大中華實業控股有限公司

GREATER CHINA HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
(Stock code: 431)

Annual Report 2005

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Ma Xiaoling *(Chairman)*
Mr. Chan Sze Hon

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Ching Men Ky, Carl
Mr. Lin Ruei Min
Mr. Shu Wa Tung, Laurence

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Sze Hon

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China
Dah Sing Bank
Industrial and Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISORS

Sit, Fung, Kwong & Shum
Michael Cheuk, Wong & Kee

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1301
1 Lyndhurst Tower
1 Lyndhurst Terrace
Central
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

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

STOCK CODE

431

On behalf of the Board of Directors of Greater China Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I would like to present to the shareholders the 2005 annual report.

REVIEW OF OPERATIONS

Subsequent to the introduction of a new Board of Directors, this year was the commencement of a new era under the new energetic management. During the year, we have concentrated our effort on increasing the return from our investment properties, and looking for any potential business opportunities either in Hong Kong or in the People's Republic of China (the "PRC").

The year 2005 has been a commendable year for Hong Kong's property market. In particular, rental income has been mostly exhibiting a gradual up trend. The Group's investment properties, 1 Lyndhurst Tower, have also benefited from the growth and enjoyed a growth of nearly 20% in their aggregate valuation, while over 90% of the total gross floor area was leased out. At the same time, some tenancy agreements of the Group's investment properties were renewed with a double digit rise in the corresponding rental income. Unless the interest rates continue to increase to a much higher level than the current level, we believe that this favourable condition will carry over into and over the course of 2006.

Besides, the performance of the Group's investment in the production and sale of organic fertilizers remained stable. Due to keen competition, the operating results were not as good as what we expected, but we believe that the investment is still valuable for the Group as it has already provided another source of income to the Group.

PROSPECTS

As promised, we will continue to explore business opportunities that are valuable to the Group and to our shareholders. On 30 August, 2005, the Group has entered into a legally binding memorandum of understanding with independent third parties with the intention to acquire in part or in whole the issued share capital of a company incorporated in the British Virgin Islands (the "BVI Company") (the "Proposed Investment"), the sole asset of which is a sino-foreign equity joint-venture incorporated in the PRC, the scope of business of which includes construction of port infrastructure and development of petrochemical industry projects (subject to granting of relevant operating permits). On 27 February 2006, the Group entered into the sale and purchase agreement with the independent third parties pursuant to which the Group agreed to acquire 51% of the issued share capital of the BVI Company and a loan of RMB61,200,000 due from one of the independent third parties (the "Seller") to the BVI Company from the Seller at an aggregate cash consideration of RMB61,200,001. We are of the opinion that the Proposed Investment provides an opportunity for the Group to broaden its business scope and diversify into industrial property development with focus on port infrastructure.

The Board will continue to look for investments with reasonable return by investing in quality property projects in Hong Kong or the PRC, and the Board continues to commit to achieve this objective and is optimistic of its success.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all of our dedicated staff for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

Ma Xiaoling
Chairman

Hong Kong, 18 April 2006

BUSINESS REVIEW

For the year ended 31 December 2005, turnover of the Group amounted to HK$38,679,000 (2004: HK$15,207,000). Net profit for the year attributable to the equity holders of the Company was HK$43,341,000 (2004: HK$12,709,000) and earnings per share was HK17.32 cents (2004: HK5.74 cents).

During the reporting period, revenue from production and sale of fertilizers amounted to HK$5,796,000 (2004:HK$6,420,000), representing approximately 14.98% of the Group's total revenue. Investment in securities shared approximately 60.31% of the Group's total revenue resulting from the disposal of all the Company's equity investments listed in Hong Kong. Rental income from 1 Lyndhurst Tower amounted to HK$9,557,000 (2004: HK$8,235,000), representing approximately 24.71% of the Group's total revenue and over 90% of the total gross floor area was leased out.

Following the blossoming of the property market, the revaluation of the investment properties has contributed to a profit of HK$52,600,000, and the property investment business remains as the largest profit contributor to the Group.

FINANCIAL REVIEW

Liquidity and Financial Resources

In September 2005, the Company placed 47,600,000 shares at HK$0.50 per share and the net proceeds received were of approximately HK$23,200,000 which was used to invest in a company incorporated in the British Virgin Islands, details of which are stated in Chairman's Statement.

As at 31 December 2005, the Group has current ratio of approximately 0.7 compared to that of 0.16 as at 31 December, 2004 and the gearing ratio was 0.68 compared to that of 1.01 as at 31 December, 2004. The calculation of gearing ratio was based on the total borrowings of HK$135,970,000 (2004: HK$134,026,000), and the net assets of HK$200,324,000 as at 31 December 2005 (2004: HK$133,509,000). During the year, the bank loans had been restructured for a further five years.

There were no significant capital commitments as at 31 December 2005 which would require a substantial use of the Group's present cash resources or external funding.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars and Renminbi.

Charge on Assets

As at 31 December 2005, all the Group's investment properties and the issued shares of a wholly owned subsidiary of the Company are pledged and the rental income in respect of the investment properties under operating leases are assigned to banks against bank loans granted to the Group.

Property, plant and equipment of HK$7,063,000 (2004: HK$7,252,000) are pledged against a bank loan granted to the Group.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2005.

Employees and Remuneration Policies

As at 31 December 2005, the Group has approximately 31 employees. Remuneration is determined by reference to the qualifications and experiences of the staff concerned and according to the prevailing industry practice. Besides salary payments, other staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme.

Ma Xiaoling
Chairman

Hong Kong, 18 April 2006

EXECUTIVE DIRECTORS

Ms. Ma Xiaoling, aged 29, appointed in July 2005, is the Chairman of the Company. Ms. Ma graduated from Lanzhou Commercial College in the People's Republic of China (the "PRC") in 1998 majoring in International Trade and obtained a Bachelor Degree in Economics. Ms. Ma has years of experience in property development and investments in the PRC and Hong Kong. Ms. Ma is the sole Director and beneficial owner of Keenlead Holdings Limited, which is the major shareholder of the Company.

Mr. Chan Sze Hon, aged 32, appointed in July 2005, graduated from City University of Hong Kong with a Bachelor of Arts Degree in Accountancy. Mr. Chan is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He has years of experience in accounting and financial management and had worked for an international accounting firm in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ching Men Ky, Carl, aged 61, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from Tak Ming College with a Bachelor Degree in Business and was awarded with an Honorable Doctorate Degree from Beijing International Business School in the PRC. Mr. Ching has years of experience in business management. He has also been participating in various social activities and has been acting as the director of United World Chinese Association Limited and the director of Asian Professional Basketball Management and Development Company Limited.

Mr. Lin Ruei Min, aged 62, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from the Department of Politics of Fu Hsing Kang College in Taiwan. Mr. Lin is currently the Chief Consultant of an asset management consultant company in Taiwan. He is the founder of Taiwan branch of United World Chinese Association Limited.

