COL Capital Limited

(Incorporated in Bermuda with Limited Liability)

(Stock Code: 0383)

Annual Report 2005

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Ms. Chong Sok Un *(Chairman)*
Dato' Wong Peng Chong *(Executive Director)*
Mr. Kong Muk Yin *(Executive Director)*
Mr. Lo Wai On *(Independent Non-executive Director)*
Mr. Lau Siu Ki *(Independent Non-executive Director)*
Mr. Yu Qi Hao *(Independent Non-executive Director)*

SECRETARY

Ms. Fung Ching Man, Ada

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM 12, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

47/F., China Online Centre
333 Lockhart Road
Wanchai
Hong Kong

WEBSITE

http://www.colcapital.com.hk

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
CITIC Ka Wah Bank Limited
Industrial and Commercial Bank of China (Asia) Limited

ADR DEPOSITARY BANK

The Bank of New York
American Depositary Receipts
620 Avenue of the Americas, 6/F
New York, NY 10011
USA

SOLICITORS

P.C. Woo & Co.
Fred Kan & Co.
Robertsons

HONG KONG BRANCH SHARE REGISTRARS

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of the Company (the "Board"), I have pleasure to report on the financial results, operations and other aspects of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

FINANCIAL RESULTS

For the year ended 31 December 2005, the Group's turnover decreased by 73.7% to HK$223,086,000 (2004: HK$847,491,000) and net profit attributable to equity holders of the Company decreased by 48.6% to HK$104,511,000 (2004: HK$203,274,000) mainly due to reduced securities trading and mobile handsets distribution activities. However, as a result of our share repurchase (mentioned herein below under the section "Financial Resources, Borrowings, Capital Structure and Exposures to Fluctuations in Exchange Rates"), the earnings per share of the Company for 2005 decreased by a lesser scale of 39.7%, compared to that of the net profit, to HK$0.35 (2004: HK$0.58).

As at 31 December 2005, the Group's net asset value per share was HK$4.3 (2004: HK$4.1).

DIVIDENDS

An interim dividend of HK$0.01 per share was paid during 2005 (2004: HK$0.01). The Directors recommend the payment of a final dividend of HK$0.04 per share (2004: HK$0.04) amounting to approximately HK$11,879,000 to shareholders whose names appear on the Register of Members of the Company on Thursday, 1 June 2006. Dividend warrants are expected to be dispatched on or before Friday, 30 June 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 29 May 2006 to Thursday, 1 June 2006, both days inclusive, during which no share transfer will be effected.

REVIEW OF OPERATIONS

2005 was a challenging year for Star Telecom Limited ("STAR"), which operates the Group's mobile handsets distribution business. STAR recorded a substantial drop in turnover to HK$66,309,000 (2004: HK$237,205,000) and a loss of HK$2,086,000 (2004: Profit of HK$21,791,000) as a result of a highly competitive market environment. The rivalry in the 2G mobile handsets market became increasingly fierce mainly due to the price war among market players of all sizes and the impact from the growing acceptance of 3G mobile handsets together with the highly aggressive promotion campaigns of the telecom services providers. Since the second quarter of 2005, while the market has become more dynamic, the product life cycle of mobile handsets has been significantly shortened. In order to enhance our ability to quickly respond to new market conditions, we have been very cautious in our vendor selection and distribution strategy and had adopted a stringent inventory control policy. We had actively pursued and developed new business partnerships to explore new revenue sources. During the last quarter of 2005, STAR had been successful in winning the distributorship of products of BenQ, a company which has become the 5th largest mobile handsets manufacturer in the world as a result of their recent acquisition of Siemens Mobile.

CHAIRMAN'S STATEMENT

For the trading and investment in financial instruments, the Group recorded a turnover of HK$142,361,000 (2004: HK$592,055,000) and a profit of HK$104,524,000 (2004: HK$191,026,000) for the year ended 31 December 2005. Continuing with the trend of the first half of 2005, the stock market remained volatile resulting in the reduction of securities trading activities of the Group.

The Group's money lending business contributed a turnover of mainly interest income of HK$11,693,000 (2004: HK$15,787,000) and a profit of HK$11,528,000 (2004: HK$15,747,000) during the year under review.

For 2005, the Group's investment properties in Hong Kong and the People's Republic of China ("China") achieved a turnover of HK$2,723,000 (2004: HK$2,444,000) and a profit of HK$12,166,000 (2004: HK$6,321,000) attributing mainly to the gain from fair value changes on its property portfolio. During the first half of the year, the Group acquired a 75% interest in a company in China ("Property Holding Subsidiary") which holds a piece of land located at Buji Town, Shenzhen, China ("Investment Property"), together with the acquisition of the related shareholder's loan for a total consideration of HK$58,491,000. The site area of the Investment Property, with the foundation works already completed, is about 5,241.3 square metres. In order to finance the payment for the expenses related to the provision of urban facilities by the local government authorities, the registered capital of the Property Holding Subsidiary was increased from RMB26 million to RMB46 million during the second half of 2005.

FINANCIAL RESOURCES, BORROWINGS, CAPITAL STRUCTURE AND EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2005, the Group continued to maintain a strong financial position in our non-current assets consisting mainly of investment properties of HK$136,526,000 (2004: HK$44,640,000); property, plant and equipment of HK$51,825,000 (2004: HK$3,884,000); prepaid lease payments of HK$2,483,000 (2004: HK$2,542,000) and long term investments of HK$258,438,000 (2004: HK$314,447,000). These non-current assets were principally financed by shareholders' funds. As at 31 December 2005, the Group had net current assets of HK$857,849,000 (2004: HK$858,139,000) and current ratio of 6.8 times (2004: 22.3 times) calculated on the basis of the Group's current assets over current liabilities.

All the Group's borrowings are arranged on a short-term basis, in Hong Kong Dollars, repayable within one year and secured by certain investment properties, marketable securities and bank deposits. As at 31 December 2005, the Group had borrowings of HK$100,986,000 (2004: Nil) and a gearing ratio of 6.6% (2004: Nil), calculated on the basis of the Group's net borrowings (after deducting cash and bank balances) over shareholders' fund.

During the second half of 2005, the issued share capital of the Company was reduced from HK$3,018,000 to HK$2,975,000 as a result of the repurchase of 4,276,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK$5,568,000.

During the year under review, the Group's assets, liabilities and transactions were mainly denominated in Hong Kong Dollar, Australian Dollar, Renminbi ("RMB") and Malaysian Ringgit. Because of its short-term nature, the Group had not actively hedged risks arising from Australian Dollar denominated assets and transactions. As the exchange rate of RMB had been recently appreciated and the exchange rate of Malaysian Ringgit was relatively stable during the year, the Group was not materially affected by these foreign exchange exposures.

CHAIRMAN'S STATEMENT

CHARGE ON GROUP ASSETS

As at 31 December 2005, the Group's investment properties, investments held for trading (previously "investments in securities" in 2004) and bank balances and cash with respective carrying values of HK$22,100,000 (2004: HK$15,000,000), HK$756,305,000 (2004: HK$631,924,000) and HK$10,526,000 (2004: HK$15,182,000) were pledged to financial institutions to secure the credit facilities granted to the Group.

EMPLOYEES

The Group had 32 employees as at 31 December 2005 (2004: 47). The Group ensures that its employees are remunerated in line with market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

PROSPECTS

The economy of Hong Kong experienced reasonable growth in 2005 with the unemployment rate dropping to a 51-month low of 5.3% at the end of the year and local consumption remaining strong with retail sales volume rising to 5.9%. These positive developments occurred against the backdrop of various favourable "China factors" such as China's accommodative monetary policy, capital inflows attributed to IPOs from various China enterprises and the expectation of the appreciation of the RMB. The Group remains cautiously optimistic about the economic and investment outlook. However, we will continue to monitor any possible adverse impact of factors such as the volatile energy prices, uncertainties of the US and local interest rate movements, possible administrative tightening in China to tackle excessive growth in bank lending and in property prices in major cities, and the escalating political tensions in the region.

Besides BenQ-Siemens, STAR has also secured new distributorship agreements with Pantech (one of the top three Korean brands), Grundig (a famous household German brand) and KBT (a new Korean brand) to market both their 2G and 3G mobile handsets. With a strong product portfolio, balanced product mix, and the unprecedented market opportunities presented by the growing demand for 3G services in addition to the revival of the Hong Kong economy, STAR is cautiously confident that it is poised to optimize its sales performance for greater business benefits. Currently, STAR is the authorized distributor in Hong Kong and Macau of certain strong brand names including NEC, Alcatel, BenQ-Siemens, Pantech, Grundig, KBT and Xcell. STAR will continue to look for products with high potential to distribute in order to continuously enrich its product portfolio and sustain business growth.

Subsequent to the balance sheet date, in view of the negative impact of the possible continued austerity measures to curb the bubble in China's property market, the Group took the opportunity to unwind its investment in the Investment Property as referred to earlier by entering into a conditional framework agreement with a third party to dispose of its entire 75% interest in the Property Holding Subsidiary, the related shareholder loan and the advance to a minority shareholder for a total consideration of RMB99,900,000. Pursuant to such agreement, deposit and first installment payment totaling RMB31,220,000 have been received with the remaining balance of RMB68,680,000 payable within six months from the completion date and bearing interest at the rate of 1% per month.

Further, riding on the sentiment of the buoyant stock market, the Group sold 70,000,000 shares of Tian An China Investments Company Limited from its trading portfolio in March 2006, generated cash proceeds of HK$257,600,000 for the Group.

CHAIRMAN'S STATEMENT

The Group will constantly review and adjust its business direction, investment strategies and investment portfolio (both financial and property-related) to continuously aim for improvement in our business performance and our financial strength. The Group is well equipped to take advantage of viable business and investment opportunities in China, Hong Kong and the Asia Pacific region to enhance value for its shareholders.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to our shareholders for their continued support, our customers and suppliers for their trust and confidence, and our management and staff for their hard work and dedication to the group during the year.

Chong Sok Un
Chairman

Hong Kong, 13 April 2006

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Ms. Chong Sok Un, aged 51, was appointed as executive director and chairman of the Company on 23 August 2002. She has been chairman of Long Island Golf & Country Club, Dongguan, China and independent director of Fujian Minnan (Zhangzhou) Economy Development Co., Ltd., a public listed company in Shenzhen Stock Exchange, since September 1998 and September 2001 respectively. During 1992 to 2000, she was appointed as director and chief executive officer of Shenyin Wanguo (H.K.) Limited. Ms. Chong holds a master degree in business administration.

Dato' Wong Peng Chong, aged 62, was appointed as executive director of the Company on 15 March 2002. Upon his graduation from the University of Malaya in 1967 with a Bachelor of Arts (Honours), he joined the Malaysian Foreign Service and served with several Malaysian diplomatic missions overseas in various capacities. Dato' Wong joined the private sector in 1985 and has served in various senior management positions in Hong Kong and Malaysia.

Mr. Kong Muk Yin, aged 40, was appointed as executive director of the Company on 13 May 2002. He was graduated from City University of Hong Kong with a bachelor's degree in business studies. He is a fellow member of The Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants and a Chartered Financial Analyst and has over 15 years of working experience in corporate finance, financial management, accounting and auditing.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Lo Wai On, aged 44, was appointed as non-executive director of the Company on 15 March 2002 and then changed his office held to independent non-executive director on 29 October 2002. He is a fellow member of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and has been practicing under the name of his own firm, W.O. Lo & Co., Certified Public Accountants (Practising) since 1986. He has broad experience in providing tax consulting and auditing services to companies including listed companies in Hong Kong.

Mr. Lau Siu Ki, aged 47, was appointed as independent non-executive director of the Company on 3 June 2004. He has over 20 years of experience in corporate finance, financial advisory and management, accounting and auditing. He is currently working as a consultant in the financial advisory field. Prior to that, Mr. Lau had worked in an international accounting firm for over 15 years. He is a fellow member of both the Association of Chartered Certified Accountants ("ACCA") as well as the Hong Kong Institute of Certified Public Accountants. He is also a member of the Council of ACCA. He has served as a member of the Committee of the Hong Kong branch of ACCA since 1995 and was the Chairman of ACCA Hong Kong for the year 2000/2001. Mr. Lau also serves on the board of various other listed companies in Hong Kong as independent non-executive director.

Mr. Yu Qi Hao, aged 59, was appointed as independent non-executive director of the Company on 10 November 2004. He is a certified public accountant, PRC. Mr. Yu was graduated from Shanghai University of Finance and Economics. He is an independent advisor of Deloitte Touche Tohmatsu CPA Ltd. in Shanghai. From 1981 to 1991, he worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as assistant president of Shanghai Industrial Investment (Holdings) Company Limited, Hong Kong.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Chan Yau Shing, aged 41, was appointed as general manager of Star Telecom Limited ("Star Telecom"), a wholly-owned subsidiary of the Company, in March 2003. Prior to assuming his present position, Mr. Chan was the Senior Manager of Star Telecom. Graduated from the Macquarie University, Australia with a master degree in Marketing Management, Mr. Chan has over 15 years of working experience in product & market development, sales management and business planning profession. Mr. Chan has substantial experience in telecommunication and hi-tech fields. He also held various key positions in several reputable companies, like Chevalier (Paging Services) Limited and China Resources Peoples Telephone Company Limited.

Ms. Fung Ching Man, Ada, aged 39, is the company secretary of the Company. She is an associate member of The Institute of Chartered Secretaries and Administrators and has over 15 years of working experience in the company secretarial profession.

DIRECTORS' REPORT

The directors of the Company (the "Director(s)") present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 22.

An interim dividend of HK$0.01 per share amounting to HK$2,990,000 was paid to the shareholders of the Company (the "Shareholders") during the year. The Directors recommended the payment of a final dividend of HK$0.04 per share to the Shareholders whose names appear on the register of members of the Company on 1 June 2006, amounting to HK$11,879,000.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 to the financial statements.

During the year, the Company repurchased certain of its own shares through The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in note 30 to the financial statements. The Directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

The Group's investment properties were revalued at 31 December 2005 and the resulting revaluation increase of HK$11,360,000 has been credited to the consolidated income statement.

The Group's property, plant and equipment were revalued at 31 December 2005 and the resulting revaluation increase has been credited to the consolidated income statement of HK$773,000.

Details of these and other movements in the investment properties, and property, plant and equipment of the Group during the year are set out in notes 17 and 18 to the financial statements, respectively.

DIRECTORS AND SERVICE CONTRACTS

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

Executive Directors

Ms. Chong Sok Un *(Chairman)*
Dato' Wong Peng Chong
Mr. Kong Muk Yin

Independent Non-executive Directors

Mr. Lo Wai On
Mr. Lau Siu Ki
Mr. Yu Qi Hao

In accordance with clauses 99 and 182 (vi) of the Company's bye-laws, Ms. Chong Sok Un and Mr. Lo Wai On will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

As at 31 December 2005, the interests and short positions of the Directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Hong Kong (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Long positions in the shares of the Company

	Number of ordinary shares of HK$0.01 each					Percentage of issued ordinary shares
Name of Director	Personal interests	Family interests	Corporate interests	Other interests	Total	
Ms. Chong Sok Un ("Ms. Chong")	–	–	106,512,400 *(Note)*	–	106,512,400	35.80%

Note: Vigor Online Offshore Limited ("Vigor Online"), a 67.7% owned subsidiary of China Spirit Limited ("China Spirit"), and Bilistyle Investments Limited ("Bilistyle") held 105,248,000 and 1,264,400 ordinary shares of the Company respectively. Ms. Chong maintains 100% beneficial interests in both China Spirit and Bilistyle. Accordingly, Ms. Chong is deemed to have corporate interests in 106,512,400 ordinary shares of the Company.

Save as disclosed above, as at 31 December 2005, none of the Directors, the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE 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 to acquire benefits by means of the acquisition of shares, underlying shares, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following parties had interests or short positions in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Long positions in the shares of the Company

Name	Capacity	Number of ordinary shares held	Percentage held
Ms. Chong	Held by controlled corporation *(Notes 1 & 2)*	106,512,400	35.80%
China Spirit	Held by controlled corporation *(Note 2)*	105,248,000	35.38%
Vigor Online	Beneficial owner	105,248,000	35.38%

Notes:

1. Bilistyle held 1,264,400 ordinary shares of the Company and Ms. Chong maintains 100% beneficial interest in Bilistyle. Accordingly, Ms. Chong is deemed to be interested in 1,264,400 ordinary shares of the Company under the SFO.

2. Vigor Online is a 67.7% owned subsidiary of China Spirit in which Ms. Chong maintains 100% beneficial interest. Accordingly, China Spirit and Ms. Chong are deemed to be interested in 105,248,000 ordinary shares of the Company under the SFO.

Save as disclosed above, as at 31 December 2005, there were no other parties who had interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest trade customers were less than 30% of total sales and the aggregate purchases attributable to the Group's five largest trade suppliers were less than 30% of total purchases.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased a total of 4,276,000 ordinary shares in the capital of the Company on the Stock Exchange in the range from HK$1.23 to HK$1.39 for a total consideration of HK$5,568,000. The said shares were subsequently cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

EMOLUMENT POLICY

The emolument policy of the general staff of the Group is set up by the management of the Group on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

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 a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 13 to 20.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2005.

POST BALANCE SHEET EVENTS

Details of the significant events after the balance sheet date are set out in note 43 to the financial statements.

AUDITORS

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

On behalf of the Board

Chong Sok Un
Chairman

Hong Kong, 13 April 2006

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. Throughout the year ended 31 December 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code on CGP") listed out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

BOARD OF DIRECTORS

The Board comprises:

Executive Directors

Ms. Chong Sok Un *(Chairman)*
Dato' Wong Peng Chong
Mr. Kong Muk Yin

Independent Non-executive Directors

Mr. Lo Wai On
Mr. Lau Siu Ki
Mr. Yu Qi Hao

The Board members have no financial, business, family or other material/relevant relationships with one another. Such balanced board composition is formed to ensure strong independence exists across the Board and has met the recommended practice under the Code on CGP for the Board to have at least one-third in number of its members comprising Independent Non-executive Directors.

The Independent Non-executive Directors possess appropriate professional qualifications or accounting or related financial management expertise. Having made specific enquiry with all Independent Non-executive Directors, all such Directors confirmed that they have met the criteria of Rule 3.13 of the Listing Rules regarding the guidelines for assessment of independence. The biographical details of the Directors are set out in page 7 of this Annual Report.

During the year, 4 full board meetings were held and the attendance of each Director is set out as follows:

Name of Directors	Number of board meetings attended in 2005	Attendance rate
Ms. Chong Sok Un *(Chairman)*	4/4	100%
Dato' Wong Peng Chong	4/4	100%
Mr. Kong Muk Yin	4/4	100%
Mr. Lo Wai On	4/4	100%
Mr. Lau Siu Ki	4/4	100%
Mr. Yu Qi Hao	4/4	100%

The board meeting schedule for a year is planned in the preceding year. At least 14 days notice of all board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all Directors at least 3 days before the date of every board meeting so that the Directors have the time to review the documents.

Every Board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary, and has the liberty to seek external professional advice if so required. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

The Board is responsible for formulating overall strategy, monitoring and controlling the performance of the Group. In addition to its overall supervisory role, the Board also retains specific responsibilities such as approving specific senior appointments, approving financial accounts, recommending dividend payments, approving policies relating to the Board's compliance, etc whilst managing the Group's business is the responsibility of the management of the Group (the "Management").

