ANNUAL REPORT 2005

和寶國際控股有限公司

Wealthmark International (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 39

Contents

Corporate Information

EXECUTIVE DIRECTORS
Mr. LO Peter, *Chairman*
Mr. SUN David Lee, *Chief Executive Officer*

NON-EXECUTIVE DIRECTORS
Mr. CHAU Wai-Kau
Mr. YEUNG Ting-Lap Derek Emory
Mr. LI Wentao

INDEPENDENT NON-EXECUTIVE DIRECTORS
Dr. LOKE Yu *
Dr. LEUNG Kwan-Kwok *
Mr. ZUCHOWSKI Sam *

* *Audit Committee Members*

COMPANY SECRETARY
Miss. CHAN So Fong

AUDITORS
RSM Nelson Wheeler

LEGAL ADVISERS
Herbert Smith

PRINCIPAL BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Industrial Bank Company Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
2116 Hutchison House
10 Harcourt Road
Hong Kong

REGISTERED OFFICE
PO Box 309GT
Ugland House
South Church Street
George Town, Grand Cayman
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
PO Box 705
George Town, Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Stock Code: 039

Chairman's Statement

I herewith present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005. The report is also the first report I submit since I was elected the chairman after the change of control in shareholding and management in April 2005 and May 2005, respectively.

During the year ended 31 December 2005, the Group recorded a loss attributable to shareholders of HK$27.1 million (2004: HK$104.5 million) and net assets of HK$26.7 million (2004: net liabilities of HK$16.2 million). The gross loss of the Group has reduced by 98% to HK$0.6 million. The significant decrease in gross loss and operating loss for the year was mainly due to the cessation of raw materials trading which generated lower gross profit and the relatively lower raw material cost during the year.

Following the change in management, apart from continuously exercising stringent management on the existing business to improve its financial and system control, the Group has stepped ahead into a new era in food and beverage in the People's Republic of China ("PRC"). In late 2005, the Group has acquired a Tianjin dairy company. It has been the Group's strategy to seek additional manufacturing opportunities and identify suitable investment opportunities to further develop the Group's business. The PRC dairy industry presents promising growth potential and that the acquisition will provide the Group with the opportunity to benefit from participating in that industry as an additional line of business.

Throughout the past few years, China has become the engine of the worldwide economic growth, with steady but galloping rates. The prosperous economy and the improvements in living standards will definitely stimulate the demand for dairy business. In search for new investment and acquisition opportunities, the Group will take the market demand in China as a basic reference point.

Looking forward, the new management, basing on their expertise in food and beverage industry and related areas in the PRC, will use their endeavors to ensure income growth and operational efficiency improvement, for the sake of turning around its existing financial position and bringing in returns for the shareholders.

Peter Lo
Chairman

Hong Kong, 20 April 2006

Management Discussion and Analysis

BUSINESS AND FINANCIAL REVIEW

During the year, the Group recorded a loss attributable to shareholders of approximately HK$27.1 million (2004: HK$104.5 million) and net assets of approximately HK$26.7 million (2004: net liabilities of HK$16.2 million).

The turnover of the Group was approximately HK$115.8 million, a decrease of 50.9% from 2004. The substantial decrease was due to the loss of confidence of the Group's customers as result of our former Chairman being charged of misappropriating funds by the Independent Commission Against Corruption in late 2004. The Group's gross loss was approximately HK$0.6 million, a decrease of 98% from 2004. The significant decrease in gross loss and operating loss for the year was mainly due to the cessation of raw materials trading which generated lower gross profit and the relatively lower raw material cost during the year.

In order to finance the Group's expansion and general operations, in August 2005, the Group raised net proceeds of approximately HK$52.7 million by way of a rights issue of 100,000,000 rights shares at a price of HK$0.54 per rights share on the basis of one rights share for every two existing shares held.

In mid December 2005, the Group completed the acquisition of a 70% stake in Beilei (Tianjin) Dairy Co., Ltd ("Beilei"), a company engaged in the production and sale of dairy products, at a cash consideration of approximately HK$52.9 million. Beilei ceased its production before the acquisition and has restarted its operations in late December 2005.

CHANGE OF SUBSTANTIAL SHAREHOLDER

On 12 April 2005, Wisechoice Assets Limited and Accuport Development Limited, the then controlling shareholders of the Company entered into a sale and purchase agreement ("Sale and Purchase Agreement") to sell its entire equity interests in the Company to Orientelite Investments Limited ("Orientelite") and immediately following the completion of the Sale and Purchase Agreement, Orientelite was interested in 75% of the then issued share capital of the Company. Pursuant to the rules of the Hong Kong Codes on Takeovers and Mergers, Orientelite was obliged to make mandatory unconditional cash offers of all the issued shares of the Company other than those already owned by it and parties acting in concert with it ("Offer"). On closure of the Offer on 15 June 2005, one shareholder holding 10,000 shares accepted the Offer resulting Orientelite interested in 75.005% of the issued share capital of the Company. In this connection, on 5 July 2005, Orientelite sold 10,000 shares in the market so as to maintain the public float requirement under the Listing Rules. At 31 December 2005, Orientelite, the substantial shareholder of the Company, was interested in 225,000,000 shares of the Company, representing 75% of the issued share capital of the Company.

The change in shareholding immediately alleviated the Group's financial stress and provided an improved operating environment for the Group.

PROSPECTS

Following the acquisition of the new business line in production and sale of dairy products, the Group continues to pursue the existing business as its principal business. The Group intends to leverage on the new management's experience and expertise in the management and operation of businesses in the PRC food and beverage industry to streamline the new acquired dairy company's operations and increase efficiency and to seek suitable opportunities to expand the dairy company's business with a view to improving its profitability.

The Group will continuously seek additional manufacturing opportunities and identify suitable new investment opportunities to further develop the Group.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

With the proceeds raised from the rights issue in August 2005 and the acquisition of Beilei in December 2005, the Group has enhanced its liquidity and asset position during the year. At 31 December 2005, the Group's cash and bank balances amounted to approximately HK$27.5 million (2004: HK$11.5 million) and the total assets and the net assets were approximately HK$142.1 million (2004: HK$90.7 million) and HK$26.7 million (2004: net liabilities of HK$16.2 million), respectively.

At 31 December 2005, the Group's current assets and current liabilities were approximately HK$71.6 million (2004: HK$58.2 million) and HK$45.6 million (2004: HK$106.6 million), respectively, resulting in net current assets of approximately HK$26.0 million (2004: net current liabilities of HK$48.4 million).

On 12 April 2005, Orientelite had entered into a deed of assignment with Standard Chartered Bank (Hong Kong) Limited ("Coordinating Bank") and ten of the bank creditors of the Group ("Assigning Banks") whereby the Coordinating Bank and the Assigning Banks agreed to assign their rights, title and interest under the banking facilities, which in aggregate approximately HK$69.3 million, to Orientelite. At 31 December 2005, the Group's total borrowings amounted to approximately HK$81.9 million (2004: 73.0 million) and comprised mainly the shareholder's loan from Orientelite. The gearing ratio of the Group as at 31 December 2005, calculated as total debts divided by total assets, was 57.6%. Excluding the shareholder's loan, the gearing ratio as at 31 December 2005 was reduced to 8.7%.

CHARGE OF ASSETS

At 31 December 2005, there was no charge on the Group's assets (2004: Nil).

CONTINGENT LIABILITIES

At 31 December 2005, the Group had no material contingent liabilities (2004: Nil).

EXPOSURE TO FOREIGN CURRENCY RISK

The Group has minimal exposure to foreign currency risk, as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, US dollars and Renminbi. It is the Group's treasury policy to manage its foreign currency exposure, if any, only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will hedge its foreign currency exposure by forward foreign exchange contracts.

EMPLOYEE AND REMUNERATION POLICY

At 31 December 2005, the Group had approximately 2,493 (2004: 2,803) employees with total staff costs amounted to approximately HK$33.3 million (2004: HK$33.3 million). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications.

Corporate Governance Report

The Company has always recognised the importance of the shareholders' transparency and accountability. It is the belief of the board that shareholders can maximise their benefits from good corporate governance.

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year with certain deviations from code provisions A.5.4 and B.1.1 in respect of no written guidelines issued by the board for dealings in the securities of the Company and not having in place a remuneration committee with specific terms of reference, which were duly rectified after adoption of a code on ethics and securities transactions on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, and the establishment of the remuneration committee on 15 September 2005. Since then, the Company has fully complied with the Code.

BOARD OF DIRECTORS

The board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Daily operations and execution are delegated to management. All directors give sufficient time and attention to the Group's affairs. The board believes that the balance between executive and non-executive directors is reasonable and adequate to provide checks and balances that safeguard the interests of shareholders and the Group.

At 31 December 2005, the board of the Company comprised three executive directors, namely, Mr. Lo Peter, Mr. Sun David Lee and Mr. Au Peter Jeva; four non-executive directors, namely, Mr. Chau Wai-Kau, Mr. Yeung Ting-Lap Derek Emory, Mr. Greer Thomas and Mr. Li Wentao; and three independent non-executive directors, namely, Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam.

The non-executive directors provide the Group with a wide range of expertise and experience. Their participation in board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance, conflicts of interest and management process, to ensure that the interests of all shareholders are taken into account.

The independent non-executive directors ensure the board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received annual confirmation of independence from the three independent non-executive directors and as at the date of this report still considers them to be independent.

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 Code for the board to have at least one-third in number of its members comprising independent non-executive directors.

