938	48,946	8,579	17,500	164,963
Depreciation	76,595	36,200	12,834	21,902	147,531
Elimination on disposals	–	(21,866)	–	–	(21,866)
Write-off	(128,641)	(53,847)	(18,644)	(34,519)	(235,651)
At 30 June 2005	37,892	9,433	2,769	4,883	54,977
NET BOOK VALUE					
At 30 June 2005	429,612	149,962	10,443	12,057	602,074
At 30 June 2004	281,612	201,104	58,410	94,176	635,302

The carrying amount of the Group's motor vehicle includes an amount of HK\$520,000 (2004: Nil) in respect of assets acquired under finance leases.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$	2004 HK\$
Unlisted shares, at cost	340	324
Amounts due from subsidiaries	21,511,173	10,999,676
Amount due to a subsidiary	(8)	–
	21,511,505	11,000,000

The balances with subsidiaries are unsecured, interest-free and will not be wholly demanded for repayment within 12 months.

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries as at year end are as follows:

Name	Place of incorporation/ operations	Principal activities	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company directly
CNI Securities Limited	Hong Kong	Dormant	HK\$100	100%
CNI Finance Limited	Hong Kong	Dormant	HK\$100	100%
CNI Consultants Limited	Hong Kong	Dormant	HK\$100	100%
Yat Cheong Resources Limited	British Virgin Islands/ Hong Kong	Investment holding	US\$1	100%
Fairwood Capital Inc.	British Virgin Islands/ Hong Kong	Investment holding	US\$1	100%
Intellect Enterprise Limited	British Virgin Islands/ Hong Kong	Dormant	US\$1	100%
Concolor Holdings Limited	British Virgin Islands/ Hong Kong	Investment holding	US\$1	100%
Richbird Holdings Limited	British Virgin Islands/ Hong Kong	Investment holding	US\$1	100%

16. INTEREST IN AN ASSOCIATE

	Group		Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Unlisted shares, at cost	–	–	13,920	14,220
Share of net assets	13,920	14,220	–	–
Advance to an associate	165,540	142,530	165,540	142,530
	179,460	156,750	179,460	156,750

Details of the associate as at year end are as follows:

Name of entity	Form of business structure	Place of incorporation	Principal place of operation	Class of share held	Percentage of equity interest held directly	Nature of business
China Northern Enterprises Investment Fund(s) Pte Limited	Incorporated	Singapore	Singapore	Ordinary share	30 %	Dormant

The advance to an associate is unsecured, non-interest bearing and has no fixed repayment terms.

17. INVESTMENTS IN SECURITIES

THE GROUP	Investment securities		Other investments		Total	
	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Equity securities:						
Listed in Hong Kong (Notes a and d)	–	–	3,927,845	12,913,320	3,927,845	12,913,320
Unlisted (Notes b and c)	7,000,000	–	17,055,000	7,000,000	24,055,000	7,000,000
	7,000,000	–	20,982,845	19,913,320	27,982,845	19,913,320
Market value of listed securities	N/A	N/A	3,927,845	12,913,320	3,927,845	12,913,320
Carrying amount analysed for reporting purpose as:						
Current (Note d)	–	–	20,982,845	12,913,320	20,982,845	12,913,320
Non-current	7,000,000	–	–	7,000,000	7,000,000	7,000,000
	7,000,000	–	20,982,845	19,913,320	27,982,845	19,913,320
THE COMPANY						
	2005	2004	2005	2004	2005	2004
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Equity securities:						
Listed in Hong Kong (Notes a and d)	–	–	3,927,845	12,913,320	3,927,845	12,913,320
Unlisted (Notes b and c)	1,000,000	–	1,653,000	1,000,000	2,653,000	1,000,000
	1,000,000	–	5,580,845	13,913,320	6,580,845	13,913,320
Market value of listed securities	N/A	N/A	3,927,845	12,913,320	3,927,845	12,913,320
Carrying amount analysed for reporting purpose as:						
Current (Note d)	–	–	5,580,845	12,913,320	5,580,845	12,913,320
Non-current	1,000,000	–	–	1,000,000	1,000,000	1,000,000
	1,000,000	–	5,580,845	13,913,320	6,580,845	13,913,320

17. INVESTMENTS IN SECURITIES (Cont'd)

Notes:

a. Other investments – Listed

Particulars of the listed other investments as at 30 June 2005 are as follows:

Name	Place of Incorporation	Particulars of equity interest held	Acquisition cost HK\$	Market value as at 30 June 2005 HK\$	Percentage of equity interest attributable to the Company and the Group
Sinotronics Holdings Ltd (i)	Cayman Islands	Ordinary Share	3,812,099	1,888,600	0.57%
China Star Entertainment Ltd (ii)	Bermuda	Ordinary Share	2,763,465	797,500	0.53%
Sanmenxia Tianyuan Aluminum Co Ltd (iii)	PRC	H Share	458,059	238,640	0.43%

(i) Sinotronics Holdings Ltd (“Sinotronics”) is an electronic manufacturing services provider in the PRC offering a full range of solutions to electronics ODMs and CEMs throughout the production cycle of PCBs. Dividend in aggregate of HK\$137,143 was received during the year (2004: Nil). According to the latest published financial statements of Sinotronics, Sinotronics had net assets value of approximately RMB532,850,000.

(ii) China Star Entertainment Ltd (“China Star”) is principally engaged in distribution of film, television, drama series and video. No dividend was received during the year (2004: Nil). According to the latest published financial statements of China Star, China Star had net assets value of approximately HK\$616,550,000.

(iii) Sanmenxia Tianyuan Aluminum Co Ltd (“Sanmenxia Tianyuan”) is principally engaged in manufacture and sale of aluminum re-smelt ingots. No dividend was received during the year (2004: Nil). According to the latest published financial statements of Sanmenxia Tianyuan, Sanmenxia Tianyuan had net assets value of approximately RMB363,165,000.

(iv) All net realised loss and net unrealised gain on investments in securities for the year arose from listed securities.

b. Investment securities – Unlisted

Particulars of the unlisted investment securities as at 30 June 2005 are as follows:

Name	Place of Incorporation	Particulars of equity interest held	Acquisition cost HK\$	Fair value estimated by the directors HK\$	Percentage of equity interest attributable to the Company and the Group
Connelly Investments Limited (i)	British Virgin Islands	Ordinary share	6,000,000	6,000,000	12%
Beijing Illumination (Hong Kong) Limited (ii)	Hong Kong	Ordinary share	1,000,000	1,000,000	0.5%

(i) Connelly Investments Limited (“Connelly”) and its subsidiaries are principally engaged in the development and application of a digital anti-counterfeiting business, and the provision of digital anti-counterfeiting services for consumables, such as cigarettes, wine and retail goods in the PRC. No dividend was received during the year (2004: Nil).

(ii) Beijing Illumination (Hong Kong) Limited and its subsidiaries are principally engaged in manufacturing, distribution and trading of illumination products in the PRC. No dividend was received during the year (2004: Nil).

17. INVESTMENTS IN SECURITIES (Cont'd)

Notes: (Cont'd)

c. Other investments – Unlisted

Particulars of the unlisted other investments as at 30 June 2005 are as follows:

Name	Place of Incorporation	Particulars of equity interest held	Acquisition cost HK\$	Cost less impairment HK\$	Percentage of equity interest attributable to the Company and the Group
CNI Bullion Limited (i)	Hong Kong	Ordinary share	1,650,000	1,650,000	30%
Kwong Fai Motor Company Limited (ii)	Hong Kong	Ordinary share	3,000	3,000	30%
Mass Resources Group Limited (iii)	Hong Kong	Ordinary share	5,000,000	5,000,000	10%
Ferndene Limited (iv)	British Virgin Islands	Ordinary share	3,122,000	3,122,000	3.33%
Quidam Assets Limited (v)	British Virgin Islands	Ordinary share	780,000	780,000	2.4%
Four Gold OG Limited (vi) (note 29)	British Virgin Islands	Preference share	6,500,000	6,500,000	3.04%

(i) CNI Bullion Limited ("CNI Bullion") is principally engaged in provision of services on trading of gold in Hong Kong gold market. The directors of the Company intended to realise profits from the underlying investment through disposal in the foreseeable future. CNI Bullion has not been accounted for as an associate as the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. No dividend was received during the year (2004: Nil).

(ii) Kwong Fai Motor Company Limited ("Kwong Fai") is principally engaged in trading of motor vehicles. Kwong Fai has not been accounted for as an associate as the investment is acquired and held exclusively with a view to its subsequent disposal in the near future. No dividend was received during the year (2004: Nil).

