

Willie International Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 273)

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Corporate Information

DIRECTORS

Executive Directors

Chuang Yueheng, Henry (*Chairman*)
King Phillip (*Managing Director*)
Lo Kan Sun (*Chief Operating Officer*)
Wong Ying Seung, Asiong

Independent Non-Executive Directors

Lam Ping Cheung
Miu Frank H.
Nakajima Toshiharu
Lin Wai Yi
Liu Jian

Alternate Director

Lee Kwan Ching
(*Alternate Director to Mr. Lo Kan Sun*)

PRINCIPAL BANKERS

Liu Chong Hing Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

SECRETARY

Yung Mei Yee

QUALIFIED ACCOUNTANT

Lee Kwan Ching

AUDITORS

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants
34th Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

REGISTERED OFFICE

32nd Floor
China United Centre
28 Marble Road
North Point
Hong Kong

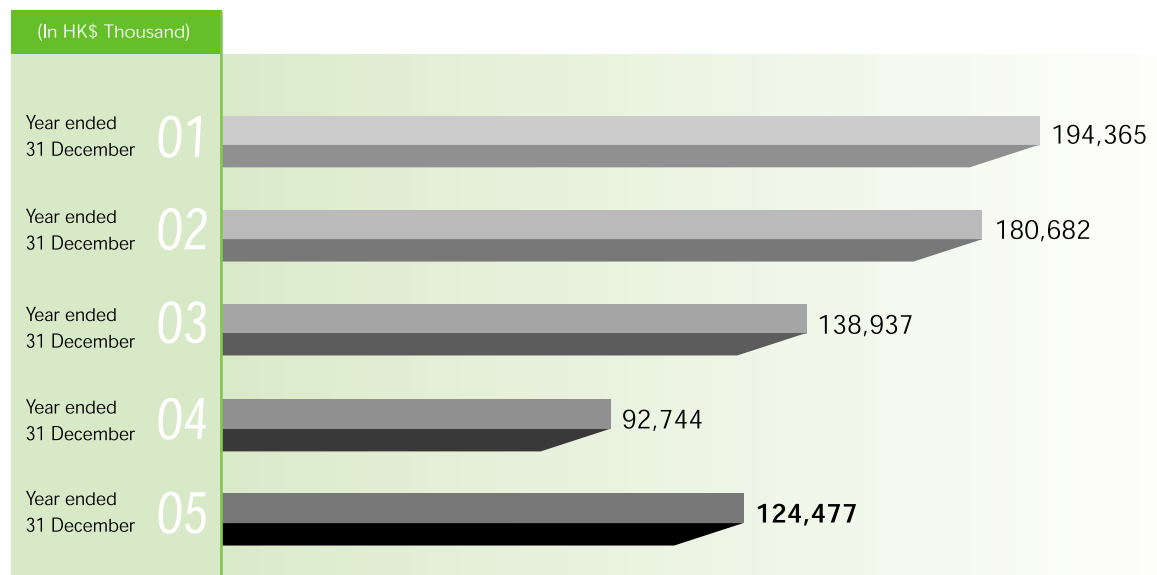
SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

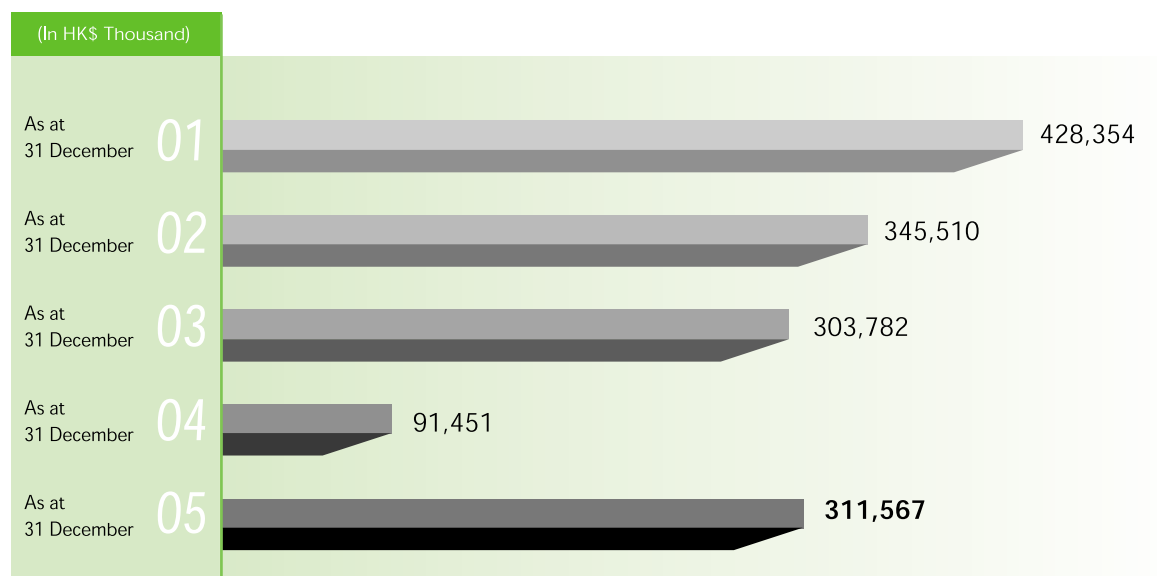
INTERNET ADDRESS

<http://www.willie273.com>

FIVE FINANCIAL YEAR TURNOVER SUMMARY



NET WORTH SUMMARY



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Willie International Holdings Limited (the "Company") will be held at 30th Floor, China United Centre, 28 Marble Road, North Point, Hong Kong on Tuesday, 30 May 2006 at 9:00 a.m. for the following purposes:-

1. To receive and consider the Financial Statements and the Report of the Directors and Auditors of the Company for the year ended 31 December 2005.
2. To re-elect directors and to authorise the Board of Directors to fix their remuneration.
3. To re-appoint auditors and to authorise the Board of Directors to fix their remuneration.