Corporate Governance Report

BOARD MEETINGS

For the year ended 31 December 2005, there were fourteen full board meetings held by the Company to discuss the Group's development strategies, investment projects and the operational and financial performance of the Group. The attendance of the directors at the board meeting is as follows:

		Number of attendance
Executive directors		
Mr. Lo Peter	(appointed on 26 May 2005)	7/14
Mr. Sun David Lee	(appointed on 26 May 2005)	6/14
Mr. Au Peter Jeva *	(appointed on 26 May 2005)	4/14
Mr. Chan Wai Kin, Benito	(appointed on 25 January 2005 and retired on 24 June 2005)	5/14
Mr. Tse Chung Sing	(appointed on 25 January 2005 and retired on 24 June 2005)	6/14
Mr. Wong Chor Sang	(resigned on 24 June 2005)	7/14
Mr. Kwok Kee Ho, Danny	(retired on 24 June 2005)	7/14
Mr. Wong Chor Wo	(resigned on 21 February 2005)	0/14
Ms. Andres Rosita	(resigned on 21 February 2005)	0/14
Non-executive directors		
Mr. Chau Wai-Kau	(appointed on 26 May 2005)	4/14
Mr. Yeung Ting-Lap Derek Emory	(appointed on 26 May 2005)	4/14
Mr. Greer Thomas *	(appointed on 26 May 2005)	1/14
Mr. Li Wentao	(appointed on 23 September 2005)	0/14
Independent non-executive directors		
Dr. Loke Yu	(appointed on 24 June 2005)	2/14
Dr. Leung Kwan-Kwok	(appointed on 26 May 2005)	0/14
Mr. Zuchowski Sam	(appointed on 26 May 2005)	1/14
Mr. Yue Kwai Wa, Ken	(appointed on 25 January 2005 and retired on 24 June 2005)	3/14
Mr. Chan Sheung Kwan	(resigned on 24 June 2005)	3/14
Mr. Yang Xi	(retired on 24 June 2005)	1/14

* Subsequent to the balance sheet date, on 1 January 2006, Mr. Au Peter Jeva and Mr. Greer Thomas resigned as directors of the Company.

The low attendance of the directors was due to the change of management during the year.

The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all applicable rules and regulations are followed. She also keeps detailed minutes of each meeting, which are available to all directors. A draft of the minutes is circulated to all directors for comment and approval as soon as practicable after the meeting.

Corporate Governance Report

All directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have unrestricted access to the advice and service of the Company Secretary, who is responsible for providing directors with board papers and related materials and ensuring that board procedures are followed.

Should a potential conflict of interest involving a substantial shareholder or director arise, the matter is discussed in an actual meeting, as opposed to being dealt with by written resolution. Independent non-executive directors with no conflict of interest are present at meetings dealing with conflict issues. Board committees, including the Audit, Remuneration and Nomination Committees, all follow the applicable practices and procedures used in board meetings for committee meetings.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer are held by separate individuals so as to maintain an effective segregation of duties. Mr. Lo Peter is the Chairman of the Company and provides leadership to the board to ensure that the board works effectively and all important issues are discussed in a timely manner. Mr. Sun David Lee is the Chief Executive Officer of the Company and is responsible for supervising the implementation of the Group's strategic plans.

DIRECTORS' TERMS OF APPOINTMENTS AND RE-ELECTION

In accordance with article 116 of the Company's articles of association, one-third of the directors, including the non-executive directors, shall retire from office by rotation at each annual general meeting.

Article 99 of the Company's articles of association provides that directors appointed to fill a casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by the shareholders.

DIRECTORS' SECURITIES TRANSACTIONS

On 15 September 2005, the Group adopted a code on ethics and securities transactions, which incorporates a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard set out in Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules. Specified employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to the compliance with the code. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the code on ethics and securities transactions throughout the year.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The board is responsible for presenting a clear, balanced assessment of the Group's performance and prospects. It is also responsible for preparing accounts that give a true and fair view of the Group's financial position on a going-concern basis and other price-sensitive announcements and financial disclosures. Management provides the board with the relevant information it needs to discharge these responsibilities.

The responsibilities of the auditors to the shareholders are set out in the Report of the Auditors on pages 19 and 20.

Corporate Governance Report

REMUNERATION COMMITTEE

The Remuneration Committee was established on 15 September 2005 with written terms of reference in compliance with the Code. It is responsible for formulating and recommending remuneration policy to the board and determining the remuneration of executive directors and members of senior management. Meetings of the Remuneration Committee shall be held at least once a year. At 31 December 2005, the Remuneration Committee comprised one executive director, Mr. Lo Peter, and two independent non-executive directors, Mr. Zuchowski Sam and Dr. Loke Yu. Mr. Zuchowski Sam is the chairman of the committee. Due to the change of management and the fact that the committee was only constituted on 15 September 2005, no meeting of the Remuneration Committee had been held during the year.

NOMINATION COMMITTEE

The Nomination Committee was established on 15 September 2005 with written terms of reference in compliance with the Code. It is responsible for making recommendations to the board on nominations, appointment of directors and board succession. Meetings of the Nomination Committee are held as and when required. At 31 December 2005, the Nomination Committee comprised one executive director, Mr. Lo Peter, and two independent non-executive directors, Mr. Zuchowski Sam and Dr. Loke Yu. Mr. Zuchowski Sam is the chairman of the committee. Due to the change of management and the fact that the committee was only constituted on 15 September 2005, no meeting of the Nomination Committee had been held during the year.

AUDIT COMMITTEE

The Company has had an Audit Committee since 2001. The Audit Committee is responsible for reviewing the Group's financial reporting, internal controls and making recommendations to the board. At 31 December 2005, the Audit Committee comprised three independent non-executive directors, Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam. Dr. Loke Yu is the chairman of the committee.

For the year ended 31 December 2005, there were two meetings held by the Audit Committee to review with external auditors the external audit findings, the accounting principles and practices adopted by the Group, and Listing Rules and statutory compliance, and to discuss auditing and financial reporting matters for the annual financial statements for 2004 and interim financial statements for 2005 before recommending them to the board for approval. The attendance is as follows:

		Number of attendance
Independent non-executive directors		
Dr. Loke Yu	(appointed on 24 June 2005)	1/2
Dr. Leung Kwan-Kwok	(appointed on 26 May 2005)	0/2
Mr. Zuchowski Sam	(appointed on 26 May 2005)	1/2
Mr. Yue Kwai Wa, Ken	(appointed on 25 January 2005 and retired on 24 June 2005)	1/2
Mr. Chan Sheung Kwan	(resigned on 24 June 2005)	1/2
Mr. Yang Xi	(retired on 24 June 2005)	1/2

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, RSM Nelson Wheeler, is set out as follows:

	Fee paid/payable
	HK$'000
Audit services	780
Non-audit services	
Accountants' report on acquisition of a subsidiary	750
Rights issue	81
Takeover	61
Taxation services	50
	1,722

INTERNAL CONTROL

According to the press release of the Independent Commission Against Corruption ("ICAC") and press reports on 24 November 2004, the former chairman of the Company, Mr. Wong Chor Wo, had been arrested by the ICAC and was charged with (i) misappropriating Company's funds totalling HK$20.8 million and (ii) knowingly making a false statement to the Company's former auditors, PricewaterhouseCoopers, contrary to Section 134 of the Hong Kong Companies Ordinance (the "Incident"). Several persons including two former executive directors and one employee of the Company had also been arrested but all of them were later released without change. Mr. Wong and the two former executive directors subsequently resigned in late 2004 and early 2005.

In the light of the Incident, in January 2005, the Group has prepared an Internal Control and Accounting Manual (the "Manual") for adoption by the Group so as to enhance its internal control. This Manual was prepared by the Accounts Manager of the Group in conjunction with the legal advisers and is a set of best practices related to internal financial control systems and regulation. The areas covered include accounting controls and administrative controls. Administrative controls deal with the operations of the business and internal controls deal with accounting for such operations. On 19 January 2005, HLB Hodgson Impey Cheng ("HLB"), certified public accountants, were appointed to review, supervise and monitor its implementation and to see whether there are any compliance shortcomings and to advise the independent board committee. On 22 February 2005, the Group formed an Independent Committee comprising all of the independent non-executive directors to conduct a review of the financial and system control of the Group.

In mid April 2005, the Company experienced a change of substantial and controlling shareholders, following which, there was a change of management in late May 2005.

Corporate Governance Report

Following the change of the management, the new management has devoted time to improving the Company's internal control and accounting procedures. Periodic announcements were made to update the shareholders on HLB's findings and the review results of the Independent Committee. According to HLB's latest findings as announced on 21 February 2006, there were still some areas in which the Company's internal controls were found to be deficient. The board believe that most of the weaknesses identified by HLB can be rectified through the strict adoption of the practices and standards set out in the Manual, the implementation of HLB's recommendations as well as regular review and monitoring of the internal control systems in the future. Regarding the review conducted by the Independent Committee, as to whether the Company had kept proper books and records at the relevant time and whether Company funds had indeed been misappropriated, the Independent Committee is unable to form any conclusive opinion as the review was subject to significant limitations, namely, that (i) the accounting staff of the Group at the relevant time are no longer employees of the Group, and, accordingly, were unavailable for comment; (ii) a substantial part of the documents for 2001 were seized by the ICAC; and (iii) the Independent Committee has limited investigative powers.

The new management understands that the board has overall responsibility for maintaining sound and effective internal controls. Continuous review of the Group's internal control system will be conducted so as to safeguard the Group's assets and shareholders' interests.

