1. General

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Profit Harbour Investments Limited ("Profit Harbour"), a company incorporated in the British Virgin Islands. The address of its registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 29.

The financial statements are presented in Hong Kong dollars ("HK$") which is the Company's functional and presentation currency.

2. Impact of New Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new HKFRSs, HKASs and Interpretations that are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs which are pertinent to its operations and relevant to these financial statements.

–	HKAS 1	Presentation of Financial Statements
–	HKAS 7	Cash Flow Statements
–	HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
–	HKAS 10	Events after the Balance Sheet Date
–	HKAS 12	Income Taxes
–	HKAS 17	Leases
–	HKAS 18	Revenue
–	HKAS 19	Employee Benefits
–	HKAS 21	The Effects of Changes in Foreign Exchange Rates
–	HKAS 24	Related Party Disclosures
–	HKAS 27	Consolidated and Separate Financial Statements
–	HKAS 32	Financial Instruments: Disclosure and Presentation
–	HKAS 33	Earnings per Share
–	HKAS 36	Impairment of Assets
–	HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
–	HKAS 39	Financial Instruments: Recognition and Measurement
–	HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
–	HKFRS 2	Share-based Payment

2. Impact of New Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (Continued)

The adoption of HKASs 7, 8, 10, 12, 17, 18, 19, 21, 27, 33, 36 and 37 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosure in the Group's financial statements. The major effects on adoption of the other HKFRSs and HKASs are summarised as follows:

(a) The adoption of HKAS 1 requires the disclosure of judgments (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 3 to the financial statements.

(b) The adoption of HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

(c) The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. HKAS 39 which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below.

The Group has applied the relevant transitional provisions of HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

On or before 31 December 2004, the Group classified and measured its equity securities as investment securities, which are carried at cost less impairment losses (if any), in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA. From 1 January 2005 onwards, the Group classifies and measures its equity securities as "available-for-sale financial assets", which are carried at cost, as the equity securities do not have a quoted market price in an active market and whose fair value cannot be reliably measured, in accordance with HKAS 39. No adjustment on fair value of the equity securities has been required.

(d) The adoption of HKFRS2 has resulted in a change in accounting policy for share options. Prior to this, no recognition and measurement of share-based transactions in which share options granted over shares in the Company was required until such options were exercised, at which time the share capital and share premium were credited with the proceeds received.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 4.

There were no options granted by the Company after 7 November 2002 but had not vested before 1 January 2005. Accordingly, the adoption of HKFRS 2 in respect of share options granted has had no effect on these financial statements.

2. Impact of New Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (Continued)

The Group has not early applied the following new HKFRSs that have been issued by the HKICPA but not yet effective. The Group has considered these standards and interpretations but does not expect that they will have a material effect on how the results of operation and financial position of the Group are prepared and presented.

–	HKAS 1 (Amendment)	Capital Disclosures [1]
–	HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures [2]
–	HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation [2]
–	HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
–	HKAS 39 (Amendment)	The Fair Value Option [2]
–	HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts [2]
–	HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
–	HKFRS 7	Financial Instruments: Disclosures [1]
–	HK(IFRIC) – INT 4	Determining Whether an Arrangement Contains a Lease [2]
–	HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
–	HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market – Waste, Electrical and Electronic Equipment [3]
–	HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

[1] Effective for the annual period beginning on or after 1 January 2007

[2] Effective for the annual period beginning on or after 1 January 2006

[3] Effective for the annual period beginning on or after 1 December 2005

[4] Effective for the annual period beginning on or after 1 March 2006

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

Estimates and judgments 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 assumption concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

There is no significant risk of key assumptions concerning the future and other key sources of estimation at the balance sheet date which will cause an adjustment to carrying amounts of assets and liabilities within the next year.

There are no significant effects on amounts recognised in the financial statements arising from the judgment or estimates used by management.

4. Significant Accounting Policies

The financial statements have been prepared in accordance with HKFRSs and HKASs issued by the HKICPA. They have been prepared under the historical cost convention. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, until the date such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than 50% of its voting power or issued share capital or controls the composition of its board of directors or has power to govern its financial and operating policies.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Property, plant and equipment

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

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	Over the shorter of the term of the lease, or 50 years
Buildings	Over the shorter of the term of the lease, or 50 years
Plant and machinery	12%
Furniture, fixtures and equipment	20-33$^{1}/_{3}$%

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

Impairment

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

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

4. Significant Accounting Policies (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed or when the relevant sales contracts become unconditional.

