

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 1. GENERAL

The Company is a company incorporated in the Cayman Islands with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Group is principally engaged in investment holding and trading of financial assets at fair value through profit or loss.

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

### **Financial Instruments**

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

### **Classification and measurement of financial assets and financial liabilities**

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

#### Classification and measurement of financial assets and financial liabilities (continued)

By 31st December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as “trading securities”, “non-trading securities” or “held-to-maturity investments” as appropriate. Both “trading securities” and “non-trading securities” are measured at fair value. Unrealised gains or losses of “trading securities” are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of “non-trading securities” are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method after initial recognition.

Effect of changes in the accounting policies on consolidated balance sheet:

	<b>31st December 2005</b>	31st December 2004
	<b>HKAS 32 &amp; 39</b>	HKAS 32 & 39
	<b>HK\$</b>	HK\$
Increase/(decrease) in assets		
Financial assets at fair value through profit or loss	<b>162,301,938</b>	–
Investments in securities	<b>(162,301,938)</b>	–
	<b>–</b>	<b>–</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in financial assets at fair value through profit or loss.

The financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

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 between group companies are eliminated on consolidation.

### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### **Revenue recognition**

Sales proceeds of investments in financial assets at fair value through profit or loss are recognised on a trade date basis.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rates applicable.

Dividend income from investments in financial assets at fair value through profit or loss is recognised when the Group's rights to receive payment have been established.

### **Borrowing costs**

All borrowing costs are recognised as expenses in the year in which they are incurred.

### **Retirement benefit schemes**

(i) The retirement benefit costs charged to the income statement represent the Group's contributions payable in respect of the current year to the retirement funds scheme.

### **(ii) Employees' share options**

The Company issues equity-settled share-based payments to certain employees and other eligible participants. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### Taxation

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

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

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 recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable the taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 taxable profit nor the accounting profit.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realized. Deferred tax is charged or credited in the 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### Property, plant and equipment

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

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

Leasehold improvement	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicle	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

### Impairment

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### **Financial instruments**

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

### **Financial assets**

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments 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 at fair value through profit or loss**

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the profit and loss account.

### **Operating leases**

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 3. PRINCIPAL ACCOUNTING POLICIES (continued)

### Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at that date. Exchange differences arising in these cases are dealt with in the consolidated income statement.

## 4. TURNOVER

The Group is principally engaged in the investment holding and trading of financial assets at fair value through profit or loss. An analysis of turnover is as follows:

	THE GROUP	
	2005 HK\$	2004 HK\$
Proceeds from sale of financial assets at fair value through profit or loss	245,715,260	–
Proceeds from sale of investments in securities	–	153,036,629
Dividend income from financial assets at fair value through profit or loss	550,455	–
Dividend income from investments in securities	–	1,048,737
	<u>246,265,715</u>	<u>154,085,366</u>

## 5. SEGMENT INFORMATION

During the years ended 31st December 2004 and 2005 respectively, more than 90% of the Group's turnover was derived from investment holding and trading of financial assets at fair value through profit or loss in Hong Kong, no business and geographical segmental information on turnover are presented. The Group's segment assets and liabilities for the Year, analysed by geographical market, are as follows:

	Other parts of the PRC		Hong Kong		Total	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Segment assets	20,591,500	–	147,338,642	162,722,424	167,930,142	162,722,424
Segment liabilities	–	–	26,786,037	739,320	26,786,037	739,320

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 6. OTHER OPERATING INCOME

	THE GROUP	
	2005 HK\$	2004 HK\$
Included in other operating income are as follows:		
Other interest income	25,308	105,619
Sundry income	36,519	47,860
	<u>61,827</u>	<u>153,479</u>