Mr. Shu Wa Tung, Laurence, aged 32, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from Deakin University in Australia with a Bachelor Degree in Business majoring in Accounting. Mr. Shu is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a CPA member of CPA Australia. He has years of experience in audit, corporate finance and corporate advisory services. He is currently the chief financial officer and company secretary of a listed company in Hong Kong.

The Company is committed to maintain high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The Company has always recognized the importance of transparency and accountability. It is the belief of the Board of Directors that shareholders can maximize their benefits from good corporate governance.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("Code on Corporate Governance") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, except for the following deviations:

– Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

  Ms. Ma Xiaoling is the Chairman and Chief Executive Officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Ms. Ma and believes that her appointment to the posts of Chairman and Chief Executive Officer is beneficial to the business prospects of the Company.

– Code A.4.1 stipulates that Non-Executive Directors should be appointed for specific terms and subject to re-election.

  The Independent Non-Executive Directors of the Company were not appointed for any specific terms, as they are subject to retirement by rotation at the Company's annual general meeting in accordance with the Company's Bye-laws.

– Code A.4.2 stipulates that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

  Under the Company's Bye-laws, at each annual general meeting, one-third of the Directors of the Company for the time being or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office provided that notwithstanding anything herein, the Chairman of the Directors and the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year.

  In order to fully comply with Code A.4.2, a special resolution will be proposed to amend the relevant provisions of the Bye-laws at the next general meeting of the Company to be held in 2006, so that every Director shall be subject to retirement by rotation at least once every three years.

THE BOARD

The Board comprises two Executive Directors, being Ms. Ma Xiaoling (Chairman) and Mr. Chan Sze Hon, and three Independent Non-Executive Directors, being Mr. Ching Men Ky Carl, Mr. Lin Ruei-min and Mr. Shu Wa Tung Laurence.

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

The Company has received an annual confirmation of independence from each of the Independent Non-Executive Directors. The Company is of the view that all the Independent Non-Executive Directors meet the guidelines for assessing independence in accordance with Rule 3.13 of the Listing Rules.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances (including monitoring, evaluating and ensuring the effectiveness of the Company's internal control system), but the day-to-day management is delegated to the two Executive Directors, Ms. Ma Xiaoling and Mr. Chan Sze Hon. Ms. Ma as Chairman and Chief Executive Officer heads the Board and implements the strategies and polices approved by the Board whilst Mr. Chan is responsible for the operations of the Group, in particular the finance function.

BOARD MEETING

The Board meets on a regular basis and 4 meetings were held during the year, while two of them were held both before and after the change of composition of the Board. The individual attendance record is as follows:

Directors		Number of attendance
Executive Directors:		
Ms. Ma Xiaoling	(appointed on 18 July 2005)	2/2
Mr. Chan Sze Hon	(appointed on 18 July 2005)	2/2
Mr. Xu Ying	(resigned on 5 August 2005)	2/2
Mr. Liu Ming Hui	(resigned on 5 August 2005)	2/2
Non-Executive Director:		
Mr. Zhang Shuang	(resigned on 1 February 2005)	0/0
Independent Non-Executive Directors:		
Mr. Ching Men Ky Carl	(appointed on 5 August 2005)	1/2
Mr. Lin Ruei-min	(appointed on 5 August 2005)	1/2
Mr. Shu Wa Tung Laurence	(appointed on 5 August 2005)	1/2
Mr. Wang Xian Jun	(resigned on 5 August 2005)	0/2
Mr. Wan Tze Fan Terence	(resigned on 5 August 2005)	0/2
Mr. Liu Fengliang	(resigned on 5 August 2005)	0/2

Directors have timely access to relevant information prior to each board meeting. Directors are given the opportunity to include matters in the agenda for regular board meetings while Directors are entitled to have access to board papers and related materials to allow them to make informed decisions on matters arising from board meetings.

Minutes of board meetings and meetings of other committees are kept by the Company Secretary and are open for inspection by Directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. The Company has made specific enquiry of all Directors whether the Directors have complied with the required standard set out in the Model Code regarding directors' securities transactions and all Directors confirmed that they have complied with the Model Code.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The Group's financial statements for the year ended 31 December 2005 have been reviewed by the audit committee. The audit committee of the Company currently comprises three Independent Non-Executive Directors, including Mr. Ching Men Ky, Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung, Laurence.

The audit committee meets twice during the year, while one meeting was held both before and after the change of composition of the audit committee. The individual attendance record is as follows:

Directors		**Number of attendance**
Mr. Ching Men Ky Carl	(appointed on 5 August 2005)	1/1
Mr. Lin Ruei-min	(appointed on 5 August 2005)	1/1
Mr. Shu Wa Tung Laurence	(appointed on 5 August 2005)	1/1
Mr. Wang Xian Jun	(resigned on 5 August 2005)	1/1
Mr. Wan Tze Fan Terence	(resigned on 5 August 2005)	1/1
Mr. Liu Fengliang	(resigned on 5 August 2005)	1/1

REMUNERATION COMMITTEE

The Board has established a remuneration committee. The remuneration committee, currently comprising Executive Directors, Ms. Ma Xiaoling and Mr. Chan Sze Hon, and Independent Non-Executive Directors, Mr. Ching Men Ky, Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung, Laurence, is responsible for advising the Board on the remuneration policy and framework of the Company's Directors and senior management member(s), as well as review and determine the remuneration of all Executive Directors and senior management member(s) with reference to the Company's objectives from time to time. The remuneration committee met once at the end of the year with full attendance to review the remuneration policy and remuneration packages of the Executive Directors and members of the senior management.

NOMINATION OF DIRECTORS

The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Code on Corporate Governance to set up a Nomination Committee. Instead, the Board will meet to discuss nomination of Directors when circumstances require.

Upon receipt of a nomination from the members of the Board, a board meeting will then be convened to consider and discuss the nominated candidate(s) for the directorship. Criteria adopted by the Board in considering the suitability of a candidate for directorship include his/her qualifications, experience, expertise and knowledge as well as the requirements under the Listing Rules.

The Board held 3 meetings during the year to discuss the appointment and removal of Directors, with individual attendance of each Director as follows:

Directors		**Number of attendance**
Ms. Ma Xiaoling	(appointed on 18 July 2005)	1/1
Mr. Chan Sze Hon	(appointed on 18 July 2005)	1/1
Mr. Xu Ying	(resigned on 5 August 2005)	2/2
Mr. Liu Ming Hui	(resigned on 5 August 2005)	2/2
Mr. Zhang Shuang	(resigned on 1 February 2005)	0/1
Mr. Ching Men Ky Carl	(appointed on 5 August 2005)	0/0
Mr. Lin Ruei-min	(appointed on 5 August 2005)	0/0
Mr. Shu Wa Tung Laurence	(appointed on 5 August 2005)	0/0
Mr. Wang Xian Jun	(resigned on 5 August 2005)	2/2
Mr. Wan Tze Fan Terence	(resigned on 5 August 2005)	2/2
Mr. Liu Fengliang	(resigned on 5 August 2005)	2/2

AUDITORS' REMUNERATION

During the year under review, the total remuneration in respect of statutory audit services and review on interim financial result paid to the Company's auditors, Messrs Deloitte Touche Tohmatsu, amounted to HK$550,000 and HK$130,000 respectively. No other non-audit service assignment was provided by them.

