



Wonson International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 651)

Annual Report 2005

Contents

	PAGE
Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	4
Corporate Governance Report	7
Directors' Report	11
Auditors' Report	18
Consolidated Income Statement	20
Consolidated Balance Sheet	21
Consolidated Statement of Changes in Equity	22
Consolidated Cash Flow Statement	23
Notes to the Financial Statements	25
Financial Summary	62

Corporate Information

EXECUTIVE DIRECTORS

Mr. Chiu Kong — *Chairman*
Mr. Hui Richard Rui — *Deputy Chairman*
Mr. Tsui Ching Hung
Mr. Chung Nai Ting
Mr. Tse Lanny Cheuk Ming

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tong Wui Tung
Mr. Chan Sze Hung
Mr. Miu Frank H.

COMPANY SECRETARY

Mr. Chow Kim Hang

AUDITORS

Deloitte Touche Tohmatsu
26th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Hongkong & Shanghai Banking Corporation Limited
Hang Seng Bank Limited

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Room 4504-5, 45th Floor
China Resources Building
26 Harbour Road
Hong Kong

SHARE REGISTRARS

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM11
Bermuda

BRANCH REGISTRARS IN HONG KONG

Abacus Share Registrars Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Chairman's Statement

For the financial year ended 2005, the Company and its subsidiaries (the "Group") recorded a net loss of approximately HK\$51.71 million. Further details of the Group's past performance are explained under the "Management Discussion and Analysis" section.

As the interest rate is still on the rise and if coupled with other factors such as the possibility of outbreak of the avian flu, the economy in the year 2006 may become more volatile. The Group hopes to explore and seek new business opportunities in future. The Board of Directors does not recommend the payment of any final dividend for the year ended 31 December 2005.

I would like to take this opportunity to express my appreciation to all management and staff members for their contribution during the past year.

Chiu Kong

Chairman

Hong Kong, 26 April 2006

Management Discussion and Analysis

The Group's turnover for the year 2005 increased by approximately HK\$5.42 million to approximately HK\$9.77 million. Although the Group's turnover has increased, trading business has remained difficult as the profit margin was slim. Other operating income increased by approximately HK\$1.63 million mainly because of the increase in interest income from bank deposits and loan to an investee company, and increase in dividends from financial assets at fair value through profit or loss. Net realized and unrealized losses on financial assets at fair value through profit or loss amounted to approximately HK\$16.50 million while the corresponding net realized and unrealized gain in 2004 was approximately HK\$2.69 million as the Group's investments in securities was not satisfactory due to fluctuation of the market and securities prices. During the year 2005, the Company has granted share options to employees to subscribe ordinary shares of the Company. Under the new Hong Kong Financial Reporting Standard 2, an amount of approximately HK\$13.44 million was recognized and included in the administrative expenses for the year to reflect the effect of granting the share options to employees. Finance costs have decreased during the year as the 2001 Convertible Notes (as defined below) were fully repaid in the year 2004 and the 2005 Convertible Notes (as defined below) were also been redeemed in March 2005. Overall, net loss for the year 2005 increased by approximately HK\$48.93 million to approximately HK\$51.71 million.

Looking forward, as interest rate is still on the rise and if coupled with other factors such as the possibility of outbreak of the avian flu, the market in the year 2006 may become more volatile. Thus the Group is cautious on the performance of its securities investment, and the trading business is currently also expected to remain difficult. The Group hopes to explore and seek new business opportunities, no specific new business opportunities are finalized at the moment.

During the year 2005, the Company has completed several fund raising activities and thus the financial position of the Group are much strengthened. As at 31 December 2005, the Group had cash and bank balances of approximately HK\$84.06 million and financial assets at fair value through profit or loss of approximately HK\$86.66 million. As at 30 June 2004, the Group still had convertible note payable in the principal amount of HK\$58 million (the "2001 Convertible Notes"). The 2001 Convertible Notes were originally issued on 3 July 2001 and was unsecured. It bore interest at 7% per annum and matured on the third anniversary of the date of issue. In July 2004, the 2001 Convertible Notes were fully repaid upon maturity. On 5 January 2005, the Company entered into an agreement with a placing agent for placement of convertible notes issued by the Company up to an aggregate principal amount of HK\$50 million (the "2005 Convertible Notes") to independent third parties. The 2005 Convertible Notes were unsecured and bore interest at 3% per annum, payable upon one year from the date of issue. Details of which has been disclosed in the Company's announcement dated 5 January 2005 and the circular dated 19 January 2005. Net proceeds from the 2005 Convertible Notes amounted to approximately HK\$ 48.5 million. All the 2005 Convertible Notes have been redeemed and repaid in full in March 2005. As at 31 December 2005, the Group had no loans or borrowings outstanding. The Group employed about twenty staff. Staff remuneration packages are normally reviewed annually. The Group operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance. In

Management Discussion and Analysis (Continued)

addition, the Group provides other staff benefits which include double pay, share option scheme, insurance and medical benefits. Total staff costs for the current period was around HK\$25.18 million. During the year 2005, the Company has granted share options to employees to subscribe 656,000,000 ordinary shares of the Company at the subscription price of HK\$0.038 per share, and all these share options granted had been exercised during the year. As at 31 December 2005, no share options granted were outstanding.

On 10 January 2005, the Company entered into agreement with a placing agent for placement of 1,367,484,000 new shares to independent third parties at a price of HK\$0.052 per new share on a fully underwritten basis (the “First Placing”). On the same date, the Company entered into another agreement for placement of 3,000,000,000 new shares to independent third parties at a price of HK\$0.052 per new share on a best effort basis (the “Second Placing”). The First Placing has been completed whilst the Second Placing has been lapsed. Details of the First Placing and the Second Placing have been disclosed in the Company’s announcements dated 10 January, 28 February, 24 March, 31 May and 4 July 2005 and circular dated 19 January 2005. Net proceeds from the First Placing was approximately HK\$69 million of which HK\$30 million was advanced (“Found Macau Loan”) to Found Macau Investments International Limited (“Found Macau”). The Group has an investment in Found Macau (details of the investment and the Found Macau Loan have been disclosed in the Company’s announcement dated 10 June 2005 and circular dated 27 June 2005). The balance of the net proceeds of approximately HK\$39 million from the First Placing was used for the general working capital of the Group.

On 24 May 2005, the Company entered into agreement with a placing agent for placement of new shares of the Company on a fully underwritten basis. The placing agreement was terminated on 27 May 2005 and was replaced by a new placing agreement entered into between the Company and the placing agent on 27 May 2005 for placement of up to 150,000,000 new reorganized shares to independent third parties at a price of HK\$0.27 per new reorganized share (conditional upon the proposed reorganization of share capital as described below becoming effective) on a best effort basis. This new placing agreement was subsequently lapsed in August 2005. Details of which has been disclosed in the Company’s announcements dated 27 May and 15 August 2005.