COMMUNICATION WITH SHAREHOLDERS

The Group follows a policy of disclosing relevant information to shareholders in a timely manner. Annual and interim reports offer comprehensive operational and financial performance information to shareholders and the annual general meeting ("AGM") provides a forum for shareholders to exchange views directly with the board. The Company regards the AGM as an important event and all directors, senior management and external auditors make an effort to attend the AGM of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 21 days' notice of the date and venue of the AGM of the Company. The Company supports the Code's principle to encourage shareholders' participation.

Directors' and Senior Management's Biographies

The directors of the Company as at the date of this report are as follows:

DIRECTORS

Mr. LO Peter, aged 50, was appointed a director and the chairman of the Company in May 2005. He is responsible for the overall strategic development of the Group. Mr. Lo is currently a director of China Enterprise Capital Limited, a non-executive director of Harbin Brewery Group Limited (formerly listed on the Main Board of the Stock Exchange), a consultant to Anheuser Busch International and an independent non-executive director of China Infrastructure Machinery Holdings Limited (currently listed on the Main Board of the Stock Exchange). He was the chief executive officer and executive director of Harbin Brewery Group Limited. He held senior management positions in the Hong Kong offices of several international companies and has more than 15 years' experience in doing business in the PRC. Mr. Lo received a Bachelor of Science (Economics) Degree in Mathematical Economics and Econometrics from the London School of Economics and Political Science in 1982. He received the "Directors of the Year 2004" award from the Hong Kong Institute of Directors. Mr. Lo is a member of the People's Consultative Conference of Harbin City.

Mr. SUN David Lee, aged 40, was appointed a director and the chief executive officer of the Company in May 2005. He is responsible for supervising the implementation of the Group's strategic plans. Mr. Sun is currently a director of CEC Management Limited. Prior to helping form CEC Management Limited, he was the Managing Director and General Counsel of Pacific Alliance Group Limited. Mr. Sun was the Director for Strategy and Business Development Asia at Interbrew SA (currently InBev). Prior to his position at Interbrew SA, he was a consultant in the Corporate Finance and Strategy Practice of McKinsey & Company, Inc. in Hong Kong. Mr. Sun holds a J.D. from the University of Illinois College of Law and a B.A. degree from Cornell University.

Mr. CHAU Wai-Kau, aged 52, was appointed a non-executive director of the Company in May 2005. Mr. Chau held various management positions in public sector and private businesses. He has a first degree in economics and a postgraduate qualification in accounting and finance from the London School of Economics and Political Science; a master degree, University of Hong Kong. He has been active with charities and social activities. For the year 2005/06, he is an elected member of the Executive Committee of Lok Sin Tong Benevolent Society, Kowloon.

Mr. YEUNG Ting-Lap Derek Emory, aged 33, was appointed a non-executive director of the Company in May 2005. He is currently the chief executive officer and co-founder of She Communications Limited, a leading Hong Kong based women's lifestyle communications company. Mr. Yeung is also a non-executive director of Wanji Pharmaceutical Holdings Limited, a company currently listed on the Main Board of the Stock Exchange. Prior to founding she.com, Mr. Yeung was an associate with Telecom Venture Group Limited and a consultant with Arthur Andersen & Company both in Boston and Hong Kong. Mr. Yeung graduated from Brown University with an A.B. in applied mathematics/economics and received an MBA/MS (Accounting) degree from Northeastern University. Mr. Yeung is a certified public accountant and a member of the American Institute of Certified Public Accountants.

Directors' and Senior Management's Biographies

Mr. LI Wentao, aged 50, was appointed a non-executive director of the Company in September 2005. He is currently a director and the chairman of Harbin Brewery Group Limited ("HB Group"), a company formerly listed on the Main Board of the Stock Exchange. Mr. Li graduated from the Light Industrial Institute of Tianjin majoring in machine and facilities for light industry. Following his graduation in 1982, he joined Harbin Brewery Factory ("HBF") in 1982, and HB Group in 1995. He was appointed as the general manager of Harbin Brewing Company Limited in 1996. He is a senior engineer with more than 20 years' experience in the brewery industry gained from working for HBF and HB Group. He has been awarded a series of awards including the National Light Industrial Labourer Model, one of the Ten Most Outstanding Young Persons in Heilongjiang Province, one of the Ten Best Enterprise Operators in Harbin City and the National "First of May" Labour Medal. He was also one of the representatives of the 11th Harbin City People's Congress.

Dr. LOKE Yu alias LOKE Hoi Lam, aged 56, was appointed an independent non-executive director and the chairman of the audit committee of the Company in June 2005. He has over 30 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. Dr. Loke is a fellow of The Institute of Chartered Accountants in England and Wales; Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries and Administrators and a member of Malaysian Institute of Accountants. He is currently the Chairman of MHL Consulting Limited and serves as an independent non-executive director of Shandong Molong Petroleum Machinery Company Limited, United Metals Holdings Limited, New Chinese Medicine Holdings Limited, Matrix Holdings Limited and Yanion International Holdings Limited, companies currently listed on the Stock Exchange.

Dr. LEUNG Kwan-Kwok, aged 54, was appointed an independent non-executive director of the Company in May 2005. He is a director of the Quality Evaluation Centre and the Associate Professor of Department of Applied Social Studies, City University of Hong Kong. Since 1991, he has been offering consultancy/professional services to the government, public utilities, voluntary agencies, media, and private enterprises in Hong Kong.

Mr. ZUCHOWSKI Sam, aged 58, was appointed an independent non-executive director of the Company in May 2005. He has considerable experience in investment banking and other direct investments where he has held positions with Merrill Lynch International, Inc., First Pacific U.S. Securities (Aust.) Ltd and Capitalcorp Ltd. He has also been a director of a number of companies listed on the Main Board of the Stock Exchange, namely, G-Prop (Holdings) Limited, SMI Corporation Limited (formerly known as Star East Holdings Limited) and Inner Mongolia Development (Holdings) Limited (formerly known as Hansom Eastern (Holdings) Limited). Mr. Zuchowski obtained a Bachelor of Laws degree from the University of Melbourne, Australia.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Miss. CHAN So Fong, aged 32, is the chief financial officer and company secretary of the Company. Miss. Chan has over eight years' experience in auditing, budgeting, financial and management accounting. She had worked in Ernst & Young and a company listed on the Main Board of the Stock Exchange. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Miss. Chan holds a Bachelor Degree in Business Administration with major in Professional Accountancy from The Chinese University of Hong Kong.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

During the year, the Group acquired 70% equity interests in Beilei (Tianjin) Dairy Co., Ltd., a company engaged in the production and sale of dairy products, for a total consideration of approximately HK$52.9 million.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 63.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 64. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, are set out in note 24 to the financial statements. In order to finance the Group's expansion and general operations, the Company issued 100,000,000 ordinary shares of HK$0.10 each, by way of rights issue for a consideration of HK$0.54 per share on the basis of one new share for every two ordinary shares then held. The right issue was completed on 18 August 2005. The new shares issued pursuant thereto rank pari passu with the existing shares in all respects.

The Company had no share options in issue during the year.

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 which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution amounted to HK$12,266,000, representing the share premium account of the Company of HK$70,342,000 less the accumulated losses as at 31 December 2005 of HK$58,076,000. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company 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 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.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 66% of the total sales for the year and sales to the largest customer included therein amounted to 33%. Purchases from the Group's five largest suppliers accounted for 30% of the total purchases for the year and purchases from the largest supplier included therein amounted to 9%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Lo Peter	(appointed on 26 May 2005)
Mr. Sun David Lee	(appointed on 26 May 2005)
Mr. Au Peter Jeva	(appointed on 26 May 2005)
Mr. Chan Wai Kin, Benito	(appointed on 25 January 2005 and retired on 24 June 2005)
Mr. Tse Chung Sing	(appointed on 25 January 2005 and retired on 24 June 2005)
Mr. Wong Chor Sang	(resigned on 24 June 2005)
Mr. Kwok Kee Ho, Danny	(retired on 24 June 2005)
Mr. Wong Chor Wo	(resigned on 21 February 2005)
Ms. Andres Rosita	(resigned on 21 February 2005)

Non-executive directors:

Mr. Chau Wai-Kau	(appointed on 26 May 2005)
Mr. Yeung Ting-Lap Derek Emory	(appointed on 26 May 2005)
Mr. Greer Thomas	(appointed on 26 May 2005)
Mr. Li Wentao	(appointed on 23 September 2005)

Report of the Directors

Independent non-executive directors:

Dr. Loke Yu	(appointed on 24 June 2005)
Dr. Leung Kwan-Kwok	(appointed on 26 May 2005)
Mr. Zuchowski Sam	(appointed on 26 May 2005)
Mr. Yue Kwai Wa, Ken	(appointed on 25 January 2005 and retired on 24 June 2005)
Mr. Chan Sheung Kwan	(resigned on 24 June 2005)
Mr. Yang Xi	(retired on 24 June 2005)

Subsequent to the balance sheet date, on 1 January 2006, Mr. Au Peter Jeva and Mr. Greer Thomas resigned as directors of the Company.

In accordance with article 116 of the Company's articles of association, Mr. Chau Wai-Kau and Dr. Leung Kwan-Kwok will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The non-executive directors and independent non-executive directors are subject to retirement by rotation under article 116 of the Company's articles of association.