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of its principal subsidiaries are set out in note 37 to the financial statements.

RESULTS

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

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

The Group revalued its investment properties at the balance sheet date. The increase in fair value, which has been credited to consolidated income statement, amounted to HK$52.6 million. Details of movements in the investment properties of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES

During the year under review, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers was less than 30% of the total turnover for the year. The largest supplier and the five largest suppliers accounted for 12% and 40% of the Group's purchases respectively.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest suppliers.

DIRECTORS

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

Executive directors:

Ms. Ma Xiaoling *(Chairman)*	(appointed on 18 July 2005)
Mr. Chan Sze Hon	(appointed on 18 July 2005)
Mr. Xu Ying	(resigned on 5 August 2005)
Mr. Liu Ming Hui	(resigned on 5 August 2005)

Non-executive director:

Mr. Zhang Shuang	(resigned on 1 February 2005)

Independent non-executive directors:

Mr. Ching Men Ky, Carl	(appointed on 5 August 2005)
Mr. Lin Ruei Min	(appointed on 5 August 2005)
Mr. Shu Wa Tung, Laurence	(appointed on 5 August 2005)
Mr. Wang Xian Jun	(resigned on 5 August 2005)
Mr. Wan Tze Fan, Terence	(resigned on 5 August 2005)
Mr. Liu Fengliang	(resigned on 5 August 2005)

In accordance with clauses 99(A) and 99(B) of the Company's Bye-Laws, Mr. Chan Sze Hon will retire and, being eligible, offer himself for re-election.

Independent non-executive directors are not appointed for a specific term. All directors (including independent non-executive directors) are subject to retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTEREST IN SHARES

As at 31 December 2005, the interests of the directors and chief executive of the Company in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions

Name	Nature of interest	Number of shares held	Percentage to issued share capital
Ms. Ma Xiaoling	Corporate interests *(Note)*	120,212,256	42.03%

Note: Ms. Ma Xiaoling is the beneficial owner of the entire issued share capital of Keenlead Holdings Limited, which owned 120,212,256 shares in the Company as at 31 December 2005.

Save as disclosed above, as at 31 December 2005, none of the directors and chief executive of the Company had an interest or short position in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed in note 29 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' 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 of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 December 2005, the following shareholders had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company:

Long positions

Name of shareholder	*Note*	Number of shares held	Percentage to issued share capital
Keenlead Holdings Limited	*1*	120,212,256	42.03%
Ms. Ma Xiaoling	*1*	120,212,256	42.03%

Short positions

Name of shareholder	*Notes*	Number of shares held	Percentage to issued share capital
China Main Investment (H.K.) Company Limited	*2 and 3*	32,000,000	11.19%
Centre Mark Development Limited	*2 and 3*	32,000,000	11.19%
Sino Elite International Limited	*2 and 3*	32,000,000	11.19%
China Main Group Company Limited	*2 and 3*	32,000,000	11.19%
Mr. Chen Dacheng	*2 and 3*	32,000,000	11.19%
Shenzhen Venture Capital (BVI) Company Limited	*2 and 3*	32,000,000	11.19%
Mr. Mei Jian	*2 and 3*	32,000,000	11.19%
Mr. Zhang Minlong	*2 and 3*	32,000,000	11.19%

Notes:

1. The entire issued share capital of Keenlead Holdings Limited is wholly and beneficially owned by Ms. Ma Xiaoling.

2. China Main Investment (H.K.) Company Limited ("China Main") is owned as to 60% by Centre Mark Development Limited and as to 40% by Sino Elite International Limited. Centre Mark Development Limited is owned as to 99.99% by Mr. Chen Dacheng and as to 0.01% by China Main Group Company Limited. Sino Elite International Limited is owned as to 99.99% by China Main Group Company Limited and as to 0.01% by Mr. Pai Chin Ming. China Main Group Company Limited is owned as to 99% by Mr. Chen Dacheng and as to 1% by Mr. Pai Chin Ming.

3. On 14 April 2003, Shenzhen Venture Capital (BVI) Company Limited ("Shenzhen Venture Capital") reported that it has a security interest in 32,000,000 shares in the Company. Shenzhen Venture Capital is owned as to 50% by Mr. Mei Jian and 50% by Mr. Zhang Minlong.

Save as disclosed above, the Company has not been notified of any other shareholders who had any interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company as at 31 December 2005.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group has been set up by the Remuneration Committee and is based on their merit, qualifications and competence.

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

The Company has adopted a share option scheme as an incentive to the directors and eligible employees, details of the scheme are set out in note 29 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provision 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.

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 significant events occurring after the balance sheet date are set out in note 36 to the financial statements.

AUDITORS

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

Ma Xiaoling
Chairman
Hong Kong, 18 April 2006

Deloitte.
德勤

TO THE MEMBERS OF GREATER CHINA HOLDINGS LIMITED
大中華實業控股有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements on pages 20 to 66 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements 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 its profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

18 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Revenue	8	**38,679**	15,207
Rental outgoings		**(592)**	(1,356)
Cost of sales		**(23,117)**	(7,195)
Gross profit		**14,970**	6,656
Other income		**176**	71
Gain on change in fair value of investment properties		**52,600**	11,000
Unrealised holding gain of investments in securities		–	4,709
Selling and distribution costs		**(1,406)**	(49)
Administrative expenses		**(11,193)**	(5,822)
Amortisation of goodwill on acquisition of subsidiaries		–	(820)
Impairment loss on buildings		–	(813)
Finance costs	9	**(5,950)**	(2,984)
Profit before taxation	10	**49,197**	11,948
Income tax charge (credit)	13	**6,040**	(113)
Profit for the year		**43,157**	12,061
Attributable to:			
Equity holders of the Company		**43,341**	12,709
Minority interests		**(184)**	(648)
		43,157	12,061
Earnings per share	14		
– Basic		**17.32 cents**	5.74 cents
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-Current Assets			
Property, plant and equipment	*15*	**5,447**	4,796
Land lease prepayment	*16*	**3,232**	3,438
Investment properties	*17*	**318,600**	266,000
Investments in securities	*18*	**–**	3,000
Available-for-sale investments	*19*	**3,000**	–
Deposit paid for acquisition of subsidiaries	20	**11,590**	–
		341,869	277,234
Current Assets			
Inventories	*21*	**533**	227
Investments in securities	*18*	**–**	19,214
Held-for-trading investment	*22*	**48**	–
Trade receivables	*23*	**953**	1,342
Land lease prepayment	*16*	**72**	72
Prepayments and deposits	*24*	**1,142**	1,389
Bank balances and cash		**24,192**	4,080
		26,940	26,324
Current Liabilities			
Trade and other payables	*25*	**8,012**	9,986
Consideration payable for acquisition of subsidiaries	26	**–**	4,000
Amounts due to directors	*34(a)*	**–**	3,268
Amount due to a minority shareholder of a subsidiary	*34(b)*	**6,258**	3,583
Rental deposits		**3,107**	3,241
Taxation		**14,687**	14,687
Bank loans	*27*	**6,362**	130,443
		38,426	169,208
Net Current Liabilities		**(11,486)**	(142,884)
Total Assets less Current Liabilities		**330,383**	134,350

