

Notes to the Financial Statements

1 GENERAL INFORMATION

The principal activities of the Company and its subsidiaries (together the “Group”) are property investment and technology related business. The Company is a limited liability company incorporated in Hong Kong and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Units 903-905A, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

These financial statements have been approved by the Board of Directors on 12th April 2006.

2 GOING CONCERN

For the year ended 31st December 2005, the Group incurred a loss attributable to the shareholders of HK\$33,537,000 (2004: HK\$39,983,000). As at 31st December 2005, the Group has net current liabilities of HK\$25,269,000 and deficiency in equity of HK\$11,623,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern.

The Group is currently exploring new investment opportunities which would improve the operating results. A Director, Mr. Tong Nai Kan, has confirmed his intention to provide additional unsecured loans to the Company of not less than HK\$16,000,000 within the next twelve months. Therefore the Directors are confident that the Group will be able to meet all its liabilities and obligations as and when they fall due and accordingly, the Directors are of the opinion that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

30

3 BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the processes of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 6 below.

(a) Changes in accounting policies

In 2005, the Group adopted the following new and revised HKFRS and Hong Kong Accounting Standards (“HKAS”) (collectively the new HKFRSs), which are effective for accounting period commencing on or after 1st January 2005 and relevant to the operations of the Group:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date

Notes to the Financial Statements

3 BASIS OF PREPARATION (Continued)**(a) Changes in accounting policies (Continued)**

HKAS 16	Property, Plant and Equipment
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investment in Associates
HKAS 32	Financial instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

HKAS 1 has affected the presentation of minority interest and other disclosures whereas HKAS 24 has affected the identification of related parties and some other related-party disclosures. The adoption of HKASs 2, 7, 8, 10, 16, 21, 23, 27, 28 and 33 does not have any material effect on the accounting policies of the Group. The major changes in the accounting policies are summarised as follows:

- (i) The adoption of HKASs 32 and 39 has resulted in a change of accounting policy relating to recognition, measurement, disclosure and presentation of financial assets. The Group classifies its investments in the following categories: financial assets at fair value through profit or loss (including trading investments), loans and receivables and available-for-sale financial assets.

Loans and receivables are included under current assets, except for maturities greater than twelve months after the balance sheet date which are classified as non-current assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories and are included under non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Loans and receivables are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss (including trading investments) are carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities. Where the investments do not have a quoted market price in an active market, they are carried at cost less any accumulated impairment loss.

Notes to the Financial Statements

3 BASIS OF PREPARATION (Continued)

(a) Changes in accounting policies (Continued)

In previous years, securities intended to be held for indefinite long-term purpose or strategic reasons were included in the balance sheet under non-current assets and were carried at cost less provision. The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such investment was reduced to its fair value. The impairment loss was recognised as an expense in the profit and loss account and was written back to profit and loss accounts when the circumstances and events that lead to the write-downs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. As a result of this change in accounting policy, investments previously recorded as long-term investments are reclassified as available-for-sale financial assets and reserves of the Group as at 1st January 2005 have been increased by HK\$1,088,000, representing the difference between the fair value and the carrying amount of these investments as at that date. The comparative amounts as at 31st December 2004 have not been restated.

- (ii) The adoption of HKFRS 3 has resulted in a change in the accounting policy for goodwill. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. The excess of the interest of the acquirer in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree over the cost of the business combination is recognised immediately in the consolidated profit and loss account.

In previous years, goodwill arising on acquisitions was included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years. The carrying amount of goodwill was reviewed annually and provision was only made when, in the opinion of the Directors, there was impairment other than temporary in nature. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences were recognised as income in the year of acquisition or over the weighted average useful lives of the acquired non-monetary assets. In accordance with the provision of HKFRS 3, the Group ceased to amortise goodwill from 1st January 2005, the accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill.

- (iii) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. The fair value of the employee services received in exchange for the grant of share options is recognised as an expense in the profit and loss account.

In previous years, the grant of share options to employees was not recognised as an expense in the profit and loss account. Since there was no outstanding share options at 31 December 2004, this change in accounting policy does not have any financial impact to the Group in the previous periods.

Notes to the Financial Statements

3 BASIS OF PREPARATION (Continued)**(a) Changes in accounting policies (Continued)**

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. Since HKASs 32 and 39, and HKFRSs 3 and 5 do not require retrospective applications, the 2004 comparative figures have not been restated or amended. However, the effects of the changes in accounting policies are summarised in note (b) below.