In accordance with article 99 of the Company's articles of association, Mr. Li Wentao will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. Directors appointed to fill a casual vacancy shall hold office only until the first annual general meeting after their appointment, and shall be subject to re-election by the shareholders under article 99 of the Company's articles of association.

The Company has received annual confirmations of independence from Dr. Loke Yu, Dr. Leung Kwan-Kwok and Mr. Zuchowski Sam, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 12 and 13 of the annual report.

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' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group. Details of the directors' fees are set out in note 11 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

None of the directors or chief executive had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

A share option scheme (the "Scheme") was adopted by the shareholders of the Company by way of written resolution passed on 29 December 2000. The Scheme was no longer in compliance with the amended Chapter 17 of the Listing Rules which came into effect on 1 September 2001. The directors will consider to amend the Scheme or to terminate the Scheme and adopt a new share option scheme. The Company had no share options in issue during the year and up to the date of this report.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2005, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
Orientelite Investments Limited *(Note)*	225,000,000	75.00
China Enterprise Capital Limited *(Note)*	225,000,000	75.00
Sinopac Capital Limited	15,326,999	5.11

Note:

At 31 December 2005, Orientelite Investments Limited ("Orientelite") was owned as to 80% by China Enterprise Capital Limited, as to 10% by Starauto Investments Limited ("Starauto") and as to 10% by Rackham Holdings Limited ("Rackham"). China Enterprise Capital Limited is deemed to have an interest in the shares in which Orientelite is interested under the SFO. Subsequent to the balance sheet date, on 19 January 2006, China Enterprise Capital Limited acquired the shares of Orientelite held by each of Starauto and Rackham, and hence, Orientelite became wholly owned by China Enterprise Capital Limited on such date.

Report of the Directors

Subsequent to the balance sheet date, on 19 January 2006, Orientelite reduced its share interests in the Company to 195,000,000 shares, representing 65% of the Company's issued share capital. Pursuant to a placing and subscription agreement dated 7 April 2006, 20,000,000 existing shares of the Company held by Orientelite were placed to various independent investors at a price of HK$0.54 ("Top-up Placing") and 20,000,000 new shares will be issued to Orientelite at the same price upon completion of the Top-up Placing. As at the date of this report, the Top-up Placing has not yet completed.

Save as disclosed above, as at 31 December 2005, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

AUDITORS

RSM Nelson Wheeler retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Chairman

Hong Kong
20 April 2006

Report of the Auditors

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

TO THE SHAREHOLDERS OF
WEALTHMARK INTERNATIONAL (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors of the Company 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 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, except that the scope of our work was limited as explained below.

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 circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned 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. However, the evidence available to us was limited as set out below.

Our opinion on the financial statements of the Group and the Company for the year ended 31 December 2004 (the "2004 Financial Statements") was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit and the fundamental uncertainty in relation to going concern, details of which are set out in our audit report dated 28 April 2005. Accordingly, we were then unable to form an opinion as to whether the 2004 Financial Statements gave a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the loss and cash flows of the Group for the year then ended.

Report of the Auditors

Those scope limitations of last year which may affect the opening balances as at 1 January 2005 include the following:

(i) Incomplete books and records of the Group;

(ii) Insufficient information to confirm the ownership and valuation of inventories; and

(iii) Insufficient information to confirm the existence, completeness, accuracy and carrying amounts of certain trade receivables.

Any adjustments found to be necessary to the opening balances of the financial statements of the Company and of the Group for the year ended 31 December 2005 would have a consequential effect on the loss of the Group for the year ended 31 December 2005.

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.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters set out above, 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 loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the opening balances of the financial statements referred above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of account had been kept.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
20 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Turnover	6	**115,786**	235,719
Cost of sales		**(116,367)**	(265,510)
Gross loss		**(581)**	(29,791)
Other revenue	6	**46**	804
Gain on deregistration of an associate		**299**	–
Distribution costs		**(5,084)**	(4,605)
Administrative expenses		**(25,319)**	(14,873)
Other operating expenses		**(142)**	(5,853)
Reversal of allowance/(allowance) for impairment of receivables		**2,040**	(49,247)
Operating loss	7	**(28,741)**	(103,565)
Finance costs	8	**(1,418)**	(2,634)
Share of profit of an associate		**–**	94
Loss before taxation		**(30,159)**	(106,105)
Taxation credit	9	**2,441**	1,733
Loss for the year		**(27,718)**	(104,372)
Attributable to:			
Equity holders of the Company	12	**(27,089)**	(104,486)
Minority interests		**(629)**	114
		(27,718)	(104,372)
Dividend	13	**–**	–
Loss per share – basic	14	**(11.2) cents**	(50.5) cents

Consolidated Balance Sheet

At 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	15	53,064	26,156
Prepaid lease payments	16	6,465	6,635
Goodwill	17	11,010	–
Interests in an associate	19	–	(299)
		70,539	32,492
Current assets			
Inventories	20	20,918	24,104
Trade and other receivables	21	20,686	21,144
Amount due from a fellow subsidiary	22	511	–
Tax recoverable		2,021	1,464
Bank balances and cash	23	27,472	11,465
		71,608	58,177
Total assets		142,147	90,669
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	24	30,000	20,000
Accumulated losses		(96,060)	(68,971)
Other reserves		75,314	32,654
		9,254	(16,317)
Minority interests		17,464	119
Total equity		26,718	(16,198)

Consolidated Balance Sheet

At 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
LIABILITIES			
Non-current liabilities			
Amount due to immediate holding company	26	69,543	–
Deferred tax liabilities	27	290	288
		69,833	288
Current liabilities			
Trade and other payables	28	27,899	25,831
Amount due to a minority shareholder of a subsidiary	29	2,398	–
Trust receipt loans – unsecured		–	26,867
Short-term borrowings	30	10,001	22,983
Current portion of long-term borrowings	31	–	23,196
Provision for taxation		5,298	7,702
		45,596	106,579
Total liabilities		115,429	106,867
Total equity and liabilities		142,147	90,669
Net current assets/(liabilities)		26,012	(48,402)
Total assets less current liabilities		96,551	(15,910)

LO Peter
Director

SUN David Lee
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the Company										
	Share capital	Share premium	Properties revaluation reserve	Merger reserve (Note a)	Statutory reserves (Note b)	Exchange reserve	Retained earnings/ (accumulated losses)	Proposed final dividend	Sub-total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004, as previously reported	20,000	27,645	296	2,150	2,223	202	31,603	5,500	89,619	–	89,619
Effect of adopting HKAS 17	–	–	–	–	–	–	3,912	–	3,912	–	3,912
At 1 January 2004, as restated	20,000	27,645	296	2,150	2,223	202	35,515	5,500	93,531	–	93,531
Surplus on revaluation of properties	–	–	138	–	–	–	–	–	138	–	138
Net income recognised directly in equity	–	–	138	–	–	–	–	–	138	–	138
(Loss)/profit for the year	–	–	–	–	–	–	(104,486)	–	(104,486)	114	(104,372)
Total recognised income and expenses for the year	–	–	138	–	–	–	(104,486)	–	(104,348)	114	(104,234)
Capital injection by a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	5	5
Dividend paid	–	–	–	–	–	–	–	(5,500)	(5,500)	–	(5,500)
At 31 December 2004	20,000	27,645	434	2,150	2,223	202	(68,971)	–	(16,317)	119	(16,198)
At 1 January 2005, as previously reported as equity	20,000	27,645	1,568	2,150	2,223	202	(72,787)	–	(18,999)	–	(18,999)
At 1 January 2005, as previously reported as minority interests	–	–	–	–	–	–	–	–	–	119	119
Effect of adopting HKAS 17	–	–	(1,134)	–	–	–	3,816	–	2,682	–	2,682
At 1 January 2005, as restated	20,000	27,645	434	2,150	2,223	202	(68,971)	–	(16,317)	119	(16,198)
Loss for the year	–	–	–	–	–	–	(27,089)	–	(27,089)	(629)	(27,718)
Total recognised income and expenses for the year	–	–	–	–	–	–	(27,089)	–	(27,089)	(629)	(27,718)
Minority interests attributable to non-wholly owned subsidiaries	–	–	–	–	–	–	–	–	–	17,974	17,974
Currency translation differences	–	–	–	–	–	(37)	–	–	(37)	–	(37)
Rights issue	10,000	44,000	–	–	–	–	–	–	54,000	–	54,000
Rights issue expenses	–	(1,303)	–	–	–	–	–	–	(1,303)	–	(1,303)
At 31 December 2005	30,000	70,342	434	2,150	2,223	165	(96,060)	–	9,254	17,464	26,718

Notes:

(a) The merger reserve of the Group represents the difference between the nominal value of the shares issued and the nominal value of shares of the subsidiaries acquired at the time of the group reorganisation on 29 December 2000.