## 7. LOSS FROM OPERATIONS

	THE GROUP	
	2005 HK\$	2004 HK\$
Loss from operations has been arrived at after charging and (crediting):		
Auditors' remuneration	283,000	181,200
Depreciation of plant and equipment	143,147	114,527
Loss on disposal of property, plant and equipment	75,248	107,782
Net unrealised holding loss on investments in unlisted financial assets at fair value through profit or loss	27,408,547	–
Net unrealised holding loss on investments in unlisted securities	–	37,961,905
Operating lease rentals in respect of rented premises	443,516	270,288
Staff costs		
Wages and salaries	1,675,324	1,760,193
Pension costs	30,284	47,365
Net unrealised holding loss/(gain) on investments in listed financial assets at fair value through profit or loss	<u>52,390,348</u>	<u>(25,207,137)</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 8. FINANCE COSTS

	THE GROUP	
	2005	2004
	HK\$	HK\$
Interest on borrowings wholly repayable within five years	<b>796,027</b>	205,757

## 9. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2005	2004
	HK\$	HK\$
Fees		
Executive directors	–	–
Independent non-executive directors	<b>320,388</b>	356,891
Other emoluments of executive directors		
Management remuneration	<b>976,936</b>	807,489
Contributions to pension schemes	<b>18,284</b>	24,800
Total emoluments	<b>1,315,608</b>	1,189,180

The aggregate emoluments of each of the directors during the year were within the emoluments band ranging from HK\$ nil to HK\$ 1,000,000.

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no directors had waived any emoluments during the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 9. DIRECTORS' EMOLUMENTS (continued)

The emoluments paid or payable to each of the eleven (2004: 9) directors were as follows:

	Fees		Salaries		2005	2004
	Executive directors	Independent	Management remuneration	Employer's contributions to pension schemes	Total emoluments	Total emoluments
		non-executive directors				
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Chung Yuk Lun	–	–	10,000	–	<b>10,000</b>	20,000
Nakajima Toshiharu	–	–	384,000	–	<b>384,000</b>	123,724
Shimazaki Koji (note 1)	–	42,581	67,419	1,500	<b>111,500</b>	101,724
Greer Thomas Francis Jr. (note 2)	–	–	54,000	2,000	<b>56,000</b>	336,000
Ma Chi Wing (note 3)	–	–	123,677	4,784	<b>128,461</b>	336,000
Szeto Siu Kit (note 4)	–	–	337,840	10,000	<b>347,840</b>	–
Chan Sze Hung	–	120,000	–	–	<b>120,000</b>	120,000
Wong Kai Cheong	–	60,000	–	–	<b>60,000</b>	15,167
Kan Kwok Shu, Albert (note 5)	–	968	–	–	<b>968</b>	–
Lin Michael (note 6)	–	85,000	–	–	<b>85,000</b>	120,000
Kwok Wai Ming (note 7)	–	11,839	–	–	<b>11,839</b>	–
Rattiwat Samson	–	–	–	–	–	16,565
<b>Total</b>	<b>–</b>	<b>320,388</b>	<b>976,936</b>	<b>18,284</b>	<b>1,315,608</b>	<b>1,189,180</b>

#### Notes:

1. Re-designated from independent non-executive director to executive director on 9th May 2005
2. Resigned on 28th February 2005
3. Resigned on 18th May 2005
4. Appointed on 11th January 2005 and resigned on 27th February 2006
5. Appointed on 29th December 2005
6. Resigned on 15th September 2005
7. Appointed on 6th January 2005 and resigned on 6th January 2006

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2004: three) were directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining one individual was as follows:

	THE GROUP	
	2005	2004
	HK\$	HK\$
Basic salaries and other benefits	378,000	594,000
Contributions to pension schemes	12,000	22,800
Total emoluments	390,000	616,800

The aggregate emoluments of each of the employees during the Year were within the emoluments band ranging from HK\$ nil to HK\$1,000,000.

## 11. TAXATION

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits for the year.

Deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 11. TAXATION (continued)

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

	2005 HK\$	2004 HK\$
Loss before taxation	<b>(92,273,442)</b>	(28,435,675)
Tax at applicable rate	<b>(16,147,852)</b>	(4,976,243)
Tax effect of non-deductible expenses	<b>14,024,804</b>	7,610,970
Tax effect of non-taxable revenues	<b>(166,014)</b>	(4,654,704)
Tax effect on temporary differences not recognised	–	(795,340)
Tax effect of tax losses not recognised	<b>2,289,062</b>	2,815,317
	<hr/>	<hr/>
Tax credit for the year	–	–
	<hr/> <hr/>	<hr/> <hr/>

At the balance sheet date, the Group has unused estimated tax losses of HK\$43,940,000 (2004: HK\$30,860,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

## 12. DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31st December 2005 (2004: nil).

## 13. LOSS PER SHARE

The calculation of basic loss per share for the Year is based on the net loss from ordinary activities attributable to shareholders for the Year of HK\$92,273,442 (2004: HK\$28,435,675) and the weighted average number of 1,506,340,912 (2004 (restated): 93,921,097 being adjusted to reflect the effect of share consolidation in August 2005, rights issue in September 2005, and share consolidation in January 2006) ordinary shares in issue during the Year. Both the basic loss per share for the current year and the prior year have been adjusted to reflect the rights issue during the Year and the consolidation of shares subsequent to the balance sheet date.

No disclosure of the diluted loss per share has been shown for the years ended 31st December 2005 and 2004 respectively as no diluting events existed during these years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement HK\$	Furniture and fixtures HK\$	Office equipment HK\$	Motor vehicle HK\$	Total HK\$
<b>THE GROUP AND THE COMPANY</b>					
COST					
At 1st January 2004	32,990	12,240	60,472	392,914	498,616
Additions	–	–	–	473,664	473,664
Disposals	–	–	–	(392,914)	(392,914)
At 31st December 2004 and 1st January 2005	<u>32,990</u>	<u>12,240</u>	<u>60,472</u>	<u>473,664</u>	<u>579,366</u>
Additions	5,290	–	12,500	527,764	545,554
Disposals	–	–	–	(473,664)	(473,664)
<b>At 31st December 2005</b>	<b><u>38,280</u></b>	<b><u>12,240</u></b>	<b><u>72,972</u></b>	<b><u>527,764</u></b>	<b><u>651,256</u></b>
DEPRECIATION AND IMPAIRMENT					
At 1st January 2004	13,746	5,304	16,858	78,582	114,490
Charge for the year	6,598	2,448	12,094	93,387	114,527
Write back on disposals	–	–	–	(85,131)	(85,131)
At 31st December 2004 and 1st January 2005	<u>20,344</u>	<u>7,752</u>	<u>28,952</u>	<u>86,838</u>	<u>143,886</u>
Charge for the year	6,774	2,448	14,386	119,539	143,147
Write back on disposals	–	–	–	(118,416)	(118,416)
<b>At 31st December 2005</b>	<b><u>27,118</u></b>	<b><u>10,200</u></b>	<b><u>43,338</u></b>	<b><u>87,961</u></b>	<b><u>168,617</u></b>
NET BOOK VALUE					
<b>At 31st December 2005</b>	<b><u>11,162</u></b>	<b><u>2,040</u></b>	<b><u>29,634</u></b>	<b><u>439,803</u></b>	<b><u>482,639</u></b>
At 31st December 2004	<u>12,646</u>	<u>4,488</u>	<u>31,520</u>	<u>386,826</u>	<u>435,480</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$	2004 HK\$
Overseas unlisted shares, at cost	<b>10,000,031</b>	10,000,039
Less: Impairment loss	<b>(10,000,031)</b>	(10,000,039)
	—	—
Amount due from subsidiaries less provision	<b>136,148,462</b>	172,071,833
	<b>136,148,462</b>	172,071,833

Details of the subsidiaries are set out as follows:

Name of subsidiary	Place of incorporation	Paid up issued/ registered ordinary share capital US\$	Percentage of equity attributable to the Company		Principal activities and place of operation
			Direct %	Indirect %	
Winning Horsee Limited	British Virgin Islands	1	100	—	Trading of financial assets at fair value through profit or loss in Hong Kong
Fortuneway Limited	British Virgin Islands	1	100	—	Investment holdings
Sunluck Investments Limited	British Virgin Islands	1	100	—	Investment holdings
Wellsmart Limited	British Virgin Islands	1	100	—	Dormant
Next Method Limited	British Virgin Islands	1	100	—	Investment holdings
Win-Win Business Limited	British Virgin Islands	1	—	100	Dormant
Winning Point Limited	British Virgin Islands	1	—	100	Investment holdings