(iii) Mass Resources Group Limited ("Mass Resources") and its subsidiaries are principally engaged in providing corporate-based SMS services, wireless data services, commercial enterprise solutions and interactive voice responses services in the PRC. No dividend was received during the year (2004: Nil).

(iv) Ferndene Limited ("Ferndene") was organised in mid-2004 as a closed end investment fund with the specific objective of investing in government mandated cyber cafe franchises in the PRC. The founders of Stemmon Limited ("Stemmon"), the promoter and organiser of Ferndene, secured an exclusive rights from a PRC enterprise in mid-2004 to invest, organise, manage, and operate their cyber cafes in ten administrative regions in the PRC. According to the agreement with the PRC enterprise, Stemmon will organise a fund, namely Ferndene Limited, to invest a minimum of US\$12 million in multiple tranches over the next several years in organising and operating cyber cafes.

(v) Quidam Assets Limited ("Quidam") and its subsidiaries are principally engaged in provision of factoring and guaranty services in the PRC. No dividend was received during the year (2004: Nil).

(vi) Four Gold OG Limited ("FGOG") and its subsidiaries are principally engaged in operating a real time boarding billing platform (the "FGOG L7 Platform") for both electronic content distribution and online game operations in the PRC. No dividend was received during the year (2004: Nil).

d. Included above is an equity securities with carrying amount of HK\$134,400 (2004: HK\$147,900) which was pledged to a broker to secure the securities margin financing facility granted to the Company and the Group.

18. AMOUNT DUE FROM A RELATED COMPANY

Amount due from a related company disclosed pursuant to Section 161B of the Companies Ordinance are as follows:

Name	Name of director having beneficial interest	Balance at 30 June 2005 HK\$	Balance at 1 July 2004 HK\$	Maximum amount outstanding during the year HK\$
CNI Capital Limited	Mr. Yau Chung Hong	7,600	–	300,000

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLE

Included in the balances are the following advances to the investees of the Group:

- Advance of HK\$1,570,000 to Mellow Science & Technology Group Limited, a subsidiary of Connelly, in which the Group held 12% equity interest, is secured by personal guarantee of a shareholder of Connelly, interest bearing at 8% p.a. and repayable within one year (Note 17(b)(i)).
- Advance of HK\$415,482 to CNI Bullion in which the Company and the Group held 30% equity interest, is unsecured, non-interest bearing and has no fixed repayment terms (Note 17(c)(i)).
- Advance of HK\$2,011,050 to Kwong Fai in which the Company and the Group held 30% equity interest, is unsecured, interest bearing at 7% p.a. and repayable within one year. The advance is convertible to ordinary shares in Kwong Fai upon fulfillment of certain conditions precedent and within one year. (Note 17(c)(ii)).
- Advance of HK\$1,768,579 to Ferndene in which the Group held 3.33% equity interest, is secured by personal guarantee of a shareholder of Stemmon, interest bearing at 5% p.a. and repayable within one year (Note 17(c)(iv)).
- Advance of HK\$1,932,345 to Quidam in which the Group held 2.4% equity interest, is secured by personal guarantee of a shareholder of Quidam, interest bearing at 5% p.a. and repayable within one year (Note 17(c)(v)).

20. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Cash at bank and on hand	3,314,730	3,465,426	3,309,730	3,456,426

21. AMOUNT DUE TO A DIRECTOR

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

22. OBLIGATIONS UNDER FINANCE LEASES

The Group leases motor vehicle under a finance lease agreement. The lease obligations are secured by the leased asset. At 30 June 2005, the Group had obligations under the finance leases that are repayable as follows:

	2005		
	Present value of the minimum lease payments HK\$	Interest expense relating to future periods HK\$	Total minimum lease payments HK\$
Within one year	113,333	20,407	133,740
Within two to five years	311,667	56,118	367,785
	425,000	76,525	501,525

	2004		
	Present value of the minimum lease payments HK\$	Interest expense relating to future periods HK\$	Total minimum lease payments HK\$
Within one year	–	–	–
Within two to five years	–	–	–
	–	–	–

23. AMOUNT DUE TO A RELATED COMPANY

The amount is unsecured, interest bearing at rates ranging from 7.5% to 8% per annum and is repayable after one year but not exceeding two years (note 29).

