



Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL INFORMATION

The Company is a public company incorporated in the Cayman Islands with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited. The addresses of the registered office and the principal place of business of the Company are disclosed in the corporate information of the annual report. The principal activities of the Group are described in note 4.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for accounting periods beginning on or after 1 January 2005. The major impacts on the changes in accounting policies are summarized below:

HKFRS 2: “Share-based payment”

The adoption of HKFRS 2 has resulted in a change in the accounting policy for the recognition of an expense and a corresponding entry to equity in respect of directors’ and employees’ share options. The Group has applied HKFRS 2 retrospectively and has taken advantage of the transitional provisions provided therein. As a result, the Group has applied HKFRS 2 only to share options granted after 7 November 2002 which had not vested on 1 January 2005. The accounting policy of share-based payment transactions is described in note 3 to the financial statements.

The adoption of HKFRS 2 had no significant impact on the results and financial position for the current and prior accounting years. The options granted during the year have been fully exercised and the expense so calculated is immaterial to the financial statements for the year ended 31 December 2005.

HKAS 32: “Financial instruments: Disclosure and presentation” and HKAS 39: “Financial instruments: Recognition and measurement”

HKAS 32 requires retrospective application and primarily addresses the classification of financial instruments issued by an entity and prescribes disclosure requirements of financial instruments. HKAS 39 deals with recognition, measurement, derecognition of financial instruments and also prescribes requirements for hedge accounting. HKAS 39 generally does not permit the recognition, derecognition, or measurement of financial assets and liabilities on a retrospective basis. The principal effects of the adoption of the requirements of HKAS 32 and HKAS 39 are summarized below:



Notes to the Financial Statements

For the year ended 31 December 2005

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 32: “Financial instruments: Disclosure and presentation” and HKAS 39: “Financial instruments: Recognition and measurement” *(Continued)*

Up to 31 December 2004, the Group classified its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 *Accounting for Investments in Securities* (“SSAP 24”). Under SSAP 24, investments in debt or equity securities were classified as “investment securities” or “trading securities”. Both investment securities and trading securities were measured at fair value. Unrealised gains or losses of investment securities were reported in equity until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity was included in income statement for that period. Unrealised gains or losses of trading securities were reported in profit or loss for the period in which gains or losses arose.

In accordance with HKAS 39, investments are classified into held-to-maturity investments, loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. Upon adoption of this Standard, the Group has redesignated its investment securities and trading securities as “available-for-sale investments” and financial assets at fair value through profit or loss, described as “investments held for trading” respectively. Details of their accounting policies are set out in note 3 to the financial statements.

Apart from certain changes in presentation and disclosures, the adoption of HKAS 32 and 39 has no impact on the Group’s financial statements.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of Standards and Interpretations that are not yet effective and the Group has not early adopted them.

The directors anticipate that the adoption of these new Standards and Interpretations in future periods will have no material impact on the Group’s financial statements.



Notes to the Financial Statements

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the 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 Companies Ordinance.

Basis of preparation

The measurement basis used in the preparation of these financial statements is historical cost, except for available-for-sale investments and investments held for trading, which are measured at fair value.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year. Subsidiaries are those entities in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power to govern the financial and operating policies, so as to obtain benefits from their 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.

All inter-company transactions and balances within the Group are eliminated on consolidation.

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight-line balance method, at the annual rate of 33 $\frac{1}{3}$ %.



Notes to the Financial Statements

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine the carrying amounts of its property, plant and equipment have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less cost to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on a trade date basis when the Group becomes a party to the contractual provisions of the instrument.

Investments

Investments are classified as either investments held for trading or as available-for-sale, and are measured at fair value subsequent to initial recognition. Gains and losses arising from changes in fair value or disposal of investments held for trading are included in income statement in the period they arise. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In case of equity securities classified as available-for-sale investments are impaired, the cumulative loss less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Such impairment losses recognised in income statement are not subsequently reversed through income statement. Impairment losses recognised in income statement for debt instruments classified as available-for-sale are subsequently reversed through income statement if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.