(b) The statutory reserves of the Group comprise enterprise expansion and general reserve funds which represent funds set up by a subsidiary established and operating in the People's Republic of China (the "PRC") and form part of the shareholders' funds. According to the relevant PRC regulations, upon approval, the enterprise expansion reserve fund may be used for increasing capital while the general reserve fund may be used for making up losses and increasing capital of the subsidiary.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(27,718)	(104,372)
Adjustments for:			
Taxation credit		(2,441)	(1,733)
Depreciation		7,674	8,392
Property, plant and equipment written off		12	–
Gain on disposal of property, plant and equipment		–	(15)
Revaluation deficit on leasehold land and buildings		–	2,399
Impairment of property, plant and equipment		–	1,695
Impairment of goodwill		–	74
(Reversal of allowance)/allowance for impairment of receivables		(2,040)	49,247
Amortisation of goodwill		–	74
Amortisation of prepaid lease payments		170	169
Share of profit of an associate		–	(94)
Gain on deregistration of an associate		(299)	–
Interest expense		1,418	2,634
Interest income		(40)	(358)
Increase in prepaid lease payments		–	(196)
Decrease in trade and other receivables		4,927	8,888
Increase in amount due from a fellow subsidiary		(511)	–
Decrease in inventories		5,429	3,590
Increase in trade and other payables		2,068	1,967
Increase in amount due to an associate		–	60
Cash used in operations		(11,351)	(27,579)
Interest paid		(1,418)	(2,634)
Income taxes paid		(520)	(2,347)
Net cash used in operating activities		(13,289)	(32,560)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries, net of cash acquired	32	(27,046)	–
Purchases of property, plant and equipment		(2,893)	(4,130)
Proceeds from sale of property, plant and equipment		511	77
Interest received		40	358
Net cash used in investing activities		(29,388)	(3,695)

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from rights issue	54,000	–
Rights issue expenses	(1,303)	–
New loans received	10,000	6,729
Repayment of bank loans	(45,911)	(11,544)
Decrease in trust receipt loans	(26,867)	4,788
Payment of finance lease liabilities	(196)	(180)
Advance from immediate holding company	69,543	–
Repayment to a minority shareholder of a subsidiary	(217)	–
Capital injection by a minority shareholder of a subsidiary	–	5
Dividend paid	–	(5,500)
Net cash from/(used in) financing activities	59,049	(5,702)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	16,372	(41,957)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	11,393	53,350
EXCHANGE LOSSES ON CASH AND CASH EQUIVALENTS	(294)	–
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	27,471	11,393
ANAYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	27,472	11,465
Bank overdrafts	(1)	(72)
	27,471	11,393

Balance Sheet

At 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	60	–
Investments in subsidiaries	18	53,102	–
		53,162	–
Current assets			
Trade and other receivables	21	240	34
Amount due from a fellow subsidiary	22	511	–
Bank balances and cash		616	100
		1,367	134
Total assets		54,529	134
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	24	30,000	20,000
Share premium	25	70,342	27,645
Accumulated losses	25	(58,076)	(47,688)
Total equity		42,266	(43)
LIABILITIES			
Current liabilities			
Trade and other payables	28	2,237	151
Short-term borrowing	30	10,000	–
Provision for taxation		26	26
Total liabilities		12,263	177
Total equity and liabilities		54,529	134
Net current liabilities		(10,896)	(43)
Total assets less current liabilities		42,266	(43)

LO Peter
Director

SUN David Lee
Director

Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its principal place of business is 2116 Hutchison House, 10 Harcourt Road, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited.

The Group is principally engaged in manufacturing and sale of handbag products, related accessories and garments, and provision of related subcontracting services. During the year, the Group acquired 70% equity interests in Beilei (Tianjin) Dairy Co., Ltd. ("Beilei"), a company established in the PRC and engaged in the production and sale of dairy products in the PRC.

In the opinion of the directors, Orientelite Investments Limited ("Orientelite"), a company incorporated in the British Virgin Islands, is the immediate holding company and China Enterprise Capital Limited, a company incorporated in the British Virgin Islands, is the ultimate holding company.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the applicable disclosure required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain buildings which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4 to the financial statements.

The adoption of new HKFRSs

In the current year, the Group has adopted all of the new Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new HKFRSs did not result in substantial changes to the Group's accounting polices except as stated below.

HKAS 1 affects the presentation of minority interests and other disclosures.

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to prepaid lease payments. The up-front prepayments made for the leasehold land are expensed in the consolidated income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment. HKAS 17 has been applied retrospectively.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(continued)*

The adoption of new HKFRSs *(continued)*

The adoption of HKFRS 3 resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over 5 years; and

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

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

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

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

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

HKFRS 3 has been applied prospectively from 1 January 2005.

The adoption of HKAS 17 resulted in an increase in opening retained earnings at 1 January 2004 by HK$3,912,000. The effects to the years ended 31 December 2005 and 2004 are as follows:

	2005	2004
	HK$'000	HK$'000
Decrease in property, plant and equipment	**(3,869)**	(3,953)
Increase in prepaid lease payments	**6,465**	6,635
Decrease in properties revaluation reserve	**(1,134)**	(1,134)
Decrease/increase in accumulated losses/retained earnings	**3,730**	3,816
Increase in administrative expenses	**86**	96
Decrease in loss per share	**–**	–

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(continued)*

The adoption of new HKFRSs *(continued)*

The Group has not applied the following new standards or interpretations that have been issued but are not yet effective. The application of these standards or interpretations will not have material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures (1)
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures (2)
HKAS 21 (Amendment)	Net Investment in a Foreign Operation (2)
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions (2)
HKAS 39 (Amendment)	The Fair Value Option (2)
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts (2)
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures (1)
HKFRS - Int 4	Determining whether an Arrangement contains a Lease (2)
HKFRS - Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (2)
HK(IFRIC) - Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (3)
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (4)

(1) Effective for annual periods beginning on or after 1 January 2007.
(2) Effective for annual periods beginning on or after 1 January 2006.
(3) Effective for annual periods beginning on or after 1 December 2005.
(4) Effective for annual periods beginning on or after 1 March 2006.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(a) Consolidation *(continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the acquiree in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities, the difference is recognised directly in the consolidated income statement.

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. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Associate

An associate is a company over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associate is accounted for by the equity method of accounting and is initially recognised at cost. The Group's investment in an associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. Unrealised losses are also eliminated unless the transaction provided evidence of an impairment of the asset transferred. Accounting policies of an associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying not investment hedged.

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

(iii) Translation on consolidation

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

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

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

– all resulting exchange differences are recognised as a separate component of equity.

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

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(e) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment

Buildings comprise mainly factories and offices. Buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to the properties revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against properties revaluation reserve directly in equity; all other decreases are expensed in the income statement.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2% – 5%
Plant and machinery	11% – 50%
Leasehold improvements, furniture and fixtures	20% – 50%
Motor vehicles	20% – 25%
Moulds	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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For the year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Assets under leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of the lease, the finance lease is capitalised at the lower of the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Lease payments are allocated between the capital and finance charges. The corresponding rental obligations, net of finance charges, are recorded as obligations under finance leases. Finance charges are charged to the income statement in proportion to the capital balances outstanding.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and/or, where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Cash and cash equivalents

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

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings, whose fair value cannot be measured reliably, are recognised initially at cost. Transaction costs are incremental costs that are directly attributable to the issue or disposal of a financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(l) Employee benefits

(i) Employee leave entitlements

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

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Provisions and contingent liabilities

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

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

(n) Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Taxation *(continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(o) Related party transactions

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

(p) Event after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(q) Revenue recognition

Revenues from the sales of manufactured goods and trading of raw materials are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Subcontracting fee income is recognised when the subcontracting services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Segment reporting

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

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, prepaid lease payments, goodwill, inventories and receivables. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

In respect of geographical segment reporting, sales are based on the countries in which customers are located. Total assets and capital expenditure are based on where the assets are located.

4. CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

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

(a) Estimate impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. Estimating the value in use requires the Group to make an estimate of the future cash flows expected from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT

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

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. It is the Group's treasury policy to manage its foreign currency exposure, if any, only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will hedge its foreign currency exposure by forward foreign exchange contracts.

5. FINANCIAL RISK MANAGEMENT *(continued)*

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

6. TURNOVER, REVENUE AND SEGMENT INFORMATION

	2005 HK$'000	2004 HK$'000
Turnover		
Handbag products and related accessories		
Sale of manufactured goods	111,314	192,676
Trading of raw materials	–	37,350
Garments		
Subcontracting fee income	4,410	5,693
Dairy products		
Sale of dairy products	62	–
	115,786	235,719
Other revenue		
Interest income	40	358
Rental income	6	–
Sundry income	–	446
	46	804
Total revenue	115,832	236,523

6. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments

During the year, to better present the business operations of the Group, the Group has restructured its business segments, including, inter alia, combining the "Handbag products and related accessories" and "Raw materials" segments as defined in the annual report 2004 and redefining the "Handbag products and related accessories" segment. Comparative figures have been reclassified to conform to the current year's presentation.

Subsequent to the acquisition of a controlling interest in Beilei, "Dairy products" forms a new business segment of the Group. The Group is organised into three main business segments:

Handbag products and related accessories	–	manufacture and sale of handbag products and related accessories, provision for related subcontracting services and trading of raw materials
Garments	–	manufacture and sale of garments and provision for related subcontracting services
Dairy products	–	manufacture and sale of liquid milk, fruit juice and yogurt

There are no sales or other transactions among the business segments.

(b) Secondary reporting format – geographical segments

The Group's principal markets are located in four main geographical areas:

United States of America	–	sale of manufactured handbag products and related accessories
Europe	–	sale of manufactured handbag products and related accessories
The PRC	–	sale of manufactured handbag products and related accessories
	–	trading of raw materials
	–	sale of liquid milk, fruit juice and yogurt
Asia region except the PRC	–	sale of manufactured handbag products and related accessories
	–	subcontracting fee income from garments

Sales or transactions between the geographical segments are eliminated on presentation of segment information of the Group.