When the Board delegates aspects of its management and administration functions to the Management, it has given clear directions, to the powers of the Management, in particular, with respect to the circumstances where the Management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

Chairman and Chief Executive Officer

The Chairman of the Company is Ms. Chong Sok Un. The roles of the Chairman and the Chief Executive Officer are segregated and assumed by separate individuals who have no relationship with each other, except as fellow Directors, to strike a balance of power and authority so that the job responsibilities are not concentrated on any one individual. The Chairman of the Board is responsible for the leadership and effective running of the Board, while the function of the Chief Executive Officer is performed by the two Executive Directors, namely Dato' Wong Peng Chong who is in charge of day-to-day business operations of the Group and Mr. Kong Muk Yin who is in charge of finance and accounts aspect of the Group. The functions and responsibilities between the Chairman and the two Executive Directors performing the function of Chief Executive Officer are clearly segregated.

Appointment and Re-election of Directors

The Independent Non-executive Directors have been appointed for a specific term, subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provision of the bye-laws of the Company (the "Bye-laws").

According to the Bye-laws, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting. As the Board currently composes of six Directors, one-third of them shall retire subject to rotation, and barring unforeseen resignation or removal during a year, each Director is effectively appointed for an average term of not more than 3 years. The provision A.4.2 of the Code on CGP requires all Directors, including those appointed for a specific term, to be subject to retirement by rotation at least once every three years. This created a potential conflict with the Bye-laws, which exempt a Director, being the Chairman or Managing Director, from retirement by rotation. Having reviewed the relevant Bye-laws, the Board proposed to put forth a special resolution in the forthcoming annual general meeting of the Company to amend the Bye-laws to remove such potential conflict.

BOARD COMMITTEES

The Board establishes committees to assist it in carrying out its responsibilities. The Board has appointed 4 Board committees, viz, the Executive Committee, Investment Committee, Remuneration Committee and Audit Committee to oversee particular aspects of the Group's affairs. Each of the committees has defined terms of reference setting out its duties, powers and function. The committees report regularly to the Board and, where appropriate, make recommendations on matters discussed.

Executive Committee

The Executive Committee was established on 23 May 1998 with terms of reference. The Committee is composed of the Chairman and two Executive Directors of the Board. The Executive Committee is responsible for approving and monitoring the daily operations of the Group. The Executive Committee held 11 meetings during the year.

Investment Committee

The Investment Committee was established on 2 February 2000 with terms of reference. The Committee is composed of the Chairman and two Executive Directors of the Board. The Investment Committee is responsible for approving and monitoring the Group's investment related activities. The investment committee met 4 times during the year.

Remuneration Committee

The Remuneration Committee was established on 15 April 2005 with terms of reference. The Committee comprises three Independent Non-executive Directors and two Executive Directors.

The meeting of the Remuneration Committee shall be held at least once a year. A meeting was held in 2005. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2005	Attendance rate
Mr. Lau Siu Ki *(Chairman)*	1/1	100%
Mr. Lo Wai On	1/1	100%
Mr. Yu Qi Hao	1/1	100%
Dato' Wong Peng Chong	1/1	100%
Mr. Kong Muk Yin	1/1	100%

The remuneration policy of the Group is to ensure all its employees are remunerated in line with market terms and individual performance.

At the meeting held during the year, the overall pay trend in Hong Kong of 2005 was reviewed and noted and the terms of reference of the Committee were revised.

The major roles and functions of the Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the Directors and senior management.

2. To review annually the performance of the Executive Directors and senior management and recommend to the Board specific adjustments in remuneration and/or reward payments.

3. To ensure that the level of remuneration for Independent Non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board.

4. To ensure that no Director is involved in deciding his own remuneration.

Nomination of Directors

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors.

According to the Bye-Laws, notice in writing of the intention to propose a person for election as a Director and notice in writing by that person of his willingness to be elected shall have been lodged at the Head Office or at the Registration Office of the Company at least seven days before the date of the general meeting, or else no person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting.

The period for lodgment of the notices referred to above will commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

During the year, no new members have been appointed to the Board.

The detailed information on election of Directors including detailed biography of all Directors standing for election or re-election to ensure shareholders to make an informed decision on their election has been set out in the circular regarding, inter alia, the share repurchase mandate, notice of annual general meeting and the amendment of Bye-laws (the "Share Repurchase Circular").

Audit Committee

The Audit Committee of the Company comprises three Independent Non-executive Directors.

The Audit Committee shall meet at least twice a year. 5 meetings were held during the year. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate, the attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2005	Attendance rate
Mr. Lo Wai On *(Chairman)*	5/5	100%
Mr. Lau Siu Ki	5/5	100%
Mr. Yu Qi Hao	5/5	100%

During the meetings held in 2005, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2004 and for the six months ended 30 June 2005;

(ii) reviewed the effectiveness of internal control system;

(iii) reviewed the external auditors' statutory audit plan and engagement letter;

(iv) reviewed the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2004; and

(v) reviewed and recommended for approval by the Board the 2005 audit scope and fees.

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.

2. To discuss with the external auditors the nature and scope of the audit.

3. To review the interim and annual financial statements before submission to the Board.

4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.

5. To review the external auditors' management letters and management's response.

6. To review the Company's systems of financial controls, internal controls and risk management to ensure that they are appropriate and functioning properly.

7. To consider any findings of major investigations of internal control matters and management's response.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid or payable to the Company's auditors, Messrs Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/payable HK$
Audit services	740,000
Non-audit services	207,937
	947,937

INTERNAL CONTROL

The Board and senior management are responsible for establishing, maintaining and operating an effective system of internal control. The internal control system of the Company comprises a well-established organizational structure and comprehensive polices and standards. The Board has clearly defined the authorities and key responsibilities of each business and operational unit to ensure adequate checks and balances.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group's assets.

CORPORATE GOVERNANCE REPORT

The Management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

a) The Executive Committee was established to ensure the effectiveness of the Group's daily operations and that the Group's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

b) The Audit Committee of the Company reviews internal control issues identified by external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.

c) The Investment Committee was established to monitor the Group's investment related activities and respective operating and financial policies.

d) The Remuneration Committee was established to ensure all the Directors and the senior management of the Group are remunerated in line with market terms and individual performance.

e) The corporate reporting functions are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and other applicable regulations are delegated to the company secretarial department. The Management reviews the system of internal controls and briefs the reporting systems with the Executive Directors regularly and the Audit Committee annually.

f) Every newly appointed Director was provided with a comprehensive handout detailing the responsibilities and duties of being a director of the Company. In particular highlighting the respective applicable rules and regulation, including the Listing Rules, which a director should aware and be informed on the first occasion of his appointment with the Company.

g) The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules (the "Model Code"). A copy of the Model Code was sent to each Director and the relevant employees of the Group who are required to be provided under the Model Code. Enquiries have been made with Directors and all the Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give to true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2005, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements, made judgments and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

COMMUNICATION WITH SHAREHOLDERS

The Company establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports and press announcement. Such information is also available on the Company website.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. At the Company's 2005 Annual General Meeting, Chairman of the Board as well as Chairman of the Audit Committee and Remuneration Committee were present to answer shareholders' questions.

Details of the poll voting procedures and the rights of shareholders to demand a poll were included in the Share Repurchase Circular to shareholders dispatched together with the annual report. The said circular also included relevant details of proposed resolutions, including biography of each candidate standing for re-election.

At the Company's 2005 Annual General Meeting, all the resolutions were dealt with on a show of hands. All resolutions were unanimously passed.

AUDITORS' REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF COL CAPITAL LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of COL Capital Limited (the "Company") and its subsidiaries (the "Group") on pages 22 to 70 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 the 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 (as amended), 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.

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 the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000
Turnover	7	**223,086**	847,491
Cost of sales		**(175,604)**	(670,343)
Gross profit		**47,482**	177,148
Net gain on investments	9	**61,970**	59,019
Other income	10	**14,950**	13,158
Distribution costs		**(6,060)**	(11,702)
Administrative expenses		**(27,705)**	(40,389)
Other operating expenses		**(136)**	(547)
Finance costs	11	**(1,571)**	(530)
Gain on disposal of a subsidiary	40	**3,544**	–
Fair value changes on investment properties		**11,360**	5,540
Fair value changes on buildings		**773**	1,704
Profit before taxation		**104,607**	203,401
Tax charge	13	**(99)**	(127)
Profit for the year	14	**104,508**	203,274
Attributable to:			
Equity holders of the Company		**104,511**	203,274
Minority interests		**(3)**	–
		104,508	203,274
Dividends	15		
– Interim dividend paid		**2,990**	3,017
– Final dividend proposed		**11,879**	12,070
Earnings per share	16		
– Basic and diluted		**HK$0.35**	HK$0.58

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Investment properties	17	**136,526**	44,640
Property, plant and equipment	18	**51,825**	3,884
Prepaid lease payments	19	**2,483**	2,542
Investments in securities	20	**–**	313,919
Available-for-sale investments	21	**171,633**	–
Loan notes	22	**86,805**	–
Other non-current assets		**–**	528
		449,272	365,513
Current assets			
Inventories held for resale-finished goods		**1,495**	9,626
Investments in securities	20	**–**	709,854
Investments held for trading	23	**886,464**	–
Amount due from a minority shareholder	24	**4,805**	–
Debtors, deposits and prepayments	25	**12,501**	28,405
Loan receivables	26	**74,429**	103,018
Pledged bank deposits	27	**10,526**	15,182
Bank balances and cash	27	**16,819**	32,265
		1,007,039	898,350
Current liabilities			
Creditors and accrued charges	28	**41,176**	32,383
Customers' deposits and receipts in advance		**2,713**	3,513
Other borrowings	29	**100,986**	–
Taxation payable		**4,315**	4,315
		149,190	40,211
Net current assets		**857,849**	858,139
		1,307,121	1,223,652

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Capital and reserves			
Share capital	30	**2,975**	3,018
Reserves		**1,281,957**	1,220,634
Equity attributable to equity holders of the Company		**1,284,932**	1,223,652
Minority interests		**16,798**	–
Total equity		**1,301,730**	1,223,652
Non-current liability			
Deferred tax liability	31	**5,391**	–
		1,307,121	1,223,652

The financial statements on pages 22 to 70 were approved and authorised for issue by the Board of Directors on 13 April 2006 and are signed on its behalf by:

Ms. Chong Sok Un
DIRECTOR

Dato' Wong Peng Chong
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity holders of the parent company										
	Share capital HK$'000	Share premium HK$'000	Negative goodwill HK$'000	Building revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interest HK$'000	Total equity HK$'000
At 1 January 2004	3,715	759,776	32,883	456	16,422	1,922	–	288,363	1,103,537	–	1,103,537
Revaluation increase of other investment	–	–	–	–	17,766	–	–	–	17,766	–	17,766
Surplus on revaluation of leasehold land and buildings	–	–	–	608	–	–	–	–	608	–	608
Exchange differences arising from translation of financial statements of overseas subsidiary	–	–	–	–	–	–	(2)	–	(2)	–	(2)
Net income (expenses) recognised directly in equity	–	–	–	608	17,766	–	(2)	–	18,372	–	18,372
Profit for the year	–	–	–	–	–	–	–	203,274	203,274	–	203,274
Total recognised income and (expense) for the year	–	–	–	608	17,766	–	(2)	203,274	221,646	–	221,646
Dividends paid	–	–	–	–	–	–	–	(17,876)	(17,876)	–	(17,876)
Repurchase of shares *(note 30)*	(697)	(82,958)	–	–	–	–	–	–	(83,655)	–	(83,655)
At 31 December 2004	3,018	676,818	32,883	1,064	34,188	1,922	(2)	473,761	1,223,652	–	1,223,652
Effect of change in accounting policies *(note 3)*	–	–	(32,883)	–	–	–	–	13,492	(19,391)	–	(19,391)
At 1 January 2005, as restated	3,018	676,818	–	1,064	34,188	1,922	(2)	487,253	1,204,261	–	1,204,261
Fair value changes on available-for-sale investments	–	–	–	–	(3,684)	–	–	–	(3,684)	–	(3,684)
Exchange differences arising from translation of financial statements of overseas subsidiary	–	–	–	–	–	–	472	–	472	–	472
Net income (expenses) recognised directly in equity	–	–	–	–	(3,684)	–	472	–	(3,212)	–	(3,212)
Profit for the year	–	–	–	–	–	–	–	104,511	104,511	(3)	104,508
Total recognised income and (expense) for the year	–	–	–	–	(3,684)	–	472	104,511	101,299	(3)	101,296
Arising from acquisition of a subsidiary *(note 39)*	–	–	–	–	–	–	–	–	–	11,996	11,996
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	4,805	4,805
Dividends paid	–	–	–	–	–	–	–	(15,060)	(15,060)	–	(15,060)
Repurchase of shares *(note 30)*	(43)	(5,525)	–	–	–	43	–	(43)	(5,568)	–	(5,568)
At 31 December 2005	2,975	671,293	–	1,064	30,504	1,965	470	576,661	1,284,932	16,798	1,301,730

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
OPERATING ACTIVITIES			
Profit before taxation		**104,607**	203,401
Adjustments for:			
Interest income		**(26,530)**	(20,179)
Dividend income		**(11,706)**	(10,927)
Depreciation of property, plant and equipment		**617**	1,086
Write-down of inventories		**92**	–
Interest paid		**1,571**	530
Amortisation of prepaid lease payments		**59**	59
Gain on disposal of a subsidiary		**(3,544)**	–
Loss on disposal of property, plant and equipment		**–**	41
Net realised and unrealised gain on investments		**(1,464)**	(60,519)
Changes in fair value of investments held for trading		**(61,506)**	–
Discount on early redemption of loan note		**1,000**	1,500
Fair value changes on investment properties		**(11,360)**	(5,540)
Fair value changes on buildings		**(773)**	(1,704)
Operating cash flow before movements in working capital		**(8,937)**	107,748
Decrease (increase) in inventories		**8,039**	(4,487)
Increase in trading investments		**–**	(192,153)
Increase in investments held for trading		**(122,997)**	–
Decrease in debtors, deposits and prepayments		**16,404**	12,530
Decrease (increase) in loan receivables		**1,078**	(77,191)
(Decrease) increase in creditors and accrued charges		**(42,876)**	23,993
Decrease in customers' deposits and receipts in advance		**(800)**	(3,716)
Cash used in operating activities		**(150,089)**	(133,276)
Interest paid		**(1,571)**	(530)
Tax paid		**(100)**	(171)
NET CASH USED IN OPERATING ACTIVITIES		**(151,760)**	(133,977)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
INVESTING ACTIVITIES			
Net proceeds from redemption of loan notes/other investments		**59,000**	98,500
Acquisition of a subsidiary	39	**(30,971)**	–
Increase in amount due from a minority shareholder		**(4,805)**	–
Interest received		**16,581**	20,179
Dividend received		**11,706**	10,927
Proceeds from disposal of an investment property		**100**	–
Proceeds from disposal of property, plant and equipment		**–**	9
Decrease in pledged bank deposits		**4,656**	11,806
Purchase of available-for-sale investments		**(7,760)**	–
Purchase of other investments		**–**	(7,779)
Purchase of property, plant and equipment		**(88)**	(467)
Net cash inflow from disposal of a subsidiary	40	**3,544**	–
NET CASH FROM INVESTING ACTIVITIES		**51,963**	133,175
FINANCING ACTIVITIES			
New loan from a related company		**–**	271,775
Capital contribution from a minority shareholder		**4,805**	–
Repayment of loan from a related company		**–**	(271,775)
Dividend paid		**(15,060)**	(17,876)
Repurchase of shares		**(5,568)**	(83,655)
New borrowings raised		**151,048**	–
Repayment of borrowings		**(50,062)**	–
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**85,163**	(101,531)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(14,634)**	(102,333)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATE		**(812)**	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**32,265**	134,600
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**16,819**	32,265

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 on page 2 of the annual report.

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

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 42.

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 (hereinafter collectively referred to as "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 resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting year of the Group are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005 of which negative goodwill of HK$32,883,000 was previously recorded in reserves. A corresponding increase to retained profits of HK32,883,000 has been made.

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

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 accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how the financial statements of the Group are presented for the current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

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

At 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 profit or loss for that period. From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

All investments in securities of the Group as at 31 December 2004 amounting to HK$1,023,773,000 have been reclassified to available-for-sale investments, loan notes and investments held for trading in accordance with HKAS 39 on 1 January 2005.

Prior to the application of HKAS 39, the loan notes were stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such loan notes were measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the loan notes as at 1 January 2005 has been decreased by approximately HK$19,391,000 in order to state the loan notes at amortised cost in accordance with HKAS 39. Profit for the year of the Group has been increased by approximately HK$9,949,000 due to the recognition of imputed interest income which is included in other income (see note 3 for the financial impact).

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

Financial instruments *(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 "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. This change has had no material effect on the results for the current and prior accounting periods.

Owner-occupied leasehold interest in land

`In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The surplus on revaluation in respect of the land interests accounted for as property, plant and equipment previously recognised in the asset revaluation reserve was adjusted retrospectively. Comparative figures for 2004 have been restated (see note 3 for the financial impact).

Investment properties

In the current year, the Group, for the first time, applied HKAS 40 "Investment property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the year in which they arise. In previous years, investment properties under predecessor standard SSAP 13 were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. This change has had no material effect on the results for prior periods and accordingly no prior period adjustment is required.

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

Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP – Interpretation 20). In the current year, the Group has applied HK(SIC) Interpretation 21 ("HK(SIC) INT-21") "Income taxes – recovery of revalued non-depreciable assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) INT-21, this change in accounting policy has been applied retrospectively. This change has had no material effect on the results for prior years and accordingly no prior period adjustment is required.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES

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

	As at 31.12.2004 (originally stated)	Adjustments	As at 31.12.2004 (restated)	Adjustments	As at 1.1.2005 (restated)
	HK$'000	HK$'000 *(Note)*	HK$'000	HK$'000	HK$'000
Investment properties	44,640	–	44,640	–	44,640
Prepaid lease payments	–	2,542	2,542	–	2,542
Property, plant and equipment	6,426	(2,542)	3,884	–	3,884
Loan notes	156,247	–	156,247	(19,391)	136,856
Other assets/liabilities	1,016,339	–	1,016,339	–	1,016,339
Net assets	1,223,652	–	1,223,652	(19,391)	1,204,261
Share capital	3,018	–	3,018	–	3,018
Share premium	676,818	–	676,818	–	676,818
Negative goodwill	32,883	–	32,883	(32,883)	–
Retained profits	473,761	–	473,761	13,492	487,253
Investment revaluation reserve	34,188	–	34,188	–	34,188
Building revaluation reserve	1,064	–	1,064	–	1,064
Other reserves	1,920	–	1,920	–	1,920
Total equity	1,223,652	–	1,223,652	(19,391)	1,204,261

Note: The amounts represent adjustments to comparative figures for 2004 arising from reclassification of leasehold interests in land to prepaid lease payments under operating lease according to HKAS 17. This change of accounting policy has been applied retrospectively.

3. SUMMARY OF THE EFFECT OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards, interpretations and amendments that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital disclosure [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in 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 accounting periods beginning on or after 1 January 2007.
2 Effective for accounting periods beginning on or after 1 January 2006.
3 Effective for accounting periods beginning on or after 1 December 2005.
4 Effective for accounting periods beginning on or after 1 March 2006.

The Group has not early applied the above new standards, amendments and interpretations that have been issued but are not yet effective. The Directors of the Company do not expect the application of these standards, amendments or interpretations will have material effect on the results of operations and financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities of the Stock Exchange and by the Hong Kong Companies Ordinance.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves and negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

As explained in note 2 above, all negative goodwill as at 1 January 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

Revenue recognition

Trading of securities is recognised on trade date basis when the relevant contracts are executed.

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

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Interest income from a financial asset is accrued on a time basis, by reference to the 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.

Commission income is recognised when services are provided.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or fair value less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of buildings is credited to the building revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as expenses, in which case the increase is credited to income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the building revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus is transferred directly to retained profits.

Depreciation is charged so as to write off the cost or fair value of items of property, plant and equipment, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including 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 comprises of investments held for trading. 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 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 including loan notes, amount due from a minority shareholder, debtors and deposits and loan 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

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(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 creditors and accrued charges, receipt in advance and other borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

The Group's derivative financial instruments not qualify as hedging instrument are deemed as financial assets/liabilities for trading, changes in the fair value of derivative financial instruments are recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when, and only when they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that HKFRS.

Taxation

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

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

Deferred tax 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 tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

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.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases, including the leasehold interests in land, 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 benefits scheme

Payments to the Group's defined contribution scheme or Mandatory Provident Fund Scheme are charged as an expense as they fall due.

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, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include, inter alia, equity investments, loan notes, loan receivables, debtors and deposits, creditors and accrued charges, other borrowings and bank balances. 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) Currency risk

The Group is engaged in securities trading and investments which are denominated in foreign currencies and is therefore exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy.

However, the Group's management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises. The management would seek financial consultant to advise on the investment portfolio held by the Group, if necessary.

(ii) Price risk

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity price risk. The Group's investment committee manages this exposure by maintaining a portfolio of investments with different risk profiles.

(iii) Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed rate loan notes and fixed rate loan receivables. The Group's cash flow interest rate risk relates to its variable rate loan receivables and other borrowings.

The Group currently does not have a interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

(iv) Credit risk

The Group's credit risk are primarily attributable to trade receivables, loan notes, loan receivables, bank balances and counter-party financial obligations in financial instruments.

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's bank balances are deposited with banks of high credit quality in Hong Kong and the Group has exposure limit to any single financial institution.

The Group has no significant concentration of credit risk, with exposure spread over a number of counter-parties and customers.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk *(Continued)*

(iv) Credit risk (Continued)

In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt, loan notes and loan receivables regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significant reduced.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Income taxes

As at 31 December 2005, no deferred tax asset was recognised in the Group's consolidated balance sheet in relation to the unused tax losses of approximately HK$1,691 million. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, further recognition of deferred tax asset in relation to unutilised tax losses may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

7. TURNOVER

	2005	2004
	HK$'000	HK$'000
Sales of mobile phones	**66,309**	237,205
Proceeds from sales of investments held for trading/ listed trading investments	**130,655**	581,128
Dividend income from listed investments	**11,706**	10,927
Interest income from loan receivables	**11,693**	11,933
Commission income	**–**	3,854
Rental income	**2,723**	2,444
	223,086	847,491

8. BUSINESS AND GEOGRAPHICAL INFORMATION

Business segments

For management purposes, the Group is currently organised into four main operating divisions – mobile phone distribution, securities trading and investments, financial services and property investment. These divisions are the bases on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

For the year ended 31 December 2005

	Mobile phone distribution HK$'000	Securities trading and investments HK$'000	Financial services HK$'000	Property investment HK$'000	Consolidated HK$'000
Revenue					
External sales	66,309	142,361	11,693	2,723	223,086
Other operating income	–	14,077	20	–	14,097
	66,309	156,438	11,713	2,723	237,183
Result					
Segment result	(2,086)	104,524	11,528	12,166	126,132
Gain on disposal of a subsidiary					3,544
Fair value changes on buildings					773
Unallocated other operating income					853
Unallocated corporate expenses					(25,124)
Finance costs					(1,571)
Profit before taxation					104,607
Tax charge					(99)
Profit for the year					104,508

8. BUSINESS AND GEOGRAPHICAL INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2005 *(Continued)*

	Mobile phone distribution HK$'000	Securities trading and investments HK$'000	Financial services HK$'000	Property investment HK$'000	Consolidated HK$'000
BALANCE SHEET					
Assets					
Segment assets	5,965	1,150,463	75,034	195,760	1,427,222
Unallocated corporate assets					29,089
Consolidated total assets					1,456,311
Liabilities					
Segment liabilities	3,789	101,834	1,550	35,518	142,691
Unallocated corporate liabilities					11,890
Consolidated total liabilities					154,581

	Mobile phone distribution HK$'000	Securities trading and investments HK$'000	Financial services HK$'000	Property investment HK$'000	Unallocated segment HK$'000	Consolidated HK$'000
Other information						
Capital expenditure	56	–	–	17	15	88
Depreciation	281	–	–	112	224	617
Write-down of inventories	92	–	–	–	–	92
Acquisition of a subsidiary in relation to investment property and construction in progress	–	–	–	127,039	–	127,039

8. BUSINESS AND GEOGRAPHICAL INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2004

	Mobile phone distribution HK$'000	Securities trading and investments HK$'000	Financial services HK$'000	Property investment HK$'000	Consolidated HK$'000
Revenue					
External sales	237,205	592,055	15,787	2,444	847,491
Other operating income	–	7,478	20	–	7,498
	237,205	599,533	15,807	2,444	854,989
Result					
Segment result	21,791	191,026	15,747	6,321	234,885
Fair value changes on buildings					1,704
Unallocated other operating income					5,660
Unallocated corporate expenses					(38,318)
Finance costs					(530)
Profit before taxation					203,401
Tax charge					(127)
Profit for the year					203,274

8. BUSINESS AND GEOGRAPHICAL INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2004 *(Continued)*

	Mobile phone distribution HK$'000	Securities trading and investments HK$'000	Financial services HK$'000	Property investment HK$'000	Consolidated HK$'000
BALANCE SHEET					
Assets					
Segment assets	31,928	1,043,315	104,034	44,986	1,224,263
Unallocated corporate assets					39,600
Consolidated total assets					1,263,863
Liabilities					
Segment liabilities	5,152	21,536	1,048	1,540	29,276
Unallocated corporate liabilities					10,935
Consolidated total liabilities					40,211

	Mobile phone distribution HK$'000	Securities trading and investments HK$'000	Financial services HK$'000	Property investment HK$'000	Unallocated segment HK$'000	Consolidated HK$'000
Other information						
Capital expenditure	177	–	–	249	41	467
Depreciation	572	–	–	271	243	1,086
Other non-cash expenses	–	–	–	–	41	41

8. BUSINESS AND GEOGRAPHICAL INFORMATION *(Continued)*

Geographical segments

The Group's operations are located in Hong Kong and Mainland China ("China").

The Group's distribution of mobile phones, securities trading and investments, and financial services are carried out in Hong Kong. Rental income from property investment is from Hong Kong and China.

The following table provides an analysis of the Group's revenue by geographical market:

	Revenue by geographical market	
	2005	2004
	HK$'000	HK$'000
Hong Kong	**236,029**	853,621
China	**1,154**	1,368
	237,183	854,989

The following is an analysis of the carrying amount of segment assets, and additions to investment properties, property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to investment properties, property, plant and equipment	
	At 31.12.2005	At 31.12.2004	**Year ended 31.12.2005**	Year ended 31.12.2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**1,288,556**	1,237,996	**88**	218
China	**167,755**	25,867	**127,039**	249
	1,456,311	1,263,863	**127,127**	467

9. NET GAIN ON INVESTMENTS

	2005 HK$'000	2004 HK$'000
Change in fair value of investments held for trading	**61,506**	–
Discount on early redemption of loan note *(Note)*	**(1,000)**	(1,500)
Net realised gain on derivatives	**1,464**	3,939
Net unrealised gain on trading investments	**–**	56,580
	61,970	59,019

Note: SHK (as defined in note 20) early redeemed part of the loan note at HK$60,000,000 (2004: HK$100,000,000) with a discount on early redemption of HK$1,000,000 (2004: HK$1,500,000) at the request by the Group. The net redemption proceed was HK$59,000,000 (2004: HK$98,500,000).

10. OTHER INCOME

	2005 HK$'000	2004 HK$'000
Interest income from:		
– Loan notes	**4,128**	–
– Debt securities	**–**	7,478
– Bank deposits	**695**	602
– Others	**65**	166
	4,888	8,246
Imputed interest income on loan notes	**9,949**	–
Others	**113**	244
Net exchange gain	**–**	4,668
	14,950	13,158

11. FINANCE COSTS

The amounts represent interest on other borrowings wholly repayable within five years.

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

Directors' emoluments

The Directors' emoluments are analysed as follows:

	For the year ended 31 December 2005				
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors					
Ms. Chong Sok Un	–	455	13,000	12	13,467
Dato' Wong Peng Chong	–	1,300	–	12	1,312
Mr. Kong Muk Yin	–	715	–	12	727
Independent Non-executive Directors					
Mr. Lo Wai On	180	–	–	–	180
Mr. Lau Siu Ki	180	–	–	–	180
Mr. Yu Qi Hao	53	–	–	–	53
	413	2,470	13,000	36	15,919

	For the year ended 31 December 2004				
	Directors' fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
Executive Directors					
Ms. Chong Sok Un	–	455	12,000	12	12,467
Dato' Wong Peng Chong	–	1,300	250	12	1,562
Mr. Kong Muk Yin	–	715	110	12	837
Independent Non-executive Directors					
Mr. Lo Wai On	100	–	–	–	100
Mr. Lau Siu Ki#	–	–	–	–	–
Mr. Yu Qi Hao#	–	–	–	–	–
Mr. Cheng Mo Chi, Moses*	100	–	–	–	100
	200	2,470	12,360	36	15,066

Mr. Lau Siu Ki and Mr. Yu Qi Hao were appointed as Independent Non-executive Directors on 3 June 2004 and 10 November 2004 respectively.

* Mr. Cheng Mo Chi, Moses resigned as Independent Non-executive Director on 3 June 2004.

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

During the year, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any remuneration during the year.

Five highest paid individuals

During the year, the five highest paid individuals included three Directors (2004: three), details of their emoluments are set out above. The emoluments for the remaining two (2004: two) highest paid individuals of the Group are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**1,245**	1,302
Retirement benefits scheme contributions	**24**	24
	1,269	1,326

The emoluments are within the following bands:

	2005	2004
	Number of employees	Number of employees
Nil to HK$1,000,000	**2**	2

13. TAX CHARGE

	2005	2004
	HK$'000	HK$'000
Current tax:		
Profits Tax in Hong Kong	**–**	(13)
Income tax in China	**(99)**	(114)
	(99)	(127)

No provision for Hong Kong Profits Tax has been made for the year either the Group has no assessable profits arising in Hong Kong or the Group's assessable profits were wholly absorbed by estimated tax losses brought forward.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year 2004.

Income tax in China is calculated at 33% of estimated assessable profit for both years except for the subsidiary eligible for certain tax holidays and concessions on China income tax.

13. TAX CHARGE *(Continued)*

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

	2005 HK$'000	2004 HK$'000
Profit before taxation	**104,607**	203,401
Tax at the income tax rate of 17.5% (2004: 17.5%)	**(18,306)**	(35,595)
Tax effect of expenses that are not deductible	**(2,029)**	(5,797)
Tax effect of income that is not taxable	**6,055**	6,843
Utilisation of tax losses previously not recognised	**14,914**	35,439
Tax effect of tax losses not recognised	**(1,019)**	(1,174)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(45)**	(54)
Others	**331**	211
Tax charge for the year	**(99)**	(127)

14. PROFIT FOR THE YEAR

	2005 HK$'000	2004 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration	**918**	800
Cost of inventories recognised as expenses	**60,103**	201,511
Amortisation of prepaid lease payments	**59**	59
Depreciation of property, plant and equipment	**617**	1,086
Write-down of inventories	**92**	–
Loss on disposal of property, plant and equipment	**–**	41
Net exchange loss	**159**	–
Realised fair value gain on investments held for trading	**17,592**	114,377
Staff costs, inclusive of directors' emoluments	**24,095**	23,899
Gross rental income from properties	**(2,723)**	(2,444)
Less: Direct operating expenses that generated rental income	**1,671**	1,410
Direct operating expenses that did not generate rental Income	**246**	253
Net rental income	**(806)**	(781)

15. DIVIDENDS

	2005 HK$'000	2004 HK$'000
Ordinary shares:		
Interim dividend paid – HK$0.01 (2004: HK$0.01) per share	**2,990**	3,017
Final dividend proposed – HK$0.04 (2004: HK$0.04) per share	**11,879**	12,070

The final dividend of HK$0.04 per share for the year ended 31 December 2005 has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting.

16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005 HK$'000	2004 HK$'000
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to equity holders of the Company)	**104,511**	203,274

	Number of shares (2005)	Number of shares (2004)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**300,660,114**	347,849,919

Impact of changes in accounting policy

Changes in the Group's accounting policies during the year are described in details in note 2. To the extent that those changes have had an impact on results reported for the year ended 31 December 2005, they have had an impact on the amounts reported for earnings per share. The following table summaries that impact on earnings per share:

	2005 Impact on earnings per share HK$
Fair value changes on investment properties	**0.04**
Imputed interest income on loan notes	**0.03**
	0.07

The changes in the Group's accounting policies during the year had no impact on results reported for the year ended 31 December 2004, hence they had no impact on the amounts reported for earnings per share.

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2004	31,550
Revaluation increase	5,540
Transfer from building	7,550
At 31 December 2004	44,640
Acquired on acquisition of a subsidiary	80,005
Disposal	(100)
Fair value changes	11,360
Exchange adjustments	621
At 31 December 2005	136,526

The Group's investment properties are analysed as follows:

	2005	2004
	HK$'000	HK$'000
Properties held under medium term leases:		
– in Hong Kong	**30,510**	20,990
– in China	**103,176**	20,850
Properties situated in China held under long leases	**2,840**	2,800
	136,526	44,640

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2005 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited and Norton Appraisals Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited and Norton Appraisals Limited have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to The Hong Kong Institute of Surveyors Valuation Standards on Properties published by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

18. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress	Buildings in Hong Kong under medium-term lease	Computer and electronic equipment	Furniture and fixtures	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST OR VALUATION						
At 1 January 2004						
– as originally stated	–	10,625	2,088	2,765	501	15,979
– effect on adoption of HKAS 17	–	(2,542)	–	–	–	(2,542)
– as restated	–	8,083	2,088	2,765	501	13,437
Additions	–	–	92	375	–	467
Disposals	–	–	(32)	(82)	–	(114)
Revaluation increase	–	2,075	–	–	–	2,075
Transfer to investment property	–	(7,550)	–	–	–	(7,550)
At 1 January 2005	–	2,608	2,148	3,058	501	8,315
Additions	–	–	37	51	–	88
Revaluation increase	–	712	–	–	–	712
Acquired on acquisition of a subsidiary	47,034	–	–	–	–	47,034
Exchange adjustment	663	–	–	–	–	663
At 31 December 2005	47,697	3,320	2,185	3,109	501	56,812
Comprising:						
At cost	47,697	–	2,185	3,109	501	53,492
At valuation – 2005	–	3,320	–	–	–	3,320
	47,697	3,320	2,185	3,109	501	56,812
ACCUMULATED DEPRECIATION						
At 1 January 2004	–	–	1,223	1,922	501	3,646
Provided for the year	–	237	428	421	–	1,086
Eliminated on disposals	–	–	(18)	(46)	–	(64)
Eliminated on revaluation	–	(237)	–	–	–	(237)
At 1 January 2005	–	–	1,633	2,297	501	4,431
Provided for the year	–	61	312	244	–	617
Eliminated on revaluation	–	(61)	–	–	–	(61)
At 31 December 2005	–	–	1,945	2,541	501	4,987
CARRYING VALUES						
At 31 December 2005	47,697	3,320	240	568	–	51,825
At 31 December 2004	–	2,608	515	761	–	3,884

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the lease terms or 30 – 50 years
Computer and electronic equipment	20%
Furniture and fixtures	20% – 50%
Motor vehicles	20% – 50%

The buildings of the Group were revalued at 31 December 2005 by DTZ Debenham Tie Leung Limited, a firm of independent professional property valuers, on market value basis. The fair value changes on buildings of HK$773,000 has been credited to the consolidated income statement.

At 31 December 2005, had the buildings been carried at historical cost less accumulated depreciation, their carrying values would have been stated at HK$2,239,000 (2004: HK$2,292,000).

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent leasehold land in Hong Kong held under medium term leases.

The leasehold land is amortised on a straight-line basis over the remaining term of the leases.

20. INVESTMENTS IN SECURITIES

Investments securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to appropriate categories under HKAS 39 (see note 2 for details).

	Trading investments	**Other securities**	**Total**
	HK$'000	HK$'000	HK$'000
Equity securities			
– listed in Hong Kong	456,312	128,176	584,488
– listed overseas	244,185	30,552	274,737
	700,497	158,728	859,225
Debt securities			
– unlisted *(Note)*	–	156,247	156,247
Unit trusts			
– unlisted	–	8,301	8,301
	700,497	323,276	1,023,773
Carrying amount analysed for reporting purposes as:			
– Non-current	–	313,919	313,919
– Current	700,497	9,357	709,854
	700,497	323,276	1,023,773
Market value of listed securities	700,497	158,728	859,225

Note: The debt securities represent the loan notes issued by Sun Hung Kai & Co. Limited ("SHK") and Allied Group Limited ("AG") which formed part of the consideration for the sale of SHK's and AG's shares by the Group in year 2003. The loan notes bear interest at 4% per annum for SHK and 2.25% per annum for AG and are redeemable by SHK and AG at SHK's and AG's option on or before 7 March 2008 and 15 August 2008 respectively unless specifically agreed by both parties.

21. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31 December 2005 comprise:

	HK$'000
Listed investments:	
– Equity securities listed in Hong Kong	134,261
– Equity securities listed elsewhere	19,272
	153,533
Unlisted investments:	
– Unit trusts	17,572
– Club debentures	528
	18,100
Total	171,633

At the balance sheet date, all available-for-sale investments are stated at fair value. Fair values of listed investments and unit trusts have been determined by reference to quoted market bid prices at the balance sheet date. Fair values of the club debentures have been determined by reference to the recent transaction prices of similar club debentures.

22. LOAN NOTES

Other investments included in investments in securities (see note 20) as at 31 December 2004 were reclassified as loans and receivables and as available-for-sale investments respectively in accordance with HKAS 39. The loan notes were issued by SHK and AG which formed part of the consideration for the sale of SHK's and AG's shares by the Group in year 2003 and were classified as part of the other investments included in the investments in securities as at 31 December 2004. The loan notes bear interest at 4% per annum (effective interest rate: 7.9%) for SHK and 2.25% per annum (effective interest rate: 7.5%) for AG and are redeemable by SHK and AG at SHK's and AG's option on or before 7 March 2008 and 15 August 2008 respectively unless specifically agreed by both parties.

The Directors consider that the fair value of the Group's loan notes at 31 December 2005 approximates to the corresponding carrying amount.

23. INVESTMENTS HELD FOR TRADING

Trading investments included in investments in securities (see note 20) as at 31 December 2004 were reclassified as investments held for trading in accordance with HKAS 39.

Investments held for trading as at 31 December 2005 include:

	HK$'000
Listed securities:	
– Equity securities listed in Hong Kong	571,410
– Equity securities listed elsewhere	315,054
	886,464

The fair values of the above held for trading investments are determined based on the quoted market bid prices available on the relevant exchanges.

As at 31 December 2005, particulars of the Group's investments in the equity securities which exceed 10% of the assets of the Group disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance are as follows:

Name of company	Place of incorporation	Class of shares	Percentage of issued share capital held by the Group
Allied Group Limited	Hong Kong	Ordinary	9.5%
Tian An China Investments Company Limited	Hong Kong	Ordinary	7.6%
Mulpha International Limited	Malaysia	Ordinary	11.8%

24. AMOUNT DUE FROM A MINORITY SHAREHOLDER

The amount is unsecured, interest bearing at prime rate and is repayable within six months.

The Directors consider that the carrying amount of amount due from a minority shareholder approximates its fair value.

25. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group has a policy of allowing an average credit period of 30-90 days to its trade debtors.

An aged analysis of trade debtors is as follows:

	2005	2004
	HK$'000	HK$'000
Within 90 days	**2,409**	8,792
91 – 180 days	**–**	41
181 – 360 days	**93**	48
	2,502	8,881
Other debtors, deposits and prepayments	**9,999**	19,524
	12,501	28,405

The Directors consider that the carrying amount of debtors approximates its fair value.

26. LOAN RECEIVABLES

	2005	2004
	HK$'000	HK$'000
Fixed-rate loan	**62,429**	101,018
Variable-rate loan	**12,000**	2,000
	74,429	103,018

The average interest received for the fixed-rate loan receivables denominated in Hong Kong dollars and Renminbi was approximately 12% (2004: 12%) per annum.

The effective interest rates (which are also equal to contracted interest rates) of the variable-rate loan receivables are ranging from "The Hongkong and Shanghai Banking Corporation Limited ("HSBC") Prime rate" to "HSBC Prime rate plus 2%" denominated in Hong Kong dollars. Interest is normally repriced at every six months.

Fixed-rate loan receivables amounting to HK$2,400,000 and variable-rate loan receivables amounting to HK$12,000,000 are secured.

The Directors consider that the fair values of the Group's loan receivables as at 31 December 2005 approximate to the corresponding carrying amounts.

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits are denominated in Hong Kong dollars bearing interest at prevailing market rate.

The Directors consider that the carrying amount of pledged bank deposits and bank balances approximates their fair values.

28. CURRENT FINANCIAL LIABILITIES

Creditors and accrued charges principally comprise amounts outstanding for trade purpose and ongoing costs.

An aged analysis of trade creditors is as follows:

	2005	2004
	HK$'000	HK$'000
Trade creditors due within 90 days	**35**	24,776
Other creditors and accrued charges	**41,141**	7,607
	41,176	32,383

The Directors consider that the carrying amounts of the current financial liabilities listed above approximate their fair values.

29. OTHER BORROWINGS

Other borrowings represent securities margin financing received from stock broking, futures and options broking house. The entire borrowings are secured by the Group's pledged marketable securities, repayable on demand and bear interest at prevailing market rates.

In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

The Directors consider that the carrying amounts of the current financial liabilities listed above approximate their fair values.

30. SHARE CAPITAL

	Number of shares		Value	
	2005	2004	**2005**	2004
			HK$'000	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning and end of the year	**30,000,000,000**	30,000,000,000	**300,000**	300,000
Issued and fully paid:				
At beginning of the year	**301,755,547**	371,468,753	**3,018**	3,715
Repurchase of shares	**(4,276,000)**	(69,713,206)	**(43)**	(697)
At end of the year	**297,479,547**	301,755,547	**2,975**	3,018

During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Months of repurchase	Number of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	HK$	HK$'000
September 2005 to November 2005	4,276,000	1.39	1.23	5,568

The repurchased shares were cancelled during the year and the issued share capital of the Company was reduced by the nominal value thereof. The premium payable on repurchase of the shares of HK$5,525,000 has been charged to the share premium account. An amount equivalent to the nominal value of the shares cancelled has been transferred from the retained profits of the Company to the capital redemption reserve.

The repurchases of the Company's shares during the year were effected by the Directors, pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

In August 2004, the Company repurchased 69,713,206 ordinary shares for HK$1.20 in cash per share. The excess of the offer price over the nominal value amounted to HK$82,958,000 was charged to the share premium account.

31. DEFERRED TAXATION

Deferred tax liability amounting to HK$5,391,000 is due to the acquisition of a subsidiary during the year.

At 31 December 2005, the Group has estimated unused tax losses of approximately HK$1,691 million (2004: HK$1,771 million), for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

The Group has deductible temporary differences of approximately HK$37 million (2004: HK$33 million). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

32. CONTINGENT LIABILITIES

(a) In respect of the disposal of a subsidiary in prior years, the Group has given an indemnity to the purchaser against all liabilities, losses, costs and expenses suffered and/or incurred by the purchaser in relation to or arising out of the assignment of certain of the subsidiary's business contracts.

(b) In 1997, the Group had given a counter-indemnity to a former substantial shareholder and the ex-chairman of PCCW Limited (formerly Tricom Holdings Limited ("Tricom")), and Chambord Investment Inc. in respect of certain indemnities given to Tricom at the time of and to facilitate the listing of Tricom's shares on the Stock Exchange. These indemnities related to the use of the Tricom tradename, the infringement of the permitted use of properties, the guarantees granted to Tricom to secure banking facilities and tax liabilities.

The Directors consider it is not probable to estimate the financial effect of the indemnities and warranty given.

33. LITIGATION

(a) In November 1998, a writ was issued against the Company's subsidiaries, Hongkong Digital Television Limited ("Digital TV", formerly Star Interactive Television Limited) and Star Telecom Services Limited ("STSL", formerly Hong Kong Star Internet Limited) by nCube Corporation ("nCube"), claiming the sum of approximately US$1,980,000 (equivalent to approximately HK$15,305,000) plus interest in relation to the alleged purchase of two MediaCube 3000 systems by Digital TV from nCube. The claim of nCube against STSL was on the basis of a chop of STSL on the contract between Digital TV and nCube. STSL had taken legal advice and had been advised that it was very unlikely that STSL would be held liable to the claim of nCube. Digital TV was also opposing the claim of nCube and had taken legal advice.

As advised by its lawyers, Digital TV had reasonable grounds in defending the claim and, accordingly, had not made any provision in the financial statements in connection with the claim. Digital TV filed a defence in this section on 14 December 1998 and nCube had failed to take further action since that date. There was no progress during the year in respect of the litigation.

33. LITIGATION *(Continued)*

(b) Stellar One Corporation ("Stellar One") served a statutory demand under Section 178 of the Hong Kong Companies Ordinance for the sum of approximately US$1,152,000 (equivalent to approximately HK$8,983,000) upon Digital TV in November 1998. Stellar One filed a winding up petition against Digital TV in December 1998 which was vigorously opposed by Digital TV. Digital TV applied for an order for security for the costs against Stellar One. On 4 May 1999, the Court ordered Stellar One to pay HK$200,000 to the court as security for the costs of Digital TV on or before 7 May 1999. Stellar One failed to pay that amount to the court.

The petition was dismissed in November 1999 and Stellar One was to pay Digital TV its cost of the petition, which amounted to HK$254,000. Stellar One had indicated that it would proceed to arbitration in Honolulu to recover the alleged amount.

Digital TV took legal advice and was advised that the arbitration proceedings had not commenced as of the date of approval of these financial statements. As advised by its lawyers, Digital TV had reasonable grounds in defending the claims and, accordingly, had not made any provision in the financial statements in connection with the claims.

Save and except for the matters specified above, the Group is not engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any companies of the Group.

34. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of an investment property	**14,716**	–

35. PLEDGE OF ASSETS

At the balance sheet date, the following assets of the Group were pledged to banks and securities brokers house to secure short term credit facilities:

	2005	2004
	HK$'000	HK$'000
Investment properties	**22,100**	15,000
Investments held for trading	**756,305**	–
Investments in securities	**–**	631,924
Bank deposits	**10,526**	15,182
	788,931	662,106

36. LEASE COMMITMENTS

The Group as lessee

	2005	2004
	HK$'000	HK$'000
Minimum lease payments paid under operating leases in respect of premises	1,566	1,119

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

	2005	2004
	HK$'000	HK$'000
Within one year	2,008	428
In the second to fifth year inclusive	813	–
	2,821	428

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of two years and rentals are fixed for an average term of two years.

The Group as lessor

Property rental income earned during the year was approximately HK$2,723,000 (2004: HK$2,444,000). The investment properties generated rental yields of 2.0% (2004: 5.5%). The properties held have committed tenants for an average of two years.

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

	2005	2004
	HK$'000	HK$'000
Within one year	3,528	2,459
In the second to fifth year inclusive	5,087	1,350
	8,615	3,809

37. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution retirement benefits scheme for its qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of independent trustee.

The retirement benefits scheme contributions charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group or will be refunded to the Company upon request.

As at 31 December 2005, there was no forfeited contributions (2004: Nil), which arose upon employees leaving the scheme and which were available to reduce the contributions payable by the Group in future years.

In addition to the defined contribution retirement benefits scheme, the Group is required to contribute to Mandatory Provident Fund for certain employees in Hong Kong based on applicable rates of monthly salary in accordance with the relevant regulations.

During the year, the retirement benefits scheme contributions net of forfeited contributions of nil (2004: HK$32,000), amounted to HK$329,000 (2004: HK$326,000).

38. RELATED PARTY TRANSACTIONS

During the year ended 31 December 2004, the Group entered the following transactions with related parties:

(a) On 2 April 2004, a credit facility with a maximum amount of US$40,000,000 was granted by a related company to finance the general working capital of the Group.

(b) One of the directors of the related company, Ms. Chong Sok Un is also a Director of the Company. The loan was unsecured, borne annual interest rate of HIBOR plus 0.5% and was repayable in one and a half year from the drawdown date. The loan was fully settled during the year ended 31 December 2004. The interest expense in respect of the loan from the related company was HK$511,000, which was included in finance costs per note 11.

Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group during the year was as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and other short-term employee benefits	**17,128**	16,332
Retirement benefits costs	**60**	60
	17,188	16,392

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

39. ACQUISITION OF A SUBSIDIARY

On 28 June 2005, the Group acquired 75% of the issued share capital of 深圳市天利安實業發展有限公司 ("天利安") for a consideration of HK$35,988,000. This acquisition has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Investment property	44,065	35,940	80,005
Construction in progress	47,034	–	47,034
Debtors, deposits and prepayments	500	–	500
Bank and cash balances	9	–	9
Creditors and accrued charges	(51,669)	–	(51,669)
Amount due to a previous shareholder	(22,503)	–	(22,503)
Tax liability	(1)	–	(1)
Deferred tax liability	–	(5,391)	(5,391)
	17,435	30,549	47,984
Minority interest			(11,996)
			35,988
Total consideration satisfied by:			
Cash consideration paid			30,980
Loan receivable			5,008
			35,988
Net cash outflow arising on acquisition:			
Cash consideration paid			(30,980)
Cash and cash equivalents acquired			9
			(30,971)

In respect of the above acquisition, consideration of approximately HK$30,980,000 was satisfied by cash and the remaining amount of approximately HK$5,008,000 was satisfied by the loan receivable.

39. ACQUISITION OF A SUBSIDIARY *(Continued)*

If the acquisition had been completed on 1 January 2005, total group revenue for the year would have been HK$223,086,000, and profit for the year would have been HK$104,398,000. The proforma information is for illustrative purposes only and is not necessarily an indicative revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

The subsidiary acquired does not have significant contribution to the Group's turnover and result for the year between the date of acquisition and the balance sheet date.

40. DISPOSAL OF A SUBSIDIARY

The net liabilities of the wholly-owned subsidiary at the date of disposal were as follows:

	20.9.2005
	HK$'000
NET LIABILITIES DISPOSED OF	
Amounts due to group companies *(Note)*	**(9,077)**
Satisfied by:	
Cash	**3,544**
Net cash inflow arising on disposal:	
Cash consideration received during the year ended 31 December 2005	**3,544**

During the year, the disposed subsidiary did not make a significant contribution to the Group's profit and cash flows respectively.

During the year, the disposed subsidiary had a loss for the period of HK$5,000 which is included in the Group's profit for the year.

Note: Amounts due to group companies were waived at the date of disposal and therefore there was a gain on disposal of HK$3,544,000.

41. MAJOR NON-CASH TRANSACTION

During the year, the Group entered the following major non-cash transaction:

In respect of the Group's loan receivables, a previous shareholder of 天利安 agreed to settle a loan receivable of HK$27,511,000 on the borrower's behalf by assigning an amount of HK$22,503,000 due to him by 天利安 to the Group and off-setting part of the consideration of HK$5,008,000 payable to him for the Group's acquisition of the 75% of the registered capital of 天利安 (details are set out in note 39).

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries as at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Besford International Limited	The British Virgin Islands	Ordinary US$1	100%	Investment holding
Classic Fortune Limited	The British Virgin Islands	Ordinary US$1	100%	Investment holding
Mission Time Holdings Limited	The British Virgin Islands	Ordinary US$1	100%	Investment holding
Star Paging (BVI) Limited	The British Virgin Islands	Ordinary US$400	100%	Investment holding
Yuenwell Holdings Limited	The British Virgin Islands	Ordinary US$1	100%	Investment holding
Indirectly held				
China Capital Holdings Limited	Hong Kong	Ordinary HK$2	100%	Treasury service
China Online (Bermuda) Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
China Online Nominees Limited	Hong Kong	Ordinary HK$200	100%	Investment holding and provision of nominee services
China Online Secretaries Limited	Hong Kong	Ordinary HK$2	100%	Provision of secretarial services

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(Continued)*				
Dualiane Limited	The British Virgin Islands	Ordinary US$1	100%	Investment holding
Focus Clear Limited	The British Virgin Islands	Ordinary US$1	100%	Securities trading in Hong Kong
Forepower Limited	The British Virgin Islands	Ordinary US$1	100%	Property investment in Hong Kong
Genwo Limited	Hong Kong	Ordinary HK$200,000	100%	Property investment
Gold Chopsticks Limited	The British Virgin Islands	Ordinary US$1	100%	Investment holding
Honest Opportunity Limited	The British Virgin Islands	Ordinary US$1	100%	Securities trading and investment in Hong Kong and overseas
Join Capital Limited	Hong Kong	Ordinary HK$2	100%	Money lending
Kintic Limited	Hong Kong	Ordinary HK$2	100%	Property investment
Konnic Limited	Hong Kong	Ordinary HK$2	100%	Property investment
New Fortress Investments Limited	The British Virgin Islands	Ordinary US$1	100%	Investment holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(Continued)*				
Rich Investments Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
Sinway Limited	Hong Kong	Ordinary HK$2	100%	Mobile handsets distribution
Sparkling Summer Limited	The British Virgin Islands	Ordinary US$6,500,000	100%	Securities trading in Hong Kong and overseas
Star Charter Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
Star Telecom (China Investment) Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
Star Telecom Holding Limited	Hong Kong	Ordinary HK$200 Deferred # HK$4,000,000	100%	Investment holding
Star Telecom Limited	Hong Kong	Ordinary HK$3,000,000	100%	Telecom and IT products and services
Star Telecom Properties Limited	Hong Kong	Ordinary HK$200	100%	Investment and property holding
Taskwell Limited	The British Virgin Islands	Ordinary US$1	100%	Investment holding
Tricom Tianchi Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
Vinka Limited	Hong Kong	Ordinary HK$2	100%	Investment holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(Continued)*				
Widerich Limited	Hong Kong	Ordinary HK$2	100%	Property investment
星電電子技術發展(深圳)有限公司*	China	Registered HK$1,000,000	100%	Research and development for computer software and relevant technical consultancy services
深圳市天利安實業發展有限公司**	China	Registered RMB46,000,000	75%	Property investment

The deferred shares, which are not held by the Group, practically carry no rights to any dividend or to receive notice of or to attend or vote at any general meeting of the company or to any distribution in winding up.

* Wholly foreign-owned enterprise.

** 天利安 is a sino-foreign equity joint venture entity owned by the Group and independent third parties in the PRC. On 8 November 2005, the registered capital of 天利安 was increased by RMB20,000,000 (equivalent to HK$19,220,000) and the whole capital contribution was contributed by Star Charter Limited, an indirectly wholly owned subsidiary of the Company. Under the loan agreement entered into between Star Charter Limited and a minority shareholder of 天利安, 25% of the abovementioned capital contribution (ie. RMB5,000,000 equivalent to HK$4,805,000) was paid by Star Charter Limited on behalf of a minority shareholder. The Group therefore effectively has 75% attributable economic interest in 天利安.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

All subsidiaries operate principally in their places of incorporation unless specified otherwise under “Principal activities”.

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

43. POST BALANCE SHEET EVENTS

Subsequent to 31 December 2005, the Group entered the following transactions:

(a) AG early redeemed part of the loan notes with par value of approximately HK43,465,000 with a discount on early redemption of approximately HK$3,962,000 at the request of the Group. The net redemption proceed is approximately HK39,503,000.

(b) The Group entered into a sale and purchase agreement with two independent third parties pursuant to which the Group agreed to dispose of and the two independent third parties agreed to purchase 30,000 ordinary shares at par value of HK$1.00 each in an associate of the Group which was fully impaired in previous year, at a total consideration of HK1,740,000.

(c) On 23 March 2006, the Group disposed of 天利安, a non-wholly owned subsidiary, together with the related shareholder loan and the amount due from a minority shareholder, to a third party at an aggregate consideration of RMB99,900,000 (equivalent to HK$96,058,000).

(d) On 27 March 2006, the Group disposed of 70,000,000 shares of Tian An China Investments Company Limited at HK$3.68 each.

FINANCIAL SUMMARY

The results and the assets and liabilities of the Group for the past five financial years, as extracted from the Group's published audited financial statements and reclassified as appropriate, are set out below:

RESULTS

	For the year ended 31 December				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
	(restated)	(restated)	(restated)		
Turnover	2,344,369	1,299,322	493,533	847,491	**223,086**
Profit (Loss) before taxation	(732,640)	(603,417)	292,414	203,401	**104,607**
Taxation	2,002	198	(336)	(127)	**(99)**
Profit (Loss) for the year	(730,638)	(603,219)	292,078	203,274	**104,508**
Attributable to:					
Equity holders of the Company	(717,254)	(602,914)	292,078	203,274	**104,511**
Minority interests	(13,384)	(305)	–	–	**(3)**
	(730,638)	(603,219)	292,078	203,274	**104,508**

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	At 31 December				
	2001	2002	2003	2004	**2005**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	1,513,751	910,773	1,123,456	1,263,863	**1,456,311**
Total liabilities	(190,159)	(112,007)	(19,919)	(40,211)	**(154,581)**
	1,323,592	798,766	1,103,537	1,223,652	**1,301,730**
Equity attributable to equity holders of the Company	1,323,287	798,766	1,103,537	1,223,652	**1,284,932**
Minority interests	305	–	–	–	**16,798**
	1,323,592	798,766	1,103,537	1,223,652	**1,301,730**