

30 June 2005

## 1. CORPORATE INFORMATION

Prime Investments Holdings Limited (the “Company”) was incorporated on 12 July 2000 in the Cayman Islands under the Companies Law as an exempted company with limited liability. The address of the registered office of the Company is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies.

The Company’s principal place of business is located at Room 504, 5/F, Chinachem Tower, 34-37 Connaught Road Central, Central, Hong Kong.

The Company is an investment holding company while the Group is principally engaged in the investment of listed and unlisted companies established and/or doing business in Hong Kong and other parts of the PRC.

## 2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSS”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 July 2005. The company has not early adopted these new HKFRSs in the financial statements for the year ended 30 June 2005. The company has already commenced assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. GOING CONCERN CONCEPT

The Group had a net loss attributable to shareholders of HK\$2,552,955 for the year ended 30 June 2005 (2004: loss of HK\$6,100,480). The Group and the Company had consolidated net current liabilities and net current liabilities of HK\$4,448,719 (2004: net current liabilities -Group – HK\$751,545 and Company – HK\$751,545) and consolidated accumulated losses of HK\$32,249,294 (2004: HK\$29,696,339) and accumulated losses of HK\$35,749,294 (2004: HK\$33,196,339) at 30 June 2005. During the year, the net asset value of the Group further deteriorated, which was largely due to the operating expenses incurred during the year.

The financial statements have been prepared on the basis that the Company and the Group will continue to operate as a going concern as the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the followings:

- (i) a shareholder of the Company agreed to waive the debt of HK\$2,765,838 (which included the amount of HK\$2,734,401 due by the Company as at 30 June 2005) due by the Company on 30 November 2005 as detailed on note 25 to the financial statements and confirmed to provide the Company with continuous financial support to meet its liabilities as and when they fall due; and
- (ii) the Group intends to raise additional capital to meet its working capital requirements in the future.

The directors believe the Group and the Company will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Group and the Company fail to continue as a going concern.

If the going concern basis were not be appropriate, adjustments would have to be made to restate the values of the Group’s and the Company’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of preparation**

These financial statements have been prepared in accordance with the HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of equity investments, as further explained below.

##### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

##### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

##### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

##### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

##### **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Property, plant and equipment and depreciation (Continued)**

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:

Furniture and fixtures	25%
Office equipment	33 $\frac{1}{3}$ %

The gain or loss on disposal or retirement of an asset recognised in the income statement, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Leased assets**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

**Investment securities**

Investment securities are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the directors having regard to, inter alia, the prices of the most recent reported sales or purchases or projected cash flows of the securities or comparison of price/revenue ratios, price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities.

The gains or losses arising from changes in the fair value of an investment security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) income from securities trading, when the transactions are completed; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Employee benefits***Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Pension scheme and other retirement benefits*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. 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 MPF Scheme. The assets of the MPF 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 MPF Scheme.

*Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statements of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

**5. SEGMENT INFORMATION**

The Group is principally engaged in the investment in listed and unlisted companies. Accordingly, no analysis of business segment is provided. No geographical analysis is presented as none of the Group's turnover, results, assets and liabilities are attributable to markets outside the People's Republic of China (including Hong Kong).

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**6. TURNOVER, OTHER REVENUE AND GAINS**

The Group is principally engaged in the investment in listed and unlisted companies. An analysis of turnover, other revenue and gains is as follows:

	Note	2005 HK\$	2004 HK\$
<b>Turnover</b>			
Proceeds from sale of trading securities		—	—
<b>Other revenue and gains</b>			
Interest income		—	1
Gain on disposal of subsidiaries	22	—	200
		—	201

**7. LOSS FROM OPERATING ACTIVITIES**

The Group's loss from operating activities is arrived at after charging:

	Note	2005 HK\$	2004 HK\$
Depreciation	13	17,458	98,054
Lease payments under operating leases on land and buildings		34,544	826,167
Auditors' remuneration		130,000	150,000
Staff costs (excluding directors' remuneration, see note 9):			
Wages and salaries		329,399	221,250
Pension scheme contributions*		17,013	10,875
		346,412	232,125
Loss on disposal of property, plant and equipment		21,351	—
Gain on disposal of investment securities**		—	(450,000)
Impairment of investment securities**		—	2,500,000

\* At 30 June 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil).

\*\* Included in "Other operating expenses" on the face of the consolidated income statement.