As special businesses, to consider and if thought fit, pass with or without modification the following ordinary resolutions:

ORDINARY RESOLUTIONS

4. **"THAT:-**

- (A) subject to paragraph (C) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (B) the Directors be and are authorised during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers during or after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraphs 4(A) and (B), otherwise than pursuant to a Rights Issue (as hereinafter defined) or pursuant to the exercise of any options granted under the share option scheme adopted by the Company or an issue of shares upon the exercise of subscription rights attached to the warrants which might be issued by the Company or an issue of shares in lieu of the whole or part of a dividend on shares or any scrip dividend scheme or similar arrangement in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(D) for the purposes of this resolution:-

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of Hong Kong to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange).”

5. **“THAT:-**

- (A) subject to paragraph (C) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase securities in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to purchase such securities are subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its securities at a price determined by the Directors;
- (C) the aggregate nominal amount of securities in the capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph (A) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the time of passing this resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(D) for the purposes of this resolution:-

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:-

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of Hong Kong to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

6. **“THAT** conditional upon the passing of the ordinary resolutions numbered 4 and 5 in the notice convening the meeting dated 28 April 2006, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the said resolution numbered 5 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the ordinary resolution numbered 4 set out in the notice of the meeting dated 28 April 2006.”
7. **“THAT** the existing scheme mandate limit in respect of the granting of options to subscribe for shares in the Company under the share option scheme adopted by the Company on 20 November 2002 (the “Share Option Scheme”) be refreshed and renewed provided that the total number of shares of the Company which may be allotted and issued pursuant to the grant or exercise of the options under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme), shall not exceed 10% of the shares of the Company in issue as at the date of passing this resolution (the “Refreshed Limit”) and that the Directors be and are hereby authorised, subject to compliance with the Rules Governing the Listing of Securities on the Stock Exchange, to grant options under the Share Option Scheme up to the Refreshed Limit and to exercise all the powers of the Company to allot, issue and deal with shares of the Company pursuant to the exercise of such options.”

By order of the Board

Yung Mei Yee

Company Secretary

Hong Kong, 28 April 2006

Registered Office:

32nd Floor, China United Centre
28 Marble Road
North Point
Hong Kong

Notice of Annual General Meeting

Notes:

1. A form of proxy to be used for the meeting is enclosed.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
3. To be valid, the instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the registered office of the Company at 32nd Floor, China United Centre, 28 Marble Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.
6. As at the date of this notice, the Board comprises four executive directors, namely, Mr. Chuang Yueheng, Henry, Mr. King Phillip, Mr. Lo Kan Sun and Mr. Wong Ying Seung, Asiong and five independent non-executive directors, namely, Mr. Lam Ping Cheung, Mr. Miu Frank H., Mr. Nakajima Toshiharu, Ms. Lin Wai Yi and Mr. Liu Jian.

Chairman's Statement

THE YEAR IN REVIEW

Fiscal 2005 was a year of gradual but effective progress. I mentioned in my previous letters to shareholders that the Company underwent radical changes in the last two fiscal years. During those years, we changed domicile from Bermuda to Hong Kong, we underwent major restructuring, we took steps to reduce our workforce, and we even changed the make up of our Board. Today we are a leaner, faster, and more competitive company. I believe our transformation has been completed. In June 2005, we officially changed the name of the Company from China United International Holdings Limited to Willie International Holdings Limited to mark a new beginning and to demonstrate our strong desire to improve perceptions of the Company.

In recent years, investors and shareholders have seen disappointing results. As a consequence, stock performance has been volatile and many have suffered significant losses. It is not my intention to offer any excuses here. I have briefly touched on the reasons behind our aggressive investment strategy and our performance in my statement last year. I would like to take this opportunity to thank those investors and shareholders that believed in our strategy and supported us in the past. During the year, the Company made two successful placements of shares for approximately \$46 million and \$79 million in March and November respectively to improve and strengthen the Company. We appreciate your commitment and your continuing support in our management team.

With the passing of time and the improvement in the global economy, particularly in the economies of Hong Kong and China, projects and negotiations that we had been working on became more attractive and the business relationships that we had been developing became more mature. I think all the elements have come together and we are well-positioned and prepared for growth. As we change our name, so too have we adjusted our investment strategy. We have adopted a less aggressive approach. Our strategy is to invest or concentrate our efforts in projects with potential for future growth. To steer the Group towards that growth, we look out a medium term of three to four years at the general evolving market trend and then work backward to identify opportunities.