24. SHARE CAPITAL

	Number of shares		Amount	
	2005	2004	2005 HK\$	2004 HK\$
Ordinary shares of HK\$0.01 each				
Authorised				
At beginning of year	200,000,000	38,000,000	2,000,000	380,000
Increase of authorised share capital on 30 September 2003	–	162,000,000	–	1,620,000
At end of year	200,000,000	200,000,000	2,000,000	2,000,000
Issued and fully paid				
At beginning of year	53,000,000	1	530,000	–
Issue of shares	21,200,000	52,999,999	212,000	530,000
At end of year	74,200,000	53,000,000	742,000	530,000

In December 2004, a total of 10,600,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$0.47 per share for a total cash consideration, before the related issue expenses, of HK\$4,982,000. The net proceeds would be applied to purchase investments according to the investment objectives and investment policies adopted by the Company from time to time.

In March 2005, a total of 10,600,000 ordinary shares of HK\$0.01 each were issued at a price of HK\$0.56 per share for a total cash consideration, before the related issue expenses, of HK\$5,936,000. The net proceeds would be applied to purchase investments according to the investment objectives and investment policies adopted by the Company from time to time.

These shares rank pari passu in all respects with other shares then in issue.

25. SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all of the then shareholders of the Company on 30 September 2003 (the "Adoption Date"), the Company adopted a share option scheme (the "Scheme"). Under the Scheme, the directors of the Company may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive director (including independent non-executive directors), any supplier of goods or services, any customer and any person or entity that provides research, development or other technological support to the Group maximum of 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval.

The Scheme became unconditional upon the listing of the Company's shares on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date.

The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted must not represent more than 10% of the nominal amount of all the issued shares of the Company (the "10% Limit") as at the date on which trading in the shares of the Company on the Stock Exchange first commenced. The Company may seek approval from its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the Listing Rules.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, are subject to the approval of the independent non-executive directors (excluding any independent non-executive director who is a proposed grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to the shareholders' approval in a general meeting in accordance with the Listing Rules.

The offer of a grant of share options shall remain open for acceptance for a period of 28 days from the date of the offer of the grant. The grant of share options is effective upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share options, which must be a trading 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 of the share options; and (iii) the nominal value of the Company's shares.

Further details of the Scheme are disclosed in the prospectus of the Company dated 8 October 2003.

At 30 June 2005 and up to the date of approval of these financial statements, no share options have been granted under the Scheme.

26. RESERVES

Group

The movement of the Group's reserve for the years ended 30 June 2005 and 2004 are presented in the consolidated statement of changes in equity.

<i>Company</i>	Share premium <i>HK\$</i>	Accumulated Losses <i>HK\$</i>	Total <i>HK\$</i>
At 1 July 2003	–	(151,328)	(151,328)
Issuance of shares	52,470,000	–	52,470,000
Share issue expenses	(6,150,000)	–	(6,150,000)
Net loss for the year	–	(13,479,325)	(13,479,325)
At 30 June 2004	46,320,000	(13,630,653)	32,689,347
Issuance of shares	10,706,000	–	10,706,000
Share issue expenses	(163,770)	–	(163,770)
Net loss for the year	–	(9,105,853)	(9,105,853)
At 30 June 2005	56,862,230	(22,736,506)	34,125,724

In accordance with the Companies Law (2002 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

27. OPERATING LEASE COMMITMENTS

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2005 <i>HK\$</i>	2004 <i>HK\$</i>
Within one year	662,526	294,536
In the second to fifth year inclusive	706,848	3,512
	1,369,374	298,048

Operating lease payments represent rentals payable by the Company and the Group for director's quarter, office premises and office equipment. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

28. CAPITAL COMMITMENTS

The Company and the Group had no significant capital commitments at the balance sheet date.

29. RELATED PARTY AND CONNECTED TRANSACTION

During the year, the Group had the following significant related party and connected transactions:

	Note	2005 HK\$	2004 HK\$
Investment management fees paid to Pegasus Fund Managers Limited	(i)	–	702,104
Investment management fees paid to Guotai Junan Assets (Asia) Limited	(ii)	600,000	50,000
Company secretarial fee paid to Mr. Yau Chung Hong, executive director	(iii)	165,000	135,000
Custodian fee paid to Standard Chartered Bank	(iv)	70,134	31,150
Investment in Four Gold	(v)	6,500,000	–
Amount due to Coqueen Company Limited (“Coqueen”)	(v)	6,000,000	–
Interest paid to Coqueen	(v)	116,250	–

Notes:

(i) With effect from 31 May 2004, the Ex-Investment Management Agreement dated 2 October 2003 entered into between the Company and Pegasus Fund Managers Limited, was terminated and Guotai Junan Assets (Asia) Limited was appointed as investment manager of the Company. Under the Ex-Investment Management Agreement, the Company was entitled to terminate the appointment with one month notice without compensation to the Ex-Investment Manager. Therefore, no compensation was payable by the Company for the termination.

