Notes to the Financial Statements

For the year ended 31st December, 2005

1. GENERAL

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

The Company is an investment holding company. The activities of its principal associates and subsidiaries are set out in notes 19 and 44 respectively.

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

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements are prepared on the following basis:

(i) In February 2005, Funeway Investments Limited ("Funeway"), a wholly-owned subsidiary of the Company, entered into a subscription agreement ("Subscription Agreement") with Shanxi Changxing Yuci Coking Co., Limited ("Shanxi Changxing"), Mr. Yu-wen Jiang Ming ("Mr. Yu-wen") and Ms. Yu-wen Man Rui ("Ms. Yu-wen"), independent third parties, whereby Funeway and Mr. Yu-wen agreed to subscribe for RMB64.26 million (equivalent to approximately HK$60.6 million) and RMB41.74 million (equivalent to HK$40.1 million), in the additional capital of the Shanxi Changxing, respectively.

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

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

Up to present, certain terms of the Subscription Agreement have not been fulfilled and various extension agreements were entered into among the above parties to extend the completion date of the Subscription Agreement, which has now been extended to 31st July, 2006, details of which are set out in the announcements of the Company dated 22nd August, 2005, 14th November, 2005, 17th February, 2006 and 10th March, 2006.

In June and September, 2005, the Group injected an aggregate amount of HK$40,000,000 to Shanxi Changing as additional capital. On 2nd July, 2005, the Group obtained control of Shanxi Changxing by appointing the majority of directors to the board of directors of Shanxi Changxing, which has the power to govern the financial and operating policies of Shanxi Changxing so as to obtain benefits from its activities. Accordingly, the Group has commenced to account Shanxi Changxing as a subsidiary in accordance with Hong Kong Accounting Standards ("HKAS") 27 "Consolidated and Separate Financial Statements" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") from 2nd July, 2005.

Notes to the Financial Statements

For the year ended 31st December, 2005

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

(ii) In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the consolidated net current liabilities of approximately HK$89.3 million at 31st December, 2005 and loss of approximately HK$161.0 million for the year then ended.

The Group's operations in the international air and sea freight forwarding industries continued to be profitable for the year ended 31st December, 2005. In order to take advantage of further growth opportunities, the Group has explored for business opportunities in the coke industry during the year. In February 2005, the Subscription Agreement (referred to more details in note 2(i)) was entered into by the Group for its investment in Shanxi Changxing, with a total capital commitment of approximately HK$60.6 million, including an initial amount of approximately HK$40.0 million invested during the year ended 31st December, 2005. At 31st December, 2005, the Group is committed to inject the remaining HK$20.6 million of capital in Shangxi Changxing in accordance with the Subscription Agreement when all the terms and conditions under the Subscription Agreement are met on or before 31st July, 2006.

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

Shanxi Changxing became a subsidiary of the Group on 2nd July, 2005 as detailed in note 2(i). Shanxi Changxing contributed net current liabilities of approximately HK$126.7 million at the date of acquisition, and its net current liabilities increased to approximately HK$138.1 million at 31st December, 2005. Shanxi Changxing is currently focusing on strengthening its operations of manufacturing and sale of coke, and the management of Shanxi Changxing is implementing active cost-saving and value-adding measures to improve its operating cash flows and financial position.

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

In March 2006, the Company raised approximately HK$51.9 million from a private placement of its equity shares to finance the Group's current operations. In order to further improve the Group's liquidity position, the Group is currently negotiating with its lenders to extend and re-schedule the repayment terms of the fixed-rate borrowings of approximately HK$44.8 million outstanding at 31st December, 2005, detailed in note 30, which are due for repayment in the coming year.

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

Notes to the Financial Statements

For the year ended 31st December, 2005

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

(iii) In February 2005, the financial year end date of the Company was changed from 31st March to 31st December to coincide with that of the statutory year end date of Shanxi Changxing, a company proposed to be acquired by the Company at that time and a subsidiary of the Company from July 2005. Such alignment will facilitate the preparation of the Group's consolidated financial statements.

The consolidated financial statements for the current year cover the year ended 31st December 2005. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and related notes covered a nine months period from 1st April, 2004 to 31st December, 2004 and therefore may not be comparable with amounts shown for the current year.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and or/prior accounting years/ periods are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are adoption of transitional provisions for previously recognised negative goodwill which are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill of approximately HK$1,713,000 in relation to an associate at 1st January, 2005 that were previously presented as a deduction from interests in associates, with a corresponding decrease to deficit (see Note 4 for the financial impact).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options ("Employee Share Options") of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group only recognised share options granted to the independent consultants (during the nine months ended 31st December, 2004, HK$16,713,000 was recognised), but did not recognise the financial effect of Employee Share Options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005. In relation to Employee Share Options granted before 1st January, 2005, the Group chooses not to apply HKFRS 2 with respect to Employee Share Options granted on or before 7th November, 2002 and vested before 1st January, 2005.

The effect of this change in accounting policy on the results for the year is an increase in share based payment expenses of approximately HK$1,982,000 (see Note 4 for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st 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 32 and HKAS 39 are summarised below:

Convertible bonds

The principal impact of HKAS 32 and HKAS 39 on the Group is in relation to convertible loan notes issued by the Company. Previously, convertible loan notes were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument that contains both financial liability and equity components to separate the compound financial instrument into the liability and equity components on initial recognition and to account for these components separately, except in the case that the settlement were not at fixed number of equity instrument, which HKAS 39 requires the issuer to recognise the compound financial instrument in the form of financial liability with embedded derivatives. HKAS 39 requires derivatives embedded in a non-derivatives host contract to be accounted for separately when the economic risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The Group has applied HKAS 32 and HKAS 39 on the convertible bonds issued by the Company in prior and current accounting years and the embedded derivatives on the convertible notes (see Note 4 for the financial impact).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Financial Instruments *(Continued)*

Derivatives and hedging

From 1st January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The Group has applied the relevant transitional provisions in HKAS 39. As a result, certain options embedded in the convertible notes are separately accounted for and recorded as derivative financial instruments in the balance sheet, with changes in fair value recognised in the income statement. Derivative financial instruments were measured at fair value as at 1st January, 2005 at HK$852,000. Options embedded in convertible notes issued during the year and change in the fair value of all derivative financial instruments during the year amounting to HK$5,940,000 and HK$19,720,000, respectively.

Classification and measurement of financial assets and financial liabilities, other than debt and equity securities

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

By 31st December, 2004, the Group classified and measured its equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Investments in Securities". Under SSAP 24, the Group's investments in equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. From 1st January, 2005 onwards, the Group has classified and measured its equity securities in accordance with HKAS 39. Under HKAS 39, the Group's financial assets are classified as "financial assets at fair value through profit or loss" or "loans and receivables". "Financial assets at fair value through profit or loss" are carried at fair value, with changes in fair values recognised in income statement. "Loans and receivables" are measured at amortised cost using the effective interest method after initial recognition.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, the Group's financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss" and "loans and receivables". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

On 1st January, 2005, the Group classified and measured its investments in equity securities in accordance with the requirements of HKAS 39. These changes have had no material effect on the financial position at 1st January, 2005.

Notes to the Financial Statements

For the year ended 31st December, 2005

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Investment Property

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment property which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment property under the predecessor accounting standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1st January, 2005 onwards. The adoption of HKAS 40 has had no material effect on the result for the current accounting period.

Deferred Taxes related to Investment Property

In previous years, deferred tax consequences in respect of revalued investment property were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment property is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively. The adoption of HK(SIC) Interpretation 21 has had no material effect on the results for the current or prior accounting periods. Accordingly no prior period adjustment has been made.

Notes to the Financial Statements

For the year ended 31st December, 2005

4. SUMMARY OF THE EFFECTS OF THE APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The effect of the application of new HKFRSs described in note 3 above on the results for the current year and prior periods, are as follows:

	1.1.2005 to 31.12.2005 *HK$'000*	1.4.2004 to 31.12.2004 *HK$'000*
Recognition of share-based payments for employee as expenses	**1,982**	–
Recognition of fair value adjustment on embedded derivatives	**19,720**	–
Decrease in release of negative goodwill of an associate to income	**108**	–
Increase in loss for the year/period	**21,810**	–

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised as follows:

	As at 31st December, 2004 (originally stated) *HK$'000*	Effect of HKFRS 3 *HK$'000*	Effect of HKAS 39 *HK$'000*	As at 1st January, 2005 (restated) *HK$'000*
Balance sheet items				
Interests in associates	32,684	1,713	–	34,397
Investment in securities	17,314	–	(17,314)	–
Investments at fair value through income statement	–	–	16,800	16,800
Club debenture	–	–	514	514
Embedded derivatives	–	–	(852)	(852)
Convertible bonds	(19,500)	–	1,980	(17,520)
Other asset and liabilities	23,360	–	–	23,360
Total effects on assets and liabilities	53,858	1,713	1,128	56,699
Share capital and other reserves	289,556	–	–	289,556
Deficit	(235,698)	1,713	1,128	(232,857)
Total effects on equity	53,858	1,713	1,128	56,699

Notes to the Financial Statements

For the year ended 31st December, 2005

4. SUMMARY OF THE EFFECTS OF THE APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	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 & HKFRS 4 (Amendments)	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 annual periods beginning on or after 1st January, 2007.

[2] Effective for annual periods beginning on or after 1st January, 2006.

[3] Effective for annual periods beginning on or after 1st December, 2005.

[4] Effective for annual periods beginning on or after 1st March, 2006.

5. SIGNIFICANT ACCOUNTING POLICIES

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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

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

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

Business combinations

A subsidiary of the Company represents an entity controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of any entity so as to obtain benefits from its activities.

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

Goodwill

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

Investments in associates

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

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

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

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

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

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

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

Investment property

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

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

Property, plant and equipment

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

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

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

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

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of construction in progress.

Inventories

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

Leasing

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

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

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

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefit schemes

Payments to defined contribution retirement benefit plans, the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are charged as an expense as they fall due.

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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.

Financial instruments

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

Financial assets

The Group's financial assets include financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's major financial assets are investment in equity securities, trade and other receivables, pledged bank deposits and bank balances, which fall within the category "Financial Assets at fair value through profit or loss" or "loans and receivables". The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities, convertible bonds and embedded derivatives. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

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

Convertible bonds

Convertible bonds issued by the Company, which settlements were not at fixed number of equity instrument, are recognised as compound financial instrument in the form of financial liability with embedded derivatives. At the date of issue, the liability component of convertible notes are recognised at fair value.

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method.

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity *(Continued)*

Derivatives financial instruments

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

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

Equity instruments

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

Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

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

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised immediately as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

Notes to the Financial Statements

For the year ended 31st December, 2005

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment loses (other than goodwill – see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 5, management has made the following estimates that have the most significant effect on the amounts recognised in the financial statements are discussed below.

Depreciation

The Group's carrying values of property, plant and equipment as at 31st December, 2005 were approximately HK$103.4 million. The Group depreciates the property, plant and equipment over their estimated useful lifes and after taking into account their estimated residual value, using the reducing balance method, at the rates as detailed in note 17. The estimated useful life of the property, plant and equipment reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Estimated impairment of property, plant and equipment and goodwill

During the year, impairment losses on property, plant and equipment and impairment loss on goodwill of approximately HK$22.0 million and HK$21.9 million, respectively, with respect to Shanxi Changxing, were recognised in the income statement. Determining whether property, plant and equipment and goodwill are impaired requires an estimation of the value in use of the cash-generating units to which property, plant and equipment and goodwill have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Details of the recoverable amount calculation are set out in notes 17 and 34.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Impairment loss on trade receivables

The policy for doubtful receivables of the Group is based on the ongoing evaluation of the collectability and aging analysis of the trade receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness, the past collection history of each customer and the present value of estimated future cash flows discounted at the effective interest rate. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

Allowances for inventories

The management of the Group reviews an inventories listing at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such items based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Fair value estimation

The fair value of financial assets and financial liabilities is estimated by discounting the future cash flows at prevailing market rate available to the Group for similar financial investments. Such assessments was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

Fair value of derivative financial instruments and share options

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. Share options granted by the Group to consultants and share options granted by the Group to employees after 1st January, 2005 are also measured at fair value at the date of grant.

The fair values of these instruments are subject to the limitation of the models that incorporated market data and involved uncertainty in estimates used by management in the assumptions. Because the models require the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate. Details of the assumptions are disclosed in notes 32 and 33.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank balances, pledged bank deposits, equity investments, other borrowings, trade and other receivables and trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Financial Statements

For the year ended 31st December, 2005

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

Price risk

The Group's investments at fair value through profit or loss and held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management intended to manage this exposure by implementing a policy to maintain a portfolio of investments with different risk profiles.

Commodity price risk

The Group sources large quantities of coal for its manufacturing process. Accordingly, the Group is exposed to commodity price risk. The Group currently does not have a commodity future hedging policy. However, management monitors its commodity price exposure and will consider hedging significant commodity price exposure should the need arises.

Liquidity risk

The Directors have given careful consideration on the measures currently undertaken by the Group in respect of the Group's liquidity position. As detailed in note 2(ii), the Directors believe that the Group will have sufficient working capital for its future operational requirements.

8. TURNOVER

	1.1.2005 to 31.12.2005 *HK$'000*	1.4.2004 to 31.12.2004 *HK$'000*
International air and sea freight forwarding	**12,028**	10,198
Securities investment	**217,351**	–
Sales of coke	**55,087**	–
	284,466	10,198

Notes to the Financial Statements

For the year ended 31st December, 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

	International air and sea freight forwarding	Securities investment	Manufacture and sales of coke	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31st December, 2005					
Turnover					
External	12,028	217,351	55,087	–	284,466
Results					
Segment result	560	(6,724)	(68,130)	–	(74,294)
Interest income					889
Unallocated corporate expenses					(26,477)
Fair value adjustment on embedded derivatives					(19,720)
Share-based payment expenses					(27,956)
Finance costs					(3,189)
Share of results of associates	258	–	–	(10,521)	(10,263)
Loss for the year					(161,010)
At 31st December, 2005					
ASSETS					
Segment assets	3,095	30,918	139,308	–	173,321
Interests in associates	4,134	–	–	–	4,134
Unallocated corporate assets					42,475
Consolidated total assets					219,930
LIABILITIES					
Segment liabilities	(2,157)	(2)	(127,671)	–	(129,830)
Unallocated corporate liabilities					(57,413)
Consolidated total liabilities					(187,243)

Notes to the Financial Statements

For the year ended 31st December, 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	International air and sea freight forwarding HK$'000	Securities investment HK$'000	Manufacture and sales of coke HK$'000	Consolidated HK$'000
For the year ended 31st December, 2005				
OTHER INFORMATION				
Additions to property, plant and equipment	27	135	25,838	26,000
Additions to property, plant and equipment on the acquisition of subsidiary	–	–	99,151	99,151
Additions to prepaid lease payments	–	–	357	357
Depreciation on property, plant and equipment	20	364	3,092	3,476
Impairment loss on goodwill	–	–	21,910	21,910
Release of prepaid lease payments	–	–	38	38
Loss on disposal of property, plant and equipment	–	–	807	807
Impairment loss on trade receivables	–	–	3,765	3,765
Fair value adjustment on investments at fair value through income statements	–	7,950	–	7,950
Fair value adjustment on investments held for trading	–	1,066	–	1,066
Allowance on inventories	–	–	2,261	2,261
Impairment loss on property, plant and equipment	–	–	22,000	22,000

Notes to the Financial Statements

For the year ended 31st December, 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

	International air and sea freight forwarding HK$'000	Securities investment HK$'000	Others HK$'000	Consolidated HK$'000
For the nine months ended 31st December, 2004				
Turnover				
External	10,198	–	–	10,198
Results				
Segment result	192	260	–	452
Interest income				824
Unallocated corporate expenses				(17,497)
Share based payment expenses				(16,713)
Finance costs				(9)
Share of results of associates	107	–	(17,634)	(17,527)
Loss for the period				(50,470)
At 31st December, 2004				
ASSETS				
Segment assets	2,687	40	–	2,727
Interests in associates	3,875	–	28,809	32,684
Unallocated corporate assets				48,975
Consolidated total assets				84,386
LIABILITIES				
Segment liabilities	2,914	2	–	2,916
Unallocated corporate liabilities				27,612
Consolidated total liabilities				30,528
For the nine months ended 31st December, 2004				
OTHER INFORMATION				
Additions to property, plant and equipment	11	15	–	26
Depreciation on property, plant and equipment	12	288	–	300

Notes to the Financial Statements

For the year ended 31st December, 2005

9. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

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

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

	Turnover	
	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
North and South America	**5,660**	6,252
Hong Kong	**217,351**	–
PRC	**55,086**	–
Others	**6,369**	3,946
	284,466	10,198

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

	Carrying amount of segment assets		Capital additions	
	At 31.12.2005	At 31.12.2004	**1.1.2005 to 31.12.2005**	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
North and South America	**1,190**	1,495	**–**	–
Hong Kong	**67,156**	46,294	**32**	11
PRC	**149,678**	35,407	**26,298**	15
Others	**1,906**	1,190	**27**	–
	219,930	84,386	**26,357**	26

Notes to the Financial Statements

For the year ended 31st December, 2005

10. OTHER OPERATING INCOME

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Interest income	**889**	824
Dividend income from listed securities	**847**	283
Increase in fair value of investment property	**260**	180
Sundry income	**1,242**	87
	3,238	1,374

11. FINANCE COSTS

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Interest payable on:		
Convertible bonds	**83**	9
Other borrowings wholly repayable within five years	**3,106**	–
Total borrowing costs	**3,189**	9

Notes to the Financial Statements

For the year ended 31st December, 2005

12. LOSS FOR THE YEAR/PERIOD

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Loss for the year/period has been arrived at after charging:		
Staff costs		
– directors' emoluments *(note 13(a))*	**2,482**	1,574
– share-based payment expenses *(note 32(b))*	**1,982**	–
– other staff costs	**4,206**	2,540
– retirement benefits scheme contributions, excluding directors and net of forfeited contributions of HK$38,000 for the nine months ended 31st December, 2004 (1.1.2005 to 31.12.2005: Nil)	**132**	57
Total staff costs	**8,802**	4,171
Depreciation of property, plant and equipment	**3,476**	300
Release of prepaid lease payments	**38**	–
Auditors' remuneration	**1,013**	678
Loss on disposal of property, plant and equipment	**807**	–
Impairment loss on trade receivables	**3,765**	–
Allowance on inventories	**2,261**	–
Equity – settled consultancy services *(Note 32)*	**25,974**	16,713
Cost of inventories recognised as an expenses	**64,320**	–
Fair value adjustment on investments held for trading	**1,066**	–

Notes to the Financial Statements

For the year ended 31st December, 2005

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 12 (2004: 11) directors were as follows:

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31st December, 2005				
Executive directors				
Ms. Ma Jun Li	**–**	**211**	**–**	**211**
Mr. Ng Tang, David	**–**	**505**	**23**	**528**
Mr. Ren Zheng	**–**	**390**	**12**	**402**
Ms. Cheung Hoi Ping	**–**	**–**	**–**	**–**
Mr. Wang Da Yong	**–**	**50**	**–**	**50**
Mr. Zhang Jun	**–**	**97**	**–**	**97**
Mr. Wang Jian Hua	**–**	**700**	**32**	**732**
Mr. Bao Wen Bin	**–**	**132**	**7**	**139**
Mr. Pak Chung	**–**	**50**	**3**	**53**
	–	**2,135**	**77**	**2,212**
Non-executive directors				
Ms. Chung Kwo Ling	**90**	**–**	**–**	**90**
Mr. Sun Yeung Yeung	**90**	**–**	**–**	**90**
Mr. Lee Yuen Kwong	**90**	**–**	**–**	**90**
	270	**–**	**–**	**270**
Total	**270**	**2,135**	**77**	**2,482**
For the nine months ended 31st December, 2004				
Executive directors				
Ms. Ma Jun Li	–	85	–	85
Mr. Ng Tang, David	–	315	16	331
Mr. Ren Zheng	–	270	9	279
Ms. Cheung Hoi Ping	–	–	–	–
Mr. Wang Da Yong	–	–	–	–
Mr. Wang Jian Hua	–	450	22	472
Mr. Bao Wen Bin	–	297	15	312
Mr. Pak Chung	–	90	5	95
	–	1,507	67	1,574
Non-executive directors				
Ms. Chung Kwo Ling	–	–	–	–
Mr. Sun Yeung Yeung	–	–	–	–
Mr. Lee Yuen Kwong	–	–	–	–
	–	–	–	–
Total	–	1,507	67	1,574

During the year ended 31st December, 2005 and the nine months from 1st April, 2004 to 31st December, 2004, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group.

Notes to the Financial Statements

For the year ended 31st December, 2005

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (1.4.2004 to 31.12.2004: four) were directors of the Company whose emoluments are set out in (a) above. The aggregate emoluments of the remaining two (1.4.2004 to 31.12.2004: one) individual were as follows:

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Salaries and other benefits	**979**	361
Retirement benefits scheme contributions	**37**	18
	1,016	379

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

Notes to the Financial Statements

For the year ended 31st December, 2005

14. TAXATION

Taxation arising in the PRC is calculated at the rates prevailing in the PRC.

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

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

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

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Loss for the year/period	**(161,010)**	(50,470)
Tax at the PRC income tax rate of 33%	**(53,133)**	(16,655)
Tax effect of share of results of associates	**3,387**	5,784
Tax effect of expenses that are not deductible in determining taxable profit	**14,074**	1,746
Tax effect of income that are not taxable in determining taxable profit	**(134)**	(78)
Tax effect of utilisation of tax loss not previously recognised	**(524)**	(28)
Tax effect of tax losses and deductible temporary difference not recognised	**22,611**	905
Effect of different tax rates of subsidiaries operating in other jurisdictions	**13,719**	8,326
Taxation for the year/period	**–**	–

Notes to the Financial Statements

For the year ended 31st December, 2005

14. TAXATION *(Continued)*

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

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
Balance at 1st April, 2004	88	(88)	–
Charge (credit) to consolidated income statement for the period	(8)	8	–
Balance at 31st December, 2004	80	(80)	–
Charge (credit) to consolidated income statement for the year	(5)	5	–
Balance at 31st December, 2005	**75**	**(75)**	**–**

For the purpose of balance sheet presentation, the above deferred assets and liabilities have been offset.

At 31st December, 2005, the Group has unutilised tax losses of approximately HK$173,633,000 (31.12.2004: HK$136,599,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses approximately HK$425,000 (31.12.2004: HK$455,000). No deferred tax asset has been recognised for the remaining tax losses due to the unpredictably of future profit streams. The tax losses attributable to subsidiaries in Hong Kong of HK$147,390,000 (2004: HK$136,599,000) will not expire under the current tax legislation in Hong Kong and all other tax losses will expire from 2006 to 2010.

At 31st December, 2005, the Group has deductible temporary difference of HK$31,455,000 (2004: Nil). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

15. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year/period attributable to equity holders of the Company of HK$136,992,000 (1.4.2004 to 31.12.2004: HK$50,470,000) and on weighted average number of 5,217,336,753 (1.4.2004 to 31.12.2004: 4,402,381,660) ordinary shares in issue during the year/period.

No diluted loss is presented for the year ended 31st December, 2005 and the nine months ended 31st December, 2004 as the exercise of the share options and the conversion of the redeemable convertible bonds would result in a decrease in loss per share for the year/period.

Notes to the Financial Statements

For the year ended 31st December, 2005

16. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1st April, 2004	**1,020**
Revaluation increase recognised in the income statement	**180**
At 1st January, 2005	**1,200**
Increase in fair value recognised in the income statement	**260**
At 31st December, 2005	**1,460**

The fair value of the Group's investment properties at 31st December, 2005 has been arrived at on the basis of a valuation carried out on that date by Chesterton Petty Limited, independent qualified professional valuers. Chesterton Petty Limited is a member of the Hong Kong Institute of Surveyors ("HKIS"). The valuation, which conforms to HKIS Valuation Standards on Properties published by the HKIS, was arrived at by reference to market evidence of transaction prices for similar properties.

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

Notes to the Financial Statements

For the year ended 31st December, 2005

17. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings	Plant and machinery	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST								
At 1st April, 2004	–	–	–	144	788	1,049	2,612	4,593
Exchange realignment	–	–	–	–	8	3	5	16
Additions	–	–	–	–	11	15	–	26
At 31st December, 2004	–	–	–	144	807	1,067	2,617	4,635
Acquired on acquisition of a subsidiary	93,178	3,138	1,807	–	–	181	847	99,151
Exchange realignment	2,113	77	240	–	(9)	11	62	2,494
Additions	21,673	104	–	91	27	77	4,028	26,000
Disposals/written off	–	(962)	–	–	(38)	(36)	(183)	(1,219)
Reclassification	(105,873)	51,269	54,604	–	–	–	–	–
At 31st December, 2005	11,091	53,626	56,651	235	787	1,300	7,371	131,061
DEPRECIATION AND AMORTISATION AND IMPAIRMENT								
At 1st April, 2004	–	–	–	109	659	621	707	2,096
Exchange realignment	–	–	–	–	7	3	4	14
Provided for the period	–	–	–	26	22	91	161	300
At 31st December, 2004	–	–	–	135	688	715	872	2,410
Exchange realignment	–	5	106	–	(8)	3	15	121
Provided for the year	–	817	1,962	19	32	96	550	3,476
Impairment loss recognised for the year	–	–	22,000	–	–	–	–	22,000
Eliminated on disposals/written off	–	(159)	–	–	(37)	(28)	(132)	(356)
At 31st December, 2005	–	663	24,068	154	675	786	1,305	27,651
CARRYING VALUES								
At 31st December, 2005	11,091	52,963	32,583	81	112	514	6,066	103,410
At 31st December, 2004	–	–	–	9	119	352	1,745	2,225

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

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

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

At 31st December, 2005, the directors, after considering the economic conditions, have reviewed the carrying value of the Group's production facilities in the PRC with reference to independent professional valuation made under a discounted cash flow analysis of the projected cash flow to be generated by Shanxi Changxing at a discount rate of 16.9% per annum and determined that the recoverable amounts of the assets have declined below its carrying value. Accordingly, the carrying value of these assets was reduced by approximately HK$22,000,000 to reflect this impairment.

As at 31 December 2005, legal title to buildings with net book values approximately HK$52,963,000 has not been granted by relevant government authorities. In the opinion of the directors, the absence of formal title to these buildings does not impair the value of the relevant buildings of Shanxi Changxing and formal title to these buildings will be granted to Shanxi Changxing in due course.

18. PREPAID LEASE PAYMENTS

	2005 *HK$'000*	2004 *HK$'000*
The Group's prepaid lease payments comprise land use rights in the PRC under medium-term lease	**3,691**	–
Analysed for reporting purposes as:		
Non-current asset	**3,600**	–
Current asset	**91**	–
	3,691	–

The prepaid lease payment is amortised over the term of the land use rights on a straight line basis. As at 31st December, 2005, legal title of the land use right in the carrying amount of approximately HK$2,882,000 has not been granted by relevant government authorities and is now being held under the name of a shareholder of Shanxi Changxing. In the opinion of the directors, formal title to this land use right will be granted to Shanxi Changxing in due course.

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For the year ended 31st December, 2005

19. INTERESTS IN ASSOCIATES

	2005 *HK$'000*	2004 *HK$'000*
Cost of investment	**3,678**	72,725
Share of post – acquisition profits (losses)	**456**	(38,328)
	4,134	34,397
Negative goodwill *(note)*	**–**	(1,713)
	4,134	32,684

Note:

The movement of negative goodwill is as follows:

	HK$'000
GROSS AMOUNT	
At 1st April, 2004, and 31st December, 2004	1,939
RELEASE TO INCOME	
At 1st April, 2004	129
Released in the year	97
At 31st December, 2004	226
At 31st December, 2004	1,713
Derecognised upon the application of HKFRS 3	(1,713)
At 1st January, 2005	–

As explained in note 3, all negative goodwill arising on acquisition prior to 1st January, 2005 was derecognised as a result of the application of HKFRS 3.

Prior to 1st January, 2005, the negative goodwill was amortised to income on straight-line basis over 15 years.

Particulars of the associate at 31st December, 2005 are as follows:

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

19. INTERESTS IN ASSOCIATES

In July 2004, the Group entered into an agreement for the acquisition of a 40% interest in Shanghai Airlines for a cash consideration of approximately HK$3,769,000. Shanghai Airlines is engaged in air freight forwarding business. The outstanding consideration payable of HK$2,771,000 at 31st December, 2004, included in other payables as set out in note 29, were settled in July 2005.

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

	2005	2004
	HK$'000	*HK$'000*
Total assets	**21,970**	124,805
Total liabilities	**(11,635)**	(1,807)
Net assets	**10,335**	122,998
Group's share of net assets of associate	**4,134**	34,397

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Revenue	**39,366**	14,690
Loss for the year	**(21,743)**	(36,181)
Group's share of loss of associate for the year	**(10,263)**	(17,527)

20. INVESTMENTS IN SECURITIES

Investments in securities as at 31st December, 2004 are set out below. Upon the application of HKAS 39 on 1st January, 2005, investments in securities were reclassified to appropriate categories under HKAS 39 (see Note 4 for details).

	Investment securities 2004	**Other investments 2004**	**Total 2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current unlisted equity securities	16,800	–	16,800
Non-current club debentures	–	514	514
	16,800	514	17,314

21. INVESTMENTS AT FAIR VALUE THROUGH INCOME STATEMENT

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

During the year ended 31st March, 2002, the Group, through an acquisition of a wholly owned subsidiary, acquired 30,000,000 promoters' shares in Beijing Beida Jade Bird Universal Sci-Technology Company ("BBJB") (the "Promoters' Shares") of RMB0.01 each at a consideration of HK$38,250,000, which is equivalent to 2.53% of total issued share capital (including H shares and Promoters' Shares) of BBJB. Promoters' Shares were unlisted legal person shares issued by BBJB. An impairment loss of approximately HK$21,450,000 was identified in prior years.

BBJB is a joint stock company with limited liability incorporated in the PRC with its H shares listed on the Growth Enterprise Market of the Stock Exchange (the "GEM Board") on 27th July, 2000. According to the Company Law in the PRC, the Promoters' Shares were not transferable within three years from the date of incorporation of BBJB on 29th March, 2000. Upon expiry of the three years lock up period on 28th March, 2003, those Promoters' Shares could be applied for listing on the GEM Board. The Group has been informed by BBJB that BBJB is in the process of applying for listing of the Promoters' Shares on the GEM Board and the application is still under progress.

At 31st December, 2005, the directors of the Company reviewed the carrying amount of the Promoters' Shares by reference to the price of listed shares quoted in the GEM Board and an impairment loss of HK$7,950,000 (2004: Nil) was identified and charged to the income statement.

22. CLUB DEBENTURE

	2005
	HK$'000
Club debenture, at cost	514

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

Notes to the Financial Statements

For the year ended 31st December, 2005

23. INVENTORIES

	2005	2004
	HK$'000	*HK$'000*
Raw materials	**5,756**	–
Finished goods	**1,387**	–
	7,143	–

24. TRADE AND OTHER RECEIVABLES

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

	2005	2004
	HK$'000	*HK$'000*
0-30 days	**14,687**	625
31-60 days	**340**	451
61-90 days	**138**	333
Over 90 days	**138**	59
	15,303	1,468
Advance to suppliers	**306**	–
Deferred consideration *(note 35)*	**9,000**	–
Deposits and prepayments	**3,256**	878
Pledged deposits	**1,018**	–
	28,883	2,346

In the opinion of the directors, the fair values of the Group's trade and other receivables at 31st December, 2005 approximate to the corresponding carrying amount.

25. SHORT TERM RECEIVABLES

At 31st December, 2004, the amount was unsecured, carried interest at Hong Kong Prime Rate plus 2% and fully settled during the year ended 31st December, 2005.

Notes to the Financial Statements

For the year ended 31st December, 2005

26. INVESTMENTS HELD FOR TRADING

	2005
	HK$'000
FAIR VALUE	
Listed equity securities in Hong Kong	22,040

The fair values of the equity securities held for trading are determined based on the quoted market bid prices available on the Stock Exchange.

27. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to lenders to secure facilities granted to the Group. The deposits have been pledged to secure short-term other borrowings and are therefore classified as current assets.

The deposits carry fixed interest rate of 2.7% per annum. The pledged bank deposits will be released upon the settlement of relevant borrowings. The fair value of bank deposits at 31st December 2005 approximates to the corresponding carrying amount.

28. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and bank balances that are interest-bearing at prevailing market interest rate and have original maturity of three months or less. The carrying amount of the bank balances approximates to their fair values.

Notes to the Financial Statements

For the year ended 31st December, 2005

29. TRADE AND OTHER PAYABLES

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

	2005 *HK$'000*	2004 *HK$'000*
0-30 days	**3,398**	537
31-60 days	**4,312**	396
61-90 days	**2,871**	153
Over 90 days	**20,843**	1,830
	31,424	2,916
Receipt in advance from customers	**61,356**	–
Consideration payable *(note 19)*	**–**	2,771
Accrued charges and other payables	**22,336**	5,341
Construction payable	**24,417**	–
	139,533	11,028

Included in trade payables and construction payables are bills payables with aggregate carrying amount of HK$41,222,000 (2004: nil).

The fair values of the Group's trade and other payables at 31st December, 2005 approximate to the corresponding carrying amounts.

Notes to the Financial Statements

For the year ended 31st December, 2005

30. OTHER BORROWINGS

	2005 *HK$'000*	2004 *HK$'000*
Other borrowings repayable within one year	**47,710**	–
Analysed as:		
Secured	**19,210**	–
Unsecured	**28,500**	–
	47,710	–

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

	2005 *HK$'000*	2004 *HK$'000*
Fixed-rate borrowings (denominated in Renminbi)	**44,797**	–
Variable-rate borrowings (denominated in Hong Kong Dollar)	**2,913**	–
	47,710	–

The Group has fixed-rate borrowings of approximately HK$19,210,000 and HK$25,587,000, which carried interest of 9.34% per annum and 11.36% per annum, respectively. Interest is repriced every twelve months.

The ranges of effective interest rates on the Group's borrowings are as follows:

	2005	2004
Effective interest rate:		
Variable-rate borrowings (Hong Kong Prime rate plus 3%)	**8% to 10.75% per annum**	N/A

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

The fair value of the Group's other borrowings, estimated by discontinuing their future cash flows at the prevailing market rates at the balance sheet date for similar borrowings, approximates to their fair values.

31. SHARE CAPITAL

	Notes	Number of shares '000	Value HK$'000
Authorised:			
Ordinary shares of HK$0.05 each at 1st January, 2004, and 31st December, 2004 and 2005		12,000,000	600,000
Issued and fully paid:			
Ordinary shares of HK$0.05 each			
At 1st January, 2004 and 31st December, 2004		4,402,382	220,119
Exercise of share options	*(a)*	187,200	9,360
Exercise of convertible bonds	*(b)*	876,404	43,820
At 31st December, 2005		5,465,986	273,299

Notes:

(a) During the year, the Company issued and allotted 187,200,000 ordinary shares of HK$0.05 each of the Company for cash of HK$14,665,000 as a result of the exercise of share options.

(b) During the year, the Company issued and allotted a total of 876,404,493 ordinary shares of HK$0.05 each of the Company at a conversion price of HK$0.089 per share upon the exercise of the conversion rights by the holders of the redeemable convertible bonds.

All the ordinary shares issued during the year rank pari passu with the then existing shares in issue in all aspects.

Notes to the Financial Statements

For the year ended 31st December, 2005

32. SHARE OPTION SCHEMES

(a) The 1996 Scheme

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2005

32. SHARE OPTION SCHEMES *(Continued)*

(a) The 1996 Scheme *(Continued)*

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

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

The following table discloses movements in the Company's share options granted under the 1996 Scheme during the nine months from 1st April, 2004 to 31st December, 2004:

	Date of grant	Exercisable period	Exercise price *HK$*	Number of share options: At 1.4.2004	Granted during the period	Exercised during the period	Surrendered/ lapsed during the period	At 31.12.2004
Directors	17.11.2000	17.5.2001 to 17.11.2005	0.144	2,000,000	–	–	–	2,000,000
Other employees	7.3.2000	7.9.2000 to 7.3.2005	0.250	700,000	–	–	(500,000)	200,000
	11.4.2000	11.10.2000 to 11.4.2005	0.295	3,498,000	–	–	(3,298,000)	200,000
	17.11.2000	17.5.2001 to 17.11.2005	0.144	450,000	–	–	(450,000)	–
Sub-total				4,648,000	–	–	(4,248,000)	400,000
Total				6,648,000	–	–	(4,248,000)	2,400,000
Exercisable at the end of the year								2,400,000
Weighted average exercise price				0.234	–	–	0.274	0.165

Notes to the Financial Statements

For the year ended 31st December, 2005

32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2005

32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme *(Continued)*

For the year ended 31st December, 2005

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

	Date of grant	Exercisable period	Exercise price HK$	At 1.4.2005	Granted during the year	Exercised during the year	Surrendered/ lapsed during the period	At 31.12.2005
				Number of share options				
Directors	8.11.2002	8.11.2002 to 8.11.2005	0.119	373,900,000	–	(22,000,000)	(351,900,000)	–
	19.9.2002	19.9.2002 to 19.9.2005	0.119	9,000,000	–	(2,000,000)	(7,000,000)	–
Sub-total				382,900,000	–	(24,000,000)	(358,900,000)	–
Employees	19.9.2002	19.9.2002 to 19.9.2005	0.119	17,800,000	–	(4,200,000)	(13,600,000)	–
	5.10.2004	5.10.2004 to 5.10.2014	0.0712	38,000,000	–	(14,000,000)	–	24,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	–	36,700,0000	–	–	36,700,000
Sub-total				55,800,000	36,700,000	(18,200,000)	(13,600,000)	60,700,000
Other eligible persons	23.9.2004	23.9.2004 to 23.9.2014	0.070	200,000,000	–	(10,000,000)	–	190,000,000
	5.10.2004	5.10.2004 to 5.10.2014	0.0712	202,000,000	–	(135,000,000)	–	67,000,000
	26.9.2005	26.9.2005 to 25.9.2015	0.083	–	481,000,000	–	–	481,000,000
Sub-total				402,000,000	481,000,000	(145,000,000)	–	738,000,000
				840,700,000	517,700,000	(187,200,000)	(372,500,000)	798,700,000
Exercisable at the end of the year								798,700,000
Weighted average exercise price				0.094	0.083	0.078	0.119	0.078

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.225 (2004: Nil).

Notes to the Financial Statements

For the year ended 31st December, 2005

32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme *(Continued)*

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

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

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

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

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

32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme *(Continued)*

For the nine months ended 31st December, 2004

The following table disclose movements in the Company's share options granted under the 2002 Scheme during the nine months ended 31st December, 2004:

	Date of grant	Exercisable period	Exercise price HK$	At 1.4.2004	Granted during the period	Exercised during the period	Surrendered/ lapsed during the period	At 31.12.2004
				Number of share options				
Directors	8.11.2002	8.11.2002 to 8.11.2005	0.119	373,900,000	–	–	–	373,900,000
	19.9.2002	19.9.2002 to 19.9.2005	0.119	9,000,000	–	–	–	9,000,000
Sub-total				382,900,000	–	–	–	382,900,000
Employees	19.9.2002	19.9.2002 to 19.9.2005	0.119	49,800,000	–	–	(32,000,000)	17,800,000
	5.10.2004	5.10.2004 to 5.10.2014	0.0712	–	38,000,000	–	–	38,000,000
Sub-total				49,800,000	38,000,000	–	(32,000,000)	55,800,000
Other eligible persons	23.9.2004	23.9.2004 to 23.9.2014	0.070	–	200,000,000	–	–	200,000,000
	5.10.2004	5.10.2004 to 5.10.2014	0.0712	–	202,000,000	–	–	202,000,000
Sub-total				–	402,000,000	–	–	402,000,000
				432,700,000	440,000,000	–	(32,000,000)	840,700,000
Exercisable at the end of the year								840,700,000
Weighted average exercise price				0.119	0.071	–	0.119	0.093

32. SHARE OPTION SCHEMES *(Continued)*

(b) The 2002 Scheme *(Continued)*

For the nine months ended 31st December, 2004 (Continued)

These fair values were calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

	Date of grant	
	23rd September 2004	5th October, 2004
Expected volatility	52%	52%
Expected life	10 years	10 years
Hong Kong Exchange Fund Notes interest rate at the date of options were granted	0.125%	0.125%
Expected dividend yield	Nil	Nil
Fair value per option granted	HK$0.041	HK$0.042

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

During the nine months ended 31st December 2004, options were granted on 23rd September, 2004 and 5th October, 2004. The estimated fair values of the options granted on those dates are HK$8,256,000 and HK$8,457,000 respectively. Of the share options granted during the nine months ended 31st December, 2004, 402,000,000 share options were granted to consultants for the consultancy services provided in relation to identifying potential coke projects in the PRC. The fair values of approximately HK$16,713,000 relating to the consultancy services were charged to the income statement.

Total consideration received from employees and other person for taking up the options granted amounted to HK$26 (1.4.2004 to 31.12.2004: HK$30).

33. CONVERTIBLE BONDS AND DERIVATIVES FINANCIAL INSTRUMENTS

	2005
	HK$'000
Nominal value of convertible bonds	19,500
Derivatives financial instruments	(1,980)
Convertible bonds issued and at 1st January, 2005 on adoption of HKAS 32 and HKAS 39 *(note 4)*	17,520
Issue of convertible bonds during the year	52,560
Conversion during the year	(70,080)
Convertible bonds at 31st December, 2005	–

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

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

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

During the year, the subscriber converted all the redeemable convertible bonds of US$10,000,000 (equivalent to approximately HK$78,000,000) into 876,404,493 ordinary shares of HK$0.05 each in the Company at a conversion price at HK$0.089.

33. CONVERTIBLE BONDS AND DERIVATIVES FINANCIAL INSTRUMENTS

(Continued)

(ii) Derivatives financial instruments

	2005
	HK$'000
Derivatives embedded in the convertible notes at 1st January, 2005, as restated	**852**
Changes in fair value	**19,720**
Derivatives embedded in the convertible notes issued during the year	**5,940**
Derecognised during the year upon conversion of convertible notes	**(26,512)**
Embedded derivative at 31st December, 2005	**–**

On 1st January, 2005, the Group adopted HKAS 39 and accounted for the embedded derivatives at fair value at each balance sheet date. The embedded derivatives were derecognised on 1st March, 2005, which was the date the subscriber fully exercised the conversion options.

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

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

	1st January, 2005	1st March, 2005
Share price on valuation date	**HK$0.129**	HK$0.157
Exercise price	**HK$0.089**	HK$0.089
Expected discount	**25%**	25%
Intrinsic value per share	**HK$0.00775**	HK$0.03025

34. ACQUISITION OF A SUBSIDIARY

On 2nd July, 2005, Shanxi Changxing became a subsidiary of the Group, details of which are set out in note 2(i). The carrying amount and fair value of the net liabilities of Shanxi Changxing at that date, and the goodwill arising, are as follows:

	2005	2004
	HK$'000	*HK$'000*
Net liabilities assumed:		
Property, plant and equipment	**99,151**	–
Prepaid lease payments	**3,372**	–
Inventories	**23,556**	–
Trade and other receivables	**22,135**	–
Pledged bank deposits	**751**	–
Bank balances and cash	**12,782**	–
Trade and other payables	**(142,119)**	–
Other borrowings	**(43,804)**	–
	(24,176)	–
Minority interest	**2,266**	–
Impairment of goodwill *(note)*	**21,910**	–
Consideration	**–**	–
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary		
Cash and cash equivalents acquired	**12,782**	–

Shanxi Changxing contributed turnover of approximately HK$55.1 million and loss of approximately HK$68.1 million to the Group's loss for the period between the date of acquisition and the balance sheet date.

34. ACQUISITION OF A SUBSIDIARY *(Continued)*

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

Note:

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

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

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

35. DISPOSAL OF A SUBSIDIARY

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

35. DISPOSAL OF A SUBSIDIARY *(Continued)*

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

	2005 *HK$'000*
Net assets dispose of:	
Interests in associates and total consideration	**20,000**
Satisfied by:	
Cash	**11,000**
Deferred consideration *(note 24)*	**9,000**
	20,000
Net cash inflow arising on disposal:	
Cash consideration	**11,000**

The deferred consideration fully settled in cash by the purchaser before the report date.

The subsidiary disposed during the year ended 31st December, 2005 did not have significant contribution to the Group's turnover and contributed loss of HK$10.3 million to the Group's loss for the year for the period up to the date of disposal.

36. CAPITAL COMMITMENTS

	2005 *HK$'000*	2004 *HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**42,067**	–

At 31st December, 2005, the Group had capital expenditure of approximately RMB160 million (2004: RMB160 million) authorised but not contracted for with respect to the acquisition of not less than 51% equity interests in Gu Jiao Yi Yi Mei Jiao Company Limited ("Gu Jiao"), where letter of intent was entered into during the year ended 31st December, 2004. Gu Jiao is a company incorporated in the PRC and is mainly engaged in the business of processing and sale of coke and its by-products in the PRC. This transaction is under negotiation up to date of this report.

Notes to the Financial Statements

For the year ended 31st December, 2005

37. OPERATING LEASE ARRANGEMENTS

The Group has made approximately HK$1,522,000 (1.4.2004 to 31.12.2004: HK$1,047,000) minimum lease payments under operating leases during the year/period in respect of office premises.

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

	2005 *HK$'000*	2004 *HK$'000*
Within one year	**2,522**	641
In the second to fifth years inclusive	**1,682**	444
	4,204	1,085

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

38. PLEDGE OF ASSETS

At 31st December, 2005 and 2004, the Group has pledged the following assets for:

a) Other borrowings – due within one year

- bank deposits of HK$11,129,000 (2004: HK$200,000)
- buildings with a carrying value of HK$52,963,000 (2004: Nil)
- prepaid lease payments with a carrying value of HK$3,691,000 (2004: Nil)
- other deposits of HK$1,018,000 (2004: Nil)

b) Convertible bonds

- investment securities at 31st December 2004 of HK$16,800,000 (2005: Nil)

39. MAJOR NON-CASH TRANSACTION

During the year, the Group had the following non-cash transactions:

(i) share base payment of HK$27,956,000 (1.4.2004 to 31.12.2004: HK$16,713,000) was settled through the issue of share options as set out in note 32.

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

Notes to the Financial Statements

For the year ended 31st December, 2005

40. RETIREMENT BENEFIT SCHEMES

Hong Kong

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

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

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

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

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

PRC

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

41. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to the balance sheet:

a. On 6th January, 2006, the Company has entered into an agreement with Fast World Assets Limited ("Fast World"), an independent third party, for the advancement of a loan of HK$11,500,000 to Fast World. The loan is unsecured, carries interest at Hong Kong prime rates plus 4% per annum. The loan was fully settled on 3rd February, 2006. Details of which are set out in the announcement dated 13th January, 2006.

b. As detailed in note 2, certain terms of the Subscription Agreement have not being fulfilled and various extension agreements were entered into among the parties to extend the completion date of Subscription Agreement, which has now been extended to 31st July, 2006. Details of which are set out in the announcements of the Company dated 22nd August, 2005, 14th November, 2005, 17th February, 2006 and 10th March, 2006.

Notes to the Financial Statements

For the year ended 31st December, 2005

41. POST BALANCE SHEET EVENTS *(Continued)*

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

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

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

42. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remunerations of directors and other members of key management were disclosed in note 13.

Notes to the Financial Statements

For the year ended 31st December, 2005

43. BALANCE SHEET OF THE COMPANY

	2005 *HK$'000*	2004 *HK$'000*
Non-Current Asset		
Interests in subsidiaries	**2,000**	44,756
Current Assets		
Other receivable	**10,472**	33
Short term receivables	**–**	9,663
Bank balances and cash	**21,124**	17,464
	31,596	27,160
Current Liability		
Trade and other payables	**6,146**	2,123
Net Current Assets	**25,450**	25,037
	27,450	69,793
Capital and Reserves		
Share capital	**273,299**	220,119
Reserves *(note)*	**(245,849)**	(169,826)
	27,450	50,293
Non-Current Liability		
Convertible bonds	**–**	19,500
	27,450	69,793

43. BALANCE SHEET OF THE COMPANY *(Continued)*

Note:

Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Other reserve HK$'000	Deficit HK$'000	Total HK$'000
At 1st April, 2004	51,358	48,311	–	(234,046)	(134,377)
Loss for the period and total recognised expenses for the period	–	–	–	(52,162)	(52,162)
Recognition of equity-settled share-based payment	–	–	16,713	–	16,713
At 31st December, 2004, as originally stated	51,358	48,311	16,713	(286,208)	(169,826)
Effects of changes in accounting policies	–	–	–	1,128	1,128
At 1st January, 2005 as restated	51,358	48,311	16,713	(285,080)	(168,698)
Loss for the year and total recognised expenses for the year	–	–	–	(163,184)	(163,184)
Exercise of share options	11,370	–	(6,065)	–	5,305
Conversion of convertible bonds	52,772	–	–	–	52,772
Recognition of equity-settled share-based payment	–	–	27,956	–	27,956
At 31st December, 2005	115,500	48,311	38,604	(448,264)	(245,849)

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

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

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

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

Notes to the Financial Statements

For the year ended 31st December, 2005

44. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31st December, 2005 are as follows:

Name of subsidiary	Place of incorporation and operation	Nominal value of issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Clearmind Investments Limited	BVI	US$1	100	–	Inactive
Dragon Air Investments Limited	Niue/ Hong Kong	US$50,000	–	100	Investment holding
Funeway Investments Limited ("Funeway")	BVI/PRC	US$1	100	–	Investment holding
Fortune Zone International Limited	BVI	US$1	100	–	Inactive
Heatwave Industries Limited	BVI/ Hong Kong	US$1	–	100	Security investment
Jet-Air (H.K.) Limited 捷亞空運(香港)有限公司	Hong Kong	HK$2,000,200	–	100	Investment
Jet Air (Singapore) Private Limited and shipping companies	Singapore	S$500,000	–	93	Air freight forwarding and brokers for airline
Jet Dispatch Limited	United States of America	US$3,000	–	100	Freight forwarding agent
Shanxi Changxing (note)	PRC	RMB 62,152,00	–	51%	Sale of coke
Square Profits Group Inc.	British Virgin Islands ("BVI")/ Hong Kong	US$1	100	–	Investment holding
北京國華捷亞物流咨詢有限公司 (「國華捷亞」) (formerly known as 北京益來教育投資顧問有限公司)	PRC	RMB 9,448,600	–	100	Inactive

Note: Shanxi Changxing is an indirect 51% subsidiary of the Company pursuant to HKAS 27 issued by the HKICPA on the date of appointing the majority of directors to the board of directors of Shanxi Changxing as detailed in note 2(i).

Notes to the Financial Statements

For the year ended 31st December, 2005

44. PRINCIPAL SUBSIDIARIES *(Continued)*

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

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

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.