Over the past few years, our balance sheets continue to improve and we have virtually no operational debt. The Directors realise that one of the essential tasks in changing the image or the public's perceptions of the Group must be that of a clean audit. We have fundamentally achieved that in fiscal 2004. During the course of the year, the Directors have discussed certain issues and consulted with the legal and accounting professionals regarding Macau investments and lending business to gambling clients in general. Based on those discussions and other considerations including but not limited to the timing of capital requirements, the Directors decided to terminate negotiation in acquiring the Neptune Syndicate, a VIP gambling club in July and sold the Group's interest in Found Macau Investments International Limited, an investment holding company formed to invest in gambling, entertainment, and related business in Macau. The sale resulted in a charge of HK\$75 million. The Group still sees opportunities in Macau and will evaluate projects in a different perspective.

The Group restructured its loans and disposed of the receivables and old convertible note from Hennabun Management International Limited ("HMIL") amounting to approximately HK\$146 million in exchange for a new convertible note of HK\$146 million from HMIL with a maturity date in September 2015. The convertible note carries an interest of 8% per annum. One of the conditions of the transaction is that HMIL to procure an unsecured standby credit facility in the amount of HK\$50 million to be made available to the Company. The transaction provided the Company with additional working capital.

The Group continued to dispose of its leasehold land and building and minor investment properties. During the year, the Group disposed three properties including Flat B on the 22nd Floor of Royalton together with one Car Park Space, Car Park Space at No. 234 Prince Edward Road West, and Flat B on the Second Floor of Block 23 of Laguna City. Subsequent to the year end, the Group also disposed two units at Scholar Court on Sands Street. The direction of the Group is to focus on larger scale and upper class commercial or residential developments and will continue to dispose its remaining minor real estate investments.

There were some noteworthy successes. During the beginning of the year, the Group sold its first investment in Macau, Wide Asia Shipping S.A., a holding company that owns a vessel intended to be leased for gambling. The transaction resulted in a short term gain of approximately HK\$20 million.

The Group indirectly secured a joint venture agreement to form Tianjin Kai Sheng Automobile Services Company Limited (the "JV Company"). The total investment for the Group amounted to RMB7.5 million. The JV Company is known for its repair of automobiles and is a licensed authorised service centre for General Motor vehicles. The JV Company is also expected to become the authorised service centre for Nissan and Mitsubishi automobiles.

The Company entered into a Memorandum of Understanding with an influential independent third party in China regarding the setting up of a joint venture company in Beijing that engages in the national broadcasting of programs through the internet. However, as media broadcasting is censored and the license is controlled and restricted to foreign ownership, many obstacles and hurdles have to be overcome and workarounds. The Company is working with the party in China to resolve the issues. Although the investment may or may not proceed, the working relationship has been positive and may lead to other developments.

I think we accomplished much in fiscal 2005 but we still have hard work ahead. We have a talented management team and a motivated workforce. We have solid investment partners and a strong shareholder base. We see a future with growth opportunities and we will continue to align our human and financial resources around our growth plans.

RESULTS

Turnover for the year ended 31 December 2005 (the "Year") amounted to HK\$124.5 million, an increase of 34.3% when compared with HK\$92.7 million for the last year. Loss attributable to equity holders for the Year was HK\$131.7 million compared with a loss of HK\$336.9 million for the last year. Loss per share for the Year was HK\$0.064 compared with HK\$0.28 for the last year. The Audit Committee has reviewed the Group's audited financial statements for the Year, including the accounting principles and practices adopted by the Group.

DIVIDEND

The Board does not recommend the payment of a final dividend for the Year (2004: NIL).

LIQUIDITY AND CAPITAL RESOURCES

During the Year, the Company has completed two share placements for 712 million new shares, the issue of 137,358,374 new shares arising from exercise of share options and the issue of 13,338,925 new shares arising from exercise of warrants, raising a total additional equity of approximately HK\$124.9 million (before issue expenses), HK\$25.8 million and HK\$1.9 million respectively.

Chairman's Statement

During the Year, the Company issued 5-year non-interest bearing convertible notes (the "New Notes") at a conversion price of HK\$0.25 per share with principal amounts of HK\$100 million to independent third parties and HK\$100 million to an associate as the Group's partial loan contribution. The Company also redeemed the then existing 5-year convertible notes which bear interest at 7.8% with principal amount of HK\$53 million. During the Year, all New Notes were converted in full and resulted in the issue of 800 million new shares of the Company.

As at 31 December 2005, the Group's total equity amounted to HK\$311.6 million as compared with HK\$91.5 million at 31 December 2004. As at 31 December 2005, the Group had net current assets of HK\$47.6 million including cash and cash equivalents of HK\$11.4 million as compared with net current liabilities of HK\$117.3 million including cash and cash equivalents of HK\$10.7 million at 31 December 2004. The Group continued to closely monitor its equity-debt structure and maintained a relatively low gearing ratio of 5.9% (computed on the basis of total borrowings to total equity) and current ratio of 3.52 times at 31 December 2005 as compared to 198% and 0.31 times respectively at 31 December 2004.

As at 31 December 2005, the Group has bank loans of HK\$18.4 million (31 December 2004: bank loans of HK\$32.1 million, other loans of HK\$96.1 million and convertible notes of HK\$53.0 million). Of the Group's bank loans of HK\$18.4 million, 25.2%, 12.0%, 42.3%, 20.5% are repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group's bank loans carrying interest rates were calculated with reference to prime rate and denominated in Hong Kong dollars. The Group did not have any financial instruments used for hedging purpose.