**8. FINANCE COSTS**

	Group	2005 HK\$	2004 HK\$
Interest expense on:			
Other loans		19,703	258,822
Advances from directors		53,020	12,576
Advance from a shareholder		77,056	56,301
		149,779	327,699

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**9. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION****(a) Directors**

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$</b>	<b>HK\$</b>
Fees	<u>75,000</u>	<u>75,000</u>
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	<b>900,000</b>	800,000
Pension scheme contributions	<u>10,000</u>	<u>12,000</u>
	<u><b>910,000</b></u>	<u>812,000</u>
	<u><b>985,000</b></u>	<u><b>887,000</b></u>

The directors' fees disclosed above include HK\$30,000 (2004: HK\$45,000) paid to the non-executive and independent non-executive directors.

The remuneration of each of the directors fell within the remuneration band of Nil to HK\$1,000,000.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

**(b) Five highest paid individuals**

The five highest paid individuals during the year included two (2004: two) directors, details of whose remuneration are set out in note 9(a) above. Details of the remuneration of the remaining three (2004: three) non-director, highest paid individuals for the year are as follows:

	<b>Group</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$</b>	<b>HK\$</b>
Basic salaries, housing allowances, other allowances and benefits in kind	<b>329,399</b>	183,650
Pension scheme contributions	<u>17,013</u>	<u>8,995</u>
	<u><b>346,412</b></u>	<u><b>192,645</b></u>

The remuneration of each of these individuals fell within the remuneration band of Nil to HK\$1,000,000.

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**10. TAXATION**

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2004: Nil).

A reconciliation of the tax expense applicable to loss before tax using the statutory rate to the tax at the effective tax rate is as follows:

	<b>2005</b>		<b>Group</b>		<b>2004</b>
	<b>HK\$</b>	<b>%</b>			<b>HK\$</b>
Loss before taxation	<b>(2,552,955)</b>				<b>(6,100,480)</b>
Tax at the statutory tax rate of 17.5% (2004: 17.5%)	<b>(446,767)</b>	<b>17.5</b>			<b>(1,067,584)</b>
Income not subject to tax	–				<b>(78,785)</b>
Expenses not deductible for tax	–				<b>1,132,316</b>
Deferred tax liabilities not recognised	<b>(1,866)</b>	–			<b>14,053</b>
Tax losses carried forward not recognised as deferred tax asset	<b>448,633</b>	<b>(17.5)</b>			
Tax at effective rate	–	–			–

The Group has tax losses arising in Hong Kong of HK\$9,459,384 (2004: HK\$9,459,384) that are available indefinitely for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the Group has been loss-making for some time.

**11. NET LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS**

The net loss for the year attributable to shareholders for the year ended 30 June 2005 dealt with in the financial statements of the Company, was HK\$2,552,955 (2004: HK\$9,600,480).

**12. LOSS PER SHARE**

The calculation of the basic loss per share is based on the net loss for the year attributable to shareholders of HK\$2,552,955 (2004: HK\$6,100,480) and the weighted average of 48,000,000 (2004: 45,063,014) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 30 June 2005 and 2004 have not been disclosed as no diluting events existed during these two years.



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**13. PROPERTY, PLANT AND EQUIPMENT**

Group and Company	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
Cost:			
At beginning of year	113,707	215,548	329,255
Additions	90,745	23,056	113,801
Disposals	(113,707)	(215,548)	(329,255)
At 30 June 2005	90,745	23,056	113,801
Accumulated depreciation:			
At beginning of year	62,211	184,504	246,715
Charge for the year	10,409	7,049	17,458
Disposals	(66,948)	(189,632)	(256,580)
At 30 June 2005	5,672	1,921	7,593
Net book value:			
At 30 June 2005	85,073	21,135	106,208
At 30 June 2004	51,496	31,044	82,540

**14. INVESTMENT SECURITIES**

	Group	
	2005 HK\$	2004 HK\$
Unlisted equity securities, at fair value	9,000,000	9,000,000

As at 30 June 2005, the carrying amounts and further details of interests in the investments were as follows:

Name	Place of incorporation	Particulars of equity interests held	Investment value Acquisition cost HK\$	At fair value HK\$	Interest held
China Link Investment Group Limited ("China Link") (note i)	British Virgin Islands ("BVI")	Ordinary shares of US\$1.00 each	5,000,000	4,000,000	22%
Zhongshan Chinese Standard Building Materials Company Limited (note ii)	The PRC	Registered capital of RMB525,000	5,000,000	2,500,000	1.97%
Sunkock Development Limited ("Sunkock") (note iii)	Hong Kong	Ordinary shares of HK\$1.00 each	5,000,000	2,500,000	20%

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**14. INVESTMENT SECURITIES** *(Continued)*

Notes:

- (i) China Link is principally engaged in the development of a website providing on-line professional consultancy services in the PRC. China Link is not accounted for as an associate as, in the opinion of the directors, the Group has no significant influence over its financial and operating decisions. In February 2004, the investee company of China Link became an overseas listed company through a reverse take-over exercise.
- (ii) Zhongshan Chinese Standard Building Materials Company Limited is principally engaged in the production and distribution of window frames in the PRC.
- (iii) Sunkock is principally engaged in the development of medical products in the PRC.