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	THE GROUP	
	2005	2004
	HK\$	HK\$
Financial assets at fair value through profit or loss:		
Listed in Hong Kong	141,710,438	–
Unlisted	20,591,500	–
	<u>162,301,938</u>	<u>–</u>
Market value of listed financial assets at fair value through profit or loss as at 31st December	<u>141,710,438</u>	<u>–</u>

Following the adoption of HKAS 39 in 2005, certain financial assets were designated as financial assets through profit or loss on 1st January 2005. There was no such redesignation in 2004 as retrospective application of HKAS 39 is not permitted.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

Particulars of the 10 largest investments as at 31st December 2005 are as follows:

Name of investee company	Number of shares held	Proportion of investee's capital owned	Cost	Market value	Unrealised holding gain/(loss) arising on revaluation	Dividend received/receivable during the year
			HK\$	HK\$	HK\$	HK\$
a) Willie International Holdings Limited	182,959,363	6.03%	41,717,823	49,399,028	7,681,205	-
b) Unity Investments Holdings Limited	103,930,000	14.29%	14,571,733	14,550,200	(21,533)	-
c) China Strategic Holdings Limited	16,200,000	1.84%	8,910,000	13,770,000	4,860,000	-
d) Heritage International Holdings Limited	352,278,500	5.36%	23,832,784	13,386,583	(10,446,201)	-
e) China Sci-Tech Holdings Limited	98,466,200	5.73%	39,859,758	12,997,538	(26,862,220)	-
f) Y.T. Realty Group Limited	9,206,000	1.15%	7,180,680	9,574,240	2,393,560	184,120
g) 139 Holdings Limited	92,782,000	8.19%	25,978,960	6,865,868	(19,113,092)	-
h) Enerchina Holdings Limited	7,500,000	0.16%	5,869,836	6,300,000	430,164	-
i) Inner Mongolia Development (Holdings) Limited	24,996,000	9.43%	9,241,518	4,999,200	(4,242,318)	-
j) Wonson International Holdings Limited	139,856,400	5.26%	9,661,017	4,475,405	(5,185,612)	-

A brief description of the business and financial information of the listed investee companies which represents a significant proportion of the Group's assets, based on their latest published annual reports is as follows:

- a) Willie International Holdings Limited ("Willie") (formerly known as "China United International Holdings Limited") was incorporated in Hong Kong and principally engaged in (i) property related investments; (ii) investment in securities; and (iii) provision of brokerage and financial services.

For the year ended 31st December 2004, the audited consolidated loss from ordinary activities attributable to shareholders of Willie was HK\$336,868,000 and the basic loss per share was HK28 cents. As at 31st December 2004, its audited consolidated net asset value was HK\$91,451,000.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

- b) Unity Investments Holdings Limited (“Unity”) was incorporated in the Cayman Islands and principally engaged in investment holdings.

For the year ended 31st December 2005, the audited consolidated loss from ordinary activities attributable to shareholders of Unity was HK\$44,513,118 and the basic loss per share was HK7.64 cents. As at 31st December 2005, its audited consolidated net asset value was HK\$136,408,333.

- c) China Strategic Holdings Limited (“China Strategic”) was incorporated in Hong Kong and principally engaged in (i) investment holding; (ii) manufacture of cement; (iii) hotel operation; (iv) property development; (v) manufacture of tires; (vi) production of flour, monosodium glutamate and related food products; (vii) construction and operation of toll highway; (viii) development, holding and trading of properties; and (ix) manufacture and trading of Chinese and western pharmaceutical products.

For the year ended 31st December 2004, the audited consolidated loss attributable to shareholders of China Strategic was HK\$176,052,000 and the basic loss per share was HK20 cents. As at 31st December 2004, its audited consolidated net asset value was HK\$1,311,737,000.

- d) Heritage International Holdings Limited (“Heritage”) was incorporated in Bermuda and principally engaged in (i) property investment; (ii) the investment in securities; (iii) money lending; (iv) and investment holding.

For the year ended 31st March 2005, the audited consolidated net loss attributable to shareholders of Heritage was HK\$19,547,000 and the basic loss per share was HK4.03 cents. As at 31st March 2005, its audited consolidated net asset value was HK\$337,600,000.

- e) China Sci-Tech Holdings Limited (“Sci-Tech”) was incorporated in the Cayman Islands and principally engaged in (i) investment holding; (ii) secretarial services; (iii) securities investment; and (iv) property investment.

For the year ended 31st March 2005, the audited consolidated loss from ordinary activities attributable to shareholders of Sci-Tech was HK\$10,090,000 and the basic loss per share was HK80 cents. As at 31st March 2005, its audited consolidated net asset value was HK\$335,922,000.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

- f) Y.T. Realty Group Limited (“Y.T. Realty”) was incorporated in Bermuda and principally engaged in (i) property investment; and (ii) property trading and investment holding.

For the year ended 31st December 2005, the audited consolidated profit from ordinary activities attributable to shareholders of Y.T. Realty was HK\$250,688,000 and the earnings per share was HK31.4 cents. As at 31st December 2005, its audited consolidated net asset value was HK\$2,336,359,000.

- g) 139 Holdings Limited (“139 Holdings”) was incorporated in Bermuda and principally engaged in (i) investment holding; and (ii) manufacture and trading of car audio products.

For the year ended 31st March 2005, the audited consolidated profit from ordinary activities attributable to shareholders of 139 Holdings was HK\$25,125,000 and the basic earnings per share was HK27 cents. As at 31st March 2005, its audited consolidated net asset value was approximately HK\$315,910,000.

- h) Enerchina Holdings Limited (“Enerchina”) was incorporated in Bermuda and principally engaged in (i) investment holding; (ii) provision of management services; and (iii) electricity supplies.

For the year ended 31st December 2004, the audited consolidated profit from ordinary activities attributable to shareholders of Enerchina was HK\$80,229,000 and the basic profit per share was HK3.98 cents. As at 31st December 2004, its audited consolidated net asset value was HK\$1,342,792,000.

- i) Inner Mongolia Development (Holdings) Limited (“Inner Mongolia”) was incorporated in the Cayman Islands and principally engaged in (i) investment holding; and (ii) provision of corporate management services.

For the year ended 31st March 2005, the audited consolidated profit from ordinary activities attributable to shareholders of Inner Mongolia was HK\$16,319,000 and the basic profit per share was HK44 cents. As at 31st March 2005, its audited consolidated net asset value was HK\$506,720,000.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

- j) Wonson International Holdings Limited (“Wonson”) was incorporated in Bermuda and principally engaged in (i) investment holding; (ii) developing and trading of communication equipment; (iii) metals trading; (iv) provision of marketing consultancy services; and (v) securities investment.

For the year ended 31st December 2004, the audited consolidated loss attributable to shareholders of Wonson was HK\$2,215,000 and the basic loss per share was HK0.03 cents. As at 31st December 2004, its audited consolidated net asset value was HK\$39,212,000.

### 17. INVESTMENTS IN SECURITIES

	THE GROUP	
	2005 HK\$	2004 HK\$
Equity securities:		
Listed in Hong Kong	–	157,056,248
Unlisted	–	4,704,000
	<hr/>	<hr/>
	–	161,760,248
	<hr/>	<hr/>
Market value of listed securities as at 31st December	–	157,056,248
	<hr/> <hr/>	<hr/> <hr/>

In accordance with HKAS 39, all trading securities were redesignated as financial assets at fair value through profit or loss on 1st January 2005.

### 18. BORROWINGS

	2005 HK\$	2004 HK\$
Other loans – unsecured and wholly repayable within one year	<b>15,000,000</b>	–
	<hr/> <hr/>	<hr/> <hr/>

During the year, the Group obtained new loans bearing interest at market prime rate plus two percent and will be repayable in year 2006. The proceeds were used to finance the investment activities and the daily operations of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 19. SHARE CAPITAL

	Number of ordinary shares		Nominal value	
	2005	2004	2005 HK\$	2004 HK\$
Authorised:				
At beginning of year	5,000,000,000	5,000,000,000	100,000,000	100,000,000
Increase by creation of additional 5,000,000,000 shares of HK\$0.02 each	5,000,000,000	-	100,000,000	-
At balance sheet date	<u>10,000,000,000</u>	<u>5,000,000,000</u>	<u>200,000,000</u>	<u>100,000,000</u>
Issued and fully paid:				
			<b>Number of shares of HK\$0.02 each</b>	<b>HK\$</b>
At 1st January 2004		1,011,560,000		20,231,200
Issue of shares for share options exercised		80,000,000		1,600,000
Issue of shares by placing and open offer		1,173,230,000		23,464,600
At 31st December 2004 and 1st January 2005		2,264,790,000		45,295,800
Issue of shares by placing	(a)	1,021,758,000		20,435,160
Issue of shares for share options exercised	(b)	260,879,000		5,217,580
Share consolidation/Capital reduction	(c)	(3,099,804,300)		(61,996,086)
Issue of shares by rights issue	(d)	344,422,700		6,888,454
At 31st December 2005		<u>792,045,400</u>		<u>15,840,908</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 19. SHARE CAPITAL (continued)

During the year, the movements in the Company's share capital are as follows:

- (a) On 21st February 2005, 4th March 2005, and 17th October 2005 the Company respectively issued and allotted 452,958,000, 500,000,000, and 68,800,000 new shares at HK\$0.22, HK\$0.0328 and HK\$0.10 each by placing.
- (b) On 21st February 2005, 31st October 2005, 2nd November 2005 and 8th November 2005, 226,479,000, 13,760,000, 6,880,000, and 13,760,000 shares were respectively issued and allotted to employees and investee companies' employees equally at HK\$0.0224, HK\$0.0816, HK\$0.0816 and HK\$0.0816 each by exercising the share options.
- (c) Effective from 23rd August 2005, every ten shares in the issued and unissued share capital of the Company were consolidated into one Consolidated Share. The nominal value of every issued Consolidated Share was then reduced from HK\$0.20 to HK\$0.02 and became a New Share and every unissued Consolidated Share was subdivided into ten Unissued New Shares. The reduction of the nominal value of the issued Consolidated Shares involved the cancellation of the paid-up capital of the Company to the extent of HK\$0.18 per Consolidated Share in issue. Further details of the share consolidation are also set out in the circular dated 25th April 2005.
- (d) On 23rd August 2005, a rights issue of one rights share for every share held by members on the register of members was at an issue price of HK\$0.088 per rights share (the "Rights Issue"), resulting in the issue of 344,422,700 ordinary shares of HK\$0.02 each for a total cash consideration, before expenses, of approximately HK\$29,000,000. Further details of the Rights Issue are set out in the prospectus of the Company dated 31st August 2005.

### 20. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 7th February 2005 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 7th February 2015 (the "Option Period"). Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries and any other persons including consultants, advisors, agents, customers, suppliers, etc. to subscribe for shares in the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 20. SHARE OPTION SCHEME (continued)

At 31st December 2005, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was nil. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time during the Option Period. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The following table discloses details of the Company's share options and movements in such holdings during the year:

	2005	2004
At beginning of year	–	–
Granted	<b>260,879,000</b>	80,000,000
Exercised	<b>(260,879,000)</b>	(80,000,000)
At balance sheet date	<u>–</u>	<u>–</u>

Total consideration received during the year for taking up the options granted is amounted to HK\$16.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 21. RESERVES THE GROUP

	Share premium HK\$	Capital redemption reserves HK\$	Accumulated losses HK\$	Total HK\$
At 31st December 2003 and 1st January 2004	161,573,413	168,800	(41,202,234)	120,539,979
Issue of shares for share options exercised	2,400,000	–	–	2,400,000
Issue of shares by placing and open offer	22,183,000	–	–	22,183,000
Loss for the year	–	–	(28,435,675)	(28,435,675)
At 31st December 2004 and 1st January 2005	186,156,413	168,800	(69,637,909)	116,687,304
Issue of shares by placing	12,809,916	–	–	12,809,916
Issue of shares for share options exercised	2,662,589	–	–	2,662,589
Capital reduction	–	–	61,996,086	61,996,086
Rights issue	23,420,744	–	–	23,420,744
Loss for the year	–	–	(92,273,442)	(92,273,442)
<b>At 31st December 2005</b>	<b>225,049,662</b>	<b>168,800</b>	<b>(99,915,265)</b>	<b>125,303,197</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 21. RESERVES THE COMPANY

	Share premium HK\$	Capital redemption reserves HK\$	Accumulated losses HK\$	Total HK\$
At 31st December 2003 and 1st January 2004	161,573,413	168,800	(41,202,234)	120,539,979
Issue of shares for share options exercised	2,400,000	–	–	2,400,000
Issue of shares by placing and open offer	22,183,000	–	–	22,183,000
Loss for the year	–	–	(17,938,071)	(17,938,071)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2004 and 1st January 2005	186,156,413	168,800	(59,140,305)	127,184,908
Issue of shares by placing	12,809,916	–	–	12,809,916
Issue of shares for share options exercised	2,662,589	–	–	2,662,589
Capital reduction	–	–	61,996,086	61,996,086
Rights issue	23,420,744	–	–	23,420,744
Loss for the year	–	–	(102,771,046)	(102,771,046)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31st December 2005</b>	<b><u>225,049,662</u></b>	<b><u>168,800</u></b>	<b><u>(99,915,265)</u></b>	<b><u>125,303,197</u></b>

At 31st December 2005, the Company's reserves available for cash distribution amounted to HK\$125,303,197 (2004: HK\$127,184,908). 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.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

### 22. COMMITMENTS

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

	2005 HK\$	2004 HK\$
Within one year	439,296	270,288
In the second to fifth years inclusive	457,600	225,240
	<u>896,896</u>	<u>495,528</u>

### 23. PLEDGE OF ASSETS

At the balance sheet date, the Group's investments in listed financial assets at fair value through profit or loss with an aggregate net book value of HK\$134,727,958 (2004: HK\$144,543,248) were pledged to brokers to secure margin financing provided to the Group.

### 24. RETIREMENT BENEFITS SCHEME

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2005

## 25. RELATED PARTY TRANSACTIONS

The Group had the following related party transactions during the year which were carried out in the normal course of the Group's business:

Name of related party	Nature of transaction	2005 HK\$	2004 HK\$
CU Investment Management Limited ( <i>Note</i> )	Investment management fee	<u>1,903,765</u>	<u>1,718,602</u>

*Note:*

On 3rd November 2003, the Company and CU Investment Management Limited ("CUIM") entered into an investment management agreement for appointing the CUIM as investment manager of the Group for a term of three years commencing on 3rd November 2003. On 16th November 2005, the Company and the CUIM entered into a supplemental investment management agreement for agreeing to reduce the investment management fee to HK\$80,000 per month with effect from 1st January 2006.

## 26. POST BALANCE SHEET EVENTS

- (a) Effective from 3rd January 2006, every 2 shares in the issued and unissued ordinary share capital of the Company of HK\$0.02 each were consolidated into one consolidated share of HK\$0.04 each. Further details of the share consolidation are also set out in the circular of the Company dated 7th December 2005.
- (b) On 20th February 2006, the Company entered into a placing agreement with an independent investor to place a total of 79 million new ordinary shares of the Company of HK\$0.04 each at a placing price of HK\$0.12 per share. The placing was completed on 8th March 2006. The proceeds from the placement of HK\$9.48 million (before issue expenses) will be mainly used for the investment opportunities, business expansion and the balance for general working capital of the Group. Further details of the placing of new shares are also set out in the announcement of the Company dated 20th February 2006.

## 27. COMPARATIVE AMOUNTS

Due to the Rights Issue and the share consolidation as further detailed in notes 19 and 26 to the financial statements, respectively, certain comparative amounts have been restated accordingly. In addition, certain comparative amounts have been reclassified to conform with the current year's presentation.