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (restated)
Non-Current Liabilities			
Bank loans	*27*	**123,350**	–
Deferred taxation	*30*	**6,709**	657
		130,059	657
		200,324	133,693
Capital and Reserves			
Share capital	*28*	**1,430**	1,192
Reserves		**198,894**	132,317
Equity attributable to equity holders of the Company		**200,324**	133,509
Minority interests		–	184
		200,324	133,693

The financial statements on pages 20 to 66 were approved and authorised for issue by the Board of Directors on 18 April 2006 and are signed on its behalf by:

Ma Xiaoling	**Chan Sze Hon**
DIRECTOR	*DIRECTOR*

	Attributable to equity holders of the Company						
	Share capital	Share premium	Translation reserve	Deficit	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004	828	329,303	–	(228,483)	101,648	–	101,648
Profit (loss) for the year (restated) and total recognised income and expense for the year	–	–	–	12,709	12,709	(648)	12,061
Issue of ordinary shares	364	18,788	–	–	19,152	–	19,152
Acquisition of subsidiaries	–	–	–	–	–	832	832
At 31 December 2004 (restated) and 1 January 2005	1,192	348,091	–	(215,774)	133,509	184	133,693
Exchange differences arising on translation of operations outside Hong Kong	–	–	153	–	153	–	153
Profit (loss) for the year	–	–	–	43,341	43,341	(184)	43,157
Total recognised income and expense for the year	1,192	348,091	153	(172,433)	177,003	–	177,003
Issue of ordinary shares	238	23,083	–	–	23,321	–	23,321
At 31 December 2005	1,430	371,174	153	(172,433)	200,324	–	200,324

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**49,197**	11,948
Adjustments for:			
Depreciation and amortisation		**534**	1,193
Impairment loss on buildings		**–**	813
Loss on disposal of property, plant and equipment		**11**	–
Gain on change in fair value of investment properties		**(52,600)**	(11,000)
Unrealised holding gain of investments in securities		**–**	(4,709)
Finance costs		**5,950**	2,984
Operating cash flows before movements in working capital		**3,092**	1,229
Increase in inventories		**(306)**	(169)
Decrease in holding for trading investment/investments in securities		**19,166**	190
Decrease (increase) in trade receivables		**389**	(858)
Decrease (increase) in prepayments and deposits		**247**	(97)
(Decrease) increase in trade and other payables		**(1,986)**	1,322
(Decrease) increase in rental deposits		**(134)**	404
Cash from operations		**20,468**	2,021
Interest paid		**(5,950)**	(2,765)
NET CASH FROM OPERATING ACTIVITIES		**14,518**	(744)
INVESTING ACTIVITIES			
Deposit paid for acquisition of subsidiaries	*20*	**(11,590)**	–
Net cash outflow arising from acquisition of subsidiaries	*31*	**(4,000)**	(666)
Purchase of property, plant and equipment		**(831)**	(624)
Purchase of investment securities		**–**	(3,000)
CASH USED IN INVESTING ACTIVITIES		**(16,421)**	(4,290)
FINANCING ACTIVITIES			
Bank loans raised		**131,963**	–
Proceeds from issue of shares		**23,321**	19,152
Advance from a minority shareholder of a subsidiary		**2,675**	640
Repayment of bank loans		**(132,676)**	(10,550)
(Decrease) increase in amounts due to directors		**(3,268)**	1,400
Repayment of other short term borrowings		**–**	(2,403)
NET CASH FROM FINANCING ACTIVITIES		**22,015**	8,239

	Notes	2005 HK$'000	2004 HK$'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**20,112**	3,205
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**4,080**	875
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash		**24,192**	4,080

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section 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 Group is principally engaged in property investment, securities trading, production and sale of fertilizers and chemicals.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors have given careful consideration to the future liquidity of the Company and its subsidiaries (the "Group") in light of the Group's net current liabilities of HK$11,486,000 at 31 December 2005. The directors are satisfied that, with the net long term bank loan of HK$41,000,000 obtained subsequent to the balance sheet date as detailed in Note 36(b), the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") 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 consolidated statement of changes in equity. In particular, the presentation of minority interest has been changed. The change has 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 periods are prepared and presented:

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

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 cost 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. 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 land lease prepayment under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 4 for the financial impact).

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. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the Group's financial statements. HKAS 39 generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Classification and measurement of financial assets and financial liabilities

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

By 31 December 2004, the Group classified and measured its investments in equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in equity securities are classified as "investment securities" or "other investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1 January 2005 onwards, the Group classifies and measures its investment equity securities in accordance with HKAS 39. Financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets" or "loans and receivables". The classification depends on the purpose for which the assets are acquired. "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 except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably carried. Such equity investments are measured at cost less impairment. "Loans and receivables" are measured at amortised cost using the effective interest method.

This change has been applied prospectively and has no effect to the Group's deficit as at 1 January 2005 (See Note 4 for the financial impact).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Investment properties

In the current year, the Group has 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 the predecessor standard were measured at open market values, with revaluation surplus or deficits 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 revaluation 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 effect on the Group's deficit at 1 January 2005 as the Group had no investment property revaluation reserve as at that date.

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. In the current year, the Group has applied HKAS Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets ("HKAS INT 21") which removes the presumption that the carrying amount of investment properties are 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 will 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 HKAS INT 21, this change in accounting policy has been applied retrospectively (See Note 4 for the financial impact).

