Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and 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 principal activities of its subsidiaries and associate are set out in notes 30 and 31 respectively.

These consolidated financial statements are presented in Hong Kong Dollar, which is the same as the functional currency of the Group.

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and the financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) - INT 8	Scope of HKFRS 2[4]
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) - INT 11	HKFRS 2: Group and Treasury Share Transactions[7]
HK(IFRIC) - INT 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards 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.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which ventures have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities 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 jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, 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 jointly controlled entity.

When a group entity transactions with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entities, except to the extent that unrealised losses provide evidence for an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue

Revenue represents income from trading of goods and dividends arising from investments held for trading. Dividend income which was classified as other income in 2005 has been reclassified to conform with current year presentation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents dividend income from investments and amounts receivable for goods provided in the normal course of business.

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

Interest income from a financial asset is accrued on a time basis, by reference to 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 dividend payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	10% - 20%
Furniture, fixtures and equipment	10% - 20%
Motor vehicles	12.5% - 25%

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 consolidated income statement in the year in which the item is derecognised.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are mainly classified into financial assets held for trading, receivables and available-for-sale financial assets. 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 accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets held for trading

At each balance sheet date subsequent to initial recognition, financial assets held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Receivables

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, receivables (including other receivables 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 effective interest rate on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the 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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including other payables are subsequently measured at amortised cost, using the effective interest method.

Convertible loan notes

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible note reserve).

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible note reserve until the embedded option is exercised (in which case the balance stated in convertible note reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible note reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Equity instruments

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

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Leasing

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme, which is a retirement contribution scheme, are charged as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

For share options granted to employees, the fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The effect of the change in estimate, if any, is recognised in profit or loss with a corresponding adjustment to share options 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 after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

4. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The risks associated with the financial instruments of the Group 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.

Market risk

Price risk

The Group is exposed to equity security price risk through its held for trading investments. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

Although the bank balances are concentrated on certain counterparties, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

4. FINANCIAL INSTRUMENTS (Continued)

b. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors of the Group consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions - metals trading, sales of communication products and investments in securities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Metals trading - Trading of metals products.

Sales of communication products - Trading of communication products. During the year, this division did not make any contribution to the results of the Group for the year.

Investments in securities - Investment in securities held for trading to generate dividends and capital appreciation.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Segment information about these businesses is presented below:

Income statement

	2006		
	Metals trading HK$'000	**Investments in securities HK$'000**	**Total HK$'000**
Revenue	5,880	2,474	8,354
Segment result	409	(20,450)	(20,041)
Interest income	—	—	2,778
Unallocated corporate expenses	—	—	(19,403)
			(36,666)
Impairment loss on available-for-sale investment	—	—	(13,489)
Impairment loss on loan to an investee company	—	—	(18,569)
Gain on disposal of subsidiaries	—	—	6,998
Share of losses of jointly controlled entities	—	—	(57)
Finance costs	—	—	(6)
Loss for the year			(61,789)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Income statement (Continued)

	2005			
	Metals trading HK$'000	Sales of communication products HK$'000	Investments in securities HK$'000	Total HK$'000
Revenue	9,764	5	843	10,612
Segment result	65	1	(16,014)	(15,948)
Interest income	—	—	—	1,217
Unallocated corporate income	—	—	—	150
Unallocated corporate expenses	—	—	—	(35,566)
				(50,147)
Share of losses of jointly controlled entities	—	(221)	—	(221)
Finance costs	—	—	—	(1,338)
Loss for the year				(51,706)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Balance sheet

	2006		2005	
	Segment assets	**Segment liabilities**	Segment assets	Segment liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Metals trading	**11,917**	**2,960**	87,050	4,034
Investments in securities	**136,706**	**—**	87,708	—
Interests in jointly controlled entities	**—**	**—**	6,010	—
Other corporate assets	**—**	**—**	30,723	—
	148,623	**2,960**	211,491	4,034

Other information

	2006	2005
	HK$'000	HK$'000
Capital additions		
Metals trading	**11**	25
Depreciation		
Metals trading	**47**	342
Gain on disposal of property, plant and equipment		
Metals trading	**—**	150

(b) Geographical segments

No geographical segment information is presented as the Group operates in Hong Kong only.