(b) Impact to 2005 financial statements

The following tables set out the increase/(decrease) of the relevant headings in the consolidated profit and loss account and consolidated balance sheet for the financial year ended 31st December 2005 following the adoption of the new HKFRSs:

(i) Consolidated profit and loss account

	HKASs 32 and 39 HK\$'000	HKFRS 2 HK\$'000	Total HK\$'000
Administrative expenses	745	(994)	(249)
Loss for the year	<u>745</u>	<u>(994)</u>	<u>(249)</u>

(ii) Consolidated balance sheet

	HKASs 32 and 39 HK\$'000	HKFRS 2 HK\$'000	Total HK\$'000
Non-current assets			
Available-for-sale financial assets	745	–	745
Total assets	<u>745</u>	<u>–</u>	<u>745</u>
Equity			
Other reserves	–	994	994
Accumulated losses	745	(994)	(249)
Total equity and liabilities	<u>745</u>	<u>–</u>	<u>745</u>

Notes to the Financial Statements

3 BASIS OF PREPARATION (Continued)**(c) Standards, amendments and interpretations which are not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not yet adopted, as follows:

Effective for accounting period beginning from 1st January 2006

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waster Electrical and Electronic Equipment

Effective for accounting period beginning from 1st January 2007

HKFRS 7 and Amendment to HKAS 1	Financial Instruments: Disclosure, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

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

Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except for those stated in note 3(a) above.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December and share of post acquisition results and reserves of its associated companies attributable to the Group.

Results attributable to subsidiaries and associated companies acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or to the date of disposal, as applicable.

The profit or loss on disposal of subsidiaries or associated companies is calculated by reference to the share of net assets at the date of disposal including the attributable amount of goodwill not yet written off.

(b) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies of the entity, generally accompanying a direct or indirect shareholding of more than one half of the voting power, or holds more than half of the issued equity capital, or controls the composition of the board of directors. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Group is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Subsidiaries (Continued)

In the balance sheet of the Company, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

(c) Minority interests

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary being acquired.

(d) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The investments in associated companies include goodwill, net of any accumulated impairment loss, identified on acquisition.

The share of post-acquisition profits or losses of associated companies attributable to the Group is recognised in the profit and loss account, and the share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the share of losses of the Group in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the interest in the associated companies held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividend income.

Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net identifiable assets of the acquired subsidiary attributable to the Group at the effective date of acquisition, and, in respect of an increase in holding in a subsidiary, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Goodwill on acquisitions of subsidiaries is included in intangible assets while goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

If the cost of acquisition is less than the fair value of the net assets acquired or the carrying amount of the proportion of the minority interests acquired, the difference represents negative goodwill and is recognised directly in the profit and loss account.

(f) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated to write off their cost less residual value and accumulated impairment losses over their estimated useful lives or if shorter, the relevant finance lease periods, using straight-line method, at the rate of 20% per annum.

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its estimated recoverable amount.

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

Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(h) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss (including trading investments), loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments are acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Loans and receivables are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Financial assets at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account and subsequently, carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Available for-sale financial assets are initially recognised at fair value plus transaction cost and subsequently carried at fair value.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss account in the financial period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities. In cases where the investments do not have a quoted market price in an active market, they are carried at cost less any accumulated impairment loss.

Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(h) Investments (Continued)**

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 the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(i) Debtors and prepayments

Debtors and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the first-in, first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions within three months from the date of placement, less advances from banks and financial institutions repayable within three months from the date of advance.

(l) Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, or temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred taxation 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 accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(o) Leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. Each lease payment is allocated between the liability and finance charges, which is recognised in the profit and loss account over the lease period, so as to produce a constant periodic rate of interest on the remaining finance liability for each period.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the profit and loss account on a straight-line basis over the period of the lease.

(p) Revenue recognition

Sales of goods are recognised when goods are delivered and legal title passed to customers. Sale of completed properties is recognised when the sale agreement is completed and legal title passed to the purchasers.

Rental income, net of incentives paid to lessees, under operating leases is recognised over the periods of the respective leases on a straight-line basis.

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 the net carrying amount of that asset.

Dividend income is recognised when the right to receive payment is certain.

Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Employee benefits

Employee entitlements to annual and long service leave are recognised when they accrued to employees. A provision is made for the estimated liability for annual and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

Provision for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Contributions under the defined contribution retirement scheme, which are calculated as a percentage of basic salaries of the employees, are charged to the profit and loss account in the period to which the contributions relate.

The fair value of the employee services received in exchange for the grant of the share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the estimates of the number of options that are expected to become exercisable will be revised. The impact of the revision of the original estimates, if any, is recognised in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs for the share options granted are credited to share capital, at nominal value, and share premium when the options are exercised.

(r) Foreign currency translation

Transactions included in the financial statements of each of the entities within the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in Hong Kong dollars which is the functional and presentation currency of the Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates ruling at the balance sheet date are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Notes to the Financial Statements

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Foreign currency translation

The results and financial position of all the entities in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

(s) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other environments.

(t) Dividend distribution

Dividend distribution to the shareholders of the Company is recognised as a liability in the financial statements in the period in which the dividend payable becomes legal and constructive obligations of the Company.

5 FINANCIAL RISK MANAGEMENT

The activities of the Group expose it to a variety of financial risks, including foreign currency risk, credit risk, liquidity risk and cash flow interest-rate risk. The overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group does not use any derivative financial instruments to hedge for its risk exposures.