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Business Combinations

In the current year, the Group has applied HKFRS 3 Business Combinations. In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually/in the financial period in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. In accordance with the transitional provisions of HKFRS 3, the Group eliminated the carrying amount of goodwill by the related accumulated amortisation of HK$820,000. This change has had no effect on the Group's deficit as at 1 January 2005.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of changes in the accounting polices described above on the results for the current and prior year, which has decreased (increased) the profit for current and prior year, is as follows:

	2005	2004
	HK$'000	HK$'000
Increase (decrease) in deferred taxes relating to the investment properties	**6,040**	(447)

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

(Continued)

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

	As at 31 December 2004 (originally stated)	HKAS 1	HKAS 17	HKAS INT 21	As at 31 December 2004 (restated)	HKAS 39	As at 1 January 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note 3)	*(Note 3)*	*(Note 3)*	*(Note 3)*	*(Note 3)*	
Balance sheet							
Property, plant and equipment	8,306	–	(3,510)	–	4,796	–	4,796
Land lease prepayment	–	–	3,510	–	3,510	–	3,510
Investments in securities	22,214	–	–	–	22,214	(22,214)	–
Available-for-sale investments	–	–	–	–	–	3,000	3,000
Financial assets at fair value through profit or loss	–	–	–	–	–	19,214	19,214
Deferred taxation	(1,104)	–	–	447	(657)	–	(657)
Minority interests	(184)	184	–	–	–	–	–
Other assets and liabilities	103,830	–	–	–	103,830	–	103,830
Total effects on assets and liabilities	133,062	184	–	447	133,693	–	133,693
Share capital	1,192	–	–	–	1,192	–	1,192
Share premium	348,091	–	–	–	348,091	–	348,091
Deficit	(216,221)	–	–	447	(215,774)	–	(215,774)
Total effects on:							
Equity attributable to equity holders of the Company	133,062	–	–	447	133,509	–	133,509
Minority interests	–	184	–	–	184	–	184
	133,062	184	–	447	133,693	–	133,693

The application of the new HKFRS does not have financial effects to the Group's equity on 1 January 2004.

4. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

(Continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

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

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

5. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on SEHK 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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.

Revenue recognition

Rental income is recognised on a straight-line basis over the relevant lease term.

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

Sale proceeds on trading of securities are recognised on a trade date basis when the sale and purchase agreement becomes unconditional.

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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.

Property, plant and equipment

Property, plant and equipment, other than factory building under construction, are stated at cost less depreciation and amortisation and accumulated impairment losses.

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

Buildings	5%
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	10% – 33%
Motor vehicles	20%

Factory buildings under construction are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

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 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.

Leasehold land held for owner-occupied purpose

The leasehold land component is classified as a land lease prepayment and is amortised on a straight-line basis over the lease term.

5. 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.

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

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.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

Leasing

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

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

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.

As lessee

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

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 Group'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.

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

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 Group (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.

Taxation

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

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

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

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 based on the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme") and state-managed retirement benefit scheme are charged as an expense as they fall due.

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 mainly classified into financial assets at held-for-trading investments, loans and receivables or available for sale investments. 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 of the categories of the Group's financial assets are set out below:

– Held-for-trading investments

  At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

5. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

– Available-for-sale financial assets

Available-for-sale financial assets include available-for-sale investments and are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. 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. Where fair value cannot be measured reliably, such equity investments are measured at cost less impairment. 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 reverse in subsequent periods through profit or loss.

– 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 trade receivables, deposits, and bank balances and cash) 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.

5. 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 include trade and other payables, amount due to a minority shareholder, rental deposits and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

– Equity instruments

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

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 the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Useful lives and impairment assessment of property, plant and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expense recorded. Property, plant, and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to recoverable amount and the amount of the write-down is charged against the results of operations.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include borrowings, trade and other receivables, deposits, trade and other payables amounts due to directors, amounts due to minority shareholder and rental deposits. 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

Certain trade receivables and payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

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

Market risk *(Continued)*

(ii) Interest rate risk

The Group's fair value interest rate risk relates to variable-rate borrowings. The interest rate and terms of repayment of bank borrowings of the Group are disclosed in note 27. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arised.

(iii) Price risk

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

Credit risk

The Group's 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. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

Liquidity risk

The Group managed the liquidity structure of its assets, liabilities and commitments in view of market conditions and its business needs. Management comprising executive directors monitored the liquidity position of the Group on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fell due and to make the most efficient use of the Group's financial resources.

The directors are satisfied that, with the net long term bank loan of HK$41,000,000 obtained subsequent to the balance sheet date as detailed in Note 36(b), the Group is able to meet in full its financial obligations as they fall due for the foreseeable future.

8. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from sales of goods by the Group to outside customers, less return and allowances, proceeds from securities trading, and rental income during the year.

Business segments

For management purposes, the Group is currently organised into production and sale of fertilizers and chemicals, property investment and investment holding divisions, which are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

INCOME STATEMENT

For the year ended 31 December 2005

	Production and sale of fertilizers and chemicals HK$'000	**Property investment** HK$'000	**Investment holding** HK$'000	**Consolidated** HK$'000
SEGMENT REVENUE	5,796	9,557	23,326	38,679
RESULTS				
Segment result	(495)	61,381	2,661	63,547
Unallocated corporate income				32
Unallocated corporate expenses				(8,491)
Unallocated finance costs				(5,891)
Profit before taxation				49,197
Income tax charge				6,040
Profit for the year				43,157

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31 December 2004

	Production and sale of fertilizers and chemicals HK$'000	Property investment HK$'000	Investment holding HK$'000	Consolidated HK$'000
SEGMENT REVENUE	6,420	8,235	552	15,207
RESULTS				
Segment result	(2,272)	17,607	4,399	19,734
Unallocated corporate expenses				(4,863)
Unallocated finance costs				(2,923)
Profit before taxation				11,948
Income tax credit				(113)
Profit for the year				12,061

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

BALANCE SHEET

At 31 December 2005

	Production and sale of fertilizers and chemicals HK$'000	**Property investment** HK$'000	**Investment holding** HK$'000	**Consolidated** HK$'000
ASSETS				
Segment assets	5,168	339,590	14,601	359,359
Unallocated corporate assets				9,450
Consolidated total assets				368,809
LIABILITIES				
Segment liabilities	1,742	7,658	–	9,400
Unallocated corporate liabilities				159,085
Consolidated total liabilities				168,485

At 31 December 2004

	Production and sale of fertilizers and chemicals HK$'000	Property investment HK$'000	Investment holding HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	9,995	267,323	22,214	299,532
Unallocated corporate assets				4,026
Consolidated total assets				303,558
LIABILITIES				
Segment liabilities	1,153	8,190	–	9,343
Unallocated corporate liabilities				160,522
Consolidated total liabilities				169,865

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

OTHER INFORMATION

For the year ended 31 December 2005

	Production and sale of fertilizers and chemicals HK$'000	**Property investment** HK$'000	**Investment holding** HK$'000	**Others** HK$'000
Capital additions	410	–	–	421
Amortisation and depreciation	419	–	–	43

For the year ended 31 December 2004

	Production and sale of fertilizers and chemicals HK$'000	Property investment HK$'000	Investment holding HK$'000	Others HK$'000
Capital additions				
Acquisition of subsidiaries	8,834	–	–	–
Other additions	624	–	–	–
Amortisation and depreciation	1,193	–	–	–
Impairment loss on buildings	813	–	–	–

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2005	2004
	HK$'000	HK$'000
Hong Kong	**32,883**	8,787
Other regions in the People's Republic of China (the "PRC")	**5,796**	6,420
	38,679	15,207

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, land lease prepayment and goodwill, analysed by geographical area in which the assets are located.