As most of the Group's transactions and bank balances were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

PLEDGE OF ASSETS

As at 31 December 2005, certain assets of the Group with an aggregate carrying value of HK\$30.8 million (31 December 2004: HK\$50.7 million) have been pledged to banks to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantees of HK\$38 million (2004: HK\$38 million) and HK\$30 million (2004: HK\$75 million) for banking facilities granted to subsidiaries and an associate respectively, which were utilised by subsidiaries and an associate to the extent of HK\$18.4 million (2004: HK\$32.1 million) and HK\$21.4 million (2004: HK\$31.6 million) respectively.

EMPLOYEES

As at 31 December 2005, the Group employed a total of 24 employees (2004: 23). The Group remunerates its employees based on their performance, working experience and prevailing market standards. Employee benefits include a medical insurance coverage, provident fund and a share option scheme. As at 31 December 2005, there were no share options outstanding.

OUTLOOK

Towards the end of the year, the Directors started negotiations with Mr. Wang Sing for the acquisition of 25% of Amerinvest Coal Industry Holding Company Limited ("Amerinvest"), a company involved in the coal industry, more specifically, the West China Coking project in the Yunnan province in China. The details of the agreement were announced on 13 January 2006. The Company regards the energy sector as a major and critical development in China and an area with tremendous growth. As a result of the transaction, Mr. Wang Sing has become one of the major shareholders of the Company. Mr. Wang Sing, one of China's most experienced private equity investors and a well known and respected figure in the investment community, was the former CEO and Executive Director of Tom Group. In March 2006, the Company further acquired an additional 25% of Amerinvest, thus making Amerinvest an associate company and Mr. Wang Sing an equal partner in the West China Coking project. The Directors feel privileged to be able to have Mr. Wang as a strategic investor and look forward to working closely with him on this as well as other projects that may be of interest.

The West China Coking project consists of three phases of development. The initial phase has been completed and is currently in operation. The second phase is under construction and part of the second phase development is expected to go into production towards the end of the year. The development of the second and third phase is capital intensive. The Company and Mr. Wang Sing have been talking to investors and fund managers regarding the project.

Although the Group is concentrating most of its resources on the West China Coking project and has essentially no investment in Macau at this time, the Group remains confident in the economy of Macau and still sees ample opportunities in Macau. The Directors have established a close network of investors from both Hong Kong and Macau. We will continue to evaluate projects in Macau.

During the past few months, I have noticed an increasing amount of coverage of our Company in the financial columns of various newspapers. The overall consensus has been positive. The share price has been rising steadily. All of which may be interpreted as evidence that the analysts endorse our strategy and the general investment public agrees with what we have been doing. We have come a long way but the road ahead is still full of challenges. We see a future with growth opportunities and prospects and we are prepared to meet the challenges.

APPRECIATION

We would like to welcome Mr. King Phillip, Ms. Lin Wai Yi, Mr. Nakajima Toshiharu and Mr. Liu Jian to our Board. We would like to recognise the contributions of Mr. Chung Wilson, Mr. Lau Da Yip, Mr. Ong Peter, Mr. Pang Shuen Wai, Nichols and Mr. Wong Wai Man, Raymond for their services to the Board of Directors. On behalf of the Board, we would like to thank our partners, employees, and shareholders for their continued confidence and support.

Chuang Yueheng, Henry

Chairman

Hong Kong, 13 April 2006

Biographies of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chuang Yueheng, Henry, aged 50, was appointed Chairman of the Company in 2002. He holds Master's degrees in Engineering and in Business Administration from the University of Southern California in the United States of America. He has over 13 years of experience in corporate finance and development.

Mr. King Phillip, aged 35, was appointed Managing Director of the Company in 2005. He holds a Master's degree in Business Administration from the University of San Francisco in the United States of America. He has over 16 years of experience in real estate investment, management and development. He is also an independent non-executive director of Glory Future Group Limited, a publicly listed company in Hong Kong.

Mr. Lo Kan Sun, aged 52, was appointed Executive Director of the Company in 2002. He is the Chief Operating Officer of the Company. He holds a Master's degree in Business Administration from Indiana University in the United States of America. He has over 26 years of experience in finance, investment and banking.

Mr. Wong Ying Seung, Asiong, aged 55, was appointed Executive Director of the Company in 2002. He holds a Bachelor's degree in Chemical Engineering from the University of London in the United Kingdom. He has over 26 years of experience in banking and investment.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ping Cheung, aged 54, was appointed Director of the Company in 2002. He is a solicitor and the partner of Messrs. Andrew Lam & Co.. He holds a Bachelor's degree in Social Science from the Chinese University of Hong Kong. He is an independent non-executive director of Golden Resources Development International Limited, Kith Holdings Limited, Qualipak International Holdings Limited, Inner Mongolia Development (Holdings) Limited, Unity Investments Holdings Limited, China Velocity Group Limited and Espco Technology Holdings Limited, all of which are publicly listed companies in Hong Kong. He is also a non-executive director of Ngai Lik Industrial Holdings Limited, a publicly listed company in Hong Kong.