Notes to the Financial Statements

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and the amortization is taken to income statement, over the period to maturity. Any gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired.

Convertible notes

On the issue of convertible notes, the proceeds are split into liability and equity components. The fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount, net of transaction costs, is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Payables and short-term borrowings

Payables and short-term borrowings are initially recognised at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts.

Revenue recognition

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

Proceeds from sale of investments held for trading are recognised on the transaction date when the relevant sale and purchase contract is entered into.

Dividend income is recognised when the Group's rights to receive payment have been established.

Interest income is recognised as the interest accrues, using the effective interest method, to the net carrying amount of the financial asset.



Notes to the Financial Statements

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independent administered fund.

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.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Share-based payment

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments to those participants who, in the opinion of the Board, have contributed or may contribute to the development and growth of the Group and any contribute to the development and growth of the Group and any entity in which the Group holds any equity interest. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effort of non market-based vesting conditions.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.



Notes to the Financial Statements

For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Related parties

A party is related to the Group if (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group; (b) the party is an associate of the Group; (c) the party is a joint venture in which the Group is a venturer; (d) the party is a member of the key management personnel of the Group or its parent; (e) the party is a close member of the family of any individual referred to in (a) or (d); (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4. TURNOVER AND REVENUE

The Group is principally engaged in the investments in listed and unlisted companies. Turnover and revenue recognised during the year are as follows:

	2005 HK\$	2004 HK\$
Turnover		
Proceeds from sale of investments held for trading	162,620,520	125,003,049
Other revenue		
Interest income	223,064	398
Dividend income – listed investments	1,802,376	1,016,819
	2,025,440	1,017,217
Total revenue	164,645,960	126,020,266

5. SEGMENT INFORMATION

The Group has determined not to present any business segment information as the Group's turnover, contribution to operating profit (loss), assets and liabilities are attributable to the investments in listed and unlisted companies.

No geographical analysis is presented as all of the Group's operations are carried out in Hong Kong.

Notes to the Financial Statements

For the year ended 31 December 2005

6. LOSS BEFORE TAXATION

	2005 HK\$	2004 HK\$
This is stated after charging (crediting):		
Finance costs		
Interest on bank overdrafts	–	698,334
Interest on short-term borrowings	2,742,473	480,657
Interest on convertible notes	308,699	–
	3,051,172	1,178,991
Staff costs		
Employee benefits expense, excluding directors' remuneration	26,501	43,310
Contributions to defined contribution plans	16,370	2,116
	42,871	45,426
Other items		
Auditors' remuneration	240,000	240,000
Depreciation	135,661	170,294
(Gain)/loss on disposal of property, plant and equipment	(5,790)	3,838
Loss on disposal of available-for-sale investments	607,864	–
Operating leases in respect of:		
– land and buildings	374,000	740,796
– hire of machinery	20,796	–
Negative goodwill recognised	–	(369,016)



Notes to the Financial Statements

For the year ended 31 December 2005

7. TAXATION

Hong Kong profits tax has not been provided in the financial statements as the Group has no estimated assessable profit during the year (2004: Nil).

Reconciliation of tax expense

	2005 <i>HK\$</i>	2004 <i>HK\$</i>
Loss before taxation	(44,513,118)	(16,810,024)
Income tax at applicable tax rate of 17.5% (2004: 17.5%)	(7,789,796)	(2,941,754)
Tax exempt revenue	(316,433)	(178,013)
Non-deductible expenses	3,024,439	5,250
Utilisation of previously unrecognised tax losses	–	(401,233)
Unrecognised tax losses	5,065,845	3,515,750
Unrecognised temporary difference	15,945	–
	–	–

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders dealt with in the financial statements of the Company is HK\$65,087,550 (2004: Profit of HK\$3,619,966).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to the shareholders of HK\$44,513,118 (2004: HK\$16,810,024) and the weighted average number of 582,963,638 (2004: 233,651,275) ordinary shares in issue during the year.

Diluted loss per share has not been presented for the year as there was no dilutive effect.

Notes to the Financial Statements

For the year ended 31 December 2005

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments of the Group are as follows:

	2005			Total HK\$
	Directors' fees HK\$	Salaries, allowances and benefits in kind HK\$	Retirement scheme contributions HK\$	
Executive directors				
Pang Shuen Wai, Nichols	–	–	–	–
Au Shuk Yee, Sue	–	276,000	12,000	288,000
Kitchell, Osman Bin	–	87,900	3,045	90,945
Independent non-executive directors				
Lam Ping Cheung	120,000	–	–	120,000
Wong Ying Seung, Asiong	–	–	–	–
Chung Kong Fei, Stephen	–	–	–	–
Tsang Wing Ki	60,000	–	–	60,000
	180,000	363,900	15,045	558,945
	2004			Total HK\$
	Directors' fees HK\$	Salaries, allowances and benefits in kind HK\$	Retirement scheme contributions HK\$	
Executive directors				
Pang Shuen Wai, Nichols	–	–	–	–
Au Shuk Yee, Sue	–	384,000	12,000	396,000
Qi Qing	–	–	–	–
Wong Man Ho, William	–	21,600	1,000	22,600
Independent non-executive directors				
Lam Ping Cheung	120,000	–	–	120,000
Wong Ying Seung, Asiong	–	–	–	–
Chung Kong Fei, Stephen	–	–	–	–
Tsang Wing Ki	15,000	–	–	15,000
	135,000	405,600	13,000	553,600



Notes to the Financial Statements

For the year ended 31 December 2005

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Individuals with highest emoluments

Of the five individuals with highest emoluments of the Group, four (2004: two) are directors whose emoluments are disclosed in note 10(a). The aggregate of the emoluments in respect of the other one (2004: three) individual is as follows:

	2005 <i>HK\$</i>	2004 <i>HK\$</i>
Salaries and other emoluments	26,501	43,310
Retirement scheme contributions	1,370	2,166
	27,871	45,476

(c) Share options granted to the directors of the Company

Under the share option scheme (the "Scheme") approved by the shareholders of the Company in 2003, the directors of the Company may grant options to those participants who, in the opinion of the Board, have contributed or may contribute to the development and growth of the Group and any entity in which the Group holds any equity interest. No share options were issued to the directors under the Scheme during the year.

Notes to the Financial Statements

For the year ended 31 December 2005

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$</i>	Office equipment <i>HK\$</i>	Furniture and fixtures <i>HK\$</i>	Total <i>HK\$</i>
Group and Company				
Reconciliation of carrying amount year ended 31 December 2004				
At beginning of year	97,927	76,237	81,923	256,087
Additions	–	62,999	–	62,999
Disposals	–	(6,838)	–	(6,838)
Depreciation	(55,668)	(60,119)	(54,507)	(170,294)
At balance sheet date	42,259	72,279	27,416	141,954
Reconciliation of carrying amount year ended 31 December 2005				
At beginning of year	42,259	72,279	27,416	141,954
Additions	48,500	3,280	–	51,780
Disposals	–	–	(2,510)	(2,510)
Depreciation	(58,427)	(52,328)	(24,906)	(135,661)
At balance sheet date	32,332	23,231	–	55,563
At beginning of year				
Cost	167,170	176,445	163,681	507,296
Accumulated depreciation	(124,911)	(104,166)	(136,265)	(365,342)
	42,259	72,279	27,416	141,954
At balance sheet date				
Cost	215,670	179,725	119,236	514,631
Accumulated depreciation	(183,338)	(156,494)	(119,236)	(459,068)
	32,332	23,231	–	55,563

Notes to the Financial Statements

For the year ended 31 December 2005

12. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK\$	2004 HK\$
Unlisted shares, at cost	79	79
Due from subsidiaries	49,018,787	20,574,394
Provision for doubtful debts	(36,518,787)	–
	12,500,000	20,574,394
Total	12,500,079	20,574,473