	Carrying amount of segment assets		Additions to property, plant and equipment, land lease prepayment and goodwill	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**363,641**	293,515	**421**	8
PRC	**5,168**	10,043	**410**	10,270
	368,809	303,558	**831**	10,278

9. FINANCE COSTS

	2005	2004
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**5,721**	2,575
Other advances wholly repayable within five years	**229**	190
Consideration payable for acquisition of subsidiaries *(note 26)*	**–**	219
	5,950	2,984

10. PROFIT BEFORE TAXATION

	2005	2004
	HK$'000	HK$'000
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of land lease payments	**72**	60
Amortisation of goodwill	**–**	820
Depreciation of property, plant and equipment	**462**	313
	534	1,193
Auditors' remuneration		
– current year	**550**	400
– underprovision in prior years	**–**	55
Loss on disposal of property, plant and equipment	**11**	–
Rental income less outgoings	**(8,965)**	(6,879)
Realised (gain) loss on sale of investments	**(4,159)**	40
Staff costs including directors' emoluments	**5,669**	3,407

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 11 (2004: 7) directors were as follows:

	Xu Ying	Liu Ming Hui	Ma Xiaoling	Chan Sze Hon	Zhang Shuang	Wang Xianjun	Terence, Wan Tze Fan	Liu Fengliang	Karl, Ching Men Ky	Lin Ruei Min	Laurence, Shu Wa Tung	Total 2005
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fees	–	–	–	–	10	72	72	73	100	100	100	527
Other emoluments												
Salaries and other benefits	1,074	1,074	662	273	–	–	–	–	–	–	–	3,083
Contribution to retirement benefits schemes	–	–	–	6	–	–	–	–	–	–	–	6
Total emoluments	1,074	1,074	662	279	10	72	72	73	100	100	100	3,616

	Xu Ying	Liu Ming Hui	Zhang Shuang	Li Weibin	Wang Xianjun	Lin Fengliang	Terence, Wan Tze Fan	Total 2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Fees	–	–	120	90	120	30	30	390
Other emoluments								
Salaries and other benefits	960	960	–	–	–	–	–	1,920
Contribution to retirement benefits schemes	–	–	–	–	–	–	–	–
Total emoluments	960	960	120	90	120	30	30	2,310

No director waived any emoluments in the years ended 31 December 2005 and 2004.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2004: two) are directors of the Company whose emoluments are included in note 11 above. The emoluments of the remaining two (2004: three) individuals are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**885**	586
Retirement benefit scheme contributions	**9**	28
	894	614

13. INCOME TAX CHARGE (CREDIT)

The charge (credit) for the year represented by changes in deferred tax (note 30).

No provision for taxation has been made in the financial statements as the Group incurred tax loss for the current year. The assessable profit derived in last year was wholly absorbed by tax losses brought forward.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary in the PRC is entitled to exemption from PRC enterprise income tax for the first two years commencing from its first profit-making year of operation, followed by a 50% deduction for the next three years. No provision for PRC income tax has been made as the subsidiary is not making profit in the year.

13. INCOME TAX CHARGE (CREDIT) *(Continued)*

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

	2005	2004
	HK$'000	HK$'000
		(restated)
Profit before taxation	**49,197**	11,948
Tax charge (credit) at Hong Kong profits tax rate of 17.5%	**8,609**	2,091
Tax effect of non-deductible expenses	**1,268**	1,150
Tax effect of non-taxable income	**(1,340)**	(1,561)
Tax effect of tax losses not recognised	**1,144**	91
Tax effect of utilisation of tax losses not previously recognised	**–**	(1,819)
Tax effect of utilisation of tax assets not previously recognised	**(3,648)**	–
Effect of tax concession granted to a PRC subsidiary	**–**	(94)
Others	**7**	29
Income tax charge (credit) for the year	**6,040**	(113)

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$43,341,000 (2004: HK$12,709,000) and the weighted average of 250,300,000 shares (2004: 221,341,000 shares) in issue during the year.

No diluted earnings per share had been presented because the Company had no potential ordinary shares in issue in both years.

The following table summarises the impact on basic earnings per share as a result of:

	Impact on basic earnings per share	
	2005	2004
	HKcents	HKcents
Reported figures before adjustments	**19.74**	5.54
Adjustments arising from changes in accounting policies *(see note 4)*	**(2.42)**	0.20
Restated	**17.32**	5.74

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Factory building under construction	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2004	–	–	50	–	–	50
Acquisition of subsidiaries	4,213	898	39	114	–	5,264
Additions	558	26	40	–	–	624
At 31 December 2004 (restated) and 1 January 2005	4,771	924	129	114	–	5,938
Exchange difference	343	53	9	13	–	418
Additions	–	210	456	–	165	831
Disposals	–	–	(28)	–	–	(28)
At 31 December 2005	5,114	1,187	566	127	165	7,159
DEPRECIATION AND IMPAIRMENT						
At 1 January 2004	–	–	16	–	–	16
Provided for the year	216	60	20	17	–	313
Impairment loss recognised in income statement	813	–	–	–	–	813
At 31 December 2004 (restated) and 1 January 2005	1,029	60	36	17	–	1,142
Exchange difference	70	36	7	12	–	125
Provided for the year	256	120	63	23	–	462
Eliminated on disposals	–	–	(17)	–	–	(17)
At 31 December 2005	1,355	216	89	52	–	1,712
NET BOOK VALUES						
At 31 December 2005	3,759	971	477	75	165	5,447
At 31 December 2004 (restated)	3,742	864	93	97	–	4,796

The buildings are situated on a piece of land in the PRC held under a medium-term lease.

16. LAND LEASE PREPAYMENT

The Group's land lease prepayment represents payment for medium-term land use rights in the PRC and is charged to the income statement on a straight-line basis for the usage of land.

	2005	2004
	HK$'000	HK$'000
		(restated)
Analysed as:		
Current assets	**72**	72
Non-current assets	**3,232**	3,438
	3,304	3,510

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2004	255,000
Increase in fair value	11,000
At 31 December 2004 and 1 January 2005	266,000
Increase in fair value	52,600
At 31 December 2005	318,600

The fair value of the Group's investment property at 31 December 2005 has been arrived at on the basis of a valuation carried out on that date by LCH (Asia – Pacific) Surveyors Limited, a firm of qualified professional valuers. The director of LCH (Asia – Pacific) Surveyors Limited who carries out the valuation is a registered professional surveyor, and a valuer on the "List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in connection with Takeovers and Mergers" published by Hong Kong Institute of Surveyors ("HKIS"), and has appropriate qualifications and recent experiences in the valuation of similar properties in Hong Kong. The valuation, which conforms to HKIS Valuation Standards, was arrived at by reference to market evidence of recent transaction prices for similar properties.