Financial risk management is carried out by the finance department under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Continued)**(a) Foreign exchange risks**

The Group operates primarily in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various transactions with respect to Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the foreign operations of the Group in Mainland China is managed primarily through borrowings denominated in the relevant foreign currencies.

(b) Credit risk

The Group is exposed to credit risk mainly from trade debtors but there is no significant concentrations of credit risk with any single counterparty or group of counterparties. It has policies in place to ensure that sales are made to customers with an appropriate credit history and limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available. The Group also relies on fundings from a Director for the provision of a stable streams of cash inflow.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest bearing assets, the income and operating cash flows of the Group are substantially independent of changes in market interest rates.

The interest rate risk of the Group arises from short-term bank deposits and long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group maintains its current borrowings in fixed rate instruments.

(e) Fair value estimation

The fair value of financial instruments traded in active markets 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; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. In assessing the fair value of non-trading securities and other financial assets, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

Notes to the Financial Statements

5 FINANCIAL RISK MANAGEMENT (Continued)

(e) Fair value estimation (Continued)

The nominal value less any estimated credit adjustments for financial assets and liabilities with maturity of less than one year; debtors and prepayments, cash and bank balances, and creditors and accruals are assumed to approximate their fair values.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group are discussed below.

(a) Impairment of assets

The Group tests at least annually whether goodwill or assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of assets or cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

(b) Fair value of available-for-sale investments

The fair value of each investment individually is determined at each balance sheet date by reference to comparable market information. It is also being reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset has been affected. The fair value also reflects any net discounted cashflows that could be expected from the investment.

(c) Share-based payments

The fair value of the options granted is estimated by independent professional valuers based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the options at the date of granting the options.

(d) Income taxes

The Group is subject to income taxes in certain jurisdictions. Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Financial Statements

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)**(e) Accounts receivable**

Impairment of accounts receivable is established when there is objective evidence on the ultimate recoverability of the amount due according to the original terms. Estimates are made based on the assessments of the financial position of the debtors, probability of the debtor being bankrupt, default or delinquent. The provision takes into account the present value of the estimated future cashflows, discounted at the effective interest rate.

7 TURNOVER

	2005	2004
	HK\$'000	HK\$'000
Sales of electronic components	58,368	53,248
Sales of investments	18,131	6,106
Property rental	193	797
Sales of properties	–	83,779
	<u>76,692</u>	<u>143,930</u>

Notes to the Financial Statements

8 SEGMENT INFORMATION

The Group is principally engaged in property investment and technology-related business. In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets consist primarily of non-current assets, inventories and receivables. Segment liabilities comprise creditors and accruals. There are no sales or trading transactions between the business segments. In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

A summary of business segments is set out as follows:

	Property investment	Technology	Corporate and others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31st December 2005				
Turnover	<u>193</u>	<u>58,368</u>	<u>18,131</u>	<u>76,692</u>
Segment results	(218)	(10,567)	(23,021)	(33,806)
Financial expenses				(184)
Loss before taxation				(33,990)
Taxation credit				453
Loss for the year				<u>(33,537)</u>
Segment assets	1	4,602	27,040	<u>31,643</u>
Segment liabilities	30	21,421	15,893	37,344
Unallocated liabilities				5,899
Total liabilities				<u>43,243</u>
Capital expenditure	–	24	–	24
Depreciation	–	343	480	823
Bad and doubtful debts	–	451	97	548
Impairment of goodwill	–	7,219	–	7,219
Impairment of inventories	<u>160</u>	<u>3,326</u>	<u>–</u>	<u>3,486</u>

Notes to the Financial Statements

8 SEGMENT INFORMATION (Continued)

	Property investment HK\$'000	Technology HK\$'000	Corporate and others HK\$'000	Total HK\$'000
Year ended 31st December 2004				
Turnover	<u>84,576</u>	<u>53,248</u>	<u>6,106</u>	<u>143,930</u>
Segment results	(10,563)	(2,431)	(21,274)	(34,268)
Financial expenses				<u>(2,792)</u>
Loss before taxation				(37,060)
Taxation charge				<u>(2,923)</u>
Loss for the year				<u>(39,983)</u>
Segment assets	161	14,656	64,551	<u>79,368</u>
Segment liabilities	4,885	21,624	15,201	41,710
Unallocated liabilities				<u>6,442</u>
Total liabilities				<u>48,152</u>
Capital expenditure	–	540	455	995
Depreciation	–	301	549	850
Amortisation of goodwill	–	1,083	–	1,083
Bad and doubtful debts	–	471	–	471
Impairment of inventories	<u>–</u>	<u>1,048</u>	<u>–</u>	<u>1,048</u>

A summary of the geographical segments is set out as follows:

	Turnover HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Year ended 31st December 2005			
Hong Kong	71,024	22,593	24
Mainland China	5,668	9,050	–
	<u>76,692</u>	<u>31,643</u>	<u>24</u>
Year ended 31st December 2004			
Hong Kong	131,771	70,189	995
Mainland China	12,159	9,179	–
	<u>143,930</u>	<u>79,368</u>	<u>995</u>

Notes to the Financial Statements

9 OTHER REVENUES

	2005	2004
	HK\$'000	HK\$'000
Gain on deregistration of subsidiaries	167	–
Interest	94	6
Exchange gain	36	–
Unrealised gain of trading investments	–	150
Sundries	783	237
	<u>1,080</u>	<u>393</u>

10 OPERATING LOSS

	2005	2004
	HK\$'000	HK\$'000
Operating loss is stated after charging:		
Depreciation		
Owned assets	539	566
Leased assets	284	284
Exchange loss	–	192
Staff costs (including Directors' remuneration) (<i>note 12</i>)	17,209	18,196
Operating lease rental expense for land and buildings	787	979
Amortisation of goodwill	–	1,083
Loss on disposal of property, plant and equipment	153	7,039
Bad and doubtful debts	548	471
Impairment of inventories	3,486	1,048
Auditors' remuneration		
Audit services	505	403
Non-audit services	345	190
	<u>345</u>	<u>190</u>

11 FINANCIAL EXPENSES

	2005	2004
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	13	1,658
Interest on short-term loans	143	1,106
Interest on finance lease obligations wholly payable within five years	28	28
	<u>184</u>	<u>2,792</u>

Notes to the Financial Statements

12 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	2005 HK\$'000	2004 HK\$'000
Salaries and other emoluments	15,916	17,839
Share options granted (<i>note 25</i>)	994	–
Contributions to retirement scheme	299	357
	<u>17,209</u>	<u>18,196</u>

The Group operates a defined contribution mandatory provident fund scheme for all eligible employees. The assets of the scheme are held separately from the assets of the Group and contributions are calculated as a percentage of the basic salaries of the employees. All contributions to the scheme are fully vested with the employees and therefore there is no forfeited contributions from the scheme.

13 DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS

(a) Directors' emoluments

Name	Fees HK\$'000	Salaries and allowances HK\$'000	Defined	Share	Total HK\$'000
			contribution plans HK\$'000	options HK\$'000	
2005					
Tong Nai Kan	150	3,864	12	–	4,026
Chow Sim Chu, Shirley	150	600	12	–	762
Bai Yang	11	17	–	–	28
Leung Wai Kwan	74	367	6	–	447
Tang Tin Shek	150	–	–	–	150
Liu Ngai Wing	70	–	–	–	70
Lam Yat Fai	63	–	–	–	63
Yeung Lok Hang, Brian	31	–	–	–	31
Kwok Wai Ming	80	–	–	–	80
Ko Ming Tung, Edward	88	–	–	–	88
	<u>867</u>	<u>4,848</u>	<u>30</u>	<u>–</u>	<u>5,745</u>

Notes to the Financial Statements

13 DIRECTORS AND SENIOR MANAGEMENT EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

Name	Fees HK\$'000	Salaries and allowances HK\$'000	Defined contribution plans HK\$'000	Share options HK\$'000	Total HK\$'000
2004					
Tong Nai Kan	150	3,955	12	–	4,117
Chow Sim Chu, Shirley	150	600	12	–	762
Lang Siu Po	55	672	5	–	732
Leung Wai Kwan	150	600	12	–	762
Tang Tin Shek	150	–	–	–	150
Ng Ge Bun	55	–	–	–	55
Yeung Lok Hang, Brian	38	–	–	–	38
Kwok Wai Ming	38	–	–	–	38
Ko Ming Tung, Edward	150	–	–	–	150
	<u>936</u>	<u>5,827</u>	<u>41</u>	<u>–</u>	<u>6,804</u>

None of the Directors has waived the right to receive their emoluments. Fees paid to Independent Non-executive Directors during the year amounted to HK\$482,000 (2004: HK\$432,000). The Directors represent key management personnel of the Company having authority and responsibility for the planning, directing and controlling the activities of the Group.

(b) Five highest paid individuals

The five individuals, whose emoluments were the highest in the Group for the year include two (2004: four) Directors. The emoluments for the five individuals are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other emoluments	8,193	7,316
Contributions to retirement scheme	60	53
	<u>8,253</u>	<u>7,369</u>

The emoluments of these individuals fell within the following bands:

Emoluments bands	Number of individuals	
	2005	2004
Nil to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$4,000,001 to HK\$4,500,000	1	1
	<u>5</u>	<u>5</u>

Notes to the Financial Statements

14 TAXATION CREDIT/(CHARGE)

	2005 HK\$'000	2004 HK\$'000
Hong Kong profits tax	453	(371)
Overseas	–	(2,552)
	<u>453</u>	<u>(2,923)</u>

Hong Kong profit tax has not been provided as the Group has no assessable profit for the year. In 2004, Hong Kong profits tax was provided at the rate of 17.5% on the estimated assessable profit for that year. Taxation on overseas profits had been calculated on the estimated assessable profit for that year at the rates of taxation prevailing in the countries in which the Group operated.

In June 2002, the Board of Review of the Inland Revenue Department determined that a subsidiary is liable to Hong Kong profit tax and surcharges totalling approximately HK\$89.5 million in respect of its profit from the disposal of properties in 1994 and 1995. The Directors however maintain their opinion that such profit is capital in nature and therefore not subject to Hong Kong profits tax. Since the subsidiary has no meaningful assets and therefore does not have the ability to pay the tax and surcharges nor file further objections against this determination. In December 2003, the Inland Revenue Department filed a petition to the High Court to wind up the subsidiary and, as a result, liquidators of this subsidiary were then appointed. However, no other company within the Group is liable for any tax or surcharges payable by this subsidiary and the rest of the Group will not provide funds to this subsidiary to satisfy the tax and surcharges in question. In view of the foregoing, the Directors consider it is not appropriate to make any provision for the above tax and surcharges payable in the financial statements.

The taxation on the loss before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2005 HK\$'000	2004 HK\$'000
Loss before taxation	<u>(33,990)</u>	<u>(37,060)</u>
Tax asset at the tax rate of 17.5% (2004: 17.5%)	5,948	6,486
Effect of different taxation rates in other countries	–	77
Income not subject to taxation	683	195
Expenses not deductible for taxation purposes	(5,519)	(2,608)
Taxation loss not recognised	(3,586)	(4,427)
Recognition of previously unrecognised temporary difference	2,927	(3,048)
Temporary differences not recognised	–	402
Tax credit/(charge)	<u>453</u>	<u>(2,923)</u>

Notes to the Financial Statements

14 TAXATION CREDIT/(CHARGE) (Continued)

Deferred taxation assets of the Group and the Company amounting to HK\$22,656,000 (2004: HK\$35,216,000) and HK\$3,490,000 (2004: HK\$17,202,000), respectively, arising from unused tax losses have not been recognised in the financial statements due to the uncertainty as to their future utilisation. The unused tax losses have no expiry date.

15 LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to equity holders of the Company for the year of HK\$33,537,000 (2004: HK\$39,983,000) and on the weighted average of 610,584,391 shares (2004: 515,899,459 shares) in issue during the year.

There is no diluted loss per share since the outstanding share options are anti-dilutive.

Notes to the Financial Statements

16 PROPERTY, PLANT AND EQUIPMENT

Group

	Investment properties HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
At 31st December 2003					
Cost or valuation	89,500	4,384	2,095	–	95,979
Accumulated depreciation	–	(3,310)	(514)	–	(3,824)
Net book value	89,500	1,074	1,581	–	92,155
Additions	–	103	432	460	995
Disposals	(89,500)	(10)	(172)	–	(89,682)
Charge for the year	–	(470)	(380)	–	(850)
At 31st December 2004					
Cost	–	4,466	2,012	460	6,938
Accumulated depreciation	–	(3,769)	(551)	–	(4,320)
Net book value	–	697	1,461	460	2,618
Additions	–	24	–	–	24
Disposals	–	(117)	–	(119)	(236)
Charge for the year	–	(361)	(370)	(92)	(823)
At 31st December 2005					
Cost	–	4,209	1,852	311	6,372
Accumulated depreciation	–	(3,966)	(761)	(62)	(4,789)
Net book value	–	243	1,091	249	1,583

Investment properties were stated at professional valuation. All other assets are carried at cost less accumulated depreciation.

The net book value of plant and equipment held under finance leases amounted to HK\$781,000 (2004: HK\$1,065,000).

Notes to the Financial Statements

16 PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
At 31st December 2003			
Cost	2,738	675	3,413
Accumulated depreciation	<u>(2,399)</u>	<u>(443)</u>	<u>(2,842)</u>
Net book value	339	232	571
Additions	24	432	456
Disposals	–	(172)	(172)
Charge for the year	<u>(169)</u>	<u>(96)</u>	<u>(265)</u>
At 31st December 2004			
Cost	2,762	592	3,354
Accumulated depreciation	<u>(2,568)</u>	<u>(196)</u>	<u>(2,764)</u>
Net book value	194	396	590
Charge for the year	<u>(109)</u>	<u>(86)</u>	<u>(195)</u>
At 31st December 2005			
Cost	2,762	432	3,194
Accumulated depreciation	<u>(2,677)</u>	<u>(122)</u>	<u>(2,799)</u>
Net book value	<u><u>85</u></u>	<u><u>310</u></u>	<u><u>395</u></u>

Notes to the Financial Statements

17 GOODWILL

	Cost HK\$'000	Accumulated amortisation HK\$'000	Net book value HK\$'000
At 31st December 2003	32,219	23,917	8,302
Amortisation for the year	–	1,083	(1,083)
At 31st December 2004, as previously reported	32,219	25,000	7,219
Opening adjustment under HKFRS 3	(25,000)	(25,000)	–
At 1st January 2005, as restated	7,219	–	7,219
Impairment loss	(7,219)	–	(7,219)
At 31st December 2005	<u>–</u>	<u>–</u>	<u>–</u>

18 SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	<u>10</u>	<u>116</u>
Amounts receivable, less provision	<u>8,280</u>	<u>54,926</u>
Amounts payable	<u>(23,795)</u>	<u>(25,220)</u>

The amounts receivable and payable are unsecured, interest free and have no specific repayment terms.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ operation	Percentage of attributable equity interest		Issued and paid up capital	Principal activities
		2005	2004		
Barraza Company Limited	Hong Kong	100	100	HK\$2	Provision of secretarial services
Echo Peak Investment Limited	Hong Kong	100	100	HK\$10,000	Property investment

Notes to the Financial Statements

18 SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Percentage of attributable equity interest		Issued and paid up capital	Principal activities
		2005	2004		
*Ever Double Investments Limited	British Virgin Islands/ Hong Kong	100	100	US\$1	Investment holding
Ever Global Technology (Beijing) Limited	Mainland China	100	100	US\$150,000	Information system development
*Ever Global Technology Limited	Hong Kong	100	100	HK\$2	Investment holding
Keenland Company Limited	Hong Kong	100	100	HK\$100,100	Property investment
*#Lead Top Development Limited	Hong Kong	–	100	HK\$2	Investment holding
Springdale Investment Company Limited	Hong Kong	100	100	HK\$100,000	Property investment
Strong Way International Limited	Hong Kong	60	60	HK\$1,000,000	Electronic components trading
*Sunberry Investments Limited	British Virgin Islands/ Hong Kong	100	100	US\$1	Investment holding
*U-Cyber Construction (Holdings) Limited	Hong Kong	100	100	HK\$20	Investment holding
U-Cyber Investment Holdings (China) Limited	Hong Kong	100	100	HK\$20	Investment holding
*U-Cyber Property (Holdings) Limited	Hong Kong	100	100	HK\$10,000	Investment holding
U-Cyber Property Development Company Limited	Hong Kong	100	100	HK\$2	Investment holding

Notes to the Financial Statements

18 SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Percentage of attributable equity interest		Issued and paid up capital	Principal activities
		2005	2004		
# U-Cyber Property Management Company Limited	Hong Kong	–	100	HK\$2	Investment holding
* Universal Cyber Technology Holdings Limited	Hong Kong	100	100	HK\$2	Property investment
* Well Peace Investment Limited	Hong Kong	100	100	HK\$2	Investment holding

* Subsidiaries directly held by the Company

Subsidiaries deregistered during the year

19 ASSOCIATED COMPANIES

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	50	6,050	50	50
Provision	–	(6,000)	–	–
	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>

The associated companies do not have any profit or loss for the year or reserve as at 31st December 2005.

Particulars of the associated companies are as follows:

Name	Place of incorporation/ operation	Percentage of attributable equity interest		Principal activities
		2005	2004	
# Genius Group International Limited	Hong Kong	–	20	Apparels and accessories trading
Zhong Hang Yu (H.K.) Limited	Hong Kong	50	50	Inactive

The associated company was disposed of during the year

Notes to the Financial Statements

20 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group HK\$'000	Company HK\$'000
At 31st December 2004, as previously reported	11,679	1,942
Opening adjustment under HKAS 39	<u>1,088</u>	<u>1,088</u>
At 1st January 2005, as restated	12,767	3,030
Change in fair value	<u>(343)</u>	<u>(343)</u>
At 31st December 2005	<u><u>12,424</u></u>	<u><u>2,687</u></u>

Available-for-sale financial assets include the following:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Unlisted shares	9,737	9,737	–	–
Club debentures	2,687	1,942	2,687	1,942
	<u>12,424</u>	<u>11,679</u>	<u>2,687</u>	<u>1,942</u>

Unlisted shares of the Group represent the 8% equity interest in Beijing Glory Real Estate Development Company Limited, formerly a jointly controlled entity, which is established in the People's Republic of China.

21 INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Finished goods	2,118	8,192
Completed properties	<u>–</u>	<u>160</u>
	<u>2,118</u>	<u>8,352</u>

Notes to the Financial Statements

22 DEBTORS AND PREPAYMENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade debtors	9,080	4,237	–	–
Other debtors	–	107	–	–
Deposits and prepayments	2,412	3,456	2,017	2,017
	<u>11,492</u>	<u>7,800</u>	<u>2,017</u>	<u>2,017</u>

The credit terms granted to trade debtors in respect of sales of electronic components are usually 30 to 90 days. Rental income from tenants is due and payable in advance.

The ageing analysis of the trade debtors of the Group, based on the dates of the invoices net of provision for impairment, is as follows:

	2005 HK\$'000	2004 HK\$'000
Below 30 days	3,174	1,145
30 to 90 days	4,497	2,066
91 to 180 days	1,264	649
Over 180 days	145	377
	<u>9,080</u>	<u>4,237</u>

Notes to the Financial Statements

23 TRADING INVESTMENT

	Group	
	2005	2004
	HK\$'000	HK\$'000
Listed in Hong Kong, at market value	<u>–</u>	<u>35,162</u>

The investments in 2004 represented approximately 5.4% equity interest in INNOMAXX Biotechnology Group Limited, formerly an associated company, which is incorporated in Bermuda.