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For the year ended 31 December 2005

6. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments

	Handbag products and related accessories HK$'000	Garments HK$'000	Dairy products HK$'000	Group HK$'000
Year ended 31 December 2005				
Turnover	111,314	4,410	62	115,786
Segment results	3,339	(3,693)	(227)	(581)
Other revenue				46
Gain on deregistration of an associate				299
Reversal of allowance for impairment of receivables				2,040
Unallocated costs				(30,545)
Operating loss				(28,741)
Finance costs				(1,418)
Loss before taxation				(30,159)
Taxation credit				2,441
Loss for the year				(27,718)
At 31 December 2005				
Segment assets	54,570	5,895	47,426	107,891
Unallocated assets				34,256
Total assets				142,147
Segment liabilities	21,702	2,806	3,392	27,900
Unallocated liabilities				87,529
Total liabilities				115,429
Other segment information:				
Capital expenditure	990	10	1,317	2,317
Unallocated amounts				576
				2,893
Depreciation	4,779	2,730	160	7,669
Unallocated amounts				5
				7,674
Amortisation of prepaid lease payments	170	–	–	170
Reversal of allowance for impairment of receivables	2,040	–	–	2,040
Write down of inventories	318	–	–	318

6. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Primary reporting format - business segments *(continued)*

(Restated)

	Handbag products and related accessories HK$'000	Garments HK$'000	Dairy products HK$'000	Group HK$'000
Year ended 31 December 2004				
Turnover	230,026	5,693	–	235,719
Segment results	(27,165)	(2,626)	–	(29,791)
Other revenue				804
Unallocated costs				(74,578)
Operating loss				(103,565)
Finance costs				(2,634)
Share of profit of an associate				94
Loss before taxation				(106,105)
Taxation credit				1,733
Loss for the year				(104,372)
At 31 December 2004				
Segment assets	68,902	8,616	–	77,518
Interests in an associate				(299)
Unallocated assets				13,450
Total assets				90,669
Segment liabilities	50,405	1,995	–	52,400
Unallocated liabilities				54,467
Total liabilities				106,867
Other segment information:				
Capital expenditure	3,242	888	–	4,130
Depreciation	5,001	3,391	–	8,392
Amortisation of prepaid lease payments	169	–	–	169
Amortisation of goodwill	74	–	–	74
Impairment charge				
– Property, plant and equipment	657	1,038	–	1,695
– Goodwill	74	–	–	74
Revaluation deficit on buildings	–	2,399	–	2,399
Allowance for impairment of receivables	49,247	–	–	49,247

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For the year ended 31 December 2005

6. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments

	Turnover		Total assets		Capital expenditure	
	2005	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(Restated)		
United States of America	**57,649**	100,975	**–**	–	**–**	–
Europe	**14,135**	67,556	**–**	–	**–**	–
The PRC	**42,120**	59,893	**101,598**	43,056	**2,107**	2,984
Asia region except the PRC	**1,882**	7,295	**29,539**	47,912	**786**	1,146
	115,786	235,719	**131,137**	90,968	**2,893**	4,130
Goodwill			**11,010**	–		
Interests in an associate			**–**	(299)		
Total assets			**142,147**	90,669		

7. OPERATING LOSS

The Group's operating loss has been arrived at after charging/(crediting) the following:

	2005	2004
	HK$'000	HK$'000
		(Restated)
Cost of inventories sold (including write down of inventories)	**73,558**	217,286
Depreciation:		
Owned property, plant and equipment	**7,674**	8,286
Leased property, plant and equipment	**–**	106
Revaluation deficit on buildings	**–**	2,399
Impairment charge (included in other operating expenses)		
– property, plant and equipment	**–**	1,695
– goodwill	**–**	74
	–	1,769
Staff costs (including Directors' emoluments) (Note 10)	**33,348**	33,301
Auditors' remuneration	**780**	1,000
Net exchange losses	**105**	1,080
Amortisation of goodwill (included in administrative expenses) (Note 17)	**–**	74
Operating lease rentals on land and buildings	**640**	759
Write down of inventories	**318**	682
Property, plant and equipment written off	**12**	–
Gain on disposal of property, plant and equipment	**–**	(15)

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	**1,154**	2,626
Interest on other loan wholly repayable within 5 years	**255**	–
Interest element of finance leases	**9**	8
	1,418	2,634

9. TAXATION

The amount of taxation (credited)/charged in the consolidated income statement represents:

	2005 HK$'000	2004 HK$'000
Hong Kong profits tax		
Current year	**54**	94
Overseas taxation		
Overprovision in prior years	**(2,495)**	(1,827)
Taxation credit	**(2,441)**	(1,733)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries operate.

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2005 HK$'000	2004 HK$'000 (Restated)
Loss before taxation	**(30,159)**	(106,105)
Calculated at a taxation rate of 17.5%	**(5,278)**	(18,568)
Effect of different taxation rates in other countries	**(1,076)**	(2,274)
Income not subject to taxation	**(86)**	(136)
Expenses not deductible for taxation purposes	**3,086**	2,219
Tax effect of other temporary differences not recognised	**178**	(39)
Tax effect of tax losses not recognised	**3,230**	18,892
Overprovision in prior years	**(2,495)**	(1,827)
Taxation credit	**(2,441)**	(1,733)

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For the year ended 31 December 2005

10. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2005 HK$'000	2004 HK$'000
Wages and salaries	32,522	32,091
Unutilised annual leave	–	113
Provision for long service payments (Note (a))	–	653
Contributions to pension schemes		
– to the MPF Scheme (Note (b))	193	207
– to the PRC retirement scheme (Note (c))	393	237
Other benefits	240	–
	33,348	33,301

Notes:

(a) At 31 December 2005, several employees of the Group had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments upon termination of their employment. The Group are only liable to make such payments where the termination meets the required circumstances specified in the Ordinance. If the termination of the employees met the circumstances required by the Ordinance, the Group's liability at 31 December 2005 would have been approximately HK$551,000 (2004: HK$653,000).

(b) Pursuant to the Mandatory Provident Fund Schemes Ordinance (the "MPF Ordinance"), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 to 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1 December 2000. Contributions to the MPF Scheme are calculated at 5% of employees' monthly basic salaries but subject to a maximum of HK$20,000.

(c) The subsidiaries in the PRC have participated in employees' retirement scheme implemented by the local municipal government. Contributions are made by the relevant subsidiaries to the scheme based on 1% to 20% of the applicable payroll costs.

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments of each Director for the year ended 31 December 2005 is set out below:

		Fees		Basic salaries, other allowances and benefits in kind		Contributions to pension schemes		Total	
		2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Executive Directors									
Mr. Lo Peter	(a)	90	N/A	–	N/A	5	N/A	95	N/A
Mr. Sun David Lee	(a)	90	N/A	–	N/A	5	N/A	95	N/A
Mr. Au Peter Jeva	(b)	90	N/A	–	N/A	5	N/A	95	N/A
Mr. Chan Wai Kin, Benito	(c)	–	N/A	90	N/A	5	N/A	95	N/A
Mr. Tse Chung Sing	(c)	–	N/A	133	N/A	5	N/A	138	N/A
Mr. Wong Chor Sang	(d)	–	–	174	390	6	12	180	402
Mr. Kwok Kee Ho, Danny	(d)	–	–	128	286	5	12	133	298
Mr. Wong Chor Wo	(f)	–	–	103	780	2	12	105	792
Ms. Andres Rosita	(f)	–	–	34	260	2	12	36	272
Mr. Po Eric	(g)	N/A	–	N/A	454	N/A	10	N/A	464
		270	–	662	2,170	40	58	972	2,228
Non-executive Directors									
Mr. Chau Wai-Kau	(a)	90	N/A	–	N/A	–	N/A	90	N/A
Mr. Yeung Ting-Lap Derek Emory	(a)	90	N/A	–	N/A	–	N/A	90	N/A
Mr. Greer Thomas	(b)	90	N/A	–	N/A	–	N/A	90	N/A
Mr. Li Wentao	(h)	41	N/A	–	N/A	–	N/A	41	N/A
		311	–	–	–	–	–	311	–
Independent Non-executive Directors									
Dr. Leung Kwan-Kwok	(a)	90	N/A	–	N/A	–	N/A	90	N/A
Mr. Zuchowski Sam	(a)	90	N/A	–	N/A	–	N/A	90	N/A
Dr. Loke Yu	(e)	78	N/A	–	N/A	–	N/A	78	N/A
Mr. Yue Kwai Wa, Ken	(c)	39	N/A	–	N/A	–	N/A	39	N/A
Mr. Chan Sheung Kwan	(d)	60	60	–	–	–	–	60	60
Mr. Yang Xi	(d)	20	13	–	–	–	–	20	13
Mr. Wong Tin Sang, Patrick	(i)	N/A	100	N/A	–	N/A	–	N/A	100
		377	173	–	–	–	–	377	173
		958	173	662	2,170	40	58	1,660	2,401

Notes:

(N/A) Not Directors during the respective years
(a) appointed on 26 May 2005
(b) appointed on 26 May 2005 and resigned on 1 January 2006
(c) appointed on 25 January 2005 and retired on 24 June 2005
(d) resigned/retired on 24 June 2005
(e) appointed on 24 June 2005
(f) resigned on 21 February 2005
(g) resigned on 25 November 2004
(h) appointed on 23 September 2005
(i) resigned on 29 November 2004

11. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' emoluments *(continued)*

No Directors waived any emoluments and no incentive payment or compensation for loss of office was paid or payable to any Director during the year (2004: Nil).

