

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### *Executive Directors*

Francis J. CHANG Chu Fai  
LIM Siang Kai  
SEE Lee Seng, Reason

### *Independent Non-Executive Directors*

CHUNG Koon Yan  
YUE Man Yiu, Matthew  
ZHENG Weihe

## COMPANY SECRETARY

TSE Kam Fai

## QUALIFIED ACCOUNTANT

HUI Yin Ping, Teresa

## AUDIT COMMITTEE

YUE Man Yiu, Matthew (*Chairman*)  
CHUNG Koon Yan  
ZHENG Weihe

## REMUNERATION COMMITTEE

CHUNG Koon Yan (*Chairman*)  
YUE Man Yiu, Matthew  
LIM Siang Kai

## REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681GT  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3308, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

## INVESTMENT MANAGER

Golden Honour Assets Management Limited  
Suite 2802, Admiralty Centre  
Tower One  
18 Harcourt Road  
Hong Kong

## SOLICITORS

*As to Hong Kong law:*  
Baker & McKenzie

*As to Cayman Islands law:*  
Conyers Dill & Pearman

## AUDITORS

Grant Thornton

## CUSTODIAN

Standard Chartered Bank

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
26/F, Tesbury Centre  
28 Queen's Road East  
Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
Standard Chartered Bank

## STOCK CODE

2312

## STATEMENT FROM THE EXECUTIVE DIRECTORS

We are pleased to present to the shareholders the 2005 Annual Report of Golden 21 Investment Holdings Limited (the “Company”) and its subsidiary (collectively the “Group”) for the year ended 31 December 2005.

### RESULTS

The total revenue of the Group was approximately HK\$468,000 (2004: HK\$80,000) and the total sales proceeds from the disposals of listed equity investment was approximately HK\$35,467,000 (2004: HK\$39,599,000). Loss attributable to equity holders of the Company during the year was approximately HK\$23,247,000 (2004: HK\$16,443,000).

### DIVIDEND

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

### BUSINESS REVIEW

The principal activities of the Group are investing in equity or equity related securities and/or debt securities in listed and unlisted companies. There was no change in the nature of the Group’s principal activities during the year under review.

While the China economy as a whole remains robust, the privately-owned enterprises sector continues to face a liquidity squeeze due to the Central Government’s macro economic control policy. As a result, the clients of our two unlisted investee companies in China, namely, 北京綜藝達軟件技術有限公司 (“北京綜藝達”) and Nantong Einolda Smart Card Manufacturing Co., Ltd. (南通藝能達智能卡製造有限公司) (“南通藝能達”) experienced tight liquidity and the performance of these two investee companies was adversely affected accordingly.

#### Unlisted Investments

##### 北京綜藝達

The operating performance of 北京綜藝達 for the year 2005 was below expectation. Golden Honour Assets Management Limited (the “Investment Manager”), after taking into consideration of the estimated future cash flows of 北京綜藝達, has recommended to make a provision of HK\$11,511,000 on the Group’s investment in 北京綜藝達 during the year.

## STATEMENT FROM THE EXECUTIVE DIRECTORS

### 南通藝能達

The operating performance of 南通藝能達 for the year 2005 was below expectation and has incurred an operating loss of approximately RMB2,200,000. The Investment Manager, after taking into consideration of the estimated future cash flows of 南通藝能達, has recommended to make a provision of HK\$6,316,000 on the Group's investment in 南通藝能達 during the year. In order to improve the performance of 南通藝能達, its management has decided to open a new marketing office in Shenzhen so as to enhance its position to solicit orders from its target clients. Its management remained hopeful that its performance would improve in 2006.

The Group will continue to monitor the performance of these two investee companies closely and hold further discussions with their management to seek ways to improve their business performance.

### Listed Investments

Excluding the fair value loss incurred on Jiangsu Nandasoft Company Limited (which has been held by the Group since November 2002), the Group achieved a fair value gains of HK\$1,097,000 in 2005 on its trading activities in listed equity securities in Hong Kong. The Group will continue to seek investment returns from the HK stock market, in particular, H & Red chip shares and yet will maintain a conservative policy in light of the extremely high market volatility.

In view of the Group's operating losses, the Board has implemented a cost cutting exercise, which has reduced the administrative expenses of the Group by approximately 35% from HK\$5.65 million to HK\$3.66 million in 2005. The Group will continue to exercise tight cost control.

As of 31 December 2005, the Group's portfolio of investment assets constitute approximately 20.20% of unlisted equity securities, 15.78% of listed equity securities and the remaining of approximately 64.02% in cash and others.

## MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2005, the total value of the Group's listed and unlisted investments were approximately HK\$14,522,000 (2004: HK\$37,794,000). The fair value of listed equity securities amounted to approximately HK\$6,372,000 as at 31 December 2005 while the carrying value of unlisted equity securities was approximately HK\$8,150,000.

The Group recorded sales proceeds from disposals of listed equity securities of approximately HK\$35,467,000 for the year ended 31 December 2005 which is approximately 10.4% below that of the previous year. Loss for the year was approximately HK\$23,247,000 (2004: HK\$16,443,000) which was mainly attributable to the impairment losses of the Group's direct investments in two unlisted companies in the PRC.

## STATEMENT FROM THE EXECUTIVE DIRECTORS

## Investment Portfolio

Listed below are the Group's unlisted investments together with the impairment made, listed investments and the respective fair value or market value as at 31 December 2005.

## Unlisted Investments

Name of investee company	Nature of business	Percentage of interest held	Cost (HK\$'000)	Fair value	Dividend	Percentage of
				estimated by the Directors as at 31 December 2005 (HK\$'000)	received for the year ended 31 December 2005 (HK\$'000)	investments attributable to the Group's net assets as at 31 December 2005
南通藝能達 <i>Note (i)</i>	Production of sim-cards	24.00%	15,500	3,914	Nil	10.15%
北京綜藝達 <i>Note (ii)</i>	Software application	13.09%	18,527	4,236	Nil	10.98%

## Notes:

- (i) 南通毅能達 is principally engaged in the production of Sim-cards for use in credit cards and data storage cards. The investment in 南通毅能達 is not equity accounted for under HKAS 28 "Investments in Associates". This is because the Directors are of the opinion that the Group has no participation in the financial and operating policy-making process of 南通毅能達.
- (ii) 北京綜藝達 is principally engaged in the research, development and manufacturing of network commercial management software.

## STATEMENT FROM THE EXECUTIVE DIRECTORS

### Listed Investments

Particulars of material trading securities holding as at 31 December 2005 are as follows:

Name of investee company	Percentage of interest held	Cost (HK\$'000)	Market value as at 31 December 2005 (HK\$'000)	Dividend received for the year ended 31 December 2005 (HK\$'000)	Percentage of investments attributable to the Group's net assets as at 31 December 2005
Jiangsu Nandasoft Company Limited	10.84%	10,937	4,691	Nil	12.16%

### Liquidity, Financial Resources and Funding

As at 31 December 2005, the Group had maintained cash of approximately HK\$23,784,000 (2004: HK\$23,477,000). As all cash was placed in Hong Kong dollar deposits, there was minimal exposure to exchange fluctuation.

The Group had net assets of approximately HK\$38,550,000 (2004: HK\$61,797,000) and there were no borrowings or long-term liabilities as at 31 December 2005.

### Capital Structure

There was no change in the capital structure of the Company during the year.

### Material Acquisition and Disposals of Subsidiaries

The Group has not made any material acquisition or disposal of subsidiaries during the year under review.

### Employees Benefits

As at 31 December 2005, the Group had 5 employees, including 3 executive Directors. For the year ended 31 December 2005, the Group's staff costs (excluding Directors' remuneration) amounted to approximately HK\$293,000 (2004: HK\$667,000). The remuneration policy of the Group is reviewed annually and is in line with the prevailing market practice. During the year under review, the Group has not granted any share options to its employees or Directors under the share option scheme of the Company adopted on 7 October 2002.

## STATEMENT FROM THE EXECUTIVE DIRECTORS

### Charges on Assets and Contingent Liabilities

During the year, there were no charges on the Group's assets and the Group did not have contingent liabilities as at 31 December 2005.

### FUTURE PROSPECTS AND APPRECIATION

Despite the difficulties the Group is facing, the China market continues to offer very promising long-term investment potential. However, selection of the right investment targets requires insight local knowledge and careful scrutiny. The Board will continue to seek suitable investment opportunities in listed and unlisted investments with a particular focus on China to enhance the shareholders' return.

On behalf of the Board, I would like to express our appreciation and gratitude to all our fellow Directors and staff for their support, hard work and dedication over the year.

On behalf of the Executive Board  
**Francis J. Chang Chu Fai**  
*Executive Director*

Hong Kong, 21 April 2006

## CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to ensure the integrity, transparency and quality of disclosure in order to enhance the shareholders value.

### CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules (“Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) which came into effect on 1 January 2005 as its own code of corporate governance practices.

During the year ended 31 December 2005, the Company was in compliance with the code provisions set out in the CG Code except for the following:

Code provision A.4.2 of the CG Code requires every director appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. To ensure compliance with the CG Code, the Board proposes necessary amendments to the Articles of Association (“Articles”) to bring the constitution of the Company in alignment with the above code provision at the annual general meeting of the Company to be held on 24 May 2006. A special resolution will be proposed to amend the Articles so that (i) any Director appointed by the Board to fill a casual vacancy shall be subject to re-election by shareholders at the Company’s first general meeting after their appointment, and (ii) every Director shall be subject to retirement by rotation at least once every three years and Directors holding office as the Chairman or Vice Chairman of the Board or the Managing Director or joint Managing Director shall also be subject to retirement by rotation.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this report, the Company has not appointed chairman and chief executive officer and the roles and functions of the chairman and the chief executive officer have been performed by all the executive Directors collectively. The Board considers this given the nature of the Company is investment holding and all investment decisions are made by the Board, the present structure is appropriate for the Company and has the advantages of allowing contributions from all executive Directors with different expertise.

Save as those mentioned above and in the opinion of the Directors, the Company has met the code provisions set out in the CG Code during the year ended 31 December 2005.

### DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the required standards of dealings regarding securities transactions by Directors as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) of the Listing Rules. All the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, investment and strategic decisions and performance. The Investment Manager was delegated with the authority and responsibility by the Board for the day-to-day operations of the Group while reserving certain key matters for the approval by the Board. In addition, the Board has also delegated various responsibilities to the Board Committees. Further details of these Board Committees are set out in this report.

The Board currently consists of six Directors including three executive Directors and three independent non-executive Directors:

### Executive Directors

Mr. Francis J. Chang Chu Fai

Mr. Lim Siang Kai

Mr. See Lee Seng, Reason

### Independent non-executive Directors

Mr. Chung Koon Yan

Mr. Yue Man Yiu, Matthew

Mr. Zheng Weihe

Save for the fact that Mr. Chang, Mr. Lim and Mr. See are also substantial shareholders of, and Mr. See is also a director of Golden Honour Assets Management Limited, the Investment Manager of the Company, the Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive Directors. The biographical information of the Directors are set out on pages 17 to 19 of the Report of the Directors under the section headed "Biographical Details of Directors and Senior Management".

### Chairman and Chief Executive Officer

Up to the date of this report, the Company has not appointed chairman and chief executive officer and the roles and functions of the chairman and chief executive officer have been performed by all the executive Directors of the Company collectively. The Board considers that given the nature of the Company is investment holding and all investment decisions are made by the Board, the present structure is appropriate for the Company and has the advantages of allowing contributions from all Directors with different expertise.



## CORPORATE GOVERNANCE REPORT

### Non-executive Directors

The three independent non-executive Directors are well-qualified professionals, with academic and professional qualifications in the accounting and legal fields. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

The independent non-executive Directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the Articles.

### Board Meetings

The Board has 12 scheduled meetings a year at monthly interval and additional meetings will be held as and when required. During the financial year ended 31 December 2005, the Board held 20 meetings.

Name of Director	Number of attendance
<i>Executive Directors</i>	
Mr. Francis J. Chang Chu Fai	20/20
Mr. Lim Siang Kai	17/20
Mr. See Lee Seng, Reason	20/20
<i>Independent non-executive Directors</i>	
Mr. Chung Koon Yan	20/20
Mr. Yue Man Yiu, Matthew	20/20
Mr. Zheng Weihe	0/20

Board minutes are kept by the Company Secretary and are open for inspection by the Directors. Every Board member is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required.

Appropriate insurance cover has been arranged in respect of relevant actions against its Directors.

## CORPORATE GOVERNANCE REPORT

### NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the investment business.

Furthermore, as the full Board is responsible for the selection and approval of candidate for appointment as Director to the Board, therefore the Company has not established a Nomination Committee for the time being.

### REMUNERATION OF DIRECTORS

The Company established a Remuneration Committee (the “Remuneration Committee”) on 28 June 2005 which consists of two independent non-executive Directors, namely Mr. Chung Koon Yan (as Chairman) and Mr. Yue Man Yiu, Matthew, and one executive Director, namely Mr. Lim Siang Kai.

The Remuneration Committee is mainly responsible for making recommendations to the Board on matters relating to the Company’s policy and structure for the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

One Remuneration Committee meeting was held during the year under review, with full attendance of every member, to discuss about the remuneration package of Directors, general manager and the qualified accountant.

The Company has adopted a share option scheme on 7 October 2002. The purpose of the share option scheme is to enable the Board, at its discretion, to grant options to any eligible participants which include Directors as incentives or rewards for their contribution to the Group. Details of the share option scheme are set out in the Directors’ Report and note 20 to the financial statements. Details of the Directors’ remuneration are set out in note 12 to the financial statements.

# CORPORATE GOVERNANCE REPORT

## AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, Grant Thornton, is set out below:

	<b>Fee paid/payable</b> <i>HK\$'000</i>
<b>Services rendered</b>	
Audit services	168
Non-audit services	–
	<b>168</b>

## AUDIT COMMITTEE

The Company established an Audit Committee (the "Audit Committee") on 7 October 2002. The Audit Committee comprises three independent non-executive Directors, namely Mr. Yue Man Yiu, Matthew (as Chairman), Mr. Chung Koon Yan and Mr. Zheng Weihe.

The Audit Committee shall meet at least twice a year. The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of such auditors; reviewing the interim and annual reports and accounts of the Group; and overseeing the Company's financial reporting system and internal control procedures.

Terms of reference adopted by the Audit Committee are aligned with the code provisions set out in the CG Code.

The Audit Committee shall meet the external auditors to discuss any area of concern during the audit or review. The Audit Committee reviews the interim and annual reports before submission to the Board. The Audit Committee focuses not only on the impact of standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

Two Audit Committee meetings were held during the year.

<b>Name of member</b>	<b>Number of attendance</b>
Mr. Yue Man Yiu, Matthew	2/2
Mr. Chung Koon Yan	2/2
Mr. Zheng Weihe	2/2

## CORPORATE GOVERNANCE REPORT

### DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's account for each financial period and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## REPORT OF THE DIRECTORS

The Board of Directors (“Board”) of the Company is pleased to submit their report together with the audited financial statements of the Group for the year ended 31 December 2005.

### PRINCIPAL ACTIVITIES

The Company is principally engaged in investing in listed and unlisted companies established and/or doing business in the Asia Pacific Region, mainly the People’s Republic of China, excluding Hong Kong and Macau (the “PRC”) and Hong Kong, and other Asian countries. Details of the principal activity of the subsidiary is set out in note 13 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

### RESULTS AND APPROPRIATIONS

The Group’s loss for the year ended 31 December 2005 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 25 to 57.

The Directors do not recommend the payment of a final dividend.

### CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the identity of the shareholders entitled to attend and vote at the 2006 Annual General Meeting (“AGM”) of the Company to be held on 24 May 2006, the register of members of the Company will be closed from Monday, 22 May 2006 to Wednesday, 24 May 2006, both days inclusive, during which period no transfer of shares will be effected. All transfers accompanied by the relevant certificates must be lodged with the Company’s transfer office and share registrar in Hong Kong, Tengis Limited, 26/F, Tesbury Centre, 28 Queen’s Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 19 May 2006.

### SHARE CAPITAL AND SHARE OPTIONS

There were no movements in either the Company’s authorised or issued share capital and share options during the year.

### SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “SO Scheme”) on 7 October 2002 (the “Adoption Date”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Eligible participants of the SO Scheme include any persons being employees, officers, agents, consultants or representatives of the Group. The SO Scheme became unconditional on 28 October 2002 upon the listing of the Company’s shares on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date.

## REPORT OF THE DIRECTORS

The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted must not represent more than 10% of the nominal amount of all the issued shares of the Company (the "10% Limit") as at the date on which trading in the shares of the Company on the Stock Exchange first commenced. The Company may seek approval from its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue from time to time.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or any of their respective associates, are subject to the approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within a 12-month period, are subject to the shareholders' approval in a general meeting in accordance with the Listing Rules.

The offer of a grant of share options shall remain open for acceptance for a period of 28 days from the date of the offer of the grant. The grant of share options is effective upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Company's shares.

Further details of the SO Scheme are disclosed in the prospectus of the Company dated 15 October 2002.

No share option has been granted since the Adoption Date.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

## REPORT OF THE DIRECTORS

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiary purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2005.

### RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 21 to the financial statements and in the consolidated statement of changes in equity, respectively.

### DISTRIBUTABLE RESERVES

At 31 December 2005, the Company had distributable reserves of HK\$28,026,000. Under the Companies Law (2004 Revision) of the Cayman Islands, the share premium account of the Company of HK\$85,277,000 as at 31 December 2005, is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

### DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

#### **Executive Directors**

Mr. Francis J. Chang Chu Fai

Mr. Lim Siang Kai

Mr. See Lee Seng, Reason

#### **Independent non-executive Directors**

Mr. Chung Koon Yan

Mr. Yue Man Yiu, Matthew

Mr. Zheng Weihe

Pursuant to Article 88(1) of the Articles of Association, Mr. Yue Man Yiu, Matthew and Mr. Zheng Weihe will retire by rotation and, being eligible, offer themselves for re-election at the AGM.

### INDEPENDENCE CONFIRMATION

The Company has received, from each of independent non-executive Directors, an annual confirmation of the independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

# REPORT OF THE DIRECTORS

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Francis J. Chang Chu Fai**, aged 51, has been an executive Director of the Company since 16 May 2002. He graduated with an MBA degree from York University in Toronto, Canada in 1977 and also holds a bachelor's degree in commerce from Concordia University in Montreal, Canada in 1976. He is an investment adviser registered with the Securities and Futures Commission ("SFC") under the Securities Ordinance. Mr. Chang has over 28 years of experience in banking, corporate finance, investment and management. Since January 2000, Mr. Chang has been the managing director of Ceres Capital Limited, an investment adviser registered with the SFC under the Securities Ordinance engaged in the provision of corporate finance advisory services.

Currently, he is also chairman & executive director of Trasy Gold Ex Limited, an independent non-executive director of Tian An China Investment Company Limited, Quality HealthCare Asia Limited and Chitaly Holdings Limited, all of which are listed on the Stock Exchange.

Mr. Chang is mainly responsible for overall investment strategies, risk management and financial management of the Company.

**Mr. Lim Siang Kai**, aged 49, joined the Company as executive Director since 16 May 2002. He holds a bachelor of arts degree from University of Singapore, a bachelor of social science (honours) degree from the National University of Singapore and a master of arts in economics from the University of Canterbury, New Zealand. Prior to joining the Company, Mr. Lim held various positions in banks, financial services companies and a fund management company and has over 20 years of experience in the securities, private and investment banking and fund management industries.

Mr. Lim is mainly responsible for identifying investment opportunities for the Company, in particular, in Greater China and investor relations.

**Mr. See Lee Seng, Reason**, aged 47, joined the Company as executive Director since 16 May 2002. He has over 25 years of experience in fund and portfolio management, securities dealing and investment advisory services over the bullion, forex, units trusts, equity and commodity futures markets. He is an investment adviser and commodity trading adviser registered with the SFC under Type 4 and Type 9 registration. Mr. See has held various executive positions of the Hong Kong Securities Professionals Association since 1996 and currently is a committee member. In 1994, Mr. See founded Keen Shing Fund Manager & Consultant Limited ("Keen Shing"), an investment adviser and asset management company registered with the SFC under Type 4 and Type 9. Mr. See is the managing director since inception and he is responsible for overall management of Keen Shing. Mr. See is also the managing director of Golden Honour Assets Management Limited, an investment adviser and asset management company registered with the SFC under Type 4 and Type 9, and the investment manager of the Company.

Mr. See is mainly responsible for formulation of investment strategies and portfolio management of the Company.



## REPORT OF THE DIRECTORS

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chung Koon Yan**, aged 42, appointed as an independent non-executive Director of the Company since 30 September 2004. He is a practising member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants and an associate member of The Institute Of Chartered Accountants in England and Wales. He graduated from The Hong Kong Polytechnic University with a Master of Professional Accounting. Mr. Chung is a director of Chiu, Choy & Chung CPA Ltd. and has more than 15 years experience in accounting, auditing and taxation. Currently, he is also an independent non-executive director of Trasy Gold Ex Limited, a company listed on the Stock Exchange.

**Mr. Yue Man Yiu, Matthew**, aged 44, appointed as an independent non-executive Director of the Company since 4 June 2002. He graduated from The Chinese University of Hong Kong with a bachelor's degree of business administration in 1984. He is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. He has extensive experience in the financial control, project analysis and management functions in the financial service industry. He is presently the chief financial officer of a consultancy and investment company.

**Mr. Zheng Weihe**, aged 40, appointed as an independent non-executive Director of the Company since 4 June 2002. He graduated from Nankai University (南開大學) in Tianjin, the PRC with a bachelor of law degree in 1988 and a master degree in the law of securities in 1991. From 1991 to 1994, he was a lawyer at a Shenzhen law firm. Since 1994, he has been a partner of Shu Jin & Co., a law firm licensed to practise in the PRC. Mr. Zheng has experience in the area of securities law, corporate law and commercial law in the PRC. He has been involved in various initial public offerings of securities in the PRC as well as corporate restructuring, mergers and acquisitions. He is a lawyer authorised by the China Securities Regulatory Commission and the Ministry of Justice of the PRC and has acted as the legal consultant to more than 10 listed companies in the PRC.