Mr. Miu Frank H., aged 57, was appointed Director of the Company in 2004. He holds a Juris Doctor's degree from Harvard Law School in the United States of America and a Bachelor's degree in Economics and Accounting from St. John's University in the United States of America. He has extensive experience in law, accounting, project investment and food business. He is also an independent non-executive director of Asia Commercial Holdings Limited, China Sci-Tech Holdings Limited, Heritage International Holdings Limited and Wonson International Holdings Limited, all of which are publicly listed companies in Hong Kong.

Mr. Nakajima Toshiharu, aged 69, was appointed Director of the Company in 2005. He holds a Bachelor of Economics's degree from Waseda University in Tokyo in Japan. He has over 42 years of experience in investment advisory and asset management. He is also an executive director of Radford Capital Investment Limited, a publicly listed company in Hong Kong.

Biographies of Directors and Senior Management

Ms. Lin Wai Yi, aged 42, was appointed Director of the Company in 2005. She holds a Bachelor's, Master's and Doctorate degrees in Chinese Law from the Beijing University in the People's Republic of China. She has been a practising solicitor in Hong Kong since 1994 and in England and Wales since 1996. She is the founder of Messrs. Deca Lin & Partners.

Mr. Liu Jian, aged 37, was appointed Director of the Company in 2006. He holds a Bachelor's degree in Electrical Engineering from the Fudan University, Shanghai in the People's Republic of China as well as a Master's degree in Chinese Law from the Jilin University in the People's Republic of China. He is a Senior Economist by profession and has over 13 years of experience in corporate finance and investment banking. Mr. Liu is the Vice President of the Century Securities Company Limited in Beijing.

SENIOR MANAGEMENT

Ms. Lee Kwan Ching, aged 46, is the Financial Controller and Qualified Accountant of the Company. She is also the Alternate Director to Mr. Lo Kan Sun. She holds a Bachelor's degree in Commerce (Accounting) from the University of Birmingham in the United Kingdom. She is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. She has over 19 years of experience in finance and accounting.

Directors' Report

The Board of Directors submit their annual report together with the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in investment holding. The Group through various subsidiaries is engaged in property investments, investment in trading securities, automobile sales and repairing in the PRC and provision of brokerage and financial services. Details of the principal activities and other particulars of the Company's subsidiaries and associates are set out in notes 17 and 18 to the financial statements respectively.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 26.

The Board of Directors does not recommend the payment of a final dividend.

DONATIONS

During the year, the Group made charitable donations amounting to HK633,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 76 and page 77.

INVESTMENT PROPERTIES AND FIXED ASSETS

Details of significant changes in the investment properties and fixed assets of the Group during the year are set out in notes 15 and 16 respectively to the financial statements.

Particulars of the major properties of the Group as at 31 December 2005 are set out on page 78.

BORROWINGS

Details of the bank and other borrowings of the Group and the Company are set out in note 22 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

SHARE OPTIONS

Details of the share option scheme of the Company are set out in note 26 to the financial statements. During the year, 137,358,374 share options were granted and exercised under the share option scheme of the Company. At 31 December 2005, no share option was outstanding.

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

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

CONVERTIBLE SECURITIES, OPTIONS OR SIMILAR RIGHTS

Save as set out in notes 23, 26 and 27 to the financial statements, the Company or any of its subsidiaries had no outstanding convertible securities, options or similar rights as at 31 December 2005. There were exercise of convertible notes of HK\$200,000,000 at HK\$0.25 during the year.

DIRECTORS

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

Executive Directors:

Chuang Yueheng, Henry	
King Phillip	(appointed on 22 April 2005)
Lo Kan Sun	
Wong Ying Seung, Asiong	
Chung Wilson	(redesignated as non-executive director on 15 September 2005)
Wong Wai Man, Raymond	(appointed on 22 April 2005 and resigned on 22 December 2005)

Non-executive Directors:

Lau Da Yip	(appointed on 15 April 2005 and resigned on 25 January 2006)
Chung Wilson	(appointed on 15 September 2005 and resigned on 1 December 2005)

Directors' Report

Independent Non-executive Directors:

Lam Ping Cheung	
Miu Frank H.	
Nakajima Toshiharu	(appointed on 4 January 2005)
Lin Wai Yi	(appointed on 7 February 2005)
Liu Jian	(appointed on 24 January 2006)
Pang Shuen Wai, Nichols	(appointed on 22 April 2005 and resigned on 25 January 2006)
Ong Peter	(resigned on 7 February 2005)

Alternate Director:

Lee Kwan Ching	(appointed on 24 January 2006)
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(Alternate Director to Mr. Lo Kan Sun)

In accordance with article 120 of the articles of association of the Company, Mr. Chuang Yueheng, Henry, Mr. Lam Ping Cheung and Mr. Miu Frank H. retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with article 100 of the articles of association of the Company, Mr. King Phillip and Mr. Liu Jian retire and, being eligible, offers themselves for re-election at the forthcoming annual general meeting.