On 27 May 2005, the Company announced the proposed reorganization of share capital of which included consolidation of shares of the Company on the basis of consolidating 20 shares into 1 consolidated share. Details of which have been disclosed in the Company’s announcement dated 27 May 2005 and circular dated 14 June 2005. The proposed reorganization of share capital was approved by shareholders on 8 July 2005 and became effective on 11 July 2005.

Management Discussion and Analysis (Continued)

On 24 August 2005, the Company entered into agreement with a placing agent for placement of 88,600,000 new shares of the Company to independent third parties at a price of HK\$0.10 per new share on a fully underwritten basis. The market closing price of the Company's shares on 24 August 2005 was HK\$0.112 per share. Details of the placing has been disclosed in the Company's announcement dated 24 August 2005. The placing was completed in September 2005 and the net proceeds of approximately HK\$8.5 million was used for general working capital purposes.

On 6 October 2005, the Company announced proposed rights issue of 2,126,581,276 rights shares at a price of HK\$0.05 per rights share on the basis of four rights shares for every share held. Details of which have been disclosed in the Company's announcement dated 6 October 2005 and circular dated 29 October 2005 and prospectus dated 16 November 2005. The proposed rights issue was approved by shareholders on 15 November 2005, and net proceeds of the rights issue for general working purposes amounted to approximately HK\$102 million. As at 31 December 2005, approximately HK\$52 million of the net proceeds was used for general working capital purposes.

On 19 January 2006, the Company announced the proposed reorganization of share capital of which included consolidation of shares of the Company on the basis of consolidating 5 shares into 1 consolidated share. Details of which have been disclosed in the Company announcement dated 19 January 2006 and circular dated 7 February 2006. The proposed reorganization of the share capital was approved by shareholders on 3 March 2006 and became effective on 6 March 2006.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has recognized the importance of transparency and accountability, and believes that shareholders can benefited from good corporate governance. The Company aims to achieve good standard of corporate governance, and thus during the year the Company has complied with most of the code provisions (“Code Provisions”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). Any deviation from the Code Provisions will be explained in this report. The Company aims to comply with all the Code Provisions.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as its code of conduct regarding director’s securities transactions. Having made specific enquiry of all directors, all directors confirmed that they had complied with the required standard set out in the Model Code during the year ended 31 December 2005.

Code Provision A.5.4 also requires written guidelines (the “Written Guidelines”) should be established on no less exacting terms than the Model Code for relevant employees in respect of their dealings in the securities of the Company. It took time to finalize the compliance, however, on 21 September 2005, Written Guidelines were established.

BOARD OF DIRECTORS

As at 31 December 2005, the Board comprises eight Directors, of which five are executive Directors namely Chiu Kong (Chairman), Hui Richard Rui (Deputy Chairman), Tsui Ching Hung, Chung Nai Ting and Tse Lanny Cheuk Ming, and three are independent non-executive Directors namely Chan Sze Hung, Tong Wui Tung and Miu Frank H.. The three independent non-executive Directors are professionals with strong experiences. One of the independent non-executive Directors has professional accounting qualification, which is in compliance with the requirement of the Listing Rules. The other two independent non-executive Directors are practicing solicitors. Biographical details of all Directors are disclosed on page 12 to 13 of this Annual Report.

Corporate Governance Report (Continued)

The attendance of Directors of 41 board meetings held in 2005 is as follows:

Name	Attended
<i>Executive Directors</i>	
Chiu Kong	33
Hui Richard Rui	40
Tsui Ching Hung	20
Chung Nai Ting	9
Tse Lanny Cheuk Ming	13
<i>Independent non-executive Directors</i>	
Chan Sze Hung	4
Tong Wui Tung	4
Miu Frank H.	4

The Board is responsible for the leadership and control of the Company and oversees the Group's strategic decisions, business and performances. The Management was delegated the authority and responsibility by the Board for the management and administration of the Group.

Each of our independent non-executive Directors has presented an annual confirmation of independence to the Company in accordance with the requirement of the Listing Rules. The Company considered that all of the independent non-executive Directors to be independent.

None of the Directors has any financial, business, family or other material/relevant relationship(s) with each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and chief executive officer of the Company is Mr. Chiu Kong. This deviates from Code Provision A.2.1 which stipulates that the roles of the Chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Chiu Kong is primarily responsible for the leadership of the Board and overall management of the Company. The Company considers that currently vesting the roles of both Chairman and chief executive officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of business strategies. However, the Company understands the importance to comply with the Code Provisions and it is also the Company's aim to comply with all the Code Provisions. Therefore, the Company will continue to consider the feasibility to comply with Code Provision A.2.1. If compliance is determined, appropriate persons will be nominated to the different roles of Chairman and chief executive officer.

Corporate Governance Report (Continued)

NON-EXECUTIVE DIRECTORS

Although non-executive directors are subject to retirement by rotation at the Company's annual general meeting as specified by the Company's bye-laws, they are not appointed for a specific term. Thus the Company has deviated from Code Provision A.4.1. The Company is still in the process of setting and determining the term of appointment for each non-executive director as more time is needed before all details are determined.

REMUNERATION OF DIRECTORS

Code Provision B.1.1 requires setting up of the remuneration committee. The Company has deviated from the requirement and the remuneration committee has not been set up yet. The Company is still in the process of establishing a remuneration committee as more time is needed before all details including the composition and terms of reference are determined.

The Directors are remunerated with reference to their responsibility with the Company, their qualifications, experiences and past remuneration, the Company's performance and current market situation. Two broad meetings were held during the year to discuss and determine the remuneration of the directors, in which one of the meeting were attended by Chiu Kong and Hui Richard Rui and the other meeting were attended by Chiu Kong, Hui Richard Rui, Tsui Ching Hung and Chung Nai Ting.

NOMINATION OF DIRECTORS

The nomination of directors should be taken into consideration of the nominee's qualification, experience, ability and potential contributions to the Company. As no new director was appointed to the Board during the year, no meeting was held during the year by the Board for nomination of new director. The Company understands the importance of having a nomination committee and will consider the feasibility of setting up a nomination committee.

Code Provision A.4.2 requires every director should be subject to retirement by rotation at least once every three years (the "Rotation Period Restriction"). The Chairman of the Company is not subject to retirement by rotation and the Company's bye-laws does not contain that exact specific Rotation Period Restriction. As a result, the Company has deviated from Code Provision A.4.2. The Company intends to amend the bye-laws of the Company to comply with this Code Provision, and the relevant resolutions for amending the bye-laws are expected to be proposed at the next annual general meeting of the Company at the earliest.

AUDITORS' REMUNERATION

During the year 2005, fees paid to the Company's external auditors for non-audit related activities amounted to approximately HK\$328,000 which covers review of interim results in the amount of approximately HK\$170,000, work done relating to the Company's rights issue in the amount of approximately HK\$120,000 and taxation services of approximately HK\$38,000.

Audit fee for the year 2005 is approximately HK\$850,000.