6. OTHER INCOME

	2006 HK$'000	2005 HK$'000
Interest on bank deposits	**1,443**	494
Interest on loan to an investee company	**1,335**	723
Gain on disposal of property, plant and equipment	**—**	150
	2,778	1,367

7. ADMINISTRATIVE EXPENSES

An amount of HK$13,441,000, representing the estimated fair value of share options granted in February 2005 under the Share Option Scheme of the Company, was charged to the last year's consolidated income statement with a corresponding credit to the equity.

8. FINANCE COSTS

Included in finance costs is interest on convertible note payable of HK$Nil (2005: HK$1,338,000).

9. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made since the Group had no assessable profits for both years.

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

	2006 HK$'000	2005 HK$'000
Loss before tax	**(61,789)**	(51,706)
Tax credit at the domestic income tax rate of 17.5%	**10,813**	9,049
Tax effect of share of results of jointly controlled entities	**(10)**	(39)
Tax effect of expenses not deductible for tax purpose	**(9,707)**	(6,409)
Tax effect of income not taxable for tax purpose	**2,223**	360
Tax effect of tax losses not recognised	**(3,319)**	(2,961)
Taxation for the year	**—**	—

10. LOSS FOR THE YEAR

	2006 HK$'000	2005 HK$'000
Loss for the year has been arrived at after charging:		
Auditors' remuneration	945	850
Depreciation	47	342
Directors' emoluments	6,812	6,477
Contributions to retirement benefits scheme	145	146
Other staff costs	5,093	18,560
Total staff costs	12,050	25,183
Cost of inventories recognised	5,385	9,534
Minimum lease payments under operating leases in respect of rented premises	2,776	1,529

11. DIRECTORS' EMOLUMENTS

	2006					2005				
	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive:										
Mr. Chiu Kong	—	1,811	100	12	1,923	—	1,696	100	12	1,808
Mr. Hui Richard Rui	—	1,073	150	12	1,235	—	1,072	150	12	1,234
Mr. Tsui Ching Hung	—	1,017	100	12	1,129	—	1,017	100	12	1,129
Ms. Cheung Sze Man	—	108	—	2	110	—	—	—	—	—
Mr. Chung Nai Ting	—	780	150	12	942	—	780	100	12	892
Mr. Tse Lanny Cheuk Ming	—	728	300	12	1,040	—	702	250	12	964
Independent non-executive:										
Mr. Miu Frank H.	150	—	—	—	150	150	—	—	—	150
Mr. Sin Chi Fa	8	—	—	—	8	—	—	—	—	—
Mr. Tong Wui Tung	125	—	—	—	125	150	—	—	—	150
Mr. Chan Sze Hung	150	—	—	—	150	150	—	—	—	150
	433	5,517	800	62	6,812	450	5,267	700	60	6,477

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: four) were directors of the Company whose emoluments are included in note 11 above. The emoluments of the remaining highest paid individual (2005: one) were as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**980**	954
Retirement benefit scheme contributions	**12**	12
	992	966

No emoluments were paid by the Group to the directors and the remaining highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of approximately HK$61,789,000 (2005: HK$51,706,000) and on the weighted average number of 531,645,319 (2005: 291,743,468) ordinary shares in issue after adjusting for the effect of share consolidation which became effective on 6 March 2006 as disclosed in note 21.

No diluted loss per share was presented in 2006 as there were no dilutive potential ordinary shares in existence for the year.

No diluted loss per share had been presented in 2005 as the effect of the potential ordinary shares outstanding in respect of the convertible note payable was anti-dilutive.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1 January 2005	428	760	2,462	3,650
Additions	—	25	—	25
Disposal	—	—	(395)	(395)
At 31 December 2005	428	785	2,067	3,280
Additions	—	11	—	11
At 31 December 2006	428	796	2,067	3,291
DEPRECIATION				
At 1 January 2005	363	711	2,075	3,149
Provided for the year	17	36	289	342
Eliminated on disposal	—	—	(395)	(395)
At 31 December 2005	380	747	1,969	3,096
Provided for the year	10	9	28	47
At 31 December 2006	390	756	1,997	3,143
NET BOOK VALUES				
At 31 December 2006	38	40	70	148
At 31 December 2005	48	38	98	184

15. AVAILABLE-FOR-SALE INVESTMENT

	2006	2005
	HK$'000	HK$'000
Unlisted investment, at cost	13,489	13,489
Less: Impairment loss recognised	(13,489)	—
	—	13,489

The unlisted investment represents approximately a 5.94% interest in the issued share capital of Found Macau Investments International Limited ("Found Macau"), an investment holding company incorporated in the British Virgin Islands. Found Macau was formed to invest in gaming, entertainment and related business in Macau through its subsidiaries. Included in the investment cost is the fair value adjustment of HK$13,489,000 arising from an interest free loan advanced to Found Macau which was considered as deemed capital contribution (see note 16).

In view of the recurring operating losses incurred by Found Macau, the directors of the Company reviewed the carrying amount of the unlisted investment based on the expected recoverable amount as at 31 December 2006. Accordingly, an impairment loss of HK$13,489,000 was identified and charged to the consolidated income statement.

16. LOAN TO AN INVESTEE COMPANY

The loan represents advance made to Found Macau on 8 June 2005. The loan is unsecured, interest free and repayable on demand at the face value of HK$30,000,000 after 8 years from the date of draw down. The loan was measured at fair value at initial recognition and is subsequently carried at amortised cost using the effective interest method. The effective interest rate of the loan is 7.75%.

As mentioned in note 15, the directors of the Company reviewed the carrying amount of the loan based on the expected recoverable amount as at 31 December 2006. Accordingly, an impairment loss of HK$18,569,000 was identified and charged to the consolidated income statement.

17. INTEREST IN AN ASSOCIATE

	2006	2005
	HK$'000	HK$'000
Cost of unlisted investment in an associate	**—**	—
Loan to an associate	**54,050**	54,050
Less: Impairment loss recognised	**(54,050)**	(54,050)
	—	—

The Group does not recognise its share of loss of the associate. Details of the Group's associate at 31 December 2006 are set out in note 31.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006	2005
	HK$'000	HK$'000
Cost of unlisted investments in jointly controlled entities	**—**	20,000
Share of post-acquisition reserves	**—**	(3,990)
Less: Impairment loss recognised	**—**	(10,000)
Share of net assets	**—**	6,010

On 30 June 2006, the Group disposed of a subsidiary, Winford Investments Limited, which holds 50% equity interest in the jointly controlled entities of the Group. The principal activities of the jointly controlled entities are investment holding and trading of communication products. Details of the disposal are set out in note 26.

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

The summarised financial information attributable to the Group in respect of its jointly controlled entities which are accounted for using the equity method up to the date of disposal is set out below:

	2006 HK$'000	2005 HK$'000
Current assets	**9,342**	9,458
Non-current assets	**11**	31
Current liabilities	**3,400**	3,479
Income	**—**	88
Expenses	**57**	309

19. INVESTMENTS HELD FOR TRADING

	2006 HK$'000	2005 HK$'000
Equity securities listed in Hong Kong	**49,423**	86,658
Equity securities listed elsewhere	**87,009**	—
	136,432	86,658

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash and demand deposits held by the Group with maturity of three months or less. Bank balances carry interest at an average market rate of 1.85% per annum.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

21. SHARE CAPITAL

	Number of shares		Share capital	
	2006	2005	**2006**	2005
			HK$'000	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At the beginning of the year	**25,000,000,000**	50,000,000,000	**250,000**	500,000
Decrease on 11 July 2005	**—**	(47,500,000,000)	**—**	(475,000)
Increase on 15 November 2005	**—**	22,500,000,000	**—**	225,000
At the end of the year	**25,000,000,000**	25,000,000,000	**250,000**	250,000
Issued and fully paid:				
At the beginning of the year	**2,658,226,595**	6,837,422,389	**26,582**	68,374
Issue of new shares announced				
- on 10 January 2005 (note (a))	**—**	1,367,484,000	**—**	13,675
- on 24 August 2005 (note (a))	**—**	88,600,000	**—**	886
Issued upon exercise of share options (note (b))	**—**	656,000,000	**—**	6,560
Share consolidation (note (c)&(d))	**(2,126,581,276)**	(8,417,861,070)	**(21,266)**	(84,179)
Rights issue of shares (note (e))	**—**	2,126,581,276	**—**	21,266
At the end of the year	**531,645,319**	2,658,226,595	**5,316**	26,582

21. SHARE CAPITAL (Continued)

Notes:

(a) On 10 January 2005, the Company entered into an agreement with a placing agent for placement of 1,367,484,000 new shares to independent investors at a price of HK$0.052 per new share on a fully underwritten basis. The net proceeds amounted to approximately HK$69,000,000. About HK$30,000,000 was used for investing in and loan to Found Macau and about HK$39,000,000 was used for general working capital of the Group.

On 24 August 2005, the Company entered into an agreement with a placing agent for placement of 88,600,000 new shares to independent investors at a price of HK$0.1 per new share on a fully underwritten basis. The net proceeds amounting to HKD8,500,000 was used for general working capital of the Group.

(b) On 1 February 2005, the Company granted share options to employees to subscribe for 656,000,000 ordinary shares of the Company of HK$0.01 each at the subscription price of HK$0.038 per share (closing price per share on 31 January 2005 was HK$0.037) under the share option scheme adopted on 27 May 2002. Share options granted may be exercised any time from the date of grant to the day preceding the first anniversary of the date of grant. On 2 February 2005, the share options were exercised in full at the subscription price of HK$0.038 per share (closing price per share on 1 February 2005 was HK$0.034).

(c) Pursuant to a special resolution passed at the special general meeting on 3 March 2006:

(i) every five shares of HK0.01 each in the issued ordinary share capital of the Company be and are hereby consolidated into one consolidated share of HK$0.05 ("Consolidated Share A"); and

(ii) every issued Consolidated Share A of the Company be and is hereby reduced in nominal amount by cancelling HK$0.04 of the capital paid up on each issued Consolidated Share A from HK$0.05 to HK0.01 each so as to form one share of HK$0.01 each.

(d) Pursuant to a special resolution passed at the special general meeting on 8 July 2005:

(i) every twenty shares of HK$0.01 each in the issued and unissued ordinary share capital of the Company be and are hereby consolidated into one consolidated share of HK$0.20 ("Consolidated Share B"); and

(ii) every issued and unissued Consolidated Share B of the Company be and is hereby reduced in nominal amount by cancelling HK$0.19 of the capital paid up on each issued Consolidated Share B and by reducing the nominal amount of each authorised but unissued Consolidated Share B, from HK$0.20 to HK$0.01 each so as to form one share of HK$0.01 each.

(e) On 15 November 2005, the Company approved issue of 2,126,581,276 shares of HK$0.01 each by way of rights to holders of shares in the Company at HK$0.05 per share ("Rights Share") in the proportion of four Rights Shares for every existing share held by holders of shares. On 6 December 2005, 2,126,581,276 Rights Shares were allotted.