### SENIOR MANAGEMENT

**Mr. Lee Kwok Hung**, aged 46, is the general manager of the Company. He graduated from the Chinese University of Hong Kong in 1984 with Marketing as major. Mr. Lee has been in the field of China trade for over 18 years. Mr. Lee is in charge of overall administration of the Company.

**Mr. Tse Kam Fai**, *ACIS, ACS, MHKSI, MHKIoD*, aged 42, is the company secretary of the Company. Mr. Tse is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. He is also a member of Hong Kong Securities Institute, and a member of the Hong Kong Institute of Directors. He is currently the company secretary of three other companies whose shares are listed on the Stock Exchange and has more than 10 years' experience in handling listed company secretarial and compliance related matters.

## REPORT OF THE DIRECTORS

**Ms. Hui Yin Ping, Teresa**, *CPA (US), CFP (US), HKICPA, FTIHK*, aged 58, is the qualified accountant of the Company since 16 June 2005. She graduated from the University of Hawaii and holds a BBA degree. She is a member in good standing and qualified to practice as a Certified Public Accountant in the State of Washington. She is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Institute of Taxation of Hong Kong as well as a Certified Financial Planner (US). She has over 20 years of experience in accounting and taxation areas. She is in charge of the accounting functions of the Company.

### DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS IN CONTRACTS

Other than the related party and connected transactions which are disclosed under the heading "RELATED PARTY AND CONNECTED TRANSACTIONS" below, no Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or its subsidiary was a party during the year.

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN SHARES

At 31 December 2005, the interest or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), are set out below:

#### Long position in the shares, underlying shares and debentures of the Company

Name of director	Type of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Francis J. Chang Chu Fai	Beneficial interest	1,355,000	1.3%
Mr. Lim Siang Kai	Beneficial interest	1,355,000	1.3%
Mr. See Lee Seng, Reason	Beneficial interest	1,355,000	1.3%

Save as disclosed above, as at 31 December 2005, none of the Directors and chief executives of the Company had any interests and short positions in the shares or underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from those as disclosed above relating to the SO Scheme adopted on 7 October 2002, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its subsidiary a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, the interests or short positions of every person, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, are set out below:

## Long position in the shares and underlying shares of the Company

Name of shareholder	Type of interest	Number of ordinary shares held	Total number of ordinary shares held	Percentage of the Company's issued share capital
Zhang Yunxia (Note a)	Interest of controlled corporation	22,760,000	22,760,000	21.59
Profitone Company Limited (Note a)	Beneficial owner	22,760,000	22,760,000	21.59
Lee Wing Ngai (Note b)	Beneficial owner Interest of spouse	3,690,000 1,970,000	5,660,000	5.37
Wong Wai (Note b)	Beneficial owner Interest of spouse	1,970,000 3,690,000	5,660,000	5.37
Leung Kin Keung (Note c)	Beneficial owner Interest of spouse	8,768,000 342,000	9,110,000	8.64
Fung Pui Ming (Note c)	Beneficial owner Interest of spouse	342,000 8,768,000	9,110,000	8.64

## Notes:

- By virtue of the SFO, Ms. Zhang Yunxia is deemed to be interested in 22,760,000 shares in the Company. These shares are held by Profitone Company Limited, a company incorporated in the BVI with limited liability and is beneficially owned by Ms. Zhang Yunxia.
- These shares are held by Mr. Lee Wing Ngai and his spouse, Ms. Wong Wai.
- These shares are held by Mr. Leung Kin Keung and his spouse, Ms. Fung Pui Ming.

## REPORT OF THE DIRECTORS

### RELATED PARTY AND CONNECTED TRANSACTIONS

- (i) Pursuant to the Investment Management Agreement dated 7 October 2002 entered into between the Company and Golden Honour Assets Management Limited (the “Investment Manager”), the Investment Manager has agreed to provide the Company with investment management services (excluding general administrative services) for a three-year period commencing from 28 October 2002, the date of the commencement of the trading of the Company’s shares on the Stock Exchange. The Investment Management Agreement will continue for successive period of three years, unless terminated at any time by either the Company or the Investment Manager serving not less than six months’ notice in writing to the other party, and will expire on the last day of the three-year period or any of the relevant successive periods.

Under the Investment Management Agreement, the Investment Manager is entitled to a monthly management fee equivalent to 2.5% per annum of the net assets value of the Company as at the last dealing day on the Stock Exchange in each calendar month (or such other dealing day as considered appropriate by the Board of Directors for the purpose of calculating the net asset value of the Company), calculated 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 an annual incentive fee equivalent to 15% of the surplus in the net assets value of the Company over a financial year or period.

For the year ended 31 December 2005, the investment management fee paid/payable to the Investment Manager for the services rendered amount to HK\$1,431,000.

Mr. Francis J. Chang Chu Fai (“Mr. Chang”) and Mr. Lim Siang Kai, executive Directors of the Company, each have a 15% equity interest in the Investment Manager, Mr. See Lee Seng, Reason, an executive Director of the Company, has a 35% equity interest in the Investment Manager and is one of the Directors of the Investment Manager.

In accordance Rule 14A.37 of the Listing Rules, the independent non-executive Directors of the Company have reviewed the above transaction and confirmed that the transaction have been entered into:

- (a) in the ordinary and usual course of the business of the Company;
- (b) on normal commercial terms and on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the aggregate amount of the investment management fee and the incentive fee paid/payable to the Investment Manager did not exceed HK\$2,500,000.

The auditors of the Company have reviewed the above transaction and provided a letter to the Company confirming that the above transaction:

1. have received the approval of the Board;
2. have been entered into in accordance with the relevant agreement governing the transaction; and
3. did not exceed HK\$2,500,000.

## REPORT OF THE DIRECTORS

- (ii) Pursuant to the sub-tenancy agreement dated 10 June 2003 entered into between the Company and Ceres Capital Limited (“Ceres”), the Company agreed to sublet its office premises from Ceres, which is owned as to approximately 33% by Mr. Chang, for a period commencing from 1 July 2003 to 30 June 2005 (both dates inclusive) at HK\$8,500 per month, with a rent free period of one month in May 2004.

Pursuant to a Board of Directors’ resolution passed on 28 June 2005, the Company will continue to sublet its office premises from Ceres from 1 July 2005 at HK\$12,318 per month. As at the date of these financial statements, no new sub-tenancy agreement was signed between the Company and Ceres.

The above transactions constitute connected transactions under Chapter 14A of the Listing Rules and related party transactions under the applicable accounting standard issued by the Hong Kong Institute of Certified Public Accountants. Details of these related party and connected transactions are disclosed in note 24 to the financial statements.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year and up to the date of this report.

### AUDIT COMMITTEE

The Company has an audit committee (the “Committee”) which was established in accordance with the requirements of the Code for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Committee comprises the three independent non-executive Directors, Mr. Yue Man Yiu, Matthew, Mr. Chung Koon Yan and Mr. Zheng Weihe. The Committee has reviewed the audited financial results of the Group for the year ended 31 December 2005.

### AUDITORS

Ernst & Young resigned as auditors of the Company with effect from 7 December 2004 and Grant Thornton were appointed as auditors of the Company to fill the casual vacancy with effect from 4 February 2005. Save as aforesaid, there have been no other changes of auditors in the past three years.

Grant Thornton shall retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board  
**Francis J. Chang Chu Fai**  
*Executive Director*

Hong Kong, 21 April 2006

# REPORT OF THE AUDITORS

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

**To the members of Golden 21 Investment Holdings Limited**  
*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 25 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**  
*Certified Public Accountants*  
Hong Kong

21 April 2006

**CONSOLIDATED INCOME STATEMENT***for the year ended 31 December 2005*

	Notes	2005 HK\$'000	2004 HK\$'000
<b>Revenue</b>	5	<b>468</b>	80
Fair value losses on financial assets at fair value through profit or loss		(2,233)	–
Impairment of available-for-sale financial assets	15	(17,827)	–
Realised losses on disposals of trading securities		–	(599)
Unrealised holding losses on trading securities		–	(2,223)
Impairment loss of investment securities		–	(8,050)
Administrative expenses		(3,655)	(5,651)
<b>Loss before income tax</b>	7	<b>(23,247)</b>	(16,443)
Income tax expense	8	–	–
<b>Loss for the year</b>	9	<b>(23,247)</b>	(16,443)
<b>Loss per share for loss attributable to equity holders of the Company during the year</b>	10		
– Basic		(HK22.1 cents)	(HK15.6 cents)
– Diluted		N/A	N/A



**CONSOLIDATED BALANCE SHEET**

as at 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment securities	14	–	25,977
Available-for-sale financial assets	15	8,150	–
Amount due from an investee	15	1,770	1,770
		<b>9,920</b>	<b>27,747</b>
<b>Current assets</b>			
Trading securities	16	–	11,817
Financial assets at fair value through profit or loss	17	6,372	–
Deposits and other receivables		29	27
Amount due from a broker		251	13
Cash and cash equivalents	18	23,784	23,477
		<b>30,436</b>	<b>35,334</b>
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	17	23	–
Other payables and accruals		782	1,284
Amount due to a broker		1,001	–
		<b>1,806</b>	<b>1,284</b>
<b>Net current assets</b>		<b>28,630</b>	<b>34,050</b>
<b>Total assets less current liabilities</b>		<b>38,550</b>	<b>61,797</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	19	10,542	10,542
Reserves	21	28,008	51,255
<b>Total equity</b>		<b>38,550</b>	<b>61,797</b>

**Francis J. Chang Chu Fai**  
*Director*

**See Lee Seng, Reason**  
*Director*

**BALANCE SHEET**

as at 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment in a subsidiary	13	1	1
Investment securities	14	–	25,977
Available-for-sale financial assets	15	8,150	–
Amount due from an investee	15	1,770	1,770
		<b>9,921</b>	27,748
<b>Current assets</b>			
Trading securities	16	–	11,817
Financial assets at fair value through profit or loss	17	6,372	–
Deposits and other receivables		29	27
Amount due from a broker		251	13
Amount due from a subsidiary	13	17	10
Cash and cash equivalents	18	23,784	23,477
		<b>30,453</b>	35,344
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	17	23	–
Other payables and accruals		782	1,284
Amount due to a broker		1,001	–
		<b>1,806</b>	1,284
<b>Net current assets</b>		<b>28,647</b>	34,060
<b>Total assets less current liabilities</b>		<b>38,568</b>	61,808
<b>EQUITY</b>			
Share capital	19	10,542	10,542
Reserves	21	28,026	51,266
<b>Total equity</b>		<b>38,568</b>	61,808

Francis J. Chang Chu Fai  
Director

See Lee Seng, Reason  
Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***for the year ended 31 December 2005*

	<b>Share capital</b> HK\$'000	<b>Share premium account</b> HK\$'000	<b>Accumulated losses</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2004	10,542	85,277	(17,579)	78,240
Loss for the year (Total recognised income and expense for the year)	–	–	(16,443)	(16,443)
At 31 December 2004 and 1 January 2005	10,542	85,277	(34,022)	61,797
Loss for the year (Total recognised income and expense for the year)	–	–	(23,247)	(23,247)
<b>At 31 December 2005</b>	<b>10,542</b>	<b>85,277*</b>	<b>(57,269)*</b>	<b>38,550</b>

\* The aggregated amount of the above balances of HK\$28,008,000 (2004: HK\$51,255,000) represented the reserves in the consolidated balance sheet.

**CONSOLIDATED CASH FLOW STATEMENT***for the year ended 31 December 2005*

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
<b>Cash flows from operating activities</b>		
Loss before income tax	(23,247)	(16,443)
Adjustments for:		
Unrealised holding losses on trading securities	–	2,223
Impairment loss of investment securities	–	8,050
Impairment of available-for-sale financial assets	17,827	–
Bank interest income	(421)	(29)
Dividend income	(47)	(51)
Operating loss before working capital changes	(5,888)	(6,250)
Decrease in trading securities	–	544
Decrease in financial assets at fair value through profit or loss	5,445	–
Increase in deposits and other receivables	(2)	(10)
(Increase)/Decrease in amount due from a broker	(238)	2,071
Increase in financial liabilities at fair value through profit or loss	23	–
Decrease in other payables and accruals	(502)	(689)
Increase in amount due to a broker	1,001	–
Cash used in operations	(161)	(4,334)
Bank interest received	421	29
Dividend income received	47	51
Net cash from/(used in) operating activities	307	(4,254)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>307</b>	<b>(4,254)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>23,477</b>	<b>27,731</b>
<b>Cash and cash equivalents at end of year</b>	<b>23,784</b>	<b>23,477</b>

# NOTES TO FINANCIAL STATEMENTS

*for the year ended 31 December 2005*

## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 14 May 2002 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The address of the Company's registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, British West Indies and its principal place of business is Room 3308, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 28 October 2002.

The Company and the Group is principally engaged in investing in listed and unlisted companies established and/or doing business in the Asia Pacific Region, mainly the People's Republic of China, excluding Hong Kong and Macau (the "PRC"), Hong Kong and other Asian countries. During the year, the Company was also engaged in the trading of futures contracts traded on the Hong Kong Futures Exchange.

The financial statements on pages 25 to 57 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 21 April 2006.

## NOTES TO FINANCIAL STATEMENTS

*for the year ended 31 December 2005***2. ADOPTION OF NEW OR REVISED HKFRS**

From 1 January 2005, the Group has adopted the new or revised standards and interpretations of HKFRS, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKSA 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC) Int-15	Operating Leases – Incentives

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 2. ADOPTION OF NEW OR REVISED HKFRS (Continued)

### 2.1 Adoption of HKAS 1

The application of HKAS 1 led to an update of the presentation of financial statements and other disclosures.

### 2.2 Adoption of HKAS 39

Prior to the adoption of HKAS 39, trading securities and non-trading securities are measured at fair value. Changes in fair value of trading securities are recognised in income statement as they arise. For non-trading securities, changes in fair value are dealt with in investment revaluation reserve until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in investment revaluation reserve is included in the income statement for that period.

On the adoption of HKAS 39, the Group classified its investments into the following categories: financial assets at fair value through profit or loss and available-for-sale financial assets. The Group measured its financial assets at either fair value or at cost less any provision for impairment according to the classification.

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, the reclassifications are made on 1 January 2005 and the comparative figures have not been restated.

### 2.3 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 January 2005, the Group did not recognise the financial effect of share options until they were exercised.

The principal impact of HKFRS 2 is in relation to the expensing of the fair value of share options granted to directors and employees of the Company and its subsidiary, determined at the date of grant of the share options, over the vesting period with a corresponding credit to equity, unless the transaction is cash settled share-based payment.

According to the transitional provisions of HKFRS 2, the Group applies HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not vested on 1 January 2005.

No share options were granted by the Group under the share option scheme since its adoption. Accordingly, the adoption of HKFRS 2 had no effect on the financial statements presented. The new accounting policy for equity-settled share-based payments are summarised in note 3.13 to the financial statements.