Corporate Governance Report (Continued)

AUDIT COMMITTEE

The Audit Committee is composed of three independent non-executive Directors namely Chan Sze Hung (Chairman of the Committee), Tong Wui Tung and Miu Frank H.. One of the members possesses appropriate professional accounting qualification, while the other two members are practicing solicitors. Code Provision C.3.3 requires the terms of reference of the audit committee should include certain minimum duties. It took time to finalize the compliance, however, on 21 September 2005, the terms of reference of the audit committee were revised to include all the duties set out in the Code Provision C.3.3 of which among other things include reviewing financial statements of the Company. Any findings and recommendations of the Audit Committee are to be submitted to the Board for consideration.

The Audit Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee. It is also authorized to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary.

The members and attendance of the 2 audit committees in 2005 are as follows:

Name	Attended
Chan Sze Hung	2
Tong Wui Tung	2
Miu Frank H.	2

During these meetings, the Audit Committee reviewed reports from external auditors regarding their audit on annual financial statements and review on interim financial results.

OTHERS

The Directors are responsible for the preparation of financial statements. The Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the financial statements. Also, the internal control system of the Group has also been reviewed during the year.

The statement of the auditors of the Company regarding their reporting responsibilities is set out in the Auditors' Report on page 18 to 19 of this Annual Report.

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries, associate and jointly controlled entities are set out in notes 31, 32 and 33 to the consolidated financial statements, respectively.

RESULTS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 20.

The directors do not recommend the payment of a dividend.

The Company did not have any reserves available for distribution.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group and the Company are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in share capital of the Company are set out in note 22 to the consolidated financial statements.

Directors' Report (Continued)

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Chiu Kong - Chairman

Mr. Hui Richard Rui - Deputy Chairman

Mr. Tsui Ching Hung

Mr. Chung Nai Ting

Mr. Tse Lanny Cheuk Ming

Independent non-executive directors:

Mr. Tong Wui Tung

Mr. Chan Sze Hung

Mr. Miu Frank H.

In accordance with Clause 87 of the Company's Bye-laws Mr. Chan Sze Hung and Mr. Tong Wui Tung retire by rotation and are eligible for re-election at the forthcoming annual general meeting.

All of the remaining directors continue in office.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors as at the date of this report are set out below:

Executive Directors

Mr. Chiu Kong, aged 48, was appointed as director of the Company in July 1999. Mr. Chiu is the chairman of the Company. He has over 15 years of experience in import and export trading, and business development. Before joining the Group, Mr. Chiu had worked for various trading and engineering companies. He is responsible for the Group's overall management and business development.

Mr. Hui Richard Rui, age 38, was appointed as director of the Company in September 2004. Mr. Hui is the deputy chairman of the Company. He graduated from University of Technology, Sydney of Australia with a bachelor degree in mechanical engineering. Prior to joining the Group, he has over 10 years of experience in management positions of companies in Australia, Hong Kong and the People's Republic of China.

Directors' Report (Continued)

Mr. Tsui Ching Hung, aged 52, was appointed as director of the Company in November 1999. He holds a Master of Science degree in Polymer Science and a Master of Business Administration degree obtained from the University of Aston and University of Warwick in the United Kingdom respectively. He has over 10 years of experience in senior management positions of several multinational corporations in Hong Kong.

Mr. Chung Nai Ting, aged 50, was appointed as director of the Company in December 1999. He has over 20 years of experience in the trading business.

Mr. Tse Lanny Cheuk Ming, aged 41, was appointed as director of the Company in December 2000. He holds a bachelor degree in Commerce from the University of Calgary in Canada, and is a member of the Certified General Accountants' Association of Canada.

Independent Non-executive Directors

Mr. Tong Wui Tung, aged 56, was appointed as an independent non-executive director of the Company in December 1999. Mr. Tong is a partner of Messrs. Cheung, Tong & Rosa and has been practising as a solicitor in Hong Kong for over 20 years.

Mr. Chan Sze Hung, aged 53, was appointed as an independent non-executive director of the Company in December 1999. Mr. Chan is a solicitor practising in Hong Kong. He has over 20 years of experience in legal profession and is a consultant of Messrs. Chan, Lau & Wai, a firm of solicitors in Hong Kong.

Mr. Miu Frank H., aged 57, was appointed as an independent non-executive director of the Company in September 2004. Mr. Miu graduated from Harvard Law School and St. John's University in the United States. He is a member of the American Bar Association and a member of American Institute of Certified Public Accountants. He has extensive experience in financial services, publishing and printing, cold storage as well as property-related and food businesses.

Directors' Report (Continued)

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

As at 31 December 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Name of director	Type of interest	Number of shares	Percentage of issued share capital of the Company
Mr. Chiu Kong	Personal	200,000 (Note)	0.01%
Mr. Hui Richard Rui	Personal	5,250,000 (Note)	0.2%

Note: Pursuant to a special resolution passed at the special general meeting on 3 March 2006, shares of the Company were consolidated on the basis of every 5 shares into 1 consolidated share ("Share Consolidation"). The number of consolidated shares held by Mr. Chiu Kong and Mr. Hui Richard Rui would be 40,000 and 1,050,000 respectively after the Share Consolidation.

The interest stated above represented long positions in the shares of the Company as at 31 December 2005.

Except as disclosed above, as at 31 December 2005, none of the directors and chief executive of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required (a) to be recorded in the register required to be kept under Section 352 of the SFO; or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2005, there were no share options outstanding under the Company's share option scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report (Continued)

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or its subsidiaries, was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following persons, not being a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register (the "Register") maintained by the Company pursuant to Section 336 of the SFO:

Name	Number of shares interested	Approximate Shareholding as at 31 December 2005
Unity Investments Holdings Limited	191,468,000 (Note)	7.20%
Radford Capital Investment Limited	139,856,400 (Note)	5.26%

Note: Pursuant to a special resolution passed at the special general meeting on 3 March 2006, shares of the Company were consolidated on the basis of every 5 shares into 1 consolidated share ("Share Consolidation"). The number of shares shown above were as per the Company's Register as at 31 December 2005, and thus did not take into account of the Share Consolidation which happened in the year 2006.

The interest stated above represented long positions in the shares of the Company as at 31 December 2005.

Other than as disclosed above, the Company has not been notified of any other interests or short positions in the shares and underlying shares of the Company as at 31 December 2005.

Directors' Report (Continued)

SHARE OPTIONS, CONVERTIBLE NOTE PAYABLE OR SIMILAR RIGHTS

(a) Share options

Details of share options scheme are set out in note 23 to the financial statements.

(b) Convertible note payable

Details of convertible note payable of the Company are set out in note 21 to the financial statements.

Other than as disclosed above, the Company had no outstanding convertible securities or other similar rights as at 31 December 2005.

EMOLUMENT POLICY

The emolument policy of the employee of the Company is set up by the executive directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Board of Directors, having regard to their responsibility to the Company, their qualifications, experiences and past remuneration, the Company's performance and current market situation.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 23 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of turnover attributable to the Group's largest customer and five largest customers taken together accounted for 49% and 100%, respectively of the Group's total turnover for the year.

The aggregate amount of purchase attributable to the Group's largest supplier and five largest suppliers taken together accounted for 97% and 100%, respectively of the Group's total purchase for the year.

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

Directors' Report (Continued)

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2005 with most of the code provisions (the "Code Provisions") in the Code of Best Practice as set out in Appendix 14 of the Listing Rules. Further information on the Company's corporate governance practice including any deviations from the Code Provisions is set out in the Corporate Governance Report on pages 7 to 10.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 30 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chiu Kong

Chairman

Hong Kong, 26 April 2006

Auditors' Report



TO THE SHAREHOLDERS OF WONSON INTERNATIONAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Wonson International Holdings Limited (the "Company") and its subsidiaries (the "Group") on pages 20 to 61 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated 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 consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

Auditors' Report (Continued)

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 26 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	NOTES	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	5	9,769	4,347
Cost of sales		(9,534)	(3,977)
Gross Profit		235	370
Other operating income	6	2,210	580
Administrative expenses	7	(36,092)	(19,388)
Net realised and unrealised (losses) gain on financial assets at fair value through profit or loss		(16,500)	2,694
Share of results of associates		—	1,027
Share of results of jointly controlled entities		(221)	(282)
Finance costs	8	(1,338)	(2,942)
Gain on disposal of subsidiaries		—	2,909
Gain on disposal of interest in associates		—	12,254
Loss before tax		(51,706)	(2,778)
Income tax expense	12	—	—
Loss for the year	9	(51,706)	(2,778)
Loss per share - basic	13	(17.72) cents	(1.36) cents

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (restated)
Non-current assets			
Property, plant and equipment	14	184	501
Available-for-sale investment	15	13,489	—
Loan to an investee company	16	17,234	—
Interest in an associate	17	—	—
Interests in jointly controlled entities	18	6,010	6,231
		<u>36,917</u>	<u>6,732</u>
Current assets			
Inventories		1,691	1,940
Other receivables	19	2,164	1,510
Investments in securities	20	—	22,616
Financial assets at fair value through profit or loss	20	86,658	—
Bank balances and cash	19	84,061	10,116
		<u>174,574</u>	<u>36,182</u>
Current liabilities			
Other payables		4,034	3,702
Net current assets		<u>170,540</u>	<u>32,480</u>
		<u>207,457</u>	<u>39,212</u>
Capital and reserves			
Share capital	22	26,582	68,374
Reserves		180,875	(29,162)
		<u>207,457</u>	<u>39,212</u>

The financial statements on pages 20 to 61 were approved and authorised for issue by the Board of Directors on 26 April 2006 and are signed on its behalf by:

Chiu Kong
Director

Hui Richard Rui
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Capital reserve HK\$'000	Investment revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Share options reserve HK\$'000	Convertible note reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2004											
- as originally stated	68,374	135,369	422,882	5	802	1,913	11,368	—	—	(586,005)	54,708
- effect of changes in accounting policies (note 2A)	—	—	—	—	—	—	—	—	2,963	(2,400)	563
- as restated	68,374	135,369	422,882	5	802	1,913	11,368	—	2,963	(588,405)	55,271
Release of reserves upon disposal of associates	—	—	—	—	—	(1,913)	(11,368)	—	—	—	(13,281)
Loss for the year (restated)	—	—	—	—	—	—	—	—	—	(2,778)	(2,778)
At 31 December 2004 and 1 January 2005	68,374	135,369	422,882	5	802	—	—	—	2,963	(591,183)	39,212
Recognition of expenses in relation to equity											
- settled share based payments	—	—	—	—	—	—	—	13,441	—	—	13,441
Issue of new shares	14,561	65,408	—	—	—	—	—	—	—	—	79,969
Issue upon exercise of share options	6,560	31,809	—	—	—	—	—	(13,441)	—	—	24,928
Expenses incurred in connection with issue of new shares	—	(2,058)	—	—	—	—	—	—	—	—	(2,058)
Reduction of nominal amount in connection											
with consolidated shares	(84,179)	—	84,179	—	—	—	—	—	—	—	—
Rights issue of shares	21,266	85,063	—	—	—	—	—	—	—	—	106,329
Expenses incurred in connection with rights issue of shares	—	(2,658)	—	—	—	—	—	—	—	—	(2,658)
Loss for the year	—	—	—	—	—	—	—	—	—	(51,706)	(51,706)
At 31 December 2005	26,582	312,933	507,061	5	802	—	—	—	2,963	(642,889)	207,457

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (restated)
OPERATING ACTIVITIES			
Loss for the year		(51,706)	(2,778)
Adjustments for:			
Depreciation		342	572
Gain on disposal of property, plant and equipment		(150)	—
Net realised loss on financial assets at fair value through profit or loss		994	2,330
Net unrealised loss (gain) on financial assets at fair value through profit or loss		15,506	(5,024)
Interest income		(1,217)	(4)
Interest expenses		88	2,129
Fair value adjustment on convertible note payable		—	563
Expenses recognised in respect of share option granted		13,441	—
Amortisation of the issue costs of convertible note payable		1,250	250
Dividend income		(843)	(576)
Share of results of associates		—	(1,027)
Share of results of joint ventures		221	282
Gain on disposal of subsidiaries		—	(2,909)
Gain on disposal of interests in associates		—	(12,254)
Operating cash flows before movements in working capital		(22,074)	(18,446)
Decrease in inventories		249	591
(Increase) decrease in other receivables		(654)	359
Increase (decrease) in other payables		332	(1,765)
Cash used in operations		(22,147)	(19,261)
Interest received		494	4
Interest paid		(88)	(2,129)
Dividend received		843	576
NET CASH USED IN OPERATING ACTIVITIES		(20,898)	(20,810)
INVESTING ACTIVITIES			
Purchases of financial assets at fair value through profit or loss		(88,602)	—
Purchases of property, plant and equipment		(25)	—
Proceeds from disposal of financial assets at fair value through profit or loss		8,060	29,518
Proceeds from disposal of property, plant and equipment		150	—
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	26	—	(192)
Proceeds from disposal of interests in associates	27	—	78,000
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(80,417)	107,326

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2005

	2005 HK\$'000	2004 HK\$'000 (restated)
FINANCING ACTIVITIES		
Loan to an investee company	(30,000)	—
Repayment of short-term borrowings	—	(25,000)
Redemption of convertible notes	(50,000)	(58,000)
Proceeds from issue of convertible notes	50,000	—
Costs in connection with issue of convertible notes	(1,250)	—
Proceeds from issue of new shares	79,969	—
Proceeds from exercise of share options	24,928	—
Proceeds from rights issue of shares	106,329	—
Expenses in connection with issue of new shares	(2,058)	—
Expenses in connection with rights issue of shares	(2,658)	—
NET CASH FROM (USED IN) FINANCING ACTIVITIES	175,260	(83,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	73,945	3,516
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	10,116	6,600
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	84,061	10,116
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	84,061	10,116

Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries, associate and jointly controlled entities are set out in notes 31, 32 and 33, respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“INTs”) (hereinafter collectively referred to as the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has no material effect on the presentation of the consolidated financial statements, but has resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

Share-based payment

In the current year, the Group has applied HKFRS 2 “Share-based Payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors’ and employees’ share options of the Company granted under the Share Option Scheme (the “Scheme”). Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised.

Following the adoption of HKFRS 2, the fair values of directors’ and employees’ share options are determined at the date of grant and are amortised over the relevant vesting periods to the consolidated income statement.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. The adoption of HKFRS 2 has a significant impact on the results of the Group for accounting periods beginning on 1 January 2005. An amount of HK\$13,441,000 representing the estimated fair value of share options granted in February 2005 under the Scheme was charged to the consolidated income statement during the year, with a corresponding credit to the equity.

Interests in jointly controlled entities

In previous years, interests in jointly controlled entities were accounted for using the equity method. HKAS 31 “Interests in Jointly Controlled Entities” allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue applying the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group’s interests in jointly controlled entities.

Financial instruments

In the current year, the Group has applied HKAS 32 “Financial instruments: Disclosure and Presentation” and HKAS 39 “Financial instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible note

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the consolidated balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative figures for 2004 has been restated in order to reflect the increase in effective interest on the liability component.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Classification and measurement of financial assets and financial liabilities

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

Debt or equity securities previously accounted for under the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24")

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of SSAP 24. Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Unquoted equity investments of which the fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39. Investments in securities which were previously classified as trading securities with carrying amount of HK\$22,616,000 were reclassified to financial assets at fair value through profit or loss on 1 January 2005. No adjustment has been made on 1 January 2005.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method.

During the year, an interest free loan advanced to an investee company classified as non-current asset is measured at fair value on initial recognition. As a result, a fair value adjustment made on initial recognition of HK\$13,489,000 was treated as deemed contribution to the investee and included in the carrying amount of available-for-sale investment. The corresponding adjustment was made to loan to an investee company.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 HK\$'000	2004 HK\$'000 (restated)
Expenses in relation to share options granted to employees	(13,441)	—
Imputed interest income on loan to an investee company determined using the effective interest method	723	—
Effect of recognition of effective interest expense on convertible note payable	—	(563)
Increase in loss for the year	<u>(12,718)</u>	<u>(563)</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) HK\$'000		As at 31 December 2004 (restated) HK\$'000		As at 1 January 2005 (restated) HK\$'000
		Adjustments HK\$'000		Adjustments HK\$'000	
Impact of HKAS 32 and HKAS 39:					
Accumulated losses	(588,220)	(2,963)	(591,183)	—	(591,183)
Convertible note reserve	—	2,963	2,963	—	2,963
Total effect on equity	(588,220)	—	(588,220)	—	(588,220)

The financial effects of the application of the new HKFRSs to the Group's entity on 1 January 2004 are summarised below:

	As originally stated HK\$'000		Adjustments HK\$'000	As restated HK\$'000
Accumulated losses	(586,005)	(2,400)	(588,405)	
Convertible note reserve	—	2,963	2,963	
Total effect on equity	(586,005)	563	(585,442)	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The HKICPA has also issued the following standards and interpretations that are not yet effective:

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 ²
HKFRS 7	Financial instruments: Disclosures ¹
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease ²
HK(IFRIC) - 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.

The directors anticipate that the adoption of these new HKFRSs in future years will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

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

Investments in subsidiaries

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

Interests in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interest that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

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

Turnover

Turnover represents the amount received and receivable for goods sold.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents accounts receivable for goods and services provided.

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

Interest income is accrued on a time basis, by reference to principal outstanding and at the effective interest rate applicable which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

Property, plant and equipment

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

During the year, there was a change in accounting estimate in respect of the useful lives of leasehold improvements, furniture, fixtures and equipment and motor vehicles, the effect of such change to the profit or loss of the year was immaterial.

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

Impairment

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

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

Financial instruments

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets

The Group's financial assets are mainly classified into financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables (including loan to an investee company, other receivables and bank balance) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

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

Convertible loan notes

Convertible loan notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity instruments

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

Taxation

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

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

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation 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 initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, interests in jointly controlled entities, 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 taxation 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.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

Inventories

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

Leasing

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investment, loan to an investee company, other receivables, financial assets at fair value through profit or loss, bank balances, other trade payables and convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short term bank deposits. Since the bank deposits are all short term in nature, any future variations in interest rates will not have a significant impact on the results of the Group. The Group's fair value interest rate risk relates primarily to convertible note.

(ii) Price risk

The Group's available-for-sale investment and financial assets at fair value through profit or loss are measured at fair value at each balance sheet date. Therefore, the Company is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's principal financial assets are loan to an investee company, other receivables and bank balances.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations at the balance sheet date in relation to each class of recognised financial assets is the carrying amount of those assets are stated in the balance sheet. The Group reviews the recoverable amount of each individual receivable at each balance sheet date to ensure that adequate impairment losses, if necessary, are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Principal activities are as follows:

Metals trading - Trading of metals products.

Sales of communication products - Trading of communication products.

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

Segment information about these businesses is presented below:

Income statement

	2005				
	Metals trading	Sales of communication products	Investments in securities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	9,764	5	—	—	9,769
Segment result	65	1	(16,014)	150	(15,798)
Interest income	—	—	—	—	1,217
Unallocated corporate expenses	—	—	—	—	(35,566)
					(50,147)
Share of results of jointly controlled entities	—	(221)	—	—	(221)
Finance costs	—	—	—	—	(1,338)
Loss for the year	—	—	—	—	(51,706)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

	2004 (restated)			
	Metals trading HK\$'000	Sales of communication products HK\$'000	Investments in securities HK\$'000	Total HK\$'000
Turnover	4,219	128	—	4,347
Segment result	(153)	28	3,158	3,033
Interest income	—	—	—	4
Unallocated corporate expenses	—	—	—	(18,781)
				(15,744)
Share of results of associates	—	—	1,027	1,027
Share of results of jointly controlled entities	—	(282)	—	(282)
Gain on disposal of subsidiaries	—	2,909	—	2,909
Gain on disposal of associates	—	—	12,254	12,254
Finance costs				(2,942)
Loss for the year				(2,778)

Balance sheet

	2005		2004	
	Segment assets HK\$'000	Segment liabilities HK\$'000	Segment assets HK\$'000	Segment liabilities HK\$'000
Metals trading	87,050	4,034	13,871	3,702
Investments in securities	87,708	—	22,812	—
Interests in jointly controlled entities	6,010	—	6,231	—
Other corporate assets	30,723	—	—	—
	211,491	4,034	42,914	3,702

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Other information

	2005 HK\$'000	2004 HK\$'000
Capital additions		
Metals trading	25	—
Depreciation		
Metals trading	342	572
Gain on disposal of property, plant and equipment		
Others	150	—

(b) Geographical segments

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

6. OTHER OPERATING INCOME

	2005 HK\$'000	2004 HK\$'000
Interest on bank deposits	494	4
Interest on loan to an investee company	723	—
Dividends from financial assets at fair value through profit or loss	843	576
Gain on disposal of property, plant and equipment	150	—
	2,210	580

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

7. ADMINISTRATIVE EXPENSES

Following the adoption of HKFRS 2 which is effective for accounting periods beginning on or after 1 January 2005, an amount of HK\$13,441,000 representing the estimated fair value of share options granted in February 2005 under the Share Option Scheme of the Company, was charged to the consolidated income statement during the year, with a corresponding credit to the equity.

8. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000 (restated)
Interest on:		
Convertible note payable	(1,338)	(2,308)
Other borrowings wholly repayable within five years	—	(71)
	<u>(1,338)</u>	<u>(2,379)</u>
Fair value adjustment on convertible note payable	—	(563)
	<u>(1,338)</u>	<u>(2,942)</u>

9. LOSS FOR THE YEAR

	2005 HK\$'000	2004 HK\$'000
Loss for the year has been arrived at after charging:		
Auditors' remuneration	850	693
Depreciation	342	572
Directors' emoluments	6,477	5,204
Contributions to retirement benefits scheme	146	125
Other staff costs	<u>18,560</u>	<u>4,996</u>
Total staff costs	<u>25,183</u>	<u>10,325</u>
Cost of inventories recognised	9,534	3,977
Minimum lease payments under operating leases in respect of rented premises	<u>1,529</u>	<u>2,132</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

10. DIRECTORS' EMOLUMENTS

	2005					2004				
	Salaries and other Discretionary Retirement Fees benefits bonus benefits Total					Salaries and other Discretionary Retirement Fees benefits bonus benefits Total				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive:										
Mr. Chiu Kong	—	1,696	100	12	1,808	—	818	100	10	928
Mr. Chung Nai Ting	—	780	100	12	892	—	754	100	12	866
Mr. Hui Richard Rui	—	1,072	150	12	1,234	—	301	150	4	455
Mr. Tsui Ching Hung	—	1,017	100	12	1,129	—	1,017	100	12	1,129
Mr. Tse Lanny Cheuk Ming	—	702	250	12	964	—	660	250	12	922
Mr. Yeung Kwok Yu	—	—	—	—	—	—	446	—	8	454
Independent non-executive:										
Mr. Tong Wui Tung	150	—	—	—	150	150	—	—	—	150
Mr. Chan Sze Hung	150	—	—	—	150	150	—	—	—	150
Mr. Frank H. Miu	150	—	—	—	150	150	—	—	—	150
	<u>450</u>	<u>5,267</u>	<u>700</u>	<u>60</u>	<u>6,477</u>	<u>450</u>	<u>3,996</u>	<u>700</u>	<u>58</u>	<u>5,204</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2004: four) were directors of the Company whose emoluments are included in the note 10 above. The emoluments of the remaining highest paid individual (2004: one) were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	954	878
Retirement benefit scheme contributions	12	12
	<u>966</u>	<u>890</u>

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

12. TAXATION

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

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

	2005 HK\$'000	2004 HK\$'000
Loss for the year	<u>(51,706)</u>	<u>(2,778)</u>
Tax credit at the domestic income tax rate of 17.5%	9,049	486
Tax effect of share of results of associates	—	180
Tax effect of share of results of jointly controlled entities	(39)	(49)
Tax effect of expenses not deductible for tax purpose	(6,409)	(1,319)
Tax effect of income not taxable for tax purpose	360	101
Tax effect of tax losses not recognised	(2,961)	(11)
Tax effect of utilisation of losses not previously recognised	<u>—</u>	<u>612</u>
Taxation for the year	<u>—</u>	<u>—</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of approximately HK\$51,706,000 (2004: HK\$2,778,000 restated for adoption of HKFRSs) and on the weighted average number of 291,743,468 (2004: 203,741,512) ordinary shares in issue after adjusted for the effect of share consolidation taken place on 11 July 2005 and 6 March 2006 as disclosed in notes 22(c) and 30, respectively and rights issue on 6 December 2005. As a result of the effect of adoption of HKFRSs, the loss per share for the year ended 31 December 2004 has increased by HK\$0.0028.

No diluted loss per share had been presented in 2005 and 2004 as the effect of the potential ordinary shares outstanding in respect of the convertible note payable was anti-dilutive.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST				
At 1 January 2004	428	1,603	2,462	4,493
Disposal of subsidiaries	—	(843)	—	(843)
At 31 December 2004	428	760	2,462	3,650
Additions	—	25	—	25
Disposal	—	—	(395)	(395)
At 31 December 2005	428	785	2,067	3,280
DEPRECIATION				
At 1 January 2004	342	930	1,592	2,864
Provided for the year	21	68	483	572
Eliminated on disposal of subsidiaries	—	(287)	—	(287)
At 31 December 2004	363	711	2,075	3,149
Provided for the year	17	36	289	342
Eliminated on disposal	—	—	(395)	(395)
At 31 December 2005	380	747	1,969	3,096
NET BOOK VALUES				
At 31 December 2005	48	38	98	184
At 31 December 2004	65	49	387	501

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

15. AVAILABLE-FOR-SALE INVESTMENT

On 8 June 2005, the Group entered into the Sale and Purchase Agreement with Fabulous Resources Limited (“Fabulous Resources”) to acquire 6 shares at a par value of US\$1 each in the issued share capital of Found Macau Investments International Limited (“Found Macau”), a private company incorporated in the British Virgin Islands, from Fabulous Resources. On the same date, the Group also advanced HK\$30,000,000 which had been remeasured at fair value in accordance with Hong Kong Accounting Standards at an amount of approximately 16,511,000 to Found Macau, and as a result, a fair value adjustment made on initial recognition of 13,489,000 was treated as deemed contribution to the investee and included in the carrying amount of available-for-sale investment. The loan is unsecured, interest free and repayable on demand at face value of HK\$30,000,000 after 8 years from the date of drawdown.

16. LOAN TO AN INVESTEE COMPANY

As described in note 15, an interest free loan advanced to an investee company was remeasured at fair value on initial recognition. The loan has an effective interest rate of 7.75%. At the balance sheet date, the carrying value of the loan is measured at amortised cost less impairment loss and its fair value approximates to the carrying amount.

17. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Cost of unlisted investment in an associate	—	—
Loan to an associate	54,050	54,050
Less: Impairment loss recognised	(54,050)	(54,050)
	<u>—</u>	<u>—</u>

The Group does not recognize its share of loss of the associate. Details of the Group’s associate at 31 December 2005 are set out in note 32.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

18. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005	2004
	HK\$'000	HK\$'000
Cost of unlisted investments in jointly controlled entities	20,000	20,000
Share of post-acquisition losses	(3,990)	(3,769)
Less: Impairment loss recognised	(10,000)	(10,000)
	<u>6,010</u>	<u>6,231</u>
Share of net assets	<u>6,010</u>	<u>6,231</u>

Details of the Group's jointly controlled entities at 31 December 2005 are set out in note 33.

The summarised financial information in respect the Group's jointly controlled entities which are accounted for using the equity method is set out below:

	2005	2004
	HK\$'000	HK\$'000
Current asset	<u>18,915</u>	<u>18,534</u>
Non-current assets	<u>62</u>	<u>151</u>
Current liabilities	<u>6,957</u>	<u>6,223</u>
Income	<u>175</u>	<u>64</u>
Expenses	<u>618</u>	<u>648</u>

19. OTHER FINANCIAL ASSETS

Other receivables

The fair value of the Group's other receivables at 31 December 2005 was approximate to the corresponding carrying amount.

Bank balances

Bank balances comprise short-term bank deposits at prevailing market interest rates. The fair value of these assets at December 31, 2005 was approximate to the corresponding carrying amount.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

20. INVESTMENTS IN SECURITIES/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

On 1 January 2005, the Group classified and measured its equity securities in accordance with the requirements of HKAS 39 which is effective for annual periods beginning on or after 1 January 2005. Investments in securities which were previously classified as trading securities with carrying amount of HK\$22,616,000 were reclassified to financial assets at fair value through profit or loss on 1 January 2005. Details of the investments are as follows:

	THE GROUP	
	2005	2004
	HK\$'000	HK\$'000
Equity securities listed in Hong Kong, at market value	<u>86,658</u>	<u>22,616</u>

The above financial assets at fair value through profit or loss are investments held for trading and their fair values are determined based on the quoted market closing prices available on The Stock Exchange.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

21. CONVERTIBLE NOTE PAYABLE

	2005 HK\$'000	2004 HK\$'000
Convertible note payable		
Balance at the beginning of the year	—	58,000
Issued during the year	50,000	—
Redeemed on maturity date during the year	(50,000)	(58,000)
	<hr/>	<hr/>
Balance at the end of the year	—	—
	<hr/>	<hr/>
Issue costs		
Balance at the beginning of the year	—	250
Incurred during the year	1,250	—
Amortised during the year	(1,250)	(250)
	<hr/>	<hr/>
Balance at the end of the year	—	—
	<hr/>	<hr/>
Carrying value at the end of the year	<hr/> <hr/>	<hr/> <hr/>

On 30 May 2001, the Company entered into an agreement (the “2001 Agreement”) with a placing agent for the placement of convertible notes issued by the Company up to an aggregate principal amount of HK\$60,000,000 (the “2001 Convertible Note”). The 2001 Convertible Note was unsecured and carried interest at 7% per annum, accrued on a daily basis and payable every year in arrears. The 2001 Convertible Note might be converted into ordinary shares of the Company at an initial price of HK\$0.028 per share and the conversion prices were HK\$0.031 and HK\$0.034 per share respectively for the period from the date immediately following the first anniversary from the date of issue of the 2001 Convertible Note (the “Issue Date”) to the second anniversary from the Issue Date and for the period from the date immediately following the second anniversary from the Issue Date to the third anniversary of the Issue Date. These conversion prices were subject to adjustments in accordance with the relevant provisions in the 2001 Agreement. The 2001 Convertible Note would only be repaid at its face value upon maturity on 3 July 2004 to the extent of the amount not previously converted. The remaining balance of the 2001 Convertible Note in the principal amount of HK\$58,000,000 was redeemed in full upon maturity in 2004.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

21. CONVERTIBLE NOTE PAYABLE (Continued)

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

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

22. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2005	2004	2005	2004
			HK\$'000	HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At the beginning of year	50,000,000,000	50,000,000,000	500,000	500,000
Decrease on 11 July 2005	(47,500,000,000)	—	(475,000)	—
Increase on 15 November 2005	22,500,000,000	—	225,000	—
At the end of the year	<u>25,000,000,000</u>	<u>50,000,000,000</u>	<u>250,000</u>	<u>500,000</u>
Issued and fully paid:				
At the beginning of year	6,837,422,389	6,837,422,389	68,374	68,374
Issue of new shares				
announced on 10 January 2005				
(note (a))	1,367,484,000	—	13,675	—
announced on 24 August 2005				
(note (a))	88,600,000	—	886	—
Issue upon exercise of				
share options (note (b))	656,000,000	—	6,560	—
Share consolidation (note (c))	(8,417,861,070)	—	(84,179)	—
Rights issue of shares (note (d))	2,126,581,276	—	21,266	—
At the end of the year	<u>2,658,226,595</u>	<u>6,837,422,389</u>	<u>26,582</u>	<u>68,374</u>

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

22. SHARE CAPITAL OF THE COMPANY (Continued)

Notes:

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

On 24 August 2005, the Company entered into an agreement with a placing agent for placement of 88,600,000 new shares to independent investors at a price of HK\$0.1 per new share on a fully underwritten basis. The net proceeds amounting to HK\$8,500,000 was used for general working capital of the Group.

- (b) On 1 February 2005, the Company granted share options to employees to subscribe for 656,000,000 ordinary shares of the Company of HK\$0.01 each at the subscription price of HK\$0.038 per share (closing price per share on 31 January 2005 was HK\$0.037) under the share option scheme adopted on 27 May 2002. Share options granted may be exercised any time from the date of grant to the day preceding the first anniversary of the date of grant. On 2 February 2005, the share options were exercised in full at the subscription price of HK\$0.038 per share (closing price per share on 1 February 2005 was HK\$0.034).
- (c) Pursuant to a special resolution passed at the special general meeting on 8 July 2005:
- (i) every twenty shares of HK\$0.01 each in the issued and unissued ordinary share capital of the Company be and are hereby consolidated into one consolidated share of HK\$0.20 ("Consolidated Share"); and
 - (ii) every issued and unissued Consolidated Share of the Company be and is hereby reduced in nominal amount by cancelling HK\$0.19 of the capital paid up on each issued Consolidated Share and by reducing the nominal amount of each authorised but unissued Consolidated Share, from HK\$0.20 to HK\$0.01 each so as to form one share of HK\$0.01 each.
- (d) On 15 November 2005, the Company approved issue of 2,126,581,276 shares of HK\$0.01 each by way of rights to holders of shares in the Company at HK\$0.05 per share ("Rights Share") in the proportion of four Rights Shares for every existing share held by holders of shares. On 6 December 2005, 2,126,581,276 Rights Shares were allotted.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