22. CONVERTIBLE NOTE PAYABLE

	2006 HK$'000	2005 HK$'000
Convertible note payable		
Balance at the beginning of the year	—	—
Issued during the year	—	50,000
Redeemed during the year	—	(50,000)
Balance at the end of the year	—	—
Issue costs		
Balance at the beginning of the year	—	—
Incurred during the year	—	1,250
Amortised during the year	—	(1,250)
Balance at the end of the year	—	—
Carrying value at the end of the year	—	—

On 5 January 2005, the Company and a placing agent entered into an agreement for the placement of convertible notes issued by the Company up to an aggregate principal amount of HK$50,000,000 (the "2005 Convertible Note"). The 2005 Convertible Note was unsecured and carried interest at 3% per annum on the principal amount of the Convertible Notes outstanding, payable upon maturity which was one year from the date of issue of the 2005 Convertible Note (the "Maturity Date").

The 2005 Convertible Note might be converted into ordinary shares of the Company at a conversion price of HK$0.25 per share from the date of issue of the 2005 Convertible Notes to the Maturity Date. The Company, at any time before the Maturity Date, had the option to redeem the 2005 Convertible Note in whole or in part at par value. All the 2005 Convertible Note had been redeemed in March 2005.

23. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme (the "Scheme") which was adopted on 27 May 2002 to replace the old scheme adopted in 1998. The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, the Company may grant options to employees (including existing and proposed directors), adviser, consultant, agent, contractor, client and supplier of any members of the Group (collectively the "Participants"). The purpose of the Scheme is to recognise and motivate the contribution of Participants and to provide incentives and help the company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company. The total number of shares available for issue under the Scheme is 277,422 which represents approximately 0.05% of the issued share capital of the Company as at 31 December 2006. No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in twelve month period up to and including the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates abstaining from voting. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the board of the directors of the Company (the "Board") may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised. The subscription price of the option shall be determined by the Board but in any case shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a trading day, (ii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a Share. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

There are no share option granted by the Company and no share option outstanding during the year.

23. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Movements of the Company's share options in 2005 are as follows:

Option type	Date of grant	Exercisable period	Exercise price	Exercise date
2005	1.2.2005	1.2.2005 - 31.1.2006	HK$0.038	2.2.2005

Option type	Outstanding at 1.1.2005	Granted during 2005	Exercised during 2005	Outstanding at 31.12.2005 and 31.12.2006
2005	—	656,000,000	(656,000,000)	—
Weighted average exercise price	—	HK$0.038	HK$0.038	—

The above options were granted on 1 February 2005. The estimated fair value of the option granted on that date is approximately HK$0.02.

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

	2005
Share price at date of grant	HK$0.034
Exercise price	HK$0.038
Expected volatility	175%
Expected life	1 year
Risk-free rate	2.75%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 266 days. 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 behavioural considerations. The Group recognised the total expense of HK$13,441,000 for the year ended 31 December 2005 in relation to share options granted by the Company.

24. RESERVES

The capital reserve of the Group represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital and share premium of the companies now forming the Group pursuant to the group reorganisation prior to the listing of the Company's shares in 1998.

Included in the Group's reserves are the following amounts attributable to the Group's jointly controlled entities:

	2006	2005
	HK$'000	HK$'000
Jointly controlled entities		
- translation reserve	—	5
- accumulated losses	—	(3,995)
	—	(3,990)

25. DEFERRED TAXATION

During the year, the Group disposed of its interest in certain subsidiaries with unused tax losses brought forward of approximately HK$143,335,000 (2005: HK$ Nil).

At the balance sheet date, the Group had unused tax losses of approximately HK$19,108,000 (2005: HK$143,475,000) available to offset against future profits. No deferred taxation asset has been recognised due to unpredictability of future profits streams.

26. DISPOSAL OF SUBSIDIARIES

During the year, the Group disposed of two subsidiaries, namely Winford Investment Limited ("Winford") and Truewell Asia Limited ("Truewell"), to independent third parties at considerations of USD1 on 30 June 2006 and USD2 on 30 December 2006, respectively. Winford holds 50% equity interest in the jointly controlled entities of the Group whereas Truewell acts as an investment holding company.