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

The following is a list of the details of the subsidiaries held by the Company at 31 December 2005:

Name of subsidiary	Place of incorporation and type of legal entity	Principal activities	Particulars of issued share capital	Proportion of nominal value of issued capital held by the Company	
				Directly	Indirectly
Anchor Talent Limited	The British Virgin Islands, limited liability company	Investment holding	1 ordinary share of US\$1 each	–	100%
Moving Target Company Limited	The British Virgin Islands, limited liability company	Investment holding	10 ordinary shares of US\$1 each	100%	–
Vision Gate Enterprises Limited	The British Virgin Islands, limited liability company	Investment holding	1 ordinary share of US\$1 each	100%	–

Notes to the Financial Statements

For the year ended 31 December 2005

13. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES

	Group		Company	
	2005	2004 (Note c)	2005	2004 (Note c)
	HK\$	HK\$	HK\$	HK\$
Equity investment – listed				
Listed in Hong Kong (Note a)	43,481,032	56,753,110	43,481,032	56,753,110
Equity investment – unlisted (Note b)	23,000,039	20,000,000	–	–
Impairment loss	(23,000,000)	(20,000,000)	–	–
	39	–	–	–
Total	43,481,071	56,753,110	43,481,032	56,753,110

As at 31 December 2005, the carrying amount of the Company's shareholding in the following companies exceeded 10% of total assets of the Group and the Company.

Notes:

	Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held
a.	Yugang International Limited	Bermuda	Packaging business and property investment business	Ordinary shares of HK\$0.1 each	3.7%
b.	Hennabun Management International Limited ("HMIL")	The British Virgin Islands ("BVI")	Provision of brokerage and financial services	Ordinary shares of HK\$0.01 each	3.86%

During the year, the Group invested HK\$3 million to purchase an additional 1.27% interest in HMIL. HMIL is a company incorporated in BVI with limited liability, which is principally engaged in investment holding and its subsidiaries are engaged in securities trading, investment holding and provision of brokerage and financial services.

- c. As mentioned in note 2 to the financial statements, following the adoption of HKAS 39, the Company's and the Group's investment securities as at 31 December 2004 have been reclassified as available-for-sale investments on 1 January 2005.



Notes to the Financial Statements

For the year ended 31 December 2005

14. LOAN RECEIVABLE

	Group and Company	
	2005	2004
	HK\$	HK\$
At carrying amount	12,500,000	–

During the year, the Company, through its wholly-owned subsidiary, (i) acquired approximate 5% equity interest in Found Macau Investments International Limited (“Found Macau”) at the consideration of US\$5 (included in available-for-sale investments); (ii) became a party to a shareholders agreement relating to Found Macau; and (iii) made a shareholder loan of HK\$25 million to Found Macau (the “Found Macau Loan”). Found Macau is incorporated in BVI and its subsidiaries are principally engaged in investment holding and trading of prestige Hi-Fi equipment in Macau.

The Found Macau Loan is interest-free, unsecured and is repayable on demand after 8 years from 28 February 2005.

The carrying amount of the Found Macau Loan at the balance sheet date is measured at amortised cost less impairment loss.

Notes to the Financial Statements

For the year ended 31 December 2005

15. INVESTMENTS HELD FOR TRADING/TRADING SECURITIES

	Group and Company	
	2005	2004 (Note b)
	HK\$	HK\$
Held for trading		
Equity investment, listed in Hong Kong (Note a)	106,055,712	53,600,270
Debt investment, unlisted	8,100,000	–
	114,155,712	53,600,270

Notes:

- a. At 31 December 2005, the carrying amount of the Company's shareholding in the following listed equity securities exceeded 10% of total assets of the Group and the Company.

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held
Willie International Holdings Limited	Hong Kong	Investment in trading securities, brokerage and financial services, property investment, and investment holding	Ordinary shares of HK\$0.1 each	5.92%

- b. As mentioned in note 2 to the financial statements, following the adoption of HKAS 39, the Company's and the Group's trading securities as at 31 December 2004 have been reclassified as investments held for trading on 1 January 2005.

16. SHORT-TERM BORROWINGS, UNSECURED

The amounts represent the loans from third parties and are unsecured, interest bearing ranging from prime rate plus 1% or 2% per annum and repayable within one year.

Notes to the Financial Statements

For the year ended 31 December 2005

17. SHARE CAPITAL

	<i>Note</i>	Number of ordinary shares of HK\$0.1 each	Number of ordinary shares of HK\$0.01 each	Nominal value HK\$
Authorised:				
At 1 January 2004, 31 December 2004 and 1 January 2005		400,000,000	–	40,000,000
Subdivision of shares	<i>(i)(c)</i>	(400,000,000)	4,000,000,000	–
		–	4,000,000,000	–
Increase by the creation of additional 46,000,000,000 shares of HK\$0.01 each	<i>(i)(d)</i>	–	46,000,000,000	460,000,000
Share consolidation	<i>(iv)</i>	5,000,000,000	(50,000,000,000)	–
At balance sheet date		5,000,000,000	–	500,000,000
Issued and fully paid:				
At 1 January 2004		200,000,004	–	20,000,000
Placement of new shares		88,000,000	–	8,800,000
Rights issue		96,000,001	–	9,600,000
At 31 December 2004 and 1 January 2005		384,000,005	–	38,400,000
Issuance of shares	<i>(ii)</i>	15,998,000	–	1,599,800
Issuance of shares under share option scheme	<i>(iii)</i>	39,900,000	–	3,990,000
Capital reduction	<i>(i)(a)</i>	(439,898,005)	439,898,005	(39,590,820)
		–	439,898,005	4,398,980
Issuance of shares	<i>(ii)</i>	–	87,978,000	879,780
Share consolidation	<i>(iv)</i>	52,787,600	(527,876,005)	–
Rights issue	<i>(v)</i>	527,876,000	–	52,787,600
Conversion of convertible notes	<i>(vi)</i>	146,627,563	–	14,662,756
At balance sheet date		727,291,163	–	72,729,116



Notes to the Financial Statements

For the year ended 31 December 2005

17. SHARE CAPITAL *(Continued)*

Notes:

- (i) At the extraordinary general meeting of the Company held on 28 February 2005, the resolutions in respect of the Capital Reorganisation including reduction of capital, adjustment of nominal value of the issued shares of the Company, cancellation and increase in authorised but unissued share capital ("Capital Reduction") and the increase in authorised share capital of the Company to HK\$500,000,000 were approved by the shareholders. The Capital Reduction was approved by the Grand Court of the Cayman Islands on 6 May 2005 ("Effective Date") and the effects of the Capital Reorganisation were as follows:
- (a) the paid-up and nominal value of the issued shares was reduced by HK\$0.09 per share by cancelling an equivalent amount of paid-up capital per share so that the nominal value of each such share will be reduced from HK\$0.1 to HK\$0.01. Based upon the number of shares in issue as at the Effective Date, the issued share capital of the Company of HK\$43,989,800 consisting of 439,898,005 ordinary shares of HK\$0.1 each was reduced by HK\$39,590,820 to HK\$4,398,980 consisting of 439,898,005 ordinary shares of HK\$0.01 each;
 - (b) the credit amount of HK\$39,590,820 arising from the reduction referred to in (a) above was credited to the contributed surplus account of the Company. The amounts in the contributed surplus account can be applied to a distributable reserve of the Company at the discretion of the directors of the Company in accordance with the articles of association of the Company and all applicable laws, including fully utilised to eliminate the accumulated losses of the Company;
 - (c) the authorised but unissued share capital of the Company has been sub-divided by sub-dividing each of the authorised but unissued shares of HK\$0.01 each in the capital of the Company; and
 - (d) the authorised share capital of the Company has been increased to HK\$500,000,000 by the creation of 460,000,000 shares of HK\$0.01 each.
- (ii) Pursuant to the placing agreement dated 10 January 2005, the Company agreed conditionally to place 15,998,000 ordinary shares of HK\$0.1 each of the Company on a fully underwritten basis to an independent investor at a price of HK\$0.14 per share.

Pursuant to the placing agreement dated 19 May 2005, the Company agreed conditionally to place 87,978,000 ordinary shares of HK\$0.01 each of the Company on a fully underwritten basis to independent investors at a price of HK\$0.041 per share.



Notes to the Financial Statements

For the year ended 31 December 2005

17. SHARE CAPITAL *(Continued)*

Notes: (Continued)

- (iii) By an ordinary resolution passed on 1 April 2005, 39,900,000 ordinary shares of HK\$0.1 each were issued to qualified individuals under share option scheme at an exercise price of HK\$0.1 each.
- (iv) By an ordinary resolution passed on 13 September 2005 at the extraordinary general meeting, every 10 issued shares and unissued shares of HK\$0.01 each in the capital of the Company was consolidated into 1 Consolidation Share of HK\$0.10 each.
- (v) By an extraordinary resolution passed on 7 October 2005 at the extraordinary general meeting, the Company allot 10 Rights Shares for every Consolidated Share by way of the Rights Issue. As a result, 527,876,000 Rights Shares of HK\$0.1 each at a price of HK\$0.1 per Rights Share were issued and payable in full on acceptance.
- (vi) During the year, an aggregate of 146,627,563 ordinary shares of HK\$0.1 each of the Company were issued to holders of convertible notes as set out in note 19 to the financial statement.

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

Notes to the Financial Statements

For the year ended 31 December 2005

18. RESERVES

(a) Group

	Share premium HK\$	Investment revaluation reserve HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
2004					
At beginning of year	74,031,922	21,758,947	–	(18,013,272)	77,777,597
Deficit on revaluation of investment securities	–	(1,756,620)	–	–	(1,756,620)
Loss for the year	–	–	–	(16,810,024)	(16,810,024)
Issues of shares	10,560,000	–	–	–	10,560,000
Shares issue expenses	(1,256,479)	–	–	–	(1,256,479)
At balance sheet date	83,335,443	20,002,327	–	(34,823,296)	68,514,474
2005					
At beginning of year	83,335,443	20,002,327	–	(34,823,296)	68,514,474
Issues of shares	8,704,482	–	–	–	8,704,482
Shares issue expenses	(2,248,302)	–	–	–	(2,248,302)
Change in fair value of available-for-sale investments	–	(6,827,288)	–	–	(6,827,288)
Transfer to accumulated losses upon disposal of available-for-sale investments	–	458,149	–	–	458,149
Creation of contributed surplus pursuant to the Capital Reorganisation	–	–	39,590,820	–	39,590,820
Contributed surplus set off against accumulated losses pursuant to the Capital Reorganisation	–	–	(39,590,820)	39,590,820	–
Loss for the year	–	–	–	(44,513,118)	(44,513,118)
At balance sheet date	89,791,623	13,633,188	–	(39,745,594)	63,679,217

Notes to the Financial Statements

For the year ended 31 December 2005

18. RESERVES (Continued)

(b) Company

	Share premium HK\$	Investment revaluation reserve HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
2004					
At beginning of year	74,031,922	21,758,947	–	(17,868,804)	77,922,065
Deficit on revaluation of investment securities	–	(1,756,620)	–	–	(1,756,620)
Profit for the year	–	–	–	3,619,966	3,619,966
Issues of shares	10,560,000	–	–	–	10,560,000
Shares issue expenses	(1,256,479)	–	–	–	(1,256,479)
At balance sheet date	83,335,443	20,002,327	–	(14,248,838)	89,088,932
2005					
At beginning of year	83,335,443	20,002,327	–	(14,248,838)	89,088,932
Issues of shares	8,704,482	–	–	–	8,704,482
Shares issue expenses	(2,248,302)	–	–	–	(2,248,302)
Change in fair value of available-for-sale investments	–	(6,827,288)	–	–	(6,827,288)
Transfer to profit or loss on disposal of available-for-sale investments	–	458,149	–	–	458,149
Creation of contributed surplus pursuant to the Capital Reorganisation	–	–	39,590,820	–	39,590,820
Contributed surplus set off against accumulated losses pursuant to the Capital Reorganisation	–	–	(39,590,820)	39,590,820	–
Loss for the year	–	–	–	(65,087,550)	(65,087,550)
At balance sheet date	89,791,623	13,633,188	–	(39,745,568)	63,679,243



Notes to the Financial Statements

For the year ended 31 December 2005

18. RESERVES *(Continued)*

(b) Company *(Continued)*

The Company had a distributable reserve of HK\$50,046,055 as at 31 December 2005 (2004: HK\$69,086,605), represented by the sum of share premium and accumulated losses of the Company. Under the Companies Law of the Cayman Islands, share premium of the Company is distributable to the shareholders, which is subject to a solvency test.

As mentioned in note 17 (i) (b) to the financial statement, an amount of approximately HK\$39,590,820 arising from the Capital Reduction was transferred to the contributed surplus account of the Company. Such credit amount can be utilised for such purposes as permitted by the laws of the Cayman Islands, including setting off the accumulated losses of the Company.

19. CONVERTIBLE NOTES

	Group and Company	
	2005 HK\$	2004 HK\$
Issuance during the year	20,000,000	–
Conversion	(20,000,000)	–
At balance sheet date	–	–

Notes:

During the year, the Company issued convertible notes with principal sum of HK\$20,000,000 to third parties. The convertible notes bear interest at 5.0% per annum and can be converted into ordinary shares of the Company at a conversion price of HK\$0.5 or an adjustment conversion price per share in amounts or integral multiples of HK\$1,000,000 at any time from date of issue and up to 7 days before (and excluding) the maturity of the convertible notes. The convertible notes will mature on 19 August 2010. The conversion price of the convertible notes was adjusted from HK\$0.5 to HK\$0.1364 with effect from 27 October 2005 as a result of the rights issue during the year.

During the year, the convertible notes with principal sum of HK\$20,000,000 were converted into 146,627,563 ordinary shares of HK\$0.1 each of the Company at a conversion price of HK\$0.1364 per share.



Notes to the Financial Statements

For the year ended 31 December 2005

20. PLEDGE OF ASSETS

As at 31 December 2005, margin facilities from several securities brokers were granted to the Company which were secured by the Company's available-for-sale investments and investments held for trading. As at 31 December 2005, a total amount of HK\$17,167,218 (2004: HK\$3,876,000) has been utilised against these facilities.

21. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

Unrecognised deferred tax assets arising from

	Group	
	2005	2004
	HK\$	HK\$
Deductible temporary difference	169,478	–
Tax losses	54,619,245	31,611,322
At the balance sheet date	54,788,723	31,611,322

Both the tax losses and the deductible temporary differences do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Notes to the Financial Statements

For the year ended 31 December 2005

22. SHARE OPTION SCHEME

In prior years, the directors were only authorised to grant options to subscribe for up to 20,000,000 shares, representing 10% of the issued share capital of the Company as at the date of the adoption of the share option scheme. The Company has not granted any options under the share option scheme prior to the date of Capital Reorganisation.

Pursuant to the Capital Reorganisation, it was approved on 28 February 2005 by the ordinary resolution that share options can be granted under the Refreshed Scheme Mandate Limit, the refreshment of the limit in respect of the granting of share options under the share option scheme of the Company adopted on 2 May 2003 up to a new 10 per cent limit.

