1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Listing Rules and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The consolidated financial statements of the Company have been prepared in accordance with HKFRS.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balances sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 31	Interests in joint ventures
HKAS 32	Financial instruments: Disclosure and presentation

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

The adoption of new/revised HKFRS (continued)

HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 38	Intangible assets
HKAS 39	Financial instruments: Recognition and measurement
HKAS 40	Investment property
HKAS-Int 15	Operating leases – Incentives
HKFRS-Int 4	Determining whether an arrangement contains a lease
HK-Int 4	Leases – Determination of the length of lease term in respect of Hong Kong land leases
HKFRS 2	Share-based payment
HKFRS 3	Business combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 31, 33, 37, HKAS-Int 15, HKFRS-Int 4 and HK-Int 4, did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 28, 31, 33, 37, HKAS-Int 15, HKFRS-Int 4 and HK-Int 4 had no material effect on the Group's accounting policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to leasehold land. Interests in leasehold land and buildings were previously classified as "property, plant and equipment" and were carried at cost less accumulated depreciation and impairment loss. Following the adoption of HKAS 17, a leasehold interest of land and building should be split into a lease of land element and a lease of building element in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease premium is stated at cost less impairment loss and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and impairment loss.

In accordance with the transitional provisions of HKAS 17, comparative amounts on the balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold interest in land held for own use.

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods (Note 2(x)(iii)).

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period ranging from 5 to 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 (Note 2(f)):

– The Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions.

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations.

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

– HKAS 40 since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 January 2005, including the reclassification of any amount held in revaluation surplus for investment property.

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

– HKFRS 3 – prospectively after 1 January 2005.

The effects of the changes in the accounting policies on the results for the current and prior years are as follows:

	2005	2004
	HK$'000	*HK$'000*
Income statement items:		
Expenses in relation to share options granted to directors and employees, included in administrative expenses	**4,459**	–
Depreciation and amortisation, included in administrative expenses	**–**	20
Decrease in profit for the year	**4,459**	20

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

The accumulative effect of the application of the new HKFRS on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK$'000	Adjustments HK$'000	As at 31 December 2004 (restated) HK$'000	Adjustments HK$'000	As at 1 January 2005 (restated) HK$'000
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	4,905	(2,688)	2,217	–	2,217
Accumulated depreciation	(1,407)	269	(1,138)	–	(1,138)
Land lease premium	–	2,158	2,158	–	2,158
Impact of HKFRS 3:					
Goodwill	2,826	–	2,826	(1,131)	1,695
Accumulated amortisation of goodwill	(1,131)	–	(1,131)	1,131	–
Impact of HKAS 39:					
Long term unlisted investment	773	–	773	(773)	–
Available-for-sale investments	–	–	–	3,534	3,534
Golf club memberships	2,761	–	2,761	(2,761)	–
Marketable securities	3,307	–	3,307	(3,307)	–
Financial assets at fair value through profit or loss	–	–	–	3,307	3,307
Total effects on assets	**12,034**	**(261)**	**11,773**	**–**	**11,773**
Impact of HKFRS 3:					
Accumulated losses	(49,455)	(261)	(49,716)	30,652	(19,064)
Capital reserve	30,652	–	30,652	(30,652)	–
Total effects on equity	**(18,803)**	**(261)**	**(19,064)**	**–**	**(19,064)**

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Statement of Compliance *(continued)*

The following new Standards or Interpretations have been issued but not yet effective for the current accounting periods. The Group has already commenced an assessment of the impact of these new HKFRS but is still not in a position to state whether these new HKFRS would have a significant impact on its results of operations and financial position.

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Capital disclosure	1 January 2007
HKAS 19 (Amendment)	Actuarial gains or losses, group plans and disclosures	1 January 2006
HKAS 21 (Amendment)	Net investment in a foreign operation	1 January 2006
HKAS 39 (Amendment)	The fair value option	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
HK (IFRIC) – Int 4	Determining whether an arrangement contains a lease	1 January 2006

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 December 2005. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

(c) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

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

(d) Associate

An associate is a Company in which the Group or Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

The investment in an associate is accounted for in the consolidated balance sheet under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate. The results of associate is accounted for in the consolidated income statement to the extent of the Group's share of the associate's results of operations.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Jointly Controlled Entities

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly controlled entity is a contractual arrangement that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

The Group's share of the post acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (note 2(h)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Property, Plant and Equipment

Property, plant and equipment other than other properties and investment properties are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Property, Plant and Equipment *(continued)*

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 10%
Leasehold improvements	20%
Motor vehicles	20%
Furniture and equipment	12.5% to 20%

(h) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– land lease premium;

– golf club memberships;

– investments in subsidiaries; and

– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Impairment of Assets *(continued)*

(iii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(i) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as non-trading securities and trading securities.

(a) Non-trading securities

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired the cumulative loss recorded in the revaluation reserve was taken to the income statement.

(b) Trading securities

Trading securities were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities were recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arised.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Investments *(continued)*

From 1 January 2005 onwards:

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

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(n)).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Investments *(continued)*

From 1 January 2005 onwards: *(continued)*

(d) Available-for-sale financial assets (continued)

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gain or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(k) Marketable Securities

Marketable securities are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

(l) Golf Club Memberships

Golf club memberships are stated at cost less any impairment losses.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Revenue Recognition

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Rental income is recognised on a time proportion basis over the lease terms.

(iv) Agency and commission income is recognised on the basis that the relevant services have been rendered.

(v) Disposal of marketable securities is recognised on the transaction dates.

(vi) Dividend income is recognised when the shareholders' right to receive payment has been established.

(n) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(h)).

(o) Trade and Other Payables

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

(p) Foreign Currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Foreign Currencies *(continued)*

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(q) Retirement Scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Hong Kong Scheme. The assets of the Hong Kong Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Hong Kong Scheme.

(r) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(s) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that the repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(t) Income tax expenses

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items of income statement that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised 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 negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

(u) Operating Leases

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessees, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(v) Investment Properties

Investment properties are interests in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential, these include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value and reviewed annually. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement.

In prior years, the change in the fair value of investment properties was recognised in the property valuation reserve. The deficit of this reserve was charged to the income statement and any subsequent increases were credited to the income statement.

(w) Long Term Investments

Long term investments in non-trading investments, unlisted equity securities, intended to be held for a continuing strategic or long term purpose, is stated at cost less any impairment losses.

When impairment in value has occurred, the carrying amount of the security is reduced to their fair values, as estimated by the directors, and the amounts of the impairment is charged to the income statement for the period in which it arise. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

(x) Employee Benefits

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

(ii) Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(x) Employee Benefits *(continued)*

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(y) Related Parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(z) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(z) Segment Reporting *(continued)*

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(aa) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United Stated dollars and Renminbi.

(b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimate of fair value of investment property

The investment property was revalued at the balance sheet date on market value existing use basis by independent qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at each balance sheet date.

(c) Estimated provision for impairment of trade and other receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provision are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been charged.

(d) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the fair value in use of the cash-generating units to which goodwill has 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.

(e) Fair values of financial instruments

Financial instruments such as interest rate, foreign exchange and equity derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instruments, the Group uses the market values determined by independent financial institutions or internal or external valuation model to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgement by management, which may result in significantly different fair values and results. All significant financial valuation models are strictly controlled and regularly recalibrated and vetted.

5. TURNOVER AND REVENUE

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and the rental income received and receivable during the year.

The Group's turnover and revenue for the year arose from the following activities:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**61,531**	140,523
Gross rental income	**285**	430
	61,816	140,953
Other revenue		
Agency and commission income	**–**	178
Dividend income from investments in marketable securities	**520**	27
Interest income from:		
Bank deposits	**3,405**	1,101
Others	**–**	273
Bad debts recovered	**41**	748
Gain on disposal of property, plant and equipment	**–**	38
Gain on disposal of marketable securities	**3,218**	1,944
Unrealised gain on changes in fair values of marketable securities, net	**–**	104
Exchange gain, net	**50**	15
Others	**678**	3,941
Total revenue	**7,912**	8,369

6. SEGMENT INFORMATION

(a) Business segments

An analysis of the Group's performance by business segments, namely 'chemical fertiliser', 'property investment' and 'corporate and others' is as follows:

	Chemical fertiliser		Property investment		Corporate and others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(restated)		(restated)		(restated)		(restated)
Segment revenue:								
Sales to external customers	**61,488**	140,510	**25**	169	**303**	274	**61,816**	140,953
Other revenue	**2**	–	**–**	–	**677**	3,941	**679**	3,941
Total	**61,490**	140,510	**25**	169	**980**	4,215	**62,495**	144,894
Segment results	**226**	474	**21**	126	**(16,215)**	(7,122)	**(15,968)**	(6,522)
(Loss)/profit on disposal of jointly controlled entities							**(1,776)**	7,333
Increase in fair value of investment properties							**1,000**	3,600
Interest and dividend income and unallocated gains							**7,234**	4,428
Unallocated expenses							**(2,017)**	(566)
(Loss)/profit from operating activities							**(11,527)**	8,273
Finance costs							**(92)**	(218)
Share of results of jointly controlled entities							**(11,632)**	2,514
(Loss)/profit before taxation							**(23,251)**	10,569
Income tax expenses							–	1,253
(Loss)/profit for the year							**(23,251)**	11,822

6. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Chemical fertiliser		Property investment		Corporate and others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
Segment assets	**2,108**	37,035	**16,045**	14,997	**134,008**	146,038	**152,161**	198,070
Interests in jointly controlled entities	**–**	–	**–**	–	**37,799**	51,207	**37,799**	51,207
Total assets	**2,108**	37,035	**16,045**	14,997	**171,807**	197,245	**189,960**	249,277
Segment liabilities	**2,634**	36,493	**–**	–	**13,649**	20,390	**16,283**	56,883
Other segment information:								
Depreciation and amortisation	**24**	64	**59**	61	**338**	394	**421**	519
Impairment losses recognised in income statement	**–**	–	**–**	–	**–**	–	**–**	–
Other non-cash expenses	**–**	–	**–**	–	**1,695**	566	**1,695**	566
Capital expenditure								
– through acquisition of subsidiaries	**–**	–	**–**	–	**–**	–	**–**	–
– other	**–**	–	**–**	–	**572**	–	**572**	–
Increase in fair value	**–**	–	**1,000**	3,600	**–**	–	**1,000**	3,600

(b) Geographical segments

In determining the Group's geographical segment, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

	Hong Kong		PRC		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)	***HK$'000***	*HK$'000* (restated)
Segment revenue:						
Sales to external customers	**285**	430	**61,531**	140,523	**61,816**	140,953
Other segment information:						
Segment assets	**146,088**	156,782	**43,872**	92,495	**189,960**	249,277
Capital expenditure						
– through acquisition of subsidiaries	**–**	–	**–**	–	**–**	–
– others	**572**	–	**–**	–	**572**	–

7. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

The Group's (loss)/profit from operating activities is arrived at after charging/(crediting):

	2005 HK$'000	2004 HK$'000 (restated)
Depreciation	**378**	475
Amortisation of land lease premium	**43**	44
Operating lease payments - land and buildings	**1,976**	1,855
Auditors' remuneration	**203**	150
Amortisation of goodwill	**–**	566
Impairment of goodwill	**1,695**	–
Staff costs (including directors' remuneration – note 9):		
Salaries, allowances and other benefits	**7,625**	7,506
Pension scheme contribution	**257**	244
Share-based payment expenses	**4,459**	–
	12,341	7,750
Increase in fair value of investment properties	**(1,000)**	(3,600)
Rental income from investment properties less direct outgoings of HK$4,000 (2004: HK$49,000)	**(21)**	(120)
Unrealised loss on changes in fair value of financial assets	**539**	–
Loss on disposal of property, plant and equipment	**18**	–

8. FINANCE COSTS

	Group 2005 HK$'000	Group 2004 HK$'000
Interest expense on bank loans, bank overdrafts and other loans repayable within five years	**92**	26
Other interest paid	**–**	192
	92	218

9. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

(i) The details of emoluments (including share option benefit) of every Director are shown below:

	Year ended 31 December 2005				
Name of Director	**Fees**	**Basic salaries, allowances and other benefits**	**Share-based payments**	**Pension scheme contribution**	**Total**
	HK$'000	***HK$,000***	***HK$'000***	***HK$'000***	***HK$'000***
Cheung Siu Lam	**–**	**2,980**	**48**	**12**	**3,040**
Chan Yuk Ming	**–**	**807**	**477**	**12**	**1,296**
Lo Wan	**–**	**291**	**48**	**12**	**351**
Yu Hei Wung, Raymond *(Note)*	**–**	**597**	**333**	**10**	**940**
Wang Jian Sheng	**40**	**–**	**–**	**–**	**40**
Chan Chun Keung	**40**	**–**	**–**	**–**	**40**
Tang Tse Yee, Kennedy	**50**	**–**	**–**	**–**	**50**
	130	**4,675**	**906**	**46**	**5,757**

Note: Re-designated from executive director to non-executive director with effect from 1 August 2005

	Year ended 31 December 2004				
Name of Director	Fees	Basic salaries, allowances and other benefits	Share-based payments	Pension scheme contribution	Total
	HK$'000	*HK$,000*	*HK$'000*	*HK$'000*	*HK$'000*
Cheung Siu Lam	–	2,980	–	12	2,992
Chan Yuk Ming	–	807	–	12	819
Lo Wan	–	291	–	12	303
Yu Hei Wung, Raymond	–	938	–	12	950
Wang Jian Sheng	10	–	–	–	10
Chan Chun Keung	10	–	–	–	10
Tang Tse Yee, Kennedy *(Note 1)*	13	–	–	–	13
Choy Ming Yuk *(Note 2)*	–	–	–	–	–
	33	5,016	–	48	5,097

Notes:

1. Appointed on 9 September 2004

2. Resigned on 27 August 2004

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 December 2005 (2004: Nil).

9. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(continued)*

(ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits	**5,183**	5,317
Pension scheme contributions	**58**	60
Share-based payments	**1,230**	–
	6,471	5,377

	2005	2004
Number of directors	**3**	4
Number of employees	**2**	1
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as inducement to join or upon joining the Group as compensation for loss of office.

The number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2005	2004
Nil – HK$1,000,000	**4**	4
HK$1,000,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$4,000,000	**1**	–
	5	5

10. INCOME TAX EXPENSES

(a) The income tax expenses in the consolidated income statement represents:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax		
Tax for the year	–	-
Over/(under)provision in prior years	–	1,255
	–	1,255
Provision for PRC income tax		
Tax for the year	–	(2)
Tax credit for the year	–	1,253

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

	2005	2004
	HK$'000	*HK$'000*
		(restated)
(Loss)/profit before taxation	**(23,251)**	10,569
Calculated at a taxation rate of 17.5%	**(4,069)**	1,849
Effect of different taxation rate in other countries	**(1,803)**	392
Income not subject to taxation	**(530)**	(3,605)
Expenses not deductible for taxation purposes	**4,667**	368
Utilisation of tax losses previously not recognised	**(663)**	(581)
Deferred tax assets not recognised	**2,414**	1,579
(Over)/under provision in prior years	–	(1,255)
Reversal of temporary difference	**(16)**	–
Tax credit	–	(1,253)

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

Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

10. INCOME TAX EXPENSES *(continued)*

(b) Taxation in the consolidated balance sheet represents:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong provision for the year	**–**	–
PRC taxation provision for the year	**–**	–
Provisional tax paid	**–**	–
Refund of tax	**–**	–
Overprovision in prior years	**–**	(1,255)
	–	(1,255)
Balance of provision relating to prior years	**–**	1,255
	–	–

11. LOSS/(PROFIT) FOR THE YEAR

The (loss)/profit from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company is net loss of HK$12,109,000 (2004: net loss of HK$8,655,000).

12. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: Nil).

13. LOSS/(EARNINGS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

(i) The calculation of basic loss/(earnings) per share for the year is based on the net loss attributable to equity holders of the Company for the year of HK$23,251,000 (2004 (restated): net profit of HK$11,822,000) and the weighted average number of 1,020,125,011(2004: 872,470,244) shares in issue during the year.

(ii) The calculation of basic earnings per share for the year 2004 has been restated to take into account the effect of rights issue during the year ended 31 December 2004.

(iii) The calculation of diluted loss per share is based on the net loss attributable to equity holders of the Company for the year of HK$23,251,000 and the weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic loss per share calculation and the weighted number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share option outstanding.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2004	4,905	776	2,226	963	8,870
Effect on adoption of HKAS 17	(2,688)	–	–	–	(2,688)
Disposals	–	–	–	(543)	(543)
At 31/12/2004 (restated)	2,217	776	2,226	420	5,639
Accumulated depreciation					
At 1/1/2004	1,346	474	1,480	222	3,522
Effect on adoption of HKAS 17	(245)	–	–	–	(245)
Charge for the year (restated)	37	76	271	91	475
Written back on disposal	–	–	–	(39)	(39)
At 31/12/2004 (restated)	1,138	550	1,751	274	3,713
Net book value					
At 31/12/2004 (restated)	1,079	226	475	146	1,926

	Buildings HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and equipment HK$'000	Total HK$'000
Cost					
At 1/1/2005 (restated)	2,217	776	2,226	420	5,639
Additions	–	–	538	34	572
Disposals	–	–	(280)	–	(280)
Exchange adjustment	–	–	–	2	2
At 31/12/2005	**2,217**	**776**	**2,484**	**456**	**5,933**
Accumulated depreciation					
At 1/1/2005 (restated)	1,138	550	1,751	274	3,713
Charge for the year	38	75	207	58	378
Written back on disposal	–	–	(112)	–	(112)
Exchange adjustment	–	–	–	1	1
At 31/12/2005	**1,176**	**625**	**1,846**	**333**	**3,980**
Net book value					
At 31/12/2005	**1,041**	**151**	**638**	**123**	**1,953**

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The cost of the Group's buildings, which are held under long term leases, is analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Situated in:		
Hong Kong	**344**	354
PRC	**697**	725
	1,041	1,079

Company

	Leasehold improvements	**Motor vehicle**	**Furniture and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1/1/2004 and at 31/12/2004	378	768	130	1,276
Accumulated depreciation				
At 1/1/2004	76	307	26	409
Charge for the year	75	154	26	255
At 31/12/2004	151	461	52	664
Net book value				
At 31/12/2004	227	307	78	612

	Leasehold improvements	**Motor vehicle**	**Furniture and equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
At 1/1/2005	378	768	130	1,276
Additions	–	–	34	34
At 31/12/2005	**378**	**768**	**164**	**1,310**
Accumulated depreciation				
At 1/1/2005	151	461	52	664
Charge for the year	76	154	32	262
At 31/12/2005	**227**	**615**	**84**	**926**
Net book value				
At 31/12/2005	**151**	**153**	**80**	**384**

15. LAND LEASE PREMIUM

The Group's interests in land lease premium represent prepaid operating lease payments and their net book value are analysed as follows:

	2005 *HK$'000*	2004 *HK$'000* (restated)
Cost		
At 1 January	**2,688**	–
Effect on adoption of HKAS 17	**–**	2,688
At 31 December	**2,688**	2,688
Accumulated amortisation		
At 1 January	**530**	–
Effect on adoption of HKAS 17	**–**	486
Amortisation for the year	**43**	44
At 31 December	**573**	530
Net carrying amount		
At 31 December	**2,115**	2,158
Leases of between 10 to 50 years, held in:		
Hong Kong	**974**	997
PRC	**1,141**	1,161
	2,115	2,158

16. INVESTMENT PROPERTY

	Group	
	2005 ***HK$'000***	2004 *HK$'000*
At valuation:		
Balance at beginning of year	**11,500**	7,900
Increase in fair value	**1,000**	3,600
Balance at end of year	**12,500**	11,500

The Group's investment property is situated at Flat B1, 16th Floor, Block B and Carpark No. 119 at Carpark 4, Beverly Hill, No. 6 Broadwood Road, Happy Valley, Hong Kong. It is held under a long term lease for residential use. The investment property was revalued on 31 December 2005 by A.G. Wilkinson Associates, an independent qualified valuers, on an open market, existing use basis.

The investment property is leased to a third party under operating lease, further summary details of which are included in note 32(a) to the financial statements.

The Group's investment property was pledged to the Company's banker to secure banking facilities granted to the Group.

17. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**33,049**	33,049
Less: Impairment loss	**(19,250)**	(19,250)
	13,799	13,799

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
K.P.B. Group Holdings Limited	British Virgin Islands ("BVI")/Hong Kong	Ordinary US$12	100	–	Investment holding
Charter Merit Limited	Hong Kong	Ordinary HK$2	–	100	Holding of a club membership
Charter Paradise Limited	Hong Kong	Ordinary HK$2	–	100	Holding of a club membership
K.P.A. Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Trading of chemical fertilisers
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US$6	–	100	Investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
K.P.B. Marketing Limited	BVI/Hong Kong	Ordinary US$2	–	100	Investment holding
K.P.B. – T.C. Holdings Limited	BVI/Hong Kong	Ordinary US$1	–	100	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US$4	–	100	Investment holding
K.P.I. Development Limited	Hong Kong	Ordinary HK$2 Deferred HK$10,000	–	100	Provision of internal financial services
K.P.I. Industries Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Investment holding and property investment
K.P.I. International Trading Company Limited	Hong Kong	Ordinary HK$2 Deferred HK$2	–	100	Trading of agricultural products
上海港佳倍盛經貿有限公司# *(Note 1)*	PRC	RMB2,000,000	–	100	General trading
上海綠葉生物高科技有限公司 *(Note 2)*	PRC	US$200,000	–	100	Processing and trading of chemical fertilisers
Wainwright International Limited	BVI/Hong Kong	US$2	–	100	Investment trading
South Asian Power Investment Limited	Hong Kong	HK$2	–	100	Dormant

\# *Not audited by CCIF CPA Limited*

Notes:

(1) 上海港佳倍盛經貿有限公司 is a Sino-foreign equity joint venture established in the PRC to be operated for 10 years up to March 2012.

(2) 上海綠葉生物高科技有限公司 is a wholly foreign owned enterprise established in the PRC to be operated for 14 years up to October 2013.

18. INTEREST IN AN ASSOCIATE

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	–	–

The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group 2005	Percentage of equity attributable to the Group 2004	Principal activities
Taicang Huifeng Chemical Fertilizer Company Limited	Corporate	PRC	**30**	30	Processing and trading of chemical fertilisers

Taicang Huifeng Chemical Fertilizer Company Limited is a Sino-foreign equity joint venture established in the PRC to be operated for 11 years up to May 2006.

The associate is not audited by CCIF CPA Limited.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group 2005 HK$'000	Group 2004 HK$'000
Share of net assets	**34,508**	47,916

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Details of the Group's interest in the jointly controlled entities are as follows:

Name	Business structure	Place of establishment and operations	Value of issued share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Guangzhou Yuexiu Beatrice Convenience Chain Stores Co., Ltd. (formerly known as Guangzhou Yue Xiu Supermarket Co., Ltd.) *(Note a)*	Corporate	PRC	Registered capital RMB56,555,258	– (2004: 26.01%)	–	– (2004: 26.01%)	Supermarket chain stores operation
海口港佳貿易有限公司 *(Note b)*	Corporate	PRC	Registered capital US$1,000,000	51%	–	51%	Investment holding
K.P.I. (BVI) Retail Management Company Limited	Corporate	BVI	US$50,000,000	51%	–	51%	Investment holding
K.P.I. Beatrice Holdings Ltd.	Corporate	Cayman Islands	US$50,000	– (2004: 26.01%)	–	– (2004: 26.01%)	Investment holding
K.P.I. Convenience Retail Company Limited	Corporate	BVI	US$50,000	50%	–	50%	Dormant
Lantis Trading Corporation	Corporate	BVI	US$10	– (2004: 26.01%)	–	– (2004: 26.01%)	Investment holding
華聯集團吉買盛購物中心有限公司 *(Note c)*	Corporate	PRC	Registered capital RMB80,000,000	20.4%	–	20.4%	Supermarket chain stores operation
上海華聯港佳商業經營管理有限公司# *(Note d)*	Corporate	PRC	Registered capital US$700,000	24.99%	–	24.99%	Investment holding

Not audited by CCIF CPA Limited

Notes:

(a) Guangzhou Yue Xiu Beatrice Convenience Chain Stores Company Limited (formerly known as Guangzhou Yue Xiu Supermarket Company Limited) is a Sino-foreign equity joint venture established in the PRC to be operated for 20 years up to December 2018.

(b) 海口港佳貿易有限公司 is a wholly foreign-owned enterprise established in the PRC to be operated for 20 years up to August 2015.

(c) 華聯集團吉買盛購物中心有限公司 is a equity joint venture established in the PRC to be operated for 20 years up to March 2016.

(d) 上海華聯港佳商業經營管理有限公司 is a Sino-foreign equity joint established in the PRC to be operated for 25 years up to April 2021.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Summary financial information on jointly controlled entity – Group's effective interest:

	K.P.I. (BVI) Retail Management Company Limited	
	2005	2004
	HK$'000	*HK$'000*
Non-current assets	**4,219**	14,018
Current assets	**32,737**	35,834
Current liabilities	**(2,021)**	(1,908)
Net assets	**34,935**	47,944
Income	**172**	11,974
Expenses	**(13,580)**	(2,127)
(Loss)/profit for the year	**(13,408)**	9,847

20. GOODWILL

	Group	
	2005	2004
	HK$'000	*HK$'000*
Cost		
At 1 January	**2,826**	2,826
Effect of changes in HKFRS 3	**(1,131)**	–
At 31 December	**1,695**	2,826
Accumulated amortisation		
At 1 January	**1,131**	565
Effect of changes in HKFRS 3	**(1,131)**	–
Amortisation for the year	**–**	566
Impairment of goodwill	**1,695**	–
At 31 December	**1,695**	1,131
Net book value		
At 31 December	**–**	1,695

21. AVAILABLE-FOR-SALE INVESTMENTS/LONG TERM INVESTMENTS/GOLF CLUB MEMBERSHIPS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted investments:		
– Golf club memberships, at cost	**3,676**	3,676
Less: Impairment loss	**(915)**	(915)
	2,761	2,761
– Long term investments, at cost	**773**	773
Total	**3,534**	3,534
Carrying amount analysed for reporting purposes as:		
Long term unlisted investment	**–**	773
Golf club memberships	**–**	2,761
Non-current available-for-sale investments	**3,534**	–
	3,534	3,534

Upon the application of HKAS 39 on 1 January 2005, the Group's golf club memberships and long term investments as at 31 December 2004 were reclassified to available-for-sale investments (see note 2(a)).

22. FINANCIAL ASSETS AT VALUE THROUGH PROFIT OR LOSS/MARKETABLE SECURITIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
Listed securities – Hong Kong	**7,881**	3,307
Unlisted securities – Hong Kong	**8,564**	–
	16,445	3,307
Held for trading	**7,881**	3,307
Designated as fair value through profit or loss on initial recognition	**8,564**	–
	16,445	3,307
Carrying amount analysed for reporting purposes as:		
Marketable securities	**–**	3,307
Financial assets at fair value through profit or loss	**16,445**	–
	16,445	3,307

Changes in fair values of financial assets at fair value through profit or loss are recorded in the income statement.