The effect of the disposal is summarised as follows:

	HK$'000
Net liabilities disposed of:	
Interests in jointly controlled entities	5,953
Amounts due to jointly controlled entities	(12,152)
Other payables	(794)
	(6,993)
Translation reserve attributable to the Group and released upon disposal	(5)
	(6,998)
Gain on disposal of subsidiaries	6,998
Cash consideration	—

The subsidiaries disposed of did not make any significant contribution to the results or cash flows of the Group for the year.

27. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefit cost charged to the income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

28. OPERATING LEASE COMMITMENTS

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

	2006	2005
	HK$'000	HK$'000
In respect of rented premises:		
Within one year	**1,166**	2,011
In the second to fifth year inclusive	**1,015**	3,423
	2,181	5,434

Leases are negotiated for an average term of two to three years.

29. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2006, the Company entered into the following agreements:

(i) The Underwriting and the Placing

On 15 March 2007, the Company entered into an Underwriting Agreement with a placing agent for placement of 100,000,000 new shares on a fully-underwritten basis at the price of HK$0.16 per share to independent third parties (the "Underwriting Placing"). As at the date of this report, the Underwriting Placing has been completed.

On 15 March 2007, the Company also entered into a Placing Agreement with a placing agent for placement of up to a maximum of 500,000,000 new shares on a best-efforts basis at the price of HK$0.16 per share to independent third parties.

(ii) The Convertible Notes Placing Agreement

The Company entered into a Convertible Notes Placing Agreement with a placing agent on 15 March 2007 for the placement of convertible notes with principal amount of not more than HK$150,000,000 to independent third parties upon the terms and conditions of the Convertible Notes Placing Agreement on a best-efforts basis. The convertible notes to be issued will carry a coupon of 4% per annum. The initial conversion price of the convertible notes is HK$0.17 per share (subject to adjustment). Maturity date of the convertible notes shall be two years from the date of issue.

The above (except for the Underwriting Agreement) is subject to the approval by the shareholders at the special general meeting in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

30. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly %	Indirectly %	
Able King Investment Limited	British Virgin Islands*	1 ordinary share of US$1 each	100%	—	Investment holding
Acewell Investments Limited	British Virgin Islands*	1 ordinary share of US$1 each	—	100%	Investment holding
Ample Asset Investment Limited	British Virgin Islands*	1 ordinary share of US$1 each	—	100%	Investment holding
Global Empire Group Inc.	British Virgin Islands*	1 ordinary share of US$1 each	—	100%	Investment holding
Gold Castle Investments Limited	British Virgin Islands*	1 ordinary share of US$1 each	—	100%	Investment holding
Giant Wave Limited	Hong Kong	1 ordinary share of HK$1 each	—	100%	Securities investment
King Force International Limited	British Virgin Islands*	1 ordinary share of US$1 each	—	100%	Investment holding
Northlink Holdings Limited	British Virgin Islands*	200 ordinary shares of US$1 each	100%	—	Investment holding
Ocean Vision Investments Limited	British Virgin Islands*	1 ordinary share of US$1 each	—	100%	Investment holding
Wealth Prospect Limited	Hong Kong	2 ordinary share of HK$1 each	—	100%	Metals trading

* The companies are engaged in investment business and have no specific principal place of operation.

None of the subsidiaries had any debt securities at 31 December 2006 or at any time during the year.

31. PARTICULARS OF ASSOCIATE

Particulars of the Group's associate as at 31 December 2006 is as follows:

Name of associate	Place of incorporation/ operation	Issued share capital	Proportion of Nominal value of issued share capital held by the Group	Principal activity
Chinachem Industries Limited	Hong Kong	10,000 ordinary shares of HK$1 each	49%	Investment holding