**15. INTERESTS IN SUBSIDIARIES**

	<b>Company</b>	
	<b>2005</b>	<b>2004</b>
	<b>HK\$</b>	<b>HK\$</b>
Unlisted shares, at cost	<b>32</b>	<b>32</b>
Due from subsidiaries	<b>18,499,968</b>	<b>18,499,968</b>
	<b>18,500,000</b>	<b>18,500,000</b>
Provision for impairment	<b>(9,500,000)</b>	<b>(9,500,000)</b>
	<b>9,000,000</b>	<b>9,000,000</b>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

<b>Name</b>	<b>Place of incorporation/ registration and operations</b>	<b>Nominal value of issued ordinary share capital</b>	<b>Percentage of equity directly attributable to the Company</b>	<b>Principal activities</b>
Double Lucky Investment Co., Ltd.	BVI	US\$1.00	100	Investment holding
Sun Talent Investment Co., Ltd.	BVI	US\$1.00	100	Investment holding
Market Place Investment Co., Ltd.	BVI	US\$1.00	100	Investment holding
Glorison Limited	BVI	US\$1.00	100	Investment holding

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**16. OTHER LOAN**

Included in other loan is a loan of HK\$400,000 (2004: Nil) from an independent third party, is unsecured, interest-free and with no fixed repayment term.

**17. DUE TO DIRECTORS**

Except for amounts of HK\$1,500,000 and HK\$1,000,000 (2004: HK\$1,500,000) due to two directors which bear interest at the rate of 3% and 2.4% (2004: 3%) per annum, respectively, the amounts due to directors are unsecured, interest-free and repayable within one year except for HK\$828,404 is not repayable within the next twelve months.

**18. DUE TO A SHAREHOLDER**

Except for amount of HK\$2,500,000 (2004: HK\$2,500,000) due to the shareholder which bears interest at the rate of 3% (2004: 3%) per annum, the amount due is unsecured, interest-free and not repayable within one year. The amount due totalling HK\$2,734,401, together with the additional interest of HK\$31,437 after the balance sheet date was subsequently waived by the shareholder on 30 November 2005 as further detailed in note 25 below.

**19. ISSUED CAPITAL**

	2005 HK\$	2004 HK\$
Authorised:		
200,000,000 ordinary shares of HK\$0.10 each	<u>20,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
48,000,000 ordinary shares of HK\$0.10 each	<u>4,800,000</u>	<u>4,800,000</u>

On 12 November 2003, 8,000,000 ordinary shares of HK\$0.10 each were issued to independent investors at a price of HK\$0.25 per share. The gross proceeds of HK\$2,000,000, before expenses, from the issue of shares were raised for the purpose of partly providing the necessary funding for the repayment of other loans of the Group and partly providing general working capital for the Group. The market price of the Company's shares at their placement date was HK\$0.3 per share.

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**19. ISSUED CAPITAL (Continued)**

A summary of the transaction during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$	Share premium account HK\$	Total HK\$
At 1 July 2003	40,000,000	4,000,000	30,944,887	34,944,887
Issue of shares	8,000,000	800,000	1,200,000	2,000,000
Share issue expenses	—	—	(46,595)	(46,595)
At 30 June 2004	<u>48,000,000</u>	<u>4,800,000</u>	<u>32,098,292</u>	<u>36,898,292</u>
At 30 June 2005	<u>48,000,000</u>	<u>4,800,000</u>	<u>32,098,292</u>	<u>36,898,292</u>

**20. SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

On 24 May 2001, the Company approved the Scheme under which the directors may, at their discretion, grant to full-time employees and executive directors of the Group, the right to take up options to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 8 June 2001 and unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Subsequent to the adoption of the Scheme on 24 May 2001, the Stock Exchange introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001. No share options have been granted under the Scheme since the adoption of these new rules on 1 September 2001. However, any option to be granted under the Scheme shall be subject to the new changes which include, inter alia, the following:

- the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;
- share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and
- the exercise price of share options is determined by directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant.

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**20. SHARE OPTION SCHEME (Continued)**

Under the existing Scheme, the maximum number of shares over which options may be granted may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person. The subscription price of the options is to be subject to a minimum which is the higher of the nominal value of a share and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1. The options granted can be exercised at any time during a period specified by the directors, which commences on the grant date and expires on the last day of such period, and in any event such period must not be less than 3 years and not more than 10 years from the grant date of the options.

The Company will amend, in due course, the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

**21. RESERVES****(a) Group**

The movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 14 of the financial statements.

**(b) Company**

	Share premium account HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2003	30,944,887	(23,595,859)	7,349,028
Issue of shares	1,200,000	—	1,200,000
Share issue expenses	(46,595)	—	(46,595)
Loss for the year	—	(9,600,480)	(9,600,480)
At 30 June 2004 and 1 July 2004	32,098,292	(33,196,339)	(1,098,047)
Loss for the year	—	(2,552,955)	(2,552,955)
<b>At 30 June 2005</b>	<b>32,098,292</b>	<b>(35,749,294)</b>	<b>(3,651,002)</b>

Under the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 June 2005. At 30 June 2005 and 2004, the Company did not have any reserves available for distribution.

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**22. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT**

Disposals of subsidiaries

	2005 HK\$	2004 HK\$
Net assets disposed of:		
Investment securities	–	3,500,000
Provision for impairment	–	(3,500,000)
Rental deposit	–	239,688
Accrued expenses	–	(239,688)
	–	–
Gain on disposal of subsidiaries	–	200
	–	200
Satisfied by:		
Cash	–	200

An analysis of the net inflow of cash and cash equivalents in respect of the disposals of subsidiaries is as follows:

	2005 HK\$	2004 HK\$
Cash consideration	–	200
Cash and bank balances disposed of	–	–
Net inflow of cash and cash equivalents in respect of the disposals of subsidiaries	–	200

The results of subsidiaries disposed of in the previous year had no significant impact on the Group's consolidated turnover or loss after tax.

**23. OPERATING LEASE ARRANGEMENTS**

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

	Group and Company 2005 HK\$	2004 HK\$
Within one year	170,352	–
In the second to fifth years, inclusive	107,991	–
	278,343	–

## 24. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in notes 17 and 18 to the financial statements, significant related party transactions, which were carried out in the normal course of the Group's business, are summarised as follows:

	Notes	2005 HK\$	2004 HK\$
Investment management fee paid to Glory Investment Assets Limited	(i)	100,189	272,633
Interest expense paid to directors	(ii)	53,020	12,576
Interest expense paid to a shareholder	(iii)	77,056	56,301
Disposal of property, plant and equipment	(iv)	51,324	—

- (i) Pursuant to the Investment Management Agreement dated 24 May 2001 entered into between the Company and Glory Investment Assets Limited (the "Investment Manager"), the Investment Manager provides investment management services and general administrative services to the Group. Under this arrangement, the Investment Manager is entitled to a monthly management fee payable in advance, calculated at 2.5% per annum of the net asset value of the Group as at the end of the preceding month on the basis of the actual number of days in the relevant calendar month over a year of 365 days. In addition, the Investment Manager is also entitled to 15% of the surplus in net asset value of the Group over a financial year or period.

Pursuant to a supplemental agreement to the Investment Management Agreement dated 25 June 2002 entered into between the Company and the Investment Manager (the "Supplemental Agreement"), the monthly management fee payable in advance was reduced from 2.5% per annum to 2.0% per annum of the net asset value of the Group as at the end of the preceding month, calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The Supplemental Agreement became effective on 2 August 2002.

During the year on 24 May 2004, the above arrangement between the Company and the Investment Manager has been extended for a period of one year, with effect from 5 July 2004.

Ms. Chiu Kam Hing, Kathy, an executive director of the Company, has a 30% equity interest in the Investment Manager.

- (ii) The interest expense paid to the two directors of the Company relates to an advance granted, further details of which are included in note 17 to the financial statements.
- (iii) The interest expense paid to a shareholder of the Company relates to an advance granted, further details of which are included in note 18 to the financial statements.
- (iv) The Company disposed property, plant and equipment to a company, in which Ms Chiu Kam Hing, Kathy, an executive director of the Company, is also a director of that company.

During the year, a shareholder has undertaken to provide continuing financial support to the Company to meet its obligations and liabilities as and when they fall due (note 3).

30 June 2005

**25. POST BALANCE SHEET EVENT**

On 30 November 2005, a deed of waiver was made between the Company and Oceanwide Investments Limited ("Oceanwide"), a shareholder of the Company, pursuant to which, Oceanwide agreed to waive the debt of HK\$2,765,838 (including the amount of HK\$2,734,401 brought forward from 30 June 2005) due by the Company.

**26. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 12 December 2005.