Following the adoption of HKAS 39 in 2005, the marketable securities were designated as financial assets at fair value through profit or loss on 1 January 2005. There was no such re-designation in 2004 as retrospective application of HKAS 39 is not permitted.

23. TRADE AND BILLS RECEIVABLES

The aging of the Group's trade and bills receivables is analysed as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Outstanding balances with ages		
Current	**–**	–
1 to 3 months overdue	**–**	34,552
More than 3 months overdue but less than 12 months overdue	**–**	70
Overdue more than 1 year	**–**	–
	–	34,622

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**3,323**	5,349	**1,299**	3,104
Time deposits	**86,641**	120,443	**83,317**	120,443
	89,964	125,792	**84,616**	123,547
Less: Pledged time deposits against short term bank loans and trust receipts	**(37,900)**	(36,768)	**(37,900)**	(36,768)
Cash and cash equivalents	**52,064**	89,024	**46,716**	86,779

25. TRADE AND BILLS PAYABLES

The aging of the Group's trade and bills payable is analysed as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Outstanding balances with ages		
Due within 1 month or on demand	**–**	–
Due after 1 month but within 3 months	**–**	35,351
Due after 3 months but within 6 months	**–**	–
	–	35,351

26. DEFERRED TAX

Deferred tax assets are to be recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

The Group has not recognised deferred tax assets in respect of tax losses of HK$15,192,000 (2004: HK$13,340,000). The unrecognised tax losses, mainly to Hong Kong companies, can be carried forward indefinitely.

27. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

28. AMOUNTS DUE FROM/(TO) JOINTLY CONTROLLED ENTITIES

The amounts due from/(to) jointly controlled entities are unsecured, non-interest bearing and have no fixed terms of repayment.

29. SHARE CAPITAL

	2005		2004	
	No. of shares	***HK$'000***	*No. of shares*	*HK$'000*
Authorised				
Ordinary share of HK$0.10 each	**2,000,000,000**	**200,000**	2,000,000,000	200,000
Issued and fully paid				
At 1 January	**1,015,877,336**	**101,588**	677,251,557	67,725
Right issue of one new share for every two existing shares	–	–	338,625,779	33,863
At 31 December	**1,015,877,336**	**101,588**	1,015,877,336	101,588

30. SHARE OPTIONS

The company has a share option scheme which was adopted on 7 June 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to taken up options at nil consideration to subscribe for shares of the Company. The options vest from the date of grant and are then exercisable within a period of ten years. Each option gives the holder the right to subscribe for one ordinary share in the company.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Options granted to directors:			
– on 2 February 2005	19,000,000	From the date of grant	10 years
Options granted to employees:			
– on 10 January 2005	48,500,000	From the date of grant	10 years
– on 1 September 2005	32,000,000	From the date of grant	10 years
Total share options	99,500,000		

(b) The number and weighted average exercise price of share options are as follows:

	2005		2004	
	Weighted average exercise price	**Number of options *'000***	Weighted average exercise price	Number of options *'000*
Outstanding at the beginning of the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	–	–
Granted during the year	**0.138**	**99,500**	–	–
Outstanding at the end of the year	**0.138**	**99,500**	–	–
Exercisable at the end of the year	**0.138**	**99,500**	–	–

The options outstanding at 31 December 2005 had an exercise price of HK$0.126, HK$0.138 or HK$0.156 (2004: Not applicable) and a weighted average remaining contractual life of 8.43 years (2004: Not applicable).

30. SHARE OPTIONS *(continued)*

(c) Fair value of share options and assumptions:

The fair value of services received in return of share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a binomial model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial model.

	2005		
	31 January	**28 February**	**13 September**
Fair value of options granted	HK$0.04247	HK$0.04768	HK$0.04666
Inputs into the binomial pricing model:			
Share price at grant date	HK$0.131	HK$0.147	HK$0.144
Exercise price	HK$0.126	HK$0.138	HK$0.156
Expected volatility	107%	107%	107%
Expected life	6 years	6 years	6 years
Risk-free interest rate	3.62%	3.85%	4.10%
Expected dividend per share	–	–	–

The expected volatility is based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

31. RESERVES

Group

	Share premium HK$'000	Capital reserve HK$'000	Share-based compensation reserve HK$'000	Statutory public welfare reserve HK$'000	Exchange fluctuation reserve HK$'000	Statutory surplus reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004								
– as previously reported	108,663	30,652	–	173	2,613	205	(61,297)	81,009
– effect of change in accounting policies	–	–	–	–	–	–	(241)	(241)
– as restated	108,663	30,652	–	173	2,613	205	(61,538)	80,768
Issuing expenses	(1,784)	–	–	–	–	–	–	(1,784)
Profit for the year (as restated)	–	–	–	–	–	–	11,822	11,822
At 31 December 2004 (as restated)	106,879	30,652	–	173	2,613	205	(49,716)	90,806
At 1 January 2005								
– as previously reported	106,879	30,652	–	173	2,613	205	(49,455)	91,067
– effect of change in accounting policies	–	–	–	–	–	–	(261)	(261)
– opening adjustment for the adoption of HKFRS 3	–	(30,652)	–	–	–	–	30,652	–
– as restated	106,879	–	–	173	2,613	205	(19,064)	90,806
Exchange adjustment	–	–	–	–	75	–	–	75
Employee share option benefits	–	–	4,459	–	–	–	–	4,459
Loss for the year	–	–	–	–	–	–	(23,251)	(23,251)
At 31 December 2005	**106,879**	**–**	**4,459**	**173**	**2,688**	**205**	**(42,315)**	**72,089**

31. RESERVES *(continued)*

	2005	2004
	HK$'000	*HK$'000*
		(restated)
Accumulated losses retained by:		
Company and its subsidiaries	**(5,499)**	(26,308)
An associate	**–**	–
Jointly controlled entities	**(36,816)**	(23,408)
	(42,315)	(49,716)

Company

	Share premium	**Share-based compensation reserve**	**Accumulated losses**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
At 1/1/2004	108,663	–	(43,504)	65,159
Issuing expenses	(1,784)	–	–	(1,784)
Loss for the year	–	–	(8,655)	(8,655)
At 31/12/2004 and 1/1/2005	106,879	–	(52,159)	54,720
Loss for the year	–	–	(12,109)	(12,109)
Employee share option benefits	–	4,459	–	4,459
At 31/12/2005	**106,879**	**4,459**	**(64,268)**	**47,070**

At 31 December 2005, the Company has no reserve available for distribution as calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 16 to the financial statements) and golf club membership under operating lease arrangements, with leases negotiated for terms one year for investment properties and one to two years for golf club membership. The terms of the leases generally also require the lessees to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its lessees falling due as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**62**	58
In the second to fifth years, inclusive	**12**	–
	74	58

(b) As lessee

The Group leases certain of its office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years, and those for director's quarter for a term of 3 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**1,131**	1,747	**1,114**	1,731
In the second to fifth years, inclusive	**67**	1,182	**–**	1,114
After the fifth years	**21**	38	**–**	–
	1,219	2,967	**1,114**	2,845

33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

(a) Related party transactions included in the profit and loss account

	2005	2004
	HK$'000	*HK$'000*
Rental expenses to a company controlled by directors	**996**	996
Rental income from a jointly controlled entity	**(156)**	(156)

Notes:

(i) Rental expenses for two directors were paid to a company controlled by them. The monthly rental of HK$83,000 was calculated by reference to open market rental.

(ii) Rental income was received from a jointly controlled entity. The monthly rental was mutually agreed by both parties.

(b) Related party transactions included in the balance sheet

	2005	2004
	HK$'000	*HK$'000*
Amounts due from jointly controlled entities	**3,291**	3,291
Amounts due to jointly controlled entities	**(4,495)**	(10,382)

(c) Compensation of key management personnel of the Group

	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and other benefits	**2,980**	3,918
Pension scheme contribution	**12**	24
Share-based payments expenses	**48**	–
	3,040	3,942

Note: Further details of pension scheme contribution and directors' emoluments are included in note 9 to the financial statements.

34. BANKING FACILITIES

Banking facilities utilised by one of the subsidiaries and guaranteed by the Company amounting to nil (2004: HK$33,733,000).

35. SUBSEQUENT EVENT

Subsequent to the balance sheet date, on 31 March 2006, the Company's subsidiary, K.P.B. Marketing Limited entered into a loan agreement (the "Loan Agreement") with a third party, Mr. Zhang Qizhong (the "Borrower"), to lend to the Borrower a maximum aggregate principal amount of RMB60,000,000 (equivalent to HK$57,720,058) (the "Loan"). The Loan will be made available to the Borrower for the period commencing on 31 March 2006 and ending on the earlier of one year from the date of the Loan Agreement or the date on which the Loan is fully drawn, cancelled or terminated. The Loan will bear interest of 15% per annum.

36. ULTIMATE CONTROLLING PARTY

The directors regard Mr. Cheung Siu Lam through its direct shareholding as being the ultimate controlling party.

37. COMPARATIVE FIGURES

Certain items in the financial statements were reclassified as a result of the changes in accounting policies. Accordingly, certain comparative figures have been reclassified to conform with the current years' presentation.