## NOTES TO FINANCIAL STATEMENTS

*for the year ended 31 December 2005***2. ADOPTION OF NEW OR REVISED HKFRS (Continued)****2.4 Other standards adopted**

The adoption of other new or revised standards or interpretations did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

**2.5 New standards or interpretations that have been issued but are not yet effective**

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKAS 19 (Amendment)	Employee Benefits-Actuarial Gains and Losses, Group Plans and Disclosures <sup>2</sup>
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates-Net Investment in a Foreign Operation <sup>2</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>2</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments : Recognition and Measurement and Insurance Contracts-Financial Guarantee Contracts <sup>2</sup>
HKFRS 1 & HKFRS 6 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 6	Exploration for and Evaluation of Mineral Resources <sup>2</sup>
HKFRS 7	Financial Instruments-Disclosures <sup>1</sup>
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease <sup>2</sup>
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds <sup>2</sup>
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment <sup>3</sup>
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 December 2005

<sup>4</sup> Effective for annual periods beginning on or after 1 March 2006



# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of preparation

The financial statements have been prepared on the historical cost basis as modified for revaluation of certain financial assets and liabilities as set out in notes 3.7 and 3.8 below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

### 3.2 Basis of consolidation

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

### 3.3 Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiary is carried at cost less any impairment loss. The results of the subsidiary is accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

**NOTES TO FINANCIAL STATEMENTS***for the year ended 31 December 2005***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.4 Income and expense 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:

- (i) interest income is recognised on a time-proportion basis using the effective interest method; and
- (ii) dividend income is recognised when the right to receive payment is established.

Operating expenses are recognised in the income statement upon utilisation of the services.

**3.5 Operating leases**

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

**3.6 Foreign currency translation**

The financial statements are presented in Hong Kong dollars (HK\$), which is also the functional currency of the Company and its subsidiary.

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 the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.7 Financial assets

Prior to 1 January 2005, the Group classified its investments in securities, other than subsidiaries, as investment securities and trading securities.

#### (i) *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 the 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 long term 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 long term 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.

#### (ii) *Trading securities*

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

From 1 January 2005 onwards, the Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity investments and loans and receivables. Management determines the classification of its financial assets at initial recognition, depending on the purpose for which the financial assets were acquired and where allowed and appropriate, reclassified this designation at every reporting date.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.7 Financial assets (Continued)**

All financial assets are recognised on their trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the Group to be carried at fair value through profit or loss on initial recognition.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

(ii) *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

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, are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement 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 loss will not reverse in subsequent periods.

# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.7 Financial assets (Continued)

#### (iii) *Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

### 3.8 Financial liabilities

The Group's financial liabilities include other payables and accruals, financial liabilities at fair value through profit or loss and amount due to a broker.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as expenses in finance costs in the income statement.

Payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities at fair value through profit or loss include financial liabilities that are either classified as held for trading or are designated by the Group to be carried at fair value through profit or loss on initial recognition.

Subsequent to initial recognition, the financial liabilities included in this category are measured at fair value with changes in fair value recognised in income statement. Financial liabilities originally designated as financial liabilities at fair value through profit or loss may not subsequently be re-classified.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.9 Accounting for income taxes**

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

**3.10 Cash and cash equivalents**

Cash and cash equivalents include cash at banks and short-term bank deposits which form an integral part of the Group's cash management.

# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.11 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

### 3.12 Retirement benefit costs and short term employee benefits

#### (i) *Defined contribution plan*

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 in Hong Kong. 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.

#### (ii) *Short term employee benefits*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

### 3.13 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and have not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13 Share-based employee compensation (Continued)**

All share-based compensation is ultimately recognised as an expense in income statement with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are reallocated to share capital with any excess being recorded as share premium.

**3.14 Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

In determining the Group's geographical segments, revenue and assets are attributable to the segments based on the location of assets.

**3.15 Related parties**

A party is considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party:
  - controls, is controlled by, or is under common control with, the Group;
  - has an interest in the Group that gives it significant influence over the Group; or
  - has joint control over the Group;
- (ii) the party is a jointly-controlled entity;
- (iii) the party is an associate;
- (iv) the party is a member of the key management personnel of the Group or its parent;



# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 3.15 Related parties (Continued)

- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group did not use any critical accounting estimates in the preparation of the financial statements.

In the process of applying the Group's accounting policies, management has made the following judgement, which has the most significant effect on the amounts recognised in the financial statements:

### *Impairment of available-for-sale financial assets*

For available-for-sale financial assets, a significant or prolonged decline in fair value below carrying value is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the issuer/investee.

## NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 5. REVENUE AND TURNOVER

Revenue, which is also the Group's turnover, recognised during the year is as follows:

	2005 HK\$'000	2004 HK\$'000
Bank interest income	421	29
Dividend income	47	51
Revenue	<b>468</b>	80

The gross proceeds from the trading of securities for the year amounted to HK\$35,467,000 (2004: HK\$39,599,000). Upon adoption of HKAS 1: Presentation of Financial Statements, the amount was excluded from the revenue for the year. The comparative figures of 2004 have been reclassified to conform with current year's presentation. The results arising from the fair valuation of financial assets at fair value through profit or loss/trading securities are now shown separately in the consolidated income statement under "Fair value losses on financial assets at fair value through profit or loss/Realised losses on disposals of trading securities/Unrealised holding losses on trading securities".

## 6. SEGMENT INFORMATION

The Group is principally engaged in investment in listed and unlisted companies. Accordingly, no further analysis by business segment is provided. In determining the Group's geographical segments, revenue and assets are attributed to the segments based on the location of assets.

The following table present revenue and assets of the Group's geographical segments:

	Hong Kong		The PRC		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue	468	80	–	–	468	80
Segment assets	<b>30,436</b>	35,334	<b>9,920</b>	27,747	<b>40,356</b>	63,081

**NOTES TO FINANCIAL STATEMENTS***for the year ended 31 December 2005***7. LOSS BEFORE INCOME TAX**

	2005 HK\$'000	2004 HK\$'000
Loss before income tax is arrived at after charging:		
Auditors' remuneration	168	128
Operating lease charges in respect of land and buildings	125	94
Staff costs (excluding directors' remuneration) – note 11	293	667

**8. INCOME TAX EXPENSE**

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

Reconciliation between tax expense and accounting loss at applicable tax rate is as follows:

	2005 HK\$'000	2004 HK\$'000
Loss before income tax	(23,247)	(16,443)
Tax at applicable rate of 17.5% (2004: 17.5%)	(4,068)	(2,878)
Tax effect of non-taxable income	(82)	(14)
Tax effect of non-deductible expenses	3,121	1,418
Tax effect on tax losses not recognised	1,029	1,474
Income tax expense	–	–

At 31 December 2005, the Group had deferred tax assets of approximately HK\$5,910,000 (2004: HK\$4,881,000) arising from tax losses. The deferred tax assets are not recognised as it is uncertain whether future taxable profit will be available for utilising tax losses. Under the current tax legislation, the tax losses can be carried forward indefinitely.

**9. LOSS FOR THE YEAR**

Of the loss for the year of HK\$23,247,000 (2004: HK\$16,443,000), a loss of HK\$23,240,000 (2004: HK\$16,439,000) has been dealt with in the financial statements of the Company.

**10. LOSS PER SHARE**

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK\$23,247,000 (2004: HK\$16,443,000) and on 105,420,000 (2004: 105,420,000) ordinary shares of the Company in issue during the year.

No diluted loss per share has been presented because there were no potential ordinary shares in issue during both years.

## NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 11. EMPLOYEE BENEFIT EXPENSE (excluding directors' emoluments)

	2005 HK\$'000	2004 HK\$'000
Wages, salaries and other allowances	279	654
Retirement benefits scheme contributions	14	13
	<b>293</b>	<b>667</b>

## 12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

## (i) Directors' emoluments

The emoluments paid or payable to the directors were as follows:

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employer's retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>Year ended 31 December 2005</b>				
<b>Executive directors</b>				
Francis J. Chang Chu Fai	–	180	9	189
See Lee Seng, Reason	–	60	3	63
Lim Siang Kai	–	184	2	186
Sub-total	–	424	14	438
<b>Independent non-executive directors</b>				
Chung Koon Yan	60	–	–	60
Yue Man Yiu, Matthew	60	–	–	60
Zheng Weihe	30	–	–	30
Sub-total	150	–	–	150
<b>Total</b>	<b>150</b>	<b>424</b>	<b>14</b>	<b>588</b>

# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

### (i) Directors' emoluments (Continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employer's retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>Year ended 31 December 2004</b>				
<b>Executive directors</b>				
Francis J. Chang Chu Fai	–	630	12	642
See Lee Seng, Reason	–	210	11	221
Lim Siang Kai	–	630	11	641
Sub-total	–	1,470	34	1,504
<b>Independent non-executive directors</b>				
Chung Koon Yan	15	–	–	15
Yue Man Yiu, Matthew	30	–	–	30
Zheng Weihe	60	–	–	60
Sub-total	105	–	–	105
<b>Total</b>	<b>105</b>	<b>1,470</b>	<b>34</b>	<b>1,609</b>

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

During the year, no emoluments were paid by the Group to the Company's directors or any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2004: Nil).

## NOTES TO FINANCIAL STATEMENTS

*for the year ended 31 December 2005***12. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS**  
**(Continued)****(ii) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year included three (2004: three) of the directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: remaining two) highest paid individuals during the year are as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Wages, salaries and other allowances	<b>245</b>	654
Retirement benefits scheme contributions	<b>12</b>	13
	<b>257</b>	667

The emoluments fell within the following band:

	<b>Number of individuals</b>	
	<b>2005</b>	2004
<b>Emolument band</b>		
HK\$nil – HK\$1,000,000	<b>2</b>	2

# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 13. INVESTMENT IN A SUBSIDIARY/AMOUNT DUE FROM A SUBSIDIARY

### Company

	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	1	1
Amount due from a subsidiary	17	10

The amount due from a subsidiary is unsecured, interest-free and repayable on demand.

Particulars of the subsidiary at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation and operation/ kind of legal entity	Particulars of issued and fully paid share capital	Percentage of issued capital held by the Company Directly	Principal activities
Golden 21 (BVI) Limited	British Virgin Islands, limited liability company	1 ordinary share of US\$1	100%	Dormant

## 14. INVESTMENT SECURITIES

### Group and Company

Investment securities at 31 December 2004 are set out below. Upon the adoption of HKAS 39 on 1 January 2005, investment securities were reclassified to available-for-sale financial assets.

	2004 HK\$'000
Unlisted equity securities outside Hong Kong, at cost	34,027
Impairment loss	(8,050)
Investment securities, at fair value	25,977

## NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 15. AVAILABLE-FOR-SALE FINANCIAL ASSETS/AMOUNT DUE FROM AN INVESTEE

## Group and Company

	2005 HK\$'000
Unlisted equity securities outside Hong Kong, at cost	34,027
Impairment loss	(25,877)
	<b>8,150</b>

Particulars of the major investment in unlisted equity securities as at 31 December 2005, disclosed pursuant to Section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of registration	Principal activities	Particulars of issued capital held	Acquisition cost HK\$'000	Fair value estimated by the directors HK\$'000	Percentage of interest held
Nantong Einolda Smart Card Manufacturing Co., Ltd. ("Nantong Einolda")	PRC	(i)	Registered capital of RMB15,919,686	15,500	3,914	24.00
北京綜藝達軟件技術有限公司 ("北京綜藝達")	PRC	(ii)	Registered capital of RMB1,870,230	18,527	4,236	13.09

## Notes:

- (i) Nantong Einolda is principally engaged in the production of sim-cards for use in credit cards and data storage cards. The investment in Nantong Einolda is not equity accounted for under HKAS 28 "Investments in Associates". This is because the directors are of the opinion that the Group has no participation in the financial and operating policy-making process of Nantong Einolda.
- (ii) 北京綜藝達 is principally engaged in the research, development and manufacture of network commercial management software.



**NOTES TO FINANCIAL STATEMENTS***for the year ended 31 December 2005***15. AVAILABLE-FOR-SALE FINANCIAL ASSETS/AMOUNT DUE FROM AN INVESTEE  
(Continued)**

As at 31 December 2005, the amount due from an investee company of approximately HK\$1,770,000 is unsecured, interest-free and is due from 北京綜藝達. In 2004, the directors of the Company decided to acquire further interest in 北京綜藝達 and the related consideration would be satisfied by the amount due from 北京綜藝達. This intended acquisition and settlement of consideration had been agreed by the holding company of 北京綜藝達. Accordingly, the balance due from 北京綜藝達 was classified as a non-current asset as at 31 December 2004 and 2005.

As of the date of approval of these financial statements, the statutory registration of the aforementioned additional acquisition was in progress.

The above unlisted available-for-sale financial assets are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair values cannot be reliably measured.

The operating performance of Nantong Einolda was below expectation in 2005. After taking into consideration of the discounted cash flow analysis of Nantong Einolda, the directors of the Company considered it appropriate to make an impairment loss amounted to HK\$6,316,000 during the year to write down the carrying amount of the investment to HK\$3,914,000.

The operating performance of 北京綜藝達 was below expectation in 2005. After taking into consideration of the discounted cash flow analysis of 北京綜藝達, the directors of the Company considered it appropriate to make an impairment loss amounted to HK\$11,511,000 during the year to write down the carrying amount of the investment to HK\$4,236,000.

## NOTES TO FINANCIAL STATEMENTS

*for the year ended 31 December 2005***16. TRADING SECURITIES**

Trading securities at 31 December 2004 are set out below. Upon the adoption of HKAS 39 on 1 January 2005, trading securities were reclassified to financial assets at fair value through profit or loss.

**Group and Company**

	2004 HK\$'000
Listed equity securities in Hong Kong, at market value	11,817

**17. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS****Group and Company**

	2005 HK\$'000
Listed equity securities in Hong Kong, at market value	6,372
Fair value loss on futures contracts	(23)

The above financial assets and liabilities are classified as held for trading.

At 31 December 2005, the fair value loss on futures contracts represented the open positions of Hang Seng Index futures contracts held by the Group.

Financial assets/liabilities at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement.

## NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

### 17. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

Particulars of the listed equity securities as at 31 December 2005, disclosed pursuant to Section 129 of the Hong Kong Companies Ordinance, are as follows:

Name	Place of establishment/ registration	Particulars of equity interests held	Market value as at 31 December 2005 HK\$'000	Percentage of interest held
Jiangsu Nandasoft Company Limited	PRC	H shares with nominal value of RMB2,535,600	4,691	10.84

The market value of the listed equity securities at the date of approval of these financial statements was approximately HK\$4,944,000.

### 18. CASH AND CASH EQUIVALENTS

#### Group and Company

Cash and cash equivalents include the following components:

	2005 HK\$'000	2004 HK\$'000
Cash at banks	12,970	1,017
Short-term bank deposits	10,814	22,460
	<b>23,784</b>	<b>23,477</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term bank deposits are made at fixed rates for varying periods of between one day and three months depending on the immediate cash requirement of the Group and the effective interest rate is 3.5% per annum (2004: 0.625% per annum). They have a maturity of less than one month.

## NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 19. SHARE CAPITAL

	2005 HK\$'000	2004 HK\$'000
<i>Authorised:</i>		
3,000,000,000 ordinary shares of HK\$0.10 each	<b>300,000</b>	300,000
<i>Issued and fully paid:</i>		
105,420,000 ordinary shares of HK\$0.10 each	<b>10,542</b>	10,542

## 20. SHARE-BASED EMPLOYEE COMPENSATION

The Company conditionally adopted a share option scheme (the "SO Scheme") on 7 October 2002 (the "Adoption Date") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include any persons being employees, officers, agents, consultants or representatives of the Group. The SO Scheme became unconditional on 28 October 2002 upon the listing of the Company's shares on the Stock Exchange and, unless otherwise cancelled or amended, will remain in force for 10 years from the Adoption Date.

The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options to any eligible participant in excess of this limit is subject to shareholders' approval in a general meeting. The total number of shares which may be issued upon exercise of all share options to be granted must not represent more than 10% of the nominal amount of all the issued shares of the Company (the "10% Limit") as at the date on which trading in the shares of the Company on the Stock Exchange first commenced. The Company may seek approval from its shareholders in a general meeting to refresh the 10% Limit at any time in accordance with the Listing Rules.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue from time to time.

## NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

### 20. SHARE-BASED EMPLOYEE COMPENSATION (Continued)

Share options granted to a director, chief executive or substantial shareholder of the Company, or any of their respective associates, are subject to the approval of the independent non-executive directors (excluding any independent non-executive director who is a proposed grantee of the share options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, within a 12-month period, are subject to the shareholders' approval in a general meeting in accordance with the Listing Rules.

The offer of a grant of share options shall remain open for acceptance for a period of 28 days from the date of the offer of the grant. The grant of share options is effective upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Company's shares.

Further details of the SO Scheme are disclosed in the prospectus of the Company dated 15 October 2002.

At 31 December 2004, 2005 and up to the date of approval of these financial statements, no share options have been granted under the SO Scheme.

## NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 21. RESERVES

**Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

**Company**

	<b>Share premium account HK\$'000</b>	<b>Accumulated losses HK\$'000</b>	<b>Total HK\$'000</b>
At 1 January 2004	85,277	(17,572)	67,705
Loss for the year	–	(16,439)	(16,439)
At 31 December 2004 and 1 January 2005	85,277	(34,011)	51,266
Loss for the year	–	(23,240)	(23,240)
<b>At 31 December 2005</b>	<b>85,277</b>	<b>(57,251)</b>	<b>28,026</b>

In accordance with the Companies Law (2002 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 the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

## 22. OPERATING LEASE COMMITMENTS

**Group and Company**

At 31 December 2005, the total future minimum lease payments under non-cancellable operating lease in respect of office premises were payable as follows:

	<b>2005 HK\$'000</b>	2004 HK\$'000
Within one year	–	51

# NOTES TO FINANCIAL STATEMENTS

for the year ended 31 December 2005

## 23. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities as at 31 December 2005 and 2004.

## 24. RELATED PARTY AND CONNECTED TRANSACTIONS

During the year, the Group had the following significant related party transactions:

	Notes	2005 HK\$'000	2004 HK\$'000
Investment management fee paid/payable to Golden Honour Assets Management Limited	(i)	1,431	1,868
Rental expenses paid to Ceres Capital Limited	(ii)	125	94

Notes:

- (i) Pursuant to the investment management agreement dated 7 October 2002 (the "Investment Management Agreement") entered into between the Company and Golden Honour Assets Management Limited (the "Investment Manager"), the Investment Manager has agreed to provide the Company with investment management services (excluding general administrative services) for a three-year period commencing on 28 October 2002, the date of the commencement of the trading of the Company's shares on the Stock Exchange. The Investment Management Agreement will continue for successive period of three years, unless terminated at any time by either the Company or the Investment Manager serving not less than six month's notice in writing to the other party, and will expire on the last day of the three-year period or any of the relevant successive periods.

Under the Investment Management Agreement, the Investment Manager is entitled to a monthly management fee equivalent to 2.5% per annum of the net asset value of the Company as at the last dealing day on the Stock Exchange in each calendar month (or such other dealing day as considered appropriate by the board of directors for the purpose of calculating the net asset value of the Company), calculated 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 an annual incentive fee equivalent to 15% of the surplus in the net asset value of the Company over a financial year or period.

Mr. Francis J. Chang Chu Fai ("Mr. Chang") and Mr. Lim Siang Kai, executive directors of the Company, each have a 15% equity interest in the Investment Manager. Mr. See Lee Seng, Reason, an executive director of the Company, has a 35% equity interest in the Investment Manager and is one of the directors of the Investment Manager.

- (ii) Pursuant to the sub-tenancy agreement dated 10 June 2003 entered into between the Company and Ceres Capital Limited ("Ceres"), the Company agreed to sublet its office premises from Ceres, which is owned as to approximately 33% by Mr. Chang, for a period commencing from 1 July 2003 to 30 June 2005 (both dates inclusive) at HK\$8,500 per month, with a rent free period of one month in May 2004.

Pursuant to a board of directors' resolution passed on 28 June 2005, the Company will continue to sublet its office premises from Ceres from 1 July 2005 at HK\$12,318 per month. As at the date of these financial statements, no new sub-tenancy agreement was signed between the Company and Ceres.

The related party transactions set out above also constitute connected transactions under the Listing Rules.

**NOTES TO FINANCIAL STATEMENTS***for the year ended 31 December 2005***25. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The significant financial risks to which the Group is exposed to are described below.

**(i) Foreign currency risk**

The Group holds available-for-sale financial assets denominated in Renminbi ("RMB"). The Group is therefore exposed to currency risk, as the value of the securities and RMB will fluctuate due to change in exchange rate.

**(ii) Interest rate risk**

The Group has no significant interest rate risk as there are no significant long term external borrowings which bear floating interest rates.

**(iii) Credit risk**

The Group's bank balances are all deposited with banks in Hong Kong.

The carrying amounts of financial assets at fair value through profit or loss, deposits and other receivables and amount due from a broker represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

**(iv) Fair values**

The fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.



## FOUR YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last three financial years and the period from 14 May 2002 (date of incorporation) to 31 December 2002, as extracted from the audited financial statements, is set out below. This summary does not form part of the audited financial statements.

### RESULTS

	<b>Year ended 31 December 2005 HK\$'000</b>	Year ended 31 December 2004 HK\$'000	Year ended 31 December to 2003 HK\$'000	Period from 14 May 2002 (date of incorporation) 31 December 2002 HK\$'000
REVENUE	468	80	2,186	215
LOSS BEFORE INCOME TAX	(23,247)	(16,443)	(13,033)	(4,546)
INCOME TAX EXPENSE	-	-	-	-
LOSS ATTRIBUTABLE TO EQUITY HOLDERS	(23,247)	(16,443)	(13,033)	(4,546)

### ASSETS AND LIABILITIES

	<b>At 31 December 2005 HK\$'000</b>	At 31 December 2004 HK\$'000	At 31 December 2003 HK\$'000	At 31 December 2002 HK\$'000
TOTAL ASSETS	40,356	63,081	80,213	96,124
TOTAL LIABILITIES	(1,806)	(1,284)	(1,973)	(4,851)
	<b>38,550</b>	61,797	78,240	91,273