(b) Five highest paid individuals

The emoluments payable to the five highest paid individuals during the year were as follows:

	2005 **HK$'000**	2004 HK$'000
Basic salaries and other allowances	**1,963**	2,225
Contributions to pension schemes	**59**	58
	2,022	2,283

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2005 include three ex-directors whose emoluments for the period in which they were directors of the Company are reflected in the analysis presented in Note 10 to the financial statements.

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2004 include four directors whose emoluments are reflected in the analysis presented in Note 10 to the financial statements.

The emoluments of each of the five highest paid individuals are less than HK$1,000,000.

No incentive payment or compensation for loss of office was paid or payable to the five highest paid individuals during the year ended 31 December 2005 (2004: Nil).

12. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$10,388,000 (2004: HK$42,131,000).

13. DIVIDEND

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

14. LOSS PER SHARE

The calculation of loss per share is based on the loss attributable to equity holders of the Company of approximately HK$27,089,000 (2004 (restated): HK$104,486,000) and the weighted average of 241,842,230 ordinary shares (2004: 206,896,522 ordinary shares after adjusting for the rights issue in 2005) in issue during the year.

Diluted loss per share for the years ended 31 December 2005 and 2004 were not disclosed as there were no dilutive potential ordinary shares.

For the year ended 31 December 2005

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
Cost or valuation						
At 1 January 2004	17,400	26,485	29,470	2,292	2,157	77,804
Additions	97	3,200	657	159	17	4,130
Disposals	–	(108)	–	–	–	(108)
Revaluation	(4,550)	–	–	–	–	(4,550)
At 31 December 2004 and 1 January 2005	12,947	29,577	30,127	2,451	2,174	77,276
Additions	–	802	711	1,359	21	2,893
Acquisition of a subsidiary	–	30,961	66	926	–	31,953
Disposals/write off	–	–	(14)	(511)	–	(525)
Exchange differences	136	299	264	18	26	743
At 31 December 2005	13,083	61,639	31,154	4,243	2,221	112,340
Accumulated depreciation and impairment						
At 1 January 2004	1,688	18,424	19,451	1,840	1,965	43,368
Charge for the year	601	3,185	4,329	181	96	8,392
Disposals	–	(46)	–	–	–	(46)
Revaluation	(2,289)	–	–	–	–	(2,289)
Impairment charge	–	316	1,379	–	–	1,695
At 31 December 2004 and 1 January 2005	–	21,879	25,159	2,021	2,061	51,120
Charge for the year	581	3,482	3,326	208	77	7,674
Write off	–	–	(2)	–	–	(2)
Exchange differences	–	218	232	11	23	484
At 31 December 2005	581	25,579	28,715	2,240	2,161	59,276
Net book value						
At 31 December 2005	**12,502**	**36,060**	**2,439**	**2,003**	**60**	**53,064**
At 31 December 2004	12,947	7,698	4,968	430	113	26,156

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

The analysis of the cost or valuation at 31 December 2005 of the above assets is as follows:

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
At cost	**–**	**61,639**	**31,154**	**4,243**	**2,221**	**99,257**
At valuation	**13,083**	**–**	**–**	**–**	**–**	**13,083**
	13,083	**61,639**	**31,154**	**4,243**	**2,221**	**112,340**

The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
At cost	–	29,577	30,127	2,451	2,174	64,329
At valuation	12,947	–	–	–	–	12,947
	12,947	29,577	30,127	2,451	2,174	77,276

(a) The Group's buildings at their net book values are analysed as follows:

	Group 2005 HK$'000	Group 2004 HK$'000 (Restated)
In Hong Kong, held on:		
Leases of between 10 to 50 years	**1,934**	1,977
Outside Hong Kong, held on:		
Leases of over 50 years	**3,738**	3,822
Leases of between 10 to 50 years	**–**	7,148
Leases of less than 10 years	**6,830**	–
	12,502	12,947

The Group's buildings were last revalued at 31 December 2004. Valuations were made on the basis of their open market value by Norton Appraisals Limited, an independent firm of professional valuers. A revaluation surplus of HK$138,000 was credited to properties revaluation reserve and a revaluation deficit of HK$2,399,000 was charged to the consolidated income statement for the year ended 31 December 2004.

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

(b) If buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
		(Restated)
Cost	**22,402**	22,184
Accumulated depreciation	**(7,424)**	(6,595)
Net book amount	**14,978**	15,589

(c) The Group's plant and machinery, leasehold improvements, furniture and fixtures were last revalued at 31 December 2004. Valuations were made on the basis of their open market value by Norton Appraisals Limited, an independent firm of professional valuers. An impairment of HK$1,695,000 was charged to the consolidated income statement for the year ended 31 December 2004.

Company

	Leasehold improvements, furniture and fixtures	**Motor vehicles**	**Total**
	HK$'000	HK$'000	HK$'000
Cost			
At 1 January 2005	–	–	–
Additions	65	511	576
Disposals	–	(511)	(511)
At 31 December 2005	65	–	65
Accumulated depreciation			
At 1 January 2005	–	–	–
Charge for the year	5	–	5
Disposals	–	–	–
At 31 December 2005	5	–	5
Net book value			
At 31 December 2005	**60**	**–**	**60**

16. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent prepaid operating lease payments of the land element of properties situated in Hong Kong which are held on medium-term leases of between 10 to 50 years.

17. GOODWILL

	Group	
	2005	2004
	HK$'000	HK$'000
Cost		
At 1 January	**370**	370
Additions	**11,010**	–
Effect of adopting HKFRS 3	**(370)**	–
At 31 December	**11,010**	370
Accumulated amortisation and impairment		
At 1 January	**370**	222
Charge for the year	**–**	74
Impairment charge	**–**	74
Effect of adopting HKFRS 3	**(370)**	–
At 31 December	**–**	370
Net book value		
At 31 December	**11,010**	–

Goodwill arising on acquisition was amortised on the straight-line basis over its estimated useful life of 5 years up to 31 December 2004. From 1 January 2005, goodwill arising on acquisition ceased to be amortised in accordance with the provision of HKFRS 3, and the transitional provision has required the Group to eliminate the carrying amount of the accumulated amortisation and impairment by approximately HK$370,000 with a corresponding decrease to the cost of goodwill.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**16,000**	16,000
Amounts due from subsidiaries (Note (a))	**82,210**	31,224
	98,210	47,224
Impairment losses	**(45,108)**	(47,224)
	53,102	–

18. INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(a) Amounts due from subsidiaries are unsecured, interest free and not repayable within the next twelve months.

(b) Details of the subsidiaries at 31 December 2005 are as follows:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital/ registered capital	Interest held 2005	Interest held 2004
Direct interest:					
Agricapital (Tianjin) Limited	The British Virgin Islands (The "BVI")	Investment holding in the BVI	1 ordinary share of US$1	100%	–
Glory Access Limited	The BVI	Investment holding in the BVI	2,051,282 ordinary shares of US$1 each	100%	100%
Indirect interest:					
Eastway Corporation Limited	Hong Kong	Trading of handbag products in Hong Kong	100 ordinary shares of HK$1 each	51%	51%
Midland Management Limited	The BVI	Inactive	12,902 ordinary shares of US$1 each	100%	100%
Wallmark Enterprise Company Limited	Hong Kong	Trading of handbag products and related accessories and raw materials in Hong Kong	180,500 ordinary shares of HK$100 each	100%	100%
惠州和寶黃氏手袋有限公司 Hui Zhou Wallmark Handbags Co., Ltd. (1)(2)	The PRC	Trading and manufacturing of handbag products and related accessories and provision of related subcontracting services in the PRC	Registered capital of HK$13,000,000	100%	100%
Wallmark Enterprise (Cambodia) Co., Ltd.	Kingdom of Cambodia ("Cambodia")	Manufacturing of garments and provision of related subcontracting services in Cambodia	1,000 ordinary shares of US$850 each	100%	100%
Wallmark Enterprise Company Limited – Macao Commercial Offshore (4)	Macau	Inactive	1 ordinary share of MOP100,000	–	100%
蓓蕾(天津)乳業有限公司 Beilei (Tianjin) Dairy Co., Ltd. (1)(3)	The PRC	Production and sale of dairy products in the PRC	Registered capital of US$12,000,000	70%	–

(1) For identification purposes only.

(2) The Company is a foreign investment enterprise in the PRC.

(3) The Company is a sino-foreign equity joint venture in the PRC.

(4) The Company was deregistered on 7 October 2005.

19. INTERESTS IN AN ASSOCIATE

	Group 2005 HK$'000	Group 2004 HK$'000
Unlisted shares, at cost	400	400
Share of post-acquisition accumulated losses	(279)	(279)
	121	121
Amount due to an associate (Note (b))	(420)	(420)
Deregistration of an associate (Note (a))	299	–
	–	(299)

Notes:

(a) Details of the associate at 31 December 2005 are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued share held	Interest held 2005	Interest held 2004
FX Wealthmark International Limited ("FX Wealthmark")	Hong Kong	Inactive	400,000 ordinary shares of HK$1 each	–	40%

At 31 December 2005, FX Wealthmark was under the process of deregistration.

(b) The amount due to an associate was unsecured, interest free and had no fixed terms of repayment.