Interest income is recognised as it accrues using the effective interest method.

Foreign currencies

In preparing the financial statements, transactions in currencies other than the Group entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

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

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

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

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

4. Significant Accounting Policies (Continued)

Taxation (Continued)

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

Financial instruments

Financial assets

The Group's financial asset is classified as available-for-sale investments.

Available-for-sale investments are those non-derivative financial assets in equity securities or are not classified in any of the other three categories under the scope of HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. For investments where there is no active market and whose fair value cannot be reliably measured, such investments are measured at cost less any impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with bank and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Trade and other payables

Trade and other payable are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

4. Significant Accounting Policies (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rental payments applicable to such operating leases are charged to the income statement on the straight-line basis over the lease periods.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

Provision

Provision are recognised when the Group has a present legal or constructive obligation as a result of past events, 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.

Employee benefits costs

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred.

Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date of which the relevant employees became fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settlement transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of the period.

4. Significant Accounting Policies (Continued)

Share-based payments (Continued)

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

5. Revenue and Other Income

The principal business of the Group is trading of base metals and fabric products and other merchandises to outsider customers. Turnover and revenue recognised during the year are as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Turnover		
Sales revenue from trading of base metals	**44,937**	13,522
Sales revenue from trading of fabric products and other merchandises	**23,456**	8,783
	68,393	22,305
Other income		
Interest income	**160**	4
Exchange gain	**–**	7
Others	**314**	2
	474	13
Total income	**68,867**	22,318

6. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into two operating divisions – trading in base metals and trading in fabric products and other merchandises. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Continuing operations:

Trading in base metals	–	trading in base metals
Trading in fabric products and other merchandises	–	trading in fabric products and other merchandises

Discontinued operation:

Fabric processing	–	processing of raw fabric and the sale of finished fabric

In 2002, former directors of the Company determined to cease the Group's fabric processing operation which had been carried out under Chaoyang Hua Loong. Chaoyang Hua Loong was de-consolidated from the Group with effect from 1 January 2004, hence, except for the gain on de-consolidation of a subsidiary and allowance made on advance to an investee company, no results, assets and liabilities were attributable to the fabric processing operation during the year ended 31 December 2004. Details are set out in note 14.

6. Business and Geographical Segments (Continued)

Business segments (Continued)

Segment information about these businesses is presented below.

2005

	Continuing operations		Discontinued operation	
	Trading in base metals	Trading in fabric products and other merchandises	Fabric processing	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	44,937	23,456	–	68,393
Results				
Segment profit	110	966	–	1,076
Unallocated corporate expenses				(8,214)
Credit arising from a scheme of arrangement with creditors				15,421
Finance costs – interest on other loans				(1,744)
Profit before taxation				6,539
Income tax expense				(38)
Profit for the year				6,501
Balance Sheet				
Assets				
Segment assets	432	1,719	–	2,151
Unallocated corporate assets				40,852
Consolidated total assets				43,003
Liabilities				
Segment liabilities	–	1,570	–	1,570
Unallocated corporate liabilities				19,552
Consolidated total liabilities				21,122

6. Business and Geographical Segments (Continued)

Business segments (Continued)

2004

	Continuing operations		Discontinued operation	
	Trading in base metals	Trading in fabric products and other merchandises	Fabric processing	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
External sales	13,522	8,783	–	22,305
Results				
Segment profit	121	393	–	514
Allowance for advance to an investee company	–	–	(24,806)	(24,806)
Gain on de-consolidation of a subsidiary	–	–	11,624	11,624
Unallocated corporate expenses				(23,265)
Finance costs – interest on other loans				(335)
Loss before taxation				(36,268)
Income tax expense				(31)
Loss for the year				(36,299)
Balance Sheet				
Assets				
Segment assets	622	6,635	–	7,257
Unallocated corporate assets				50,271
Consolidated total assets				57,528
Liabilities				
Segment liabilities	1,287	3,467	–	4,754
Unallocated corporate liabilities				37,394
Consolidated total liabilities				42,148

6. Business and Geographical Segments (Continued)

Geographical segments

The following tables provide an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong	**49,635**	14,788
Africa	**18,758**	7,517
	68,393	22,305

All segment assets are located in Hong Kong. There was no addition of property, plant and equipment for each of the year ended 31 December 2004 and 2005 respectively.

7. Credit Arising from a Scheme of Arrangement with Creditors

On 28 February 2005, Merchants (Hong Kong) Limited ("Merchants HK"), a wholly-owned subsidiary of the Company, held a meeting with its creditors pursuant to the Order of The Honourable Deputy Justice Poon on 2 February 2005 authorising the convening of such meeting, at which a scheme of arrangement (the "Scheme") allowing Merchants HK to compromise its debts with its creditors was duly approved by the creditors present thereat. A petition hearing before the High Court took place on 19 April 2005 at which the Court also sanctioned the Scheme, the Order for which was duly filed with the Registrar of Companies in Hong Kong on the same date whereupon the Scheme has become fully effective with the effect of reducing the Group's liabilities by approximately HK$15,421,000.

8. Administrative Expenses

	2005	2004
	HK$'000	*HK$'000*
Administrative expenses include the following:		
Auditors' remuneration	**250**	430
Depreciation and amortisation	**7**	17
Legal and professional fees	**4,760**	5,093
Loss on disposal of property, plant and equipment	**16**	112
Retirement benefits scheme contributions, net of nil (2004: Nil) forfeited contributions	**55**	15
Staff costs, including directors' emoluments (Note 9) (NB)	**1,513**	496

NB: Staff costs to the amount of HK$213,000 (2004: HK$80,000) was also included in distribution costs in the consolidated income statement.

9. Directors' and Employees' Emoluments

The remuneration of each director for the year ended 31 December 2005 and 2004 are set out below.

2005

	Fees *HK$'000*	**Salaries, allowances, and benefits in kind** *HK$'000*	**Retirement scheme contribution** *HK$'000*	**Total** *HK$'000*
Executive directors				
Yue Jialin	**–**	**–**	**–**	**–**
Lau Yau Cheung	**–**	**300**	**15**	**315**
Independent non-executive directors				
Wong Wing Kuen, Albert	**40**	**–**	**–**	**40**
Tsui Robert Che Kwong	**40**	**–**	**–**	**40**
Wu Guo Jian	**40**	**–**	**–**	**40**
Total	**120**	**300**	**15**	**435**

2004

	Fees *HK$'000*	Salaries, allowances, and benefits in kind *HK$'000*	Retirement scheme contribution *HK$'000*	Total *HK$'000*
Executive directors				
Yue Jialin	–	–	–	–
Lau Yau Cheung	–	–	–	–
Independent non-executive directors				
Wong Wing Kuen, Albert	20	–	–	20
Tsui Robert Che Kwong	20	–	–	20
Wu Guo Jian	20	–	–	20
Total	60	–	–	60

During the year ended 31 December 2005, Mr. Lau Yau Cheung waived part of the emoluments amounting to HK$300,000, which were excluded in the above disclosure. Apart from the above, no director has waived or agreed to waive any emoluments during the years ended 31 December 2005 and 2004.

9. Directors' and Employees' Emoluments (Continued)

Of the five individuals with the highest emoluments in the Group, one (2004: one) individual was a director of the Company whose emoluments are included in the disclosure set out above. The aggregate emoluments of the five highest paid individuals were as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Salaries and allowances	**1,393**	456
Retirement benefits scheme contributions	**55**	15
	1,448	471

The remuneration of each of the five highest paid individuals for the years ended 31 December 2005 and 2004 fell within Nil to HK$1,000,000 band.

During the years ended 31 December 2005 and 2004, no emoluments were paid by the Group to any of the directors or the five highest paid individuals, including directors and employees, as an inducement to join or upon joining the Group or as compensation for loss of office.

10. Income Tax Expense

Hong Kong Profits Tax is calculated at 17.5% of the assessable profit for the year.

The charge for the year can be reconciled to the profit/(loss) before taxation per the income statement as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Profits /(loss) before taxation	**6,539**	(36,268)
Tax at Hong Kong Profits Tax rate of 17.5%	**1,144**	(6,347)
Tax effect of expenses not deductible for tax purpose	**1,454**	8,309
Tax effect of income not taxable for tax purpose	**(2,755)**	(2,051)
Tax effect of tax loss not recognised	**193**	120
Utilisation of tax loss previously not recognised	**2**	–
Tax charge for the year	**38**	31

At 31 December 2005, the Group had unused tax losses of approximately HK$4,164,000 (2004: HK$23,702,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation at the balance sheet date.

11. Earnings/(Loss) Per Share

The calculation of the basic earnings/(loss) per share is based on the profit for the year of HK$6,501,000 (2004: loss of HK$36,299,000) and on 413,000,000 (2004: 413,000,000) shares in issue during the year.

Diluted loss per share has not been presented for the years ended 31 December 2005 and 2004 as there were no potential dilutive shares outstanding during both years.

12. Property, Plant and Equipment

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
The Group				
Cost				
At 1 January 2004	47,578	24,985	1,017	73,580
Disposals	–	–	(201)	(201)
De-consolidation of a subsidiary	(47,578)	(24,985)	–	(72,563)
At 31 December 2004	–	–	816	816
At 1 January 2005	–	–	816	816
Disposals	–	–	(816)	(816)
At 31 December 2005	–	–	–	–
Depreciation, Amortisation and Impairment Loss				
At 1 January 2004	33,030	15,790	865	49,685
Provided for the year	–	–	17	17
Eliminated on disposals	–	–	(89)	(89)
De-consolidation of a subsidiary	(33,030)	(15,790)	–	(48,820)
At 31 December 2004	–	–	793	793
At 1 January 2005	–	–	793	793
Provided for the year	–	–	7	7
Eliminated on disposals	–	–	(800)	(800)
At 31 December 2005	–	–	–	–
Net Book Value				
At 31 December 2005	–	–	–	–
At 31 December 2004	–	–	23	23

13. Interests in Subsidiaries

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted investments	**75,274**	75,274
Amounts due from subsidiaries, less allowances	**6,296**	32,121
	81,570	107,395
Less: Impairment loss	**(75,274)**	(75,274)
	6,296	32,121

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the Directors, the amounts will not be repaid in the next twelve months from the balance sheet date and the amounts are therefore shown as non-current.

At the balance sheet date, the Directors had reviewed the carrying value of the investments in subsidiaries and identified that the recoverable amounts of certain subsidiaries were estimated to be lower than the carrying values of the investment in the respective subsidiary. The recoverable amount was determined by the Directors with reference to the existing operation plan and the recoverable value of the underlying assets and liabilities of the respective subsidiaries.

Particulars of the Company's subsidiaries at 31 December 2005 are set out in note 29.

14. Available-for-sale Investment/Investment in Security

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Overseas unlisted investment security (Note 20)	**–**	–
Advance to an investee company	**24,806**	24,806
Less: Allowance	**(24,806)**	(24,806)
	–	–

14. Available-for-sale Investment/Investment in Security (Continued)

The investment represents a 100% equity interest in the registered capital of Chaoyang Hua Loong Textiles and Dyeing Limited ("Chaoyang Hua Loong"), a company established in the PRC which is engaged in fabric processing and manufacturing. On 12 April 2003, the Company entered into a sale and purchase agreement to dispose of the entire issued share capital of Park Well International Group Limited ("Park Well"), including the 100% equity interest in Chaoyang Hua Loong held by a wholly-owned subsidiary of Park Well, to Show Goods Inc., a company incorporated in the British Virgin Islands, (the "Park Well Disposal Agreement"). Based on the Receivers' (who were appointed on 17 June 2003 and were discharged on 2 July 2004) investigations, they are of the view that despite the Park Well Disposal Agreement, the purported disposal of Park Well was rescinded and not completed and therefore the Company remains to be the beneficial owner of Park Well. The Receivers had since then taken steps to secure control over various companies comprising the Park Well Group. However, Chaoyang Hua Loong remains not under the control of the Company. Having obtained legal advice, in the opinion of the directors, the Group is still unable to exercise control over the financial and operating decisions of Chaoyang Hua Loong. Accordingly, Chaoyang Hua Loong was not regarded as a subsidiary of the Company with effect from 1 January 2004 and was accounted for as an investment security and stated in the consolidated balance sheet at 31 December 2004 at nil value. The investment was reclassified as available-for-sale investment upon adoption of HKAS 39 in January 2005. Details of which are set out in note 20.

The advance to Chaoyang Hua Loong is unsecured, non-interest bearing and has no fixed terms of repayment. Despite the efforts placed by the directors to secure control over Chaoyang Hua Loong and its related assets and in light of the events described above, the directors have made full allowance against the advance to Chaoyang Hua Loong in the interests of prudence.

15. Trade and Other Receivables

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Trade receivables – 0 to 30 days	**2,151**	7,249
Other receivables	**35,375**	35,327
	37,526	42,576

The balance at the balance sheet date includes an amount of approximately HK$35.1 million (2004: HK$35.1 million) receivable from Great Center Limited (the "Debt"). Details of the Debt, and related litigations, are set out in notes 24(i) to (iii). Subsequent to the balance sheet date, on 12 April 2006, the Company and its controlling shareholder, Profit Harbour entered into a deed of assignment, pursuant of which Profit Harbour has conditionally agreed to acquire from the Company, the Debt at the consideration of US$4.5 million (equivalent to approximately HK$35.1 million) (the "Assignment of Debt"). The Assignment of Debt constitutes a connected transaction and a major transaction of the Company under the Rules Governing the Listing of Securities on of The Stock of Exchange of Hong Kong Limited and is therefore subject to independent shareholders' approval.

16. Trade and Other Payables

The following is an aged analysis of trade payables at the balance sheet date:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Trade payables		
0 to 30 days	**1,554**	3,069
Over 365 days	**–**	1,287
	1,554	4,356
Other payables	**4,499**	22,737
	6,053	27,093

17. Secured Other Loans

As at 31 December 2005, the secured other loans bear interest at the Hong Kong Prime Rate plus 5% per annum and are due on 30 October 2006. Details of the assets pledged are set out in note 25.

18. Share Capital

	Number of ordinary shares of HK$0.10 each	**Amount** *HK$'000*
Authorised:		
At 1 January 2004, 31 December 2004 and 31 December 2005	1,000,000,000	100,000
Issued and fully paid:		
At 1 January 2004, 31 December 2004 and 31 December 2005	413,000,000	41,300

19. Share Options Schemes

The existing share option scheme was adopted by the Company pursuant to an ordinary resolution passed on 22 September 2004 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 21 September 2014 (the "Scheme"). Under the Scheme, the board of directors of the Company may grant options to eligible persons, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per grant. Options may be exercised at any time from the date of grant of the share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the nominal value of the Company's shares and the average closing price of the shares for the five business days immediately preceding the date of grant.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at 22 September 2004, being the date of passing of the resolution regarding the Scheme, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

No option has been granted under the Scheme since its adoption.

20. De-consolidation of a Subsidiary

As set out in note 14, having obtained legal advice, in the opinion of the Directors the Group is not in a position to exercise control over the financial and operating decisions of Chaoyang Hua Loong. Accordingly, Chaoyang Hua Loong was not regarded as a subsidiary of the Company with effect from 1 January 2004 and was excluded from the consolidated financial statements of the Company on the same date.

	2005 ***HK$'000***	2004 *HK$'000*
Net liabilities de-consolidated:		
Property, plant and equipment	–	23,743
Trade and other payables	–	(515)
Advance from Park Well	–	(24,806)
Taxation payable	–	(10,046)
	–	(11,624)
Gain on de-consolidation of a subsidiary	–	11,624
Reclassification of investment in a subsidiary to investment security (Note 14)	–	–

Chaoyang Hua Loong was de-consolidated during the year ended 31 December 2004 and it did not contribute to the turnover, operating results or cash flows of the Group.

21. Major Non-cash Transaction

As detailed on note 7 above, during the year, a wholly-owned subsidiary of the Company had effected a scheme of arrangement with creditors, with which the Group's liabilities were reduced by approximately HK$15,421,000.

During the year ended 31 December 2004, other receivables amounting to HK$14,134,000, which were offset against other payables of the same amount in prior year by the Receivers, were carried at their respective gross amounts.

22. Financial Risk Management

The Group's activities exposed it mainly to currency risk and credit risk. The Group's overall risk management programme seeks to minimize potential adverse effects on the Group's financial performance.

Currency risk

The Group operates internationally and certain trade receivables are denominated in foreign currencies, which is mainly in United Stated dollars that are pegged with Hong Kong dollars. Therefore, the Group does not have any significant exposure to currency risk.

Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. It arises primarily from the Group's bank deposits and trade and other receivables. The Group only traded with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Bank balances are placed with high-credit-quality institutions and directors of the Company considered that the credit risk for such is minimal.

Interest rate risk

The Group's interest rate risk relates to impact of interest rate changes on interest bearing secured other loan. The interest rates and terms of repayment of the borrowings are disclosed in note 17.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

23. Commitments

Operating Lease – The Group as lessee

	2005 **HK$'000**	2004 *HK$'000*
Minimum lease payments under operating leases in respect of rented premises during the year	**465**	748

23. Commitments (Continued)

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

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**366**	252
In the second to fifth year inclusive	**153**	–
	519	252

Operating lease payments represent rental payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years.

Capital Commitment

On 19 April 2005, the Company has entered into a Heads of Terms with a third party in respect of a proposed acquisition of a company which is engaged in the trading of electronics parts at a consideration of HK$4,500,000.

Apart from the above, the Company and/or the Group had no commitment at the balance sheet date.

24. Litigation and Contingent Liabilities

At 31 December 2005, the Group had the following litigation and contingent liabilities:

(i) Having obtained legal advice, the Receivers commenced legal proceedings on 2 July 2003 against Great Center Limited ("Great Center"), a company incorporated in the British Virgin Islands, for the repayment of two sums totaling US$4.5 million (or approximately HK$35.1 million), remitted on or about 21 May 2003 with no apparent justification, from the bank accounts of Merchants (Hong Kong) Limited ("Merchants HK"), a wholly-owned subsidiary of the Company, to a bank account maintained in the name of Great Center, and interest thereon, damages and costs of the legal proceedings ("the Great Center Action"). In order to prevent the dissipation of Great Center's assets, an injunction order was applied for, and successfully obtained on 30 June 2003, from the High Court to restrict Great Center from, inter alia, disposing of or otherwise dealing with or diminishing assets of Great Center up to the value of US$4.5 million (the "Injunction Order"). The relevant bank, the lawyers of Great Center and other relevant persons have been notified of the Injunction Order. The Injunction Order remained valid up to and including 11 July 2003 on which date the Injunction Order was continued until further order or final determination of the Great Center Action.

(ii) The writ of summons issued on 2 July 2003 in relation to the claim against Great Center for the repayment of US$4.5 million was amended on 10 July 2004 (the "Amended Writ") to include the claims for (i) the repayment of HK$12.8 million remitted from a bank account of the Company to a bank account in the name of Great Center on or about 17 April 2003; and (ii) the repayment of HK$22.0 million remitted from a bank account of the Company to a bank account in the name of Modern Shine Enterprises Limited ("Modern Shine"), a company incorporated in the British Virgin Islands, on or about 22 April 2003, interest thereon, damages and costs of legal proceedings. The sum of claims under the Amended Writ amounts to approximately HK$69.9 million (the "Great Center Claim"). The Amended Writ also includes a bank in Hong Kong, Modern Shine, certain former executive directors, officers and employees of the Group, and all directors or authorised signatories of Great Center and Modern Shine as defendants (the "Defendants") for the purposes of seeking orders against them for the disclosure of documents and/or information. An application was made on 10 July 2003 to the High Court for an order (the "Disclosure Order") that the Defendants disclose to the Company and Merchants HK all relevant information and documents relating to the transfers of the amounts comprising the Great Center Claim. The Disclosure Order was granted by the High Court on 18 July 2003.

24. Litigation and Contingent Liabilities (Continued)

(iii) Solicitors instructed by the directors have pursued the claim against Great Center and Modern Shine further and obtained the following directions from the court:

(a) The Company do file and serve its list of documents by 21 March 2005;

(b) Great Center and Modern Shine do file and serve their lists of documents by 28 March 2005;

(c) There be inspection of documents by 11 April 2005;

(d) The parties do exchange signed witness statements of facts within 25 April 2005;

(e) The application for leave to set the case down for trial be adjourned to 25 April 2005 at 10:00 a.m. before the Listing Clerk for fixing an appointment before the Listing Master;

(f) The application to set down was adjourned by the court to a date to be fixed as Greater Centre was not ready to exchange its witness statements with the Company; and

(g) The date to exchange witness statements was postponed to 14 September 2005. The Company will apply to set down for trial after the exchange of witness statements.

The Company and Great Center have exchanged their lists of documents and solicitors for the Company have received copy documents from Great Center's solicitors for inspection. Modern Shine has failed to comply with the direction to file and serve its list of documents. Solicitors for the Company have taken out an application against Modern Shine for an order that it must serve and file its list of documents within 7 days of the order, failing which solicitors for the Company will further apply for an order that unless Modern Shine do comply with the direction of the court within 14 days, judgment be entered against it for the full amount claimed. After that it will be for the Company to trace the assets of Modern Shine in order to recover the judgment sum. As Modern Shine has failed to file its list of documents within the time limit imposed by the court, the court entered judgment against Modern Shine on 7 November 2005 for the sum of HK$22,000,000 plus interest and damages for conversion and interest thereon.

Regarding the claim against Great Center, the Company is in negotiation with Great Center's liquidators for an amicable settlement.

24. Litigation and Contingent Liabilities (Continued)

(iv) As a result of the information provided to the Company and Merchants HK under the Disclosure Order, the Receivers have discovered that, together with certain funds out of the Great Center Claim, an aggregate amount of approximately HK$37 million was transferred, by a series of transfers, by Great Center and Modern Shine to Win Victory Holdings Limited ("Win Victory"), a company incorporated in Hong Kong and Mr. Chau Ching Ngai, former substantial shareholder of the Company and the spouse of Ms. Mo Yuk Ping, and Ms. Mo Yuk Ping, former chairman of the Company, are the registered shareholders of 49% and 51%, respectively, of the issued share capital of Win Victory, without apparent legitimate commercial reason. Having obtained legal advice, the Receivers commenced legal proceedings on 23 August 2003 against Win Victory (the "Win Victory Action") for the repayment of the HK$37 million, interest thereon, damages and costs of legal proceedings (the "Win Victory Claim"). It should be noted that should any of the amount claimed against Win Victory be recovered from Great Center and/or Modern Shine in the Great Center Claim such amounts will be taken into account in the Win Victory Action. In order to prevent the dissipation of Win Victory's assets, the Company applied for, and obtained on 22 August 2003, from the High Court an injunction order against Win Victory (the "Win Victory Injunction Order") to restrict Win Victory from, among other things, disposing of or otherwise dealing with or diminishing the value of its assets up to the value of HK$37 million. On 29 August 2003, the Win Victory Injunction Order was continued until further order or final determination of the Win Victory Action.

(v) Having obtained legal advice, the Receivers, on behalf of the Company, petitioned for the winding-up of Win Victory on the grounds that Win Victory is unable to pay its debts and/or it is just and equitable for Win Victory to be wound up and obtained an order from the High Court on 24 September 2003, among other things, appointing Messrs. Desmond Chung Seng Chiong and Roderick John Sutton of Ferrier Hodgson Limited of 14th Floor, Hong Kong Club Building, 3A Chater Road, Hong Kong as the provisional liquidators of Win Victory. In the first instance, this order would remain valid up to and including 7 October 2003, on which date the matter would be heard again by the High Court.

(vi) The appointment of Provisional Liquidators is continued by an order of the court made by Madam Justice Kwan on 7 October 2003 until the determination of the Winding Up Petition, which has been adjourned. Due to the lack of funds in Win Victory, the Provisional Liquidators have not undertaken an extensive investigation. The Provisional Liquidators have recently made an application to the court for the discharge of their appointment and their application is fixed to be heard on 20 April 2006. The continuation of the Petition was to enable a more thorough investigation of the flow of funds in and out of Win Victory. The Petition is being opposed by Mr. Chau Ching Ngai. Solicitors for the Company will continue with the Winding Up proceedings. In view of the application by the Provisional Liquidators, the official receiver made an application to restore the Petition, which has been adjourned to 24 April 2006 for hearing. The court had on the hearing of 24 April 2006 ordered that Win Victory be wound-up on the petition of the Company.

(vii) Solicitors for the Company issued a writ of Summons on 17 December 2004 against Mr. Tsoi Hon Chung and his son Mr. Tsoi Chun Bun for the return of all statutory books, records and documents of Park Well Group on the basis that on 15 July 2003, those documents were sent by Secretaries Limited to Mr. Tsoi Chun Bun as the agent of Mr. Tsoi Hon Chun, who was at the material times the sole director of Park Well. The Company has a copy of the signed receipt by Mr. Tsoi Chun Bun for the above documents. Both Mr. Tsoi Hon Chun and Mr. Tsoi Chun Bun deny the receipt and/or receipt as agent of such statutory books and records in their Defence filed in February 2005. Solicitors for the Company have taken out a Summons for Directions for the exchange of lists of documents and witness statements in order to set the case down for trial. The court made an order for Directions on 27 April 2005 and the Company has exchanged list of documents with Mr. Tsoi Hon Chung and Mr. Tsoi Chun Bun. Mr. Tsoi Hon Chung has filed his witness statements denying knowledge of the whereabouts of the statutory books, records and document so the Park Well Group. Mr. Tsoi Chun Bun has exchanged his witness statement with the Company 20 August 2005.

25. Pledge of Assets

	The Group		The Company	
	2005 **HK$'000**	2004 HK$'000	**2005** **HK$'000**	2004 HK$'000
(a) Banking facilities of HK$4 million (2004: HK$8 million) granted by a bank and secured by bank deposits of the Group	**4,012**	8,000	**–**	–
(b) Other loan facilities of HK$15 million (2004: HK$15 million) granted by a financial institution and secured by floating charges over:				
– Trade and other receivables	**1,864**	6,853	**145**	218
– Bank balances and cash	**1,376**	6,917	**7**	5,566
	3,240	13,770	**152**	5,784
	7,252	21,770	**152**	5,784

In addition, the Company's interests in its subsidiaries had been pledged under floating charges to secure the other loan facilities granted by a financial institution to the Group.

26. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund scheme for all qualifying employees of its Hong Kong subsidiaries. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributed 5% of the relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to the consolidated income statement of HK$55,000 (2004: HK$15,000) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

At the balance sheet date, there was no forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which was available to reduce the contribution payables in the future years.

27. Related Party Transactions

Other than related party transactions in respect of key management personnel remuneration which was disclosed in note 9 above, the Group had no material related party transactions during the years ended 31 December 2005 and 2004.

28. Post Balance Sheet Events

The following event took place subsequent to 31 December 2005.

On 12 April 2006, the Company and its controlling shareholder, Profit Harbour entered into a deed of assignment, pursuant of which Profit Harbour has conditionally agreed to acquire from the Company, the Debt at the consideration of US$4.5 million (equivalent to approximately HK$35.1 million) (the "Assignment of Debt"). The Assignment of Debt constitutes a connected transaction and a major transaction of the Company under the Rules Governing the Listing of Securities on of The Stock of Exchange of Hong Kong Limited and is therefore subject to independent shareholders' approval.

29. Particulars of Subsidiaries

Particulars of the subsidiaries of the Company as at 31 December 2005 are as follows:

Name of subsidiary	Place/country of incorporation/ establishment and operations	Paid up issued ordinary share capital	Proportion of nominal value of issued capital held by the Company Directly	Indirectly	Principal activities
			%	%	
Asia Cheer Trading Limited	Hong Kong	HK$1 ordinary share	100	–	Trading in fabric products and other merchandises
First Landmark Limited	British Virgin Islands	US$1 ordinary share	100	–	Investment holding
Merchants HK	Hong Kong	HK$2 ordinary shares	–	100	Inactive
Park Well International Group Limited	British Virgin Islands	US$6 ordinary shares	100	–	Investment holding
Sino Chance Trading Limited	Hong Kong	HK$1 ordinary share	100	–	Trading in base metals
Sky Joy Management Limited	Hong Kong	HK$1 ordinary share	100	–	Provision of management services

The above list contains only the particular of subsidiaries which principally affected the results, assets or liabilities of the Group.