(ii) Upon termination of the Ex-investment Manager as investment manager of the Company, the Company entered into another Investment Management Agreement (the “Investment Management Agreement”) with Guotai Junan Assets (Asia) Limited (the “Investment Manager”) and appointed the Investment Manager to take the replacement. The Investment Manager has agreed to provide the Company with investment management services (excluding general administrative services) for a two-year period commencing on 1 June 2004. The Investment Management Agreement will continue for successive periods of two years, unless terminated at any time by either the Company or the Investment Manager serving not less than one month’s prior notice in writing.

Under the Investment Management Agreement, the Investment Manager is entitled to a fixed investment management fee of HK\$600,000 per annum or management fee equivalent to 1.25% per annum of the Net Asset Value as at the immediately preceding Valuation Day payable monthly in Hong Kong dollars in advance on the basis of the actual number of days in the relevant calendar months over a year of 365 days.

(iii) The company secretarial fee of HK\$165,000 was paid to Mr. Yau Chung Hong for the company secretary service provided during the year. The fee was determined by negotiation between Mr. Yau and the Group at normal commercial terms. Mr. Yau resigned as Company Secretary on 1 June 2005.

29. RELATED PARTY AND CONNECTED TRANSACTION (Cont'd)

Notes: (Cont'd)

- (iv) Pursuant to a custodian agreement dated 6 October 2003 between the Company and Standard Chartered Bank (the "Custodian"), the Custodian agreed to provide securities custodian services to the Company including the safe custody of the Company's securities and the settlement of the securities of the Company, the collection of dividends and other entitlements on behalf of the Company. The appointment of the Custodian commenced on the date of the commencement of trading of the Company's shares on the Stock Exchange.
- (v) The executive director of the Company, Mr. Chui Tak Keung, Duncan and/or his associates has beneficial interests in FGOG and Coqueen. As at year end, the Group has 3.04% beneficial interest in FGOG (note 17). The loan granted to the Group by Coqueen bears interest at rates ranging from 7.5% to 8% per annum (note 21). The terms of the loans were negotiated and agreed by the parties mutually and with reference to the prevailing market condition.

30. CONTINGENT LIABILITIES

The Company and the Group has no significant contingent liabilities at the balance sheet date.

31. DEFERRED TAXATION

At the balance sheet date, the Group has unrecognised tax losses of HK\$21,944,324 (2004: HK\$12,873,884) available for set off against future taxable profits. No deferred tax asset is recognised in respect of such tax losses carried forward as the realisation of the related tax benefit through future taxable profits is not probable. This tax loss may be carried forward indefinitely.

The Company and the Group had no material unprovided deferred tax liabilities at the balance sheet date (2004: Nil).

32. POST BALANCE SHEET EVENTS

- (i) On 13 September 2005, Richbird Holdings Limited, a wholly-owned subsidiary of the Company, proposed to acquire for an additional 14.35% equity interest in Quidam Assets Limited at the consideration of HK\$6,710,000 which will be satisfied by the issue of 6,100,000 ordinary shares of the Company at the issue price of HK\$1.10 each.
- (ii) On 13 September 2005, Concolor Holdings Limited, a wholly-owned subsidiary of the Company, proposed to subscribe for additional 46,400 non-voting participating shares of Ferndene, representing 4.64% of the total amount of non-voting participating shares of Ferndene. The consideration of the subscription shares is HK\$4,345,000 and will be satisfied by the issue of 3,950,000 ordinary shares of the Company at the issue price of HK\$1.10 each.
- (iii) On 13 September 2005, Kendervon Profits Inc. ("Kendervon"), a wholly-owned subsidiary of the Company which was incorporated on 26 July 2005 proposed to subscribe for additional 2,850,000 shares in CNI Bullion for a consideration of HK\$2,850,000 pursuant to the proposed expansion of issued capital of CNI Bullion. After the proposed expansion of issued capital of CNI Bullion and subscription of shares, Kendervon will hold 30% equity interest in CNI Bullion. The consideration of the subscription shares is HK\$2,850,000 and will be satisfied by the issue of 2,590,909 ordinary shares of the Company at the issue price of HK\$1.10 each.

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 October 2005.