(a) Change in number of share options under share option scheme

<i>Note</i>	2005 Number	2004 Number
At the beginning of year	–	–
Issued	39,900,000	–
Exercised	(39,900,000)	–
At balance sheet date	–	–

(b) Details of share options exercised during the year

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$	Number
7 April 2005	0.1	0.054	360,000	3,600,000
13 April 2005	0.1	0.056	2,920,000	29,200,000
15 April 2005	0.1	0.056	710,000	7,100,000
			3,990,000	39,900,000

At the balance sheet date, no share option has been granted by the Company but not vested under the share option scheme.

Notes to the Financial Statements

For the year ended 31 December 2005

23. CASH USED IN OPERATIONS

	2005 HK\$	2004 HK\$
Loss before taxation	(44,513,118)	(16,810,024)
Depreciation	135,661	170,294
(Gain)/Loss on disposals of property, plant and equipment	(5,790)	3,838
Unrealised loss/(gain) on investments held for trading	9,328,737	(14,787,456)
Impairment loss on available-for-sale investments	3,000,000	20,000,000
Loss on disposal of available-for-sale investments	607,864	–
Interest income	(223,064)	(398)
Interest expenses	3,051,172	1,178,991
Dividend income	(1,802,376)	(1,016,819)
Negative goodwill	–	(369,016)
Loan receivable		
– Present value adjustment	5,770,914	–
– Impairment loss	6,729,086	–
Change in working capital		
Investments held for trading	(69,884,179)	1,364,722
Deposits, prepayments and other receivables	(4,172,910)	84,553
Other payables and accruals	13,003,943	4,498,340
Cash used in operations	(78,974,060)	(5,682,975)

24. COMMITMENTS UNDER OPERATING LEASES

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

	2005 HK\$	2004 HK\$
Within one year	20,796	740,796
In the second to fifth years inclusive	58,922	679,718
	79,718	1,420,514



Notes to the Financial Statements

For the year ended 31 December 2005

25. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, the following related party transaction was transacted by the Group during the year, details of which are set out below:

Related party relationship	Nature of transaction	2005 HK\$	2004 HK\$
A company under common control	Investment management fee paid (<i>Note</i>)	600,000	995,386

Note:

Pursuant to an investment management agreement (the "Agreement") dated 5 November 2003 between the Company and CU Investment Management Limited ("CUIM"), CUIM has been providing the Group with investment management services from 5 November 2003 to 4 November 2004. Under this arrangement, CUIM was entitled to a monthly management fee payable in advance at 1% per annum of the net asset value of the Group at the end of preceding month on the basis of actual number of days in the relevant calendar month over a year of 365 days. The Agreement was expired on 4 November 2004 and a new agreement was entered on 5 November 2004. Under this new agreement, a flat rate of HK\$50,000 is charged on a monthly basis.

Dr. Pang Shuen Wai, Nichols, an executive director of the Company, is a director of CUIM.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debt and equity investments, other receivables and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Financial risk factors

Interest rate risk

The Group's interest rates on its short-term borrowings are mainly the bank's prime rate plus certain percentage. The interest rates and terms of repayment have been disclosed in note 16.

Liquidity risk

The Group's liquidity risk is minimal and is managed by matching the settlement of trading in securities.



Notes to the Financial Statements

For the year ended 31 December 2005

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Financial risk factors *(Continued)*

Price risk

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

Fair value estimation

The fair value of financial instruments traded in active markets such as available-for-sale investments or investments held for trading is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

For the loan receivable valued at fair value, the Group uses the discounted cash flows valuation method together with impairment assessment if required to determine the carrying amount at the balance sheet date.

Certain unlisted securities included in available-for-sale investments are stated at fair value after the carrying amounts are determined to be impaired.

Certain unlisted securities included in investments held for trading are stated at cost at the balance sheet date as the Group determines the fair value of such assets closely approximated the cost.

27. POST BALANCE SHEET EVENT

On 27 February 2006, the Company allotted and issued 250,000,000 ordinary shares of HK\$0.1 each of the Company to independent investors at the placing price of HK\$0.14 per share. As a result of such issue, the issued and fully paid share capital and the share premium net off share issuing cost have been increased by HK\$25,000,000 and HK\$9,296,500 respectively.