23. SHARE-BASED PAYMENT TRANSACTIONS

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

Pursuant to the Scheme, the Company may grant options to employees (including existing and proposed directors), adviser, consultant, agent, contractor, client and supplier of any members of the Group (collectively the “Participants”). The purpose of the Scheme is to recognise and motivate the contribution of Participants and to provide incentives and help the company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company. The total number of shares available for issue under the Scheme is 1,387,111 which represents 0.05% of the issued share capital of the Company as at 31 December 2005. No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in twelve month period up to and including the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates abstaining from voting. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the board of the directors of the Company (the “Board”) may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised. The subscription price of the option shall be determined by the Board but in any case shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited on the date of grant which must be a trading day, (ii) the average closing price of the Shares as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a Share. Upon acceptance of the option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

23. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following table discloses movements of the Company's share options held by employees during the year:

Details of specific categories of options are as follows:

Option type	Date of grant	Exercisable period	Exercise price	Exercise date
2005	1.2.2005	1.2.2005-31.1.2006	HK\$0.038	2.2.2005
Option type	Outstanding at 1.1.2005	Granted during year	Exercised during year	Outstanding at 31.12.2005
2005	—	656,000,000	(656,000,000)	—
Exercise price	—	HK\$0.038	HK\$0.038	—

In respect of the share options exercised during the year, the share price at the date of exercise is HK\$0.033.

During the year ended 31 December 2005, options were granted on 1 February 2005. The estimated fair value of the option granted on that date is approximately HK\$0.02. No options were granted in year ended 31 December 2004.

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

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

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 266 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised the total expense of HK\$13,441,000 for the year ended 31 December 2005 (2004: nil) in relation to share options granted by the Company.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

24. RESERVES

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

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

	2005 HK\$'000	2004 HK\$'000
Jointly controlled entities		
- translation reserve	5	5
- accumulated losses	(3,995)	(3,774)
	<u>(3,990)</u>	<u>(3,769)</u>

25. DEFERRED TAXATION

At the balance sheet date, the Group had unused tax losses of approximately HK\$143,475,000 (2004: HK\$126,558,000) available to offset against future profits. No deferred taxation asset has been recognised due to the unpredictability of future profit streams.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

26. DISPOSAL OF SUBSIDIARIES

In 2004, the Group disposed of its interests in certain subsidiaries which were investment holding companies.

The effect of the disposal is summarised as follows:

	2004 HK\$'000
Net liabilities disposed of:	
Property, plant and equipment	556
Inventories	4,939
Trade and other receivables	3,312
Bank balances and cash	234
Trade and other payables	(11,908)
	<hr/>
	(2,867)
Gain on disposal of subsidiaries	2,909
	<hr/>
Cash consideration	42
	<hr/>
Net cash inflow (outflow) arising on disposal:	
Cash consideration	42
Bank balances and cash disposed of	(234)
	<hr/>
Cash consideration	(192)
	<hr/>

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

27. DISPOSAL OF INTERESTS IN ASSOCIATES

The Group disposed of its entire interests in associates in 2004. The effect of the disposal is summarised as follows:

	2004 HK\$'000
Net assets disposed of:	
Interests in associates	232,437
Less: Impairment loss recognised	(153,410)
	<hr/>
	79,027
Reserves attributable to the Group and released upon disposal	(13,281)
	<hr/>
	65,746
Gain on disposal of interests in associates	12,254
	<hr/>
Cash consideration received	78,000
	<hr/> <hr/>

28. RETIREMENT BENEFIT SCHEME

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

29. OPERATING LEASE COMMITMENTS

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

	2005 HK\$'000	2004 HK\$'000
In respect of rented premises:		
Within one year	2,011	2,105
In the second to fifth year inclusive	3,423	120
	<u>5,434</u>	<u>2,225</u>

Operating lease payments represent rentals payable by the Group for their rented premises. Leases are negotiated for an average term of two to three years.

30. POST BALANCE SHEET EVENTS

Pursuant to a special resolution passed at the special general meeting on 3 March 2006,

- (i) every five shares in the issued ordinary share capital of the Company was consolidated into one consolidated share ("Consolidated Share") of par value HK\$0.05; and
- (ii) every issued Consolidated Share of the Company was reduced in nominal amount by cancelling HK\$0.04 of the share capital paid up for each issued Consolidated Share from HK\$0.05 to HK\$0.01 each so as to form (after the share consolidation) one reorganized share of par value HK\$0.01 each.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

31. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Able King Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Acewell Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Ample Asset Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Cache Up Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Calculation Assets Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Securities investment
Century Power Investment Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
E-Tech Pacific Limited	British Virgin Islands*	1 ordinary share of US\$1 each	100%	—	Investment holding
Excel Capital Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Gain Metro Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Gain Star Group Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Gold Castle Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Hopeway Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
MetalsTrack Holdings Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

31. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ operation	Issued share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
MetalsTrack International Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
MetalsTrack Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Northlink Holdings Limited	British Virgin Islands*	200 ordinary shares of US\$1 each	100%	—	Investment holding
Ocean Vision Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Profit Linkage Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Swanpak Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive
Target Millennium Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Truwell Asia Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Vaford Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Investment holding
Wealth Prospect Limited	Hong Kong	2 ordinary share of HK\$1 each	—	100%	Metals trading and sale of communication products
Winford Investments Limited	British Virgin Islands*	1 ordinary share of US\$1 each	—	100%	Investment holding
Woodbridge Enterprises Limited	Hong Kong	2 ordinary shares of HK\$1 each	—	100%	Inactive

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

None of the subsidiaries had any debt securities at 31 December 2005 or at any time during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2005

32. PARTICULARS OF AN ASSOCIATE

Particulars of the Group's associate as at 31 December 2005 are as follows:

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

33. PARTICULARS OF JOINTLY CONTROLLED ENTITIES

Particulars of the Group's jointly controlled entities as at 31 December 2005 are as follows:

Name of joint venture	Place of incorporation/ operation	Issued share capital/ registered capital	Nominal value of issued share capital/ registered capital held by the Group	Principal activities
PTAC Cyber E-Biz Limited	Hong Kong	4 ordinary shares of HK\$1 each	50%	Investment holding
PTAC Cyber E-Biz (Tianjin) Limited	PRC*	Registered capital HK\$2,000,000	50%	Trading of communication products

* Sino-foreign joint entity enterprise registered in the PRC.

Financial Summary

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000
RESULTS					
LOSS FOR THE YEAR	<u>(51,706)</u>	<u>(2,778)</u>	<u>(199,424)</u>	<u>(128,211)</u>	<u>(28,452)</u>
	At 31 December				
	2005	2004	2003	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	211,491	42,914	154,833	305,406	439,717
TOTAL LIABILITIES	<u>(4,034)</u>	<u>(3,702)</u>	<u>(100,125)</u>	<u>(67,529)</u>	<u>(65,143)</u>
NET ASSETS	<u>207,457</u>	<u>39,212</u>	<u>54,708</u>	<u>237,877</u>	<u>374,574</u>

Note: Comparatives for 2004 have been adjusted to reflect the change in accounting policy as described in note 2A.