24 CASH AND BANK BALANCES

Cash and balances include short-term deposits amounting to HK\$2,082,000 (2004: HK\$2,040,000), the effective interest rates of which were 3.20% (2004: 0.53%) with maturity of about 30 days. The short-term bank deposits have been pledged as securities for bank facilities granted to the Group.

25 SHARE CAPITAL

	2005	2004
	HK\$'000	HK\$'000
Authorised:		
1,000,000,000 shares of HK\$0.25 each	<u>250,000</u>	<u>250,000</u>
Issued and fully paid:		
610,584,391 shares of HK\$0.25 each	<u>152,646</u>	<u>152,646</u>

Under the terms of the share option scheme of the Company approved by the shareholders on 29th December 2004 (the "Scheme"), the Directors of the Company may, at their discretion, offer any eligible participants (including any Directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. A nominal consideration of HK\$1 was paid by the participants for each lot of share options granted. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than ten years from the date of grant of the options.

Notes to the Financial Statements

25 SHARE CAPITAL (Continued)

Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2005	2004
At beginning of the year	–	–
Granted	43,620,000	–
At end of the year	43,620,000	–

All the share options were granted on 27th September 2005 to employees at the exercise price of HK\$0.25 per share, on which considerations of HK\$11 was received by the Company. These options can be exercised from the 27th October 2005 or 27th March 2006 to 29th September 2010. At the date before the options were granted, the market value per share was HK\$0.109.

The fair value of the options granted during the year is HK\$994,000, as determined using the Black-Scholes valuation model. The significant inputs into the model are share price of HK\$0.1082 at the valuation date, exercise price of HK\$0.25 per share at the date of granting the options, standard deviation of expected share price returns of 72.38%, expected life of the options of 2.0 to 2.5 years, expected dividend paid out rate of 0% and annual risk-free interest rate of 3.870 to 3.934%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

On 8th March 2006, options to subscribe for 14,240,000 shares were granted to Directors and employees at the exercise price of HK\$0.2648 per share. The market price of the shares on that date was HK\$0.25. These options can be exercised from 8th April 2006 or 8th September 2006 to 7th March 2011.

Notes to the Financial Statements

26 RESERVES

Group

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Investment reserve HK\$'000	Foreign exchange reserve HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
At 31st December 2005, as previously reported	12,034	5,318	1,805	–	11,425	538	(152,573)	(121,453)
Opening adjustment								
Available-for-sale financial assets (HKAS 39)	–	–	–	–	1,088	–	–	1,088
At 1st January 2005, as restated	12,034	5,318	1,805	–	12,513	538	(152,573)	(120,365)
Changes in exchange rates	–	–	–	–	–	(97)	–	(97)
Realised on disposal of investment	–	–	–	–	(11,425)	–	–	(11,425)
Change in fair value of available-for-sale financial assets	–	–	–	–	(343)	–	–	(343)
Dividend forfeited	–	–	–	–	–	–	504	504
Share options granted at fair value	–	–	–	994	–	–	–	994
Loss for the year	–	–	–	–	–	–	(33,537)	(33,537)
At 31st December 2005	<u>12,034</u>	<u>5,318</u>	<u>1,805</u>	<u>994</u>	<u>745</u>	<u>441</u>	<u>(185,606)</u>	<u>(164,269)</u>
At 31st December 2003	12,034	5,318	1,805	–	58,216	538	(112,590)	(34,679)
Realised on disposal of investment	–	–	–	–	(20,791)	–	–	(20,791)
Revaluation deficits of investments	–	–	–	–	(26,000)	–	–	(26,000)
Loss for the year	–	–	–	–	–	–	(39,983)	(39,983)
At 31st December 2004	<u>12,034</u>	<u>5,318</u>	<u>1,805</u>	<u>–</u>	<u>11,425</u>	<u>538</u>	<u>(152,573)</u>	<u>(121,453)</u>

Notes to the Financial Statements

26 RESERVES (Continued)

Company

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Investment reserve HK\$'000	Accumulated loss HK\$'000	Total HK\$'000
At 31st December 2004, as previously reported	12,034	5,318	–	–	(146,446)	(129,094)
Opening adjustment						
Available-for-sale financial assets (HKAS 39)	–	–	–	1,088	–	1,088
At 1st January 2005, as restated	12,034	5,318	–	1,088	(146,446)	(128,006)
Change in fair value of available-for-sale financial assets	–	–	–	(343)	–	(343)
Dividend forfeited	–	–	–	–	504	504
Share options granted at fair value	–	–	994	–	–	994
Loss for the year	–	–	–	–	(47,716)	(47,716)
At 31st December 2005	<u>12,034</u>	<u>5,318</u>	<u>994</u>	<u>745</u>	<u>(193,658)</u>	<u>(174,567)</u>
At 31st December 2003	12,034	5,318	–	–	(71,634)	(54,282)
Loss for the year	–	–	–	–	(74,812)	(74,812)
At 31st December 2004	<u>12,034</u>	<u>5,318</u>	<u>–</u>	<u>–</u>	<u>(146,446)</u>	<u>(129,094)</u>

The loss attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK\$47,716,000 (2004: HK\$74,812,000).