20. INVENTORIES

	Group 2005 HK$'000	Group 2004 HK$'000
Raw materials	5,538	8,476
Work in progress	473	2,536
Finished goods	14,907	13,092
	20,918	24,104

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	19,428	69,911	–	–
Less: Allowance for impairment of receivables	(2,934)	(49,288)	–	–
Trade receivables, net	16,494	20,623	–	–
Prepayments, deposits and other receivables	4,192	521	240	34
	20,686	21,144	240	34

The Group allows different credit periods to its trade customers depending on the type of business. Customers are generally granted credit terms of 30 to 120 days. At 31 December 2005, the ageing analysis of the trade receivables, net of allowance for impairment of receivables, was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 30 days	8,596	6,772
31 – 60 days	3,972	5,062
61 – 90 days	1,194	1,148
Over 90 days	2,732	7,641
	16,494	20,623

The fair value of the Group's trade and other receivables at 31 December 2005 approximates to the corresponding carrying amount.

22. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due from a fellow subsidiary is unsecured, interest free and has no fixed terms of repayment.

The fair value of the amount due from a fellow subsidiary at 31 December 2005 approximates to the corresponding carrying amount.

23. BANK BALANCES AND CASH

At 31 December 2005, bank balances and cash of the Group denominated in Renminbi ("RMB") amounted to HK$23,936,000 (2004: HK$2,912,000) which were held by subsidiaries in the PRC. The remittance of these funds out of the PRC is subject to exchange control regulations.

Notes to the Financial Statements

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24. SHARE CAPITAL

	2005 HK$'000	2004 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$0.1 each	100,000	100,000
Issued and fully paid:		
300,000,000 (2004: 200,000,000) ordinary shares of HK$0.1 each	30,000	20,000

A summary of the movements in the issued share capital of the Company during the year ended 31 December 2005 is as follows:

	Number of ordinary shares issued	Par value HK$'000
At 1 January 2005	200,000,000	20,000
Rights issue	100,000,000	10,000
At 31 December 2005	**300,000,000**	**30,000**

On 18 August 2005, 100,000,000 new shares of HK$0.1 each were issued at HK$0.54 per share by way of rights issue on the basis of one rights share for every two shares held. These shares rank pari passu in all respects with the existing shares in all respects. The net proceeds of the right issue amounted to approximately HK$52,700,000 were used to finance the acquisition of Beilei.

25. RESERVES

Company

	Share premium HK$'000	Accumulated losses HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 January 2004	27,645	(5,557)	5,500	27,588
Dividend paid	–	–	(5,500)	(5,500)
Loss for the year	–	(42,131)	–	(42,131)
At 31 December 2004	27,645	(47,688)	–	(20,043)
At 1 January 2005	**27,645**	**(47,688)**	**–**	**(20,043)**
Loss for the year	**–**	**(10,388)**	**–**	**(10,388)**
Rights issue	**44,000**	**–**	**–**	**44,000**
Rights issue expenses	**(1,303)**	**–**	**–**	**(1,303)**
At 31 December 2005	**70,342**	**(58,076)**	**–**	**12,266**

26. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company is unsecured, interest free and not repayable within the next twelve months.

The fair value of the amount due to immediate holding company at 31 December 2005 approximates to the corresponding carrying amount.

27. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The movement on deferred tax liabilities is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
At 1 January	**288**	288
Exchange differences	**2**	–
At 31 December	**290**	288

The major deferred tax liabilities recognised by the Group are as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Accelerated tax depreciation	**290**	288

At the balance sheet date, the Group has unused tax losses of HK$107,305,000 (2004: HK$94,998,000) available for offset against future profits of which an aggregated amount of HK$107,079,000 (2004: HK$94,772,000) is subject to the approval of the respective tax authorities. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Unused tax losses may be carried forward indefinitely.

28. TRADE AND OTHER PAYABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**2,972**	3,241	**–**	–
Other payables	**24,927**	22,590	**2,237**	151
	27,899	25,831	**2,237**	151

28. TRADE AND OTHER PAYABLES *(continued)*

At 31 December 2005, the ageing analysis of the trade payables was as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Current to 30 days	**2,389**	1,284
31 – 60 days	**303**	1,046
61 – 90 days	**1**	652
Over 90 days	**279**	259
	2,972	3,241

The fair value of the Group's trade and other payables at 31 December 2005 approximates to the corresponding carrying amount.

29. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest free and has no fixed terms of repayment.

The fair value of the amount due to a minority shareholder of a subsidiary at 31 December 2005 approximates to the corresponding carrying amount.

30. SHORT-TERM BORROWINGS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Short-term bank loans	**–**	22,911	**–**	–
Bank overdrafts	**1**	72	**–**	–
Other loan	**10,000**	–	**10,000**	–
	10,001	22,983	**10,000**	–

Other loan is unsecured, carried at an interest rate of 8% per annum and has a maturity of one year period. Bank overdrafts are repayable on demand.

The carrying amounts of short-term borrowings approximate their fair value.

31. LONG-TERM BORROWINGS

	Group 2005 HK$'000	2004 HK$'000
Bank loans – unsecured	–	23,000
Obligations under finance leases	–	196
	–	23,196
Current portion of long-term borrowings	–	(23,196)
	–	–

The carrying amounts of long-term borrowings approximate their fair value.

32. ACQUISITION OF A SUBSIDIARY

On 15 December 2005, the Group acquired 70% equity interests in Beilei at a cash consideration of RMB55,000,000 (equivalent to approximately HK$52,949,000). Details of net assets acquired and goodwill are as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Net assets acquired:		
Property, plant and equipment	31,953	43,963
Inventories	2,243	2,243
Prepayment and deposits	2,429	2,429
Bank balances and cash	25,903	25,903
Amount due to a minority shareholder	(2,615)	(2,615)
Net assets	59,913	71,923
Minority interests (30%)	(17,974)	
Fair value of net assets acquired	41,939	
Goodwill	11,010	
Total cash consideration	52,949	

32. ACQUISITION OF A SUBSIDIARY *(continued)*

Analysis of the net cash outflow in respect of the acquisition of a subsidiary:

	2005 HK$'000
Cash consideration	(52,949)
Bank balances and cash acquired	25,903
Net cash outflow in respect of the acquisition of a subsidiary	(27,046)

The goodwill arising on the acquisition of Beilei is attributable to the anticipated profitability of Beilei.

Beilei contributed revenue of approximately HK$62,000 and net loss of approximately HK$2,849,000 to the Group for the period from 15 December 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been approximately HK$115,786,000 and loss for the year would have been approximately HK$36,216,000. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, or is it intended to be a projection of future results.

33. COMMITMENTS

(a) Lease commitments

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005 HK$'000	2004 HK$'000
Not later than one year	1,551	1,040
Later than one year and not later than five years	1,851	3,225
	3,402	4,265

(b) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	2005 HK$'000	2004 HK$'000
Property, plant and equipment		
Contracted but not provided for	1,548	–

33. COMMITMENTS *(continued)*

(c) Other commitments

The Group had committed to pay a nominal fee of US$5,000 (equivalent to approximately HK$38,800) each year to Parmalat S.p.A., the former major shareholder of Beilei, for the first two years commencing from 1 October 2005. Thereafter, Beilei is required to pay royalties in the third to the eighth years calculated at various rates, for the use of licenced trademarks and know-how for certain products. The minimum royalty fees for the third to the eighth years are as follows:

	US$	Equivalent to HK$
In the third contractual year	80,000	620,800
In the fourth contractual year	100,000	776,000
In the fifth contractual year	120,000	931,200
In the sixth contractual year	150,000	1,164,000
In the seventh contractual year	170,000	1,319,200
In the eighth contractual year	190,000	1,474,400

34. RELATED PARTY TRANSACTIONS

In the normal course of business the Group entered into the following transactions with its related parties during the year:

	2005 HK$'000	2004 HK$'000
Rental paid to a related company	130	–
Disposal of motor vehicle to a fellow subsidiary	511	–

Details of key management compensation are disclosed in Note 11 to the financial statements.

35. EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to a placing and subscription agreement dated 7 April 2006, 20,000,000 existing shares of the Company held by Orientelite were placed to various independent investors at a price of HK$0.54 ("Top-up Placing") and 20,000,000 new shares will be issued to Orientelite at the same price upon completion of the Top-up Placing. The net proceeds of approximately HK$10,460,000 will be used by the Group for general working capital purpose. The Top-up Placing has not yet completed up to the date of approval of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2005

36. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies and the restructuring of business segments. Further details are disclosed in Notes 2 and 6 to the financial statements respectively.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 20 April 2006.

Five Year Financial Summary

The results and assets and liabilities of the Group for the last five financial years are as follows:

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Results					
(Loss)/profit attributable to:					
– Equity holders of the Company	**(27,089)**	(104,486)	11,299	13,054	12,982
– Minority interests	**(629)**	114	–	–	–
(Loss)/profit for the year	**(27,718)**	(104,372)	11,299	13,054	12,982

	At 31 December				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Assets and liabilities					
Total assets	**142,147**	90,669	201,182	156,282	147,963
Total liabilities	**(115,429)**	(106,867)	(107,651)	(74,424)	(79,332)
Total equity	**26,718**	(16,198)	93,531	81,858	68,631
Attributable to:					
– Equity holders of the Company	**9,254**	(16,317)	93,531	81,858	68,631
– Minority interests	**17,464**	119	–	–	–
	26,718	(16,198)	93,531	81,858	68,631

(Loss)/profit for the year ended 31 December 2004, 2003, 2002 and 2001, and total assets as at 31 December 2004, 2003, 2002 and 2001 have been restated as a result of the retrospective applications in respect of the adoption of Hong Kong Accounting Standard 1 "Presentation of Financial Statements" and Hong Kong Accounting Standard 17 "Leases" issued by the Hong Kong Institute of Certified Public Accountants.