The Group's investment properties are situated in Hong Kong and are held under a long lease. They are rented out under operating leases to earn rentals or for capital appreciation purpose.

18. INVESTMENTS IN SECURITIES

Details of the Group's investments in securities as at 31 December 2004 are set out below.

	HK$'000
Investment securities:	
Unlisted equity investment, at cost	3,000
Other investments:	
Unlisted equity investments, at cost	37,010
Less: unrealised holding loss	(37,010)
	3,000
Equity investments listed in Hong Kong, at market value	19,166
Unit trust outside Hong Kong, at quoted value	48
	19,214
	22,214

Carrying amount analysed for reporting purpose as:

Non-current	3,000
Current	19,214
	22,214

Upon the application of HKAS 39 on 1 January 2005, investments in securities were reclassified to available-for-sale investment (note 19) and held-for-trading investment (note 22).

19. AVAILABLE-FOR-SALE INVESTMENTS

At 31 December 2005, the Group had unlisted equity interest in the following company:

Name of company	Country of incorporation/ operation	Class of capital held	Proportion of registered capital held directly by the Company	Nature of business
Hunan Zhongrong Real Estate Development Company Limited	PRC	Registered capital	18%	Property development

The above investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

20. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

This represents a payment for the acquisition of a 51% interest in Keycharm Investments Limited (note 36(a)).

21. INVENTORIES

	2005	2004
	HK$'000	HK$'000
Raw materials, at cost	**174**	63
Finished goods, at cost	**359**	164
	533	227

22. HELD-FOR-TRADING INVESTMENT

Held-for-trading investment as at 31 December 2005 represents unlisted equity investment in the PRC. The fair value of the held-for-trading investment is determined based on the quoted market prices available from the financial institution.

23. TRADE RECEIVABLES

Rentals receivable from tenants are payable on presentation of invoices. The Group allows an average credit period of 30 days to other trade customers.

The following is an aged analysis of trade receivables of the Group at the balance sheet date:

	2005 HK$'000	2004 HK$'000
0 – 60 days	**298**	936
61 – 90 days	**647**	262
Over 90 days	**8**	144
	953	1,342

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

24. PREPAYMENTS AND DEPOSITS

The fair value of the Group's prepayment and deposits at 31 December 2005 approximated to the corresponding carrying amount.

25. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables of the Group at the balance sheet date:

	2005 HK$'000	2004 HK$'000
Trade payables aged within 60 days	**59**	–
Other payables	**7,953**	9,986
	8,012	9,986

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

26. CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

	2005	2004
	HK$'000	HK$'000
Consideration payable on acquisition of subsidiaries	–	4,000

The amount represented the outstanding consideration for the acquisition of a 51% interest in Lucky Green Limited in 2004, which was interest bearing at 1% per annum and was repaid in 2005.

27. BANK LOANS

	2005	2004
	HK$'000	HK$'000
Bank loans	**129,712**	128,693
Margin loans	–	1,750
	129,712	130,443

The maturity of the bank loans is as follows:

Repayable		
– on demand or within one year	**6,362**	130,443
– between one to two years	**123,350**	–
	129,712	130,443
Less: Amount due within one year shown under current liabilities	**(6,362)**	(130,443)
	123,350	–

The range of effective interest rates (which are equal to contracted interest rates) on the Group's bank loans for variable-rate borrowings are 4% to 4.9% (2004: 3.1% to 4.1%) per annum.

The loans, that are denominated in Hong Kong dollars, bear interest at variable rate. The bank loans are secured by:

(a) building and plant and land lease prepayment with an aggregate carrying amount of HK$7,063,000 (2004: HK$7,252,000),

27. BANK LOANS *(Continued)*

(b) the Group's investment properties and the Company's investment in shares of China Faith Limited, and

(c) the assignment of rental income in respect of the investment properties under operating leases.

28. SHARE CAPITAL

	Number of shares '000	Nominal amount HK$'000
Authorised:		
Ordinary shares of HK$0.005 each at 1 January 2004, 31 December 2004 and 2005	421,978,000	2,109,890
Preference shares of HK$0.005 each at 1 January 2004, 31 December 2004 and 2005	22,000	110
Issued and fully paid:		
Ordinary shares of HK$0.005 each		
At 1 January 2004	165,589	828
Issue of shares	72,800	364
At 31 December 2004 and 1 January 2005	238,389	1,192
Issue of shares	47,600	238
At 31 December 2005	285,989	1,430

During the current year, 47,600,000 ordinary shares of HK$0.005 each were issued at HK$0.5 per share for cash pursuant to subscription agreements, to provide additional working capital to the Group.

For the year ended 31 December 2004, 33,100,000 and 39,700,000 ordinary shares of HK$0.005 and were issued at HK$0.231 and HK$0.2898 per share for each, respectively, to provide additional working capital to the Group.

29. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at a special general meeting of shareholders held on 22 April 2002, the Company adopted a share option scheme (the "Scheme") which enables the directors of the Company to grant options to employees (including directors) of the Group in recognition of their contribution to the Group. The Scheme will expire on 21 April 2012.

No option has been granted under the Scheme since its adoption.

30. DEFERRED TAXATION

The major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years are as follows:

	Property, plant and equipment	**Investment properties**	**Unrealised holding gain on other investments**	**Tax losses**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2004					
– As previously stated	6	1,362	572	(1,940)	–
– On adoption of HKAS INT 21	–	(1,362)	–	1,362	–
Acquisition of subsidiaries	770	–	–	–	770
(Credit) charge to income statement	(114)	–	801	(800)	(113)
At 31 December 2004 (restated)	662	–	1,373	(1,378)	657
Exchange difference	12	–	–	–	12
Charge (credit) to income statement	11	6,132	(1,373)	1,270	6,040
At 31 December 2005	685	6,132	–	(108)	6,709

30. DEFERRED TAXATION *(Continued)*

At the balance sheet date, the Group has unused tax losses of HK$89,922,000 (2004: HK$90,653,000), a substantial amount of which has not been agreed by the Hong Kong Inland Revenue Department, available for offset against future profits. A deferred tax asset has been recognised in respect of HK$611,000 (2004: HK$7,878,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$89,311,000 (2004: HK$82,775,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At 31 December 2004, the Group had other deductible temporary differences in respect of the investment properties revaluation of approximately HK$20,848,000. No deferred tax asset had been recognised in relation to such deductible temporary differences, as it was not probable that taxable profit would be available against which the deductible temporary differences could be utilised.

31. ACQUISITION OF SUBSIDIARIES

In March 2004, the Group acquired a 51% interest in Lucky Green Limited, which holds a 100% interest in the registered capital of Zhuhai Rui Nong, for a cash consideration of HK$30,000,000. In March 2005, the purchase consideration was revised from HK$30,000,000 to HK$5,000,000 in view of the business performance of Zhuhai Rui Nong during the year ended 31 December 2004. Zhuhai Rui Nong was established in the PRC and is principally engaged in the production and sale of fertilizers. This transaction had been accounted for using the purchase method of accounting.

	HK$'000 (Restated)
Net assets acquired	
Property, plant and equipment	5,264
Land lease prepayment	3,570
Inventories	58
Trade receivables	164
Prepayments and deposits	278
Bank balances and cash	334
Amount due to a shareholder	(2,943)
Bank loan	(943)
Deferred tax liability	(770)
Minority interests	(832)
	4,180
Goodwill arising on acquisition *(Note)*	820
Consideration	5,000
Less: deferred consideration *(note 26)* paid in 2005	(4,000)
Cash consideration paid in 2004	1,000
Net cash outflow arising on acquisition	
Cash consideration paid	(1,000)
Balances and cash acquired	334
	(666)

The subsidiaries acquired in last year contributed HK$6,420,000 to the Group's revenue and incurred a loss from operation of HK$1,391,000.

Note: Amount represents goodwill arising on acquisition after the effect of adjustment to consideration and being fully amortised in 2004.

32. OPERATING LEASE ARRANGEMENTS

As lessor

At the balance sheet date, investment properties were leased out for periods ranging from 1 to 5 years and some of the leases have renewal options given to the lessees. The future minimum lease payments receivable by the Group under non-cancellable operating leases are as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**7,846**	8,227
In second to fifth year inclusive	**5,015**	9,075
Total	**12,861**	17,302

As lessee

	2005	2004
	$'000	$'000
Minimum lease payments under operating leases in respect of land and building and motor vehicles	**190**	–

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

	2005	2004
	HK$'000	HK$'000
Within one year	**538**	–
In second to fifth year inclusive	**184**	–
	722	–

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

33. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	HK$'000
Commitments in respect of the acquisition of property, plant and equipment contracted for but not provided	**1,544**	–

34. RELATED PARTY TRANSACTIONS AND BALANCES

(a) The amounts due to directors at December 31, 2004 were unsecured, interest free and were fully repaid in the current year.

(b) The amount due to a minority shareholder of a subsidiary is unsecured, interest-bearing at 6% per annum and is repayable on demand. The amount of interest paid during the year is approximately HK$149,000 (2004: Nil).

(c) At the balance sheet date, a minority shareholder of a subsidiary provided a guarantee, at no charge to the Group, to a bank for a bank loan of HK$962,000 (2004: HK$943,000) granted to a subsidiary.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is disclosed in notes 11 and 12.

35. RETIREMENT BENEFITS SCHEMES

The Group is required to participate in the MPF Scheme in respect of its employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Both the Group and its employees contribute 5% of the relevant payroll costs to the MPF Scheme.

The employees of the Company's subsidiary established in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Contributions to the retirement benefit schemes for the year amounted to HK$71,000 (2004: HK$41,000).

36. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the Group has finalised the agreement to acquire a 51% interest in Keycharm Investments Limited ("Keycharm"), a company incorporated in British Virgin Islands (the "Acquisition"). The consideration of the Acquisition is RMB62,000,001 which is equivalent to approximately HK$59,615,000. It is impracticable to disclose each class of Keycharm's assets and liabilities because the acquisition date has not been fixed. Details of this Acquisition are set out in the Company's announcement dated 23 March 2006 and in a circular to shareholders dated 7 April 2006.

(b) During February and March of 2006, the Group obtained net long term bank loans amounting to HK$41,000,000. The new bank loans, which are repayable by instalments over five years, have been utilised to settle part of the consideration of the Acquisition.

37. PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
China Faith Limited	Hong Kong	Ordinary HK$10,000	–	100%	Property investment
Delight Link Enterprises Limited	Hong Kong	Ordinary HK$2	100%	–	Provision of administrative services to group companies
珠海經濟特區瑞農植保技術有限公司 Zhuhai S.E.Z. Rui Nong Plant Protection Technology Co. Ltd. ("Zhuhai Rui Nong")*	PRC	Registered capital RMB8,000,324	–	51%	Production and sale of fertilizers and chemicals

* *A wholly owned foreign enterprise*

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

None of the subsidiaries had issued any debt securities at the balance sheet date.

38. SUMMARISED BALANCE SHEET OF THE COMPANY

	2005	2004
	HK$'000	HK$'000
Interests in subsidiaries	**3**	3
Amounts due from subsidiaries	**200,160**	153,403
Other current assets	**382**	202
Amounts due to subsidiaries	**(706)**	(36,293)
Other current liabilities	**(1,643)**	(5,779)
	198,196	111,536
Share capital	**1,430**	1,192
Reserves	**196,766**	110,344
Equity attributable to equity holders of the Company	**198,196**	111,536

	Year ended 31.12.2005 HK$'000	Year ended 31.12.2004 HK$'000 (restated)	Year ended 31.12.2003 HK$'000	Year ended 31.12.2002 HK$'000	1.7.2000 to 31.12.2001 HK$'000
RESULTS					
Revenue	**38,679**	15,207	25,287	43,126	202,551
Profit (loss) for the year	**43,157**	12,061	(107,791)	(83,349)	(1,262)
Attributable to:					
Equity holders of the Company	**43,341**	12,709	(107,791)	(83,349)	(1,262)
Minority interests	**(184)**	(648)	–	–	–
	43,157	12,061	(107,791)	(83,349)	(1,262)

	31.12.2005 HK$'000	31.12.2004 HK$'000 (restated)	31.12.2003 HK$'000	31.12.2002 HK$'000	31.12.2001 HK$'000
ASSETS AND LIABILITIES					
Total assets	**368,809**	303,558	271,938	416,875	135,410
Total liabilities	**(168,485)**	(169,865)	(170,290)	(213,535)	(69,065)
Minority interests	–	(184)	–	–	–
Equity attributable to equity holders of the Company	**200,324**	133,509	101,648	203,340	66,345

Note: Figures for 2004 have been restated to reflect the change in accounting policy as described in note 4 to the financial statements. There has been no effect due to the change in accounting policy for 2001 to 2003.

PARTICULARS OF PROPERTIES HELD FOR INVESTMENT

At 31 December 2005

Location	Type	Lease term
Various retail shops and office units of 1 Lyndhurst Tower 1 Lyndhurst Terrance 78 Wellington Street Central Hong Kong	Commercial	Long lease