The Company does not have any reserves available for distribution to the shareholders as calculated under Section 79B of the Hong Kong Companies Ordinance.

Pursuant to the reduction in capital of the Company in 2003, the Company has undertaken that in the event of its making any future recoveries in respect of the provisions against certain specific subsidiary companies by the Company as at 31st December 2002, all such recoveries up to a maximum amount of HK\$367,938,293, will be credited to a special capital reserve of the Company and shall not be available for distribution to the shareholders of the Company.

Notes to the Financial Statements

27 BORROWINGS

	Group	
	2005 HK\$'000	2004 HK\$'000
Obligations under finance leases wholly payable within five years	388	679
Current portion included under current liabilities	291	291
	<u>679</u>	<u>970</u>

The finance lease obligations, which are denominated in Hong Kong dollars, are payable in the following years:

	Minimum payments		Present value	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
2005	–	319	–	291
2006	319	319	291	291
2007	319	319	291	291
2008	106	106	97	97
	<u>744</u>	<u>1,063</u>	<u>679</u>	<u>970</u>

The effective interest rate at the balance sheet date is 3.79% (2004: 3.79%).

28 CREDITORS AND ACCRUALS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade creditors	19,520	19,506	–	–
Other creditors and accrued operating expenses	8,859	15,751	3,624	7,383
Amount due to an associate company	38	41	38	41
Amount due to a Director	5,730	2,924	5,730	2,924
Amount due to a related party	2,518	2,518	2,518	2,518
	<u>36,665</u>	<u>40,740</u>	<u>11,910</u>	<u>12,866</u>

The amount payable to the Director, Mr, Tong Nai Kan, and a related party are unsecured, interest free and have no specific repayment terms.

Notes to the Financial Statements

28 CREDITORS AND ACCRUALS (Continued)

Trade creditors of the Group amounting to HK\$18,803,000 (2004:HK\$15,430,000) are denominated in US dollars. The ageing analysis of the Group's trade creditors, based on the dates of the invoices, is as follows:

	2005	2004
	HK\$'000	HK\$'000
Below 30 days	2,932	1,186
30 to 90 days	7,374	11,613
91 to 180 days	8,770	6,389
Over 180 days	444	318
	19,520	19,506

29 OPERATING LEASE COMMITMENTS

(a) The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases is payable in the following years:

	Group	
	2005	2004
	HK\$'000	HK\$'000
2005	–	4,608
2006	1,637	4,132
2007	191	191
	1,828	8,931

(b) The future aggregate minimum sub-lease rental income in respect of land and buildings under non-cancellable operating leases, which is receivable in 2006, is HK\$261,000 (2004: Nil).

30 CONTINGENT LIABILITIES

The Company has provided guarantees in respect of finance lease obligations granted to subsidiary companies amounting to HK\$679,000 (2004: HK\$970,000).

Notes to the Financial Statements

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss to cash used in operations

	2005 HK\$'000	2004 HK\$'000
Operating loss	(33,806)	(34,268)
Interest income	(94)	(6)
Depreciation	823	850
Amortisation of goodwill	–	1,083
Loss on disposal of property, plant and equipment	153	7,039
Fair value of share options granted	994	–
Impairment of goodwill	7,219	–
Gain on deregistration of subsidiaries	(167)	–
Unrealised gain of trading investments	–	(150)
Loss on sale of trading investments	5,600	753
	<hr/>	<hr/>
Operating loss before working capital changes	(19,278)	(24,699)
Decrease/(increase) in inventories	6,234	(1,666)
(Increase)/decrease in debtors and prepayments	(3,188)	3,257
Decrease in creditors and accruals	(3,908)	(1,754)
	<hr/>	<hr/>
Cash used in operations	<u>(20,140)</u>	<u>(24,862)</u>

(b) Analysis of changes in financing activities

	Share capital and premium HK\$'000	Loans and finance lease obligations HK\$'000	Total HK\$'000
At 31st December 2003	134,680	88,632	223,312
Issue of new shares	30,000	(30,000)	–
Net cash outflow from financing activities	<hr/> –	<hr/> (57,662)	<hr/> (57,662)
At 31st December 2004	164,680	970	165,650
Net cash outflow from financing activities	<hr/> –	<hr/> (291)	<hr/> (291)
At 31st December 2005	<u>164,680</u>	<u>679</u>	<u>165,359</u>

Notes to the Financial Statements

32 SUBSEQUENT EVENT

On 12 April 2006, the Group entered into an agreement with an independent third party for the acquisition of the entire equity interest in certain companies, the principal activities of which are supply and trading of natural gas and related services in Mainland China, at an aggregate consolidation of HK\$250 million to be settled by the issue of new shares of the Company, fixed interest rate notes and cash.