The term of office of each Independent Non-executive Director is for a period of three years but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

The Directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Directors of the Company who held office at 31 December 2005 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' interests and short positions required to be kept under section 352 of the SFO:-

Interests in the Company

Name of Director	Number of ordinary shares of HK\$0.1 each held		% of holding Ordinary shares
	Personal interests	Family interests	
Wong Ying Seung, Asiong	29,516,000	—	1.35

Apart from the foregoing, none of the Directors of the Company or any of their spouses or children under eighteen years of age has any interest or short position in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as set out in note 26 to the financial statements regarding the Company's share option scheme, at no time during the year was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement 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. Since the adoption of the share option scheme, 137,358,374 options were granted and exercised during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Details of Directors' interests in contracts are set out in notes 34(b) to the financial statements. Saved as disclosed above, no other contract of significance to which the Company, its holding company or 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.

Directors' Report

CONNECTED TRANSACTIONS

The following transactions occurred during the year:

- (a) A property of the Group with net book value of HK\$21,190,000 (2004: HK\$21,724,000) is occupied by a brother of a Director of the Company free of rental. The Director's brother is a director of certain companies within the HMIL Group.
- (b) Details of the securities margin loans granted by the HMIL Group to the Executive Directors of the Company are stated in note 34(b) to the financial statements.
- (c) During the year, the Group paid placing commission of HK\$690,480 and financial advisory fee of HK\$38,000 to the HMIL Group.
- (d) At the balance sheet date, the Company had executed a guarantee of HK\$30,000,000 for banking facilities granted to the HMIL Group which was utilised to the extent of HK\$21,425,000.
- (e) At the balance sheet date, the Group held the HMIL's convertible notes amounting to HK\$131,000,000. Details of HMIL's convertible note are stated in note 18(b)-(g) to the financial statements.
- (f) During the year, the Group paid option fee of approximately HK\$7.14 million (equivalent to RMB7.5 million) to a brother of a Director of the Company, for a call option granted to the Group. Details of the call option are stated in note 19 to the financial statement. The Director's brother is a director of certain companies within the HMIL Group.
- (g) During the year, the Group provided a shareholder's loan of HK\$150,000,000 to Found Macau Investments International Limited and an impairment loss of HK\$75,000,000 was made at the balance sheet date. Details are stated in note 18(a) and 18(j) to the financial statements.

The Directors confirm that the above transactions have been entered by the Group in the ordinary course of its business and are in accordance with the terms of the agreements governing such transactions.

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

The Company has been notified of the following interests in the Company's issued shares at 31 December 2005 amounting to 5% or more of the ordinary shares, warrants and convertible notes in issue:

Interests in the Company

	Number of ordinary shares of HK\$0.1 each held	% of holding Ordinary shares
Heritage International Holdings Limited	510,000,000	16.82
Radford Capital Investment Limited (Note 1)	182,959,363	6.03
Unity Investments Holdings Limited (Note 1)	168,704,000	5.56

Note 1: Radford Capital Investment Limited (Stock code: 901) and Unity Investments Holdings Limited (Stock code: 913) are public shareholders, within the meaning of the Listing Rules.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

RETIREMENT SCHEME

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme in Hong Kong to all staff. Under the Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2005, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

AUDITORS

A resolution will be submitted at the annual general meeting to re-appoint Messrs. Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, as auditors of the Company.

On behalf of the Board

Chuang Yueheng, Henry

Chairman

Hong Kong, 13 April 2006

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company is committed to maintain high standards of corporate governance for the Company. Since 1 January 2005, the Company has applied the principles and complied with the requirements of the Code on Corporate Governance Practices (the "Code Provision") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The current practices of the corporate governance of the Company will be reviewed and updated in a timely manner in order to comply with the requirements of the Code Provision.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has complied with the requirements for directors' securities transactions stated in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") in Appendix 10 of the Listing Rules. All directors of the Company (the "Directors") have confirmed that they have complied with the requirements as set out in the Model Code for the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The Board comprises nine members and their positions, as at the date of this report, are as follows:

Executive Directors

Chuang Yueheng, Henry	(Chairman)
King Phillip	(Managing Director)
Lo Kan Sun	(Chief Operating Officer)
Wong Ying Seung, Asiong	

Independent Non-executive Directors

Lam Ping Cheung
Miu Frank H.
Nakajima Toshiharu
Lin Wai Yi
Liu Jian

Alternate Director

Lee Kwan Ching (Alternate Director to Mr. Lo Kan Sun)

Details of the backgrounds and qualifications of the Directors are set out in the section of "Biographies of Directors and Senior Management" on page 12 of the annual report for year ended 31 December 2005 (the "Annual Report"). All Directors have provided grave concern, sufficient time and attention to all the significant issues and affairs of the Company and its subsidiaries (collectively the "Group"). Each Executive Director has accumulated sufficient and valuable experience to hold his position in order to ensure that his fiduciary duties have been carried out in an efficient and effective manner. None of the members of the Board have, in any respect, related to each other in any circumstances.

To improve the transparency and independency of the corporate governance of the Company, the fiduciary duties of the Chairman and the Managing Director of the Company are segregated and not executed by the same individual. The Chairman is responsible for the management of the Board and external corporate communication. The Managing Director is responsible for the day-to-day operation, including but not limited to, the implementation of the overall strategy of the Company.

In order to protect the interest of the shareholders of the Company (the "Shareholders"), the Company appointed five Independent Non-executive Directors with relevant and sufficient experience and qualification to perform their duties. All Independent Non-executive Directors are appointed with specific written terms by the Company.

The Company has received annual confirmation of independence from the five Independent Non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed and concluded that all the Independent Non-executive Directors are independent in view of the definition of the Listing Rules.

The Board held a full board meeting for four times for the financial year of 2005. Details of the attendance of the Board members were as follows:

Executive Directors		Attendance
Chuang Yueheng, Henry		2/4
King Phillip	(appointed on 22 April 2005)	2/2
Lo Kan Sun		3/4
Wong Ying Seung, Asiong		4/4
Chung Wilson	(redesignated as Non-executive Director on 15 September 2005)	3/3
Wong Wai Man, Raymond	(appointed on 22 April 2005 and resigned on 22 December 2005)	2/2
Non-executive Directors		
Lau Da Yip	(appointed on 15 April 2005 and resigned on 25 January 2006)	1/2
Chung Wilson	(appointed on 15 September 2005 and resigned on 1 December 2005)	1/1
Independent Non-executive Directors		
Lam Ping Cheung		2/4
Miu Frank H.		2/4
Nakajima Toshiharu	(appointed on 4 January 2005)	4/4
Lin Wai Yi	(appointed on 7 February 2005)	4/4
Pang Shuen Wai, Nichols	(appointed on 22 April 2005 and resigned on 25 January 2006)	1/2
Ong Peter	(resigned on 7 February 2005)	0/0

Corporate Governance Report

Save for the above regular board meetings held for the financial year of 2005, the Board also held special meetings to discuss on any matters which required a decision from them. Notice of each board meeting and details of its agenda were delivered 14 days in advance to the Board. Minutes of each board meeting were sent to the Directors within 7 days after the meeting.

REMUNERATION OF DIRECTORS

The remuneration committee of the Company (the "Remuneration Committee") was established in June 2005. As at the date of this report, the Remuneration Committee comprises two Independent Non-executive Directors and one Executive Director:

Miu Frank H.	<i>(Independent Non-executive Director)</i>
Nakajima Toshiharu	<i>(Independent Non-executive Director)</i>
Wong Ying Seung, Asiong	<i>(Executive Director)</i>

The adopted terms of reference of the Remuneration Committee is in compliance with the Code Provision B.1.3.

The Remuneration Committee held a meeting during the financial year of 2005. Details of the attendance of the Remuneration Committee meeting were as follows:

Committee members		Attendance
Wong Ying Seung, Asiong	(appointed on 28 June 2005)	1/1
Pang Shuen Wai, Nichols	(appointed on 28 June 2005 and resigned on 25 January 2006)	1/1
Nakajima Toshiharu	(appointed on 28 June 2005)	1/1

NOMINATION OF DIRECTORS

Nomination committee of the Company is not considered necessary after the assessment of the current situation of the Company. The Board will review the profile of current Directors and nominated directors (if any) on a regular basis in order to ensure that the composition of the Board is capable to fulfill its obligation and be responsible for the Company.

AUDITORS' REMUNERATION

The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit services performed by the external auditors. During the financial year of 2005, the remuneration of HK\$1,130,000 and HK\$160,000 were paid to the Company's auditors, Messrs Moores Rowland Mazars for the provision of audit services and the purpose of reviewing the financial information stated in the circular relating to major transaction respectively. The remuneration of HK\$18,000 was paid to Homan CPA Limited for the audit of a subsidiary of the Company.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in January 2003. The primary duties of the Audit Committee are to communicate with the management of the Company from time to time, including but not limited to, review the accounting principles and practices adopted by the Company, the effectiveness of its internal control systems, the interim and annual results of the Company. All members of the Audit Committee are Independent Non-executive Directors, which are as follows:

Lam Ping Cheung
Miu Frank H.
Nakajima Toshiharu
Lin Wai Yi

The Audit Committee held two meetings during the financial year of 2005. Details of the attendance of the Audit Committee meetings were as follows:

Committee members	Attendance
Lam Ping Cheung	2/2
Miu Frank H.	2/2
Nakajima Toshiharu	(appointed as member on 4 January 2005) 2/2
Lin Wai Yi	(appointed as member on 7 February 2005) 2/2
Pang Shuen Wai, Nichols	(appointed as member on 22 April 2005 and resigned on 25 January 2006) 0/1
Ong Peter	(resigned as member on 7 February 2005) 0/0

The Company's unaudited interim results for the six months ended 30 June 2005 and audited annual results for the financial year ended 31 December 2005 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results have been complied with the applicable accounting standards.

INTERNAL CONTROL REVIEW

Proper internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to minimize risk exposure for the Company. The Company is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. The Audit Committee has met with the management of the Company to review the existing internal control practice on a regular basis.

Corporate Governance Report

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The responsibilities of the Directors and Auditors are set out on page 25 of this Annual Report. The Directors acknowledge their responsibility to prepare financial statements for each financial year, which gives a true and fair view of the state of affairs of the Company, and present the interim results, annual financial statements, and announcements to the Shareholders. The Directors aim to present a fair and reasonable assessment of the Company's position and prospects to the Shareholders and the relevant information required under the Listing Rules. As the Board is not aware of any material uncertainties relating to the events or conditions that may cause any significant doubt upon the going concern of the Company, the Board therefore continues to adopt the going concern approach in preparing the financial statements for the financial year of 2005.

COMMUNICATIONS WITH SHAREHOLDERS

Individual resolution has been proposed by the Chairman in the general meetings in response to each substantial issue.

The Chairman, the chairman of the Audit Committee and the chairman of the Remuneration Committee, in the absence of the chairman of such committees, another member of the committees attended were available to answer questions in the annual general meeting and extraordinary general meeting.

VOTING BY POLL

In order to ensure compliance with the requirements on the poll voting procedures, the Company informs the Shareholders in respect of the procedures for voting by poll and the rights of the Shareholders to demand a poll in accordance with the article 81 of the Articles of Association of the Company.

On behalf of the Board

King Phillip

Managing Director

Hong Kong, 13 April 2006

Moores Rowland Mazars

摩斯倫·馬賽會計師事務所

To the members of

Willie International Holdings Limited

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 26 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

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

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

OPINION

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

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, 13 April 2006

Consolidated Income Statement

Year ended 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
Turnover	6	124,477	92,744
Other income	7	8,605	14,383
Cost of investments held for trading sold		(133,475)	(87,356)
Depreciation expense		(1,307)	(1,678)
Employee benefits expense		(9,565)	(8,785)
Other operating expenses		(27,500)	(73,579)
Reversal of impairment loss (impairment loss) on interest in an associate	18(i)	75,036	(75,036)
Impairment loss on amount due from an associate	18(j)	(75,000)	—
Negative goodwill released upon recognition of impairment loss in an associate		—	21,246
Profit on disposal of interests in subsidiaries		5,925	—
Profit on disposal of an unlisted investment		20,528	—
Profit (loss) on deemed disposal of interest in an associate	18(a)	1,406	(24,045)
Loss on deemed acquisition of interest in an associate	18(a)	(13,331)	—
Share of loss of an associate	18(h)	(99,351)	(180,577)
Finance costs	10	(8,163)	(14,185)
Loss before taxation	9	(131,715)	(336,868)
Taxation	12	—	—
Loss attributable to equity holders	13	(131,715)	(336,868)
Loss per share – Basic	14	(6.4 cents)	(28 cents)

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

	2005	2004
	HK\$'000	HK\$'000
Opening balance – Total equity	91,451	303,782
Issue of shares on exercise of warrants	1,867	16,048
Issue of new shares, net of expenses	122,464	94,814
Issue of shares on conversion of convertible notes	201,690	7,040
Issue of shares under share option scheme	25,810	6,635
Loss for the year	(131,715)	(336,868)
Closing balance – Total equity	<u>311,567</u>	<u>91,451</u>

Consolidated Balance Sheet

At 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	15	9,650	11,930
Property, plant and equipment	16	22,391	39,177
Interests in associates	18	238,549	181,113
Other financial asset	19	7,143	—
		<u>277,733</u>	<u>232,220</u>
Current assets			
Investments held for trading/ investments in securities	20	13,626	20,374
Loans receivable	21	40,280	18,802
Other receivables		1,138	3,876
Cash and cash equivalents		11,420	10,663
		<u>66,464</u>	<u>53,715</u>
Current liabilities			
Other payables		14,231	13,350
Current portion of interest-bearing borrowings	22	4,629	104,683
Convertible notes	23	—	53,000
		<u>18,860</u>	<u>171,033</u>
Net current assets (liabilities)		<u>47,604</u>	<u>(117,318)</u>
Total assets less current liabilities		<u>325,337</u>	<u>114,902</u>
Non-current liabilities			
Long-term interest-bearing borrowings	22	13,770	23,451
NET ASSETS		<u>311,567</u>	<u>91,451</u>

Consolidated Balance Sheet

At 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
CAPITAL AND RESERVES			
Issued capital	24	303,209	136,939
Reserves	25	8,358	(45,488)
TOTAL EQUITY		<u>311,567</u>	<u>91,451</u>

Approved and authorised for issue by the Board of Directors on 13 April 2006

Chuang Yueheng, Henry
Director

King Phillip
Director

Balance Sheet

At 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
ASSETS AND LIABILITIES			
Non-current asset			
Interests in subsidiaries	17	<u>425,719</u>	<u>241,349</u>
Current assets			
Loans receivable	21	40,280	—
Other receivables		708	214
Cash and cash equivalents		<u>10,375</u>	<u>8,822</u>
		<u>51,363</u>	<u>9,036</u>
Current liabilities			
Other payables		1,490	10,302
Due to subsidiaries	17	125,764	25,291
Interest-bearing borrowings	22	—	96,080
Convertible notes	23	—	53,000
		<u>127,254</u>	<u>184,673</u>
Net current liabilities		<u>(75,891)</u>	<u>(175,637)</u>
NET ASSETS		<u><u>349,828</u></u>	<u><u>65,712</u></u>
CAPITAL AND RESERVES			
Issued capital	24	303,209	136,939
Reserves	25	<u>46,619</u>	<u>(71,227)</u>
TOTAL EQUITY		<u><u>349,828</u></u>	<u><u>65,712</u></u>

Approved and authorised for issue by the Board of Directors on 13 April 2006

Chuang Yueheng, Henry
Director

King Phillip
Director

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES			
Loss before taxation		(131,715)	(336,868)
Depreciation expense		1,307	1,678
(Reversal of impairment loss) impairment loss on interest in an associate		(75,036)	75,036
Impairment loss on amount due from an associate		75,000	—
Negative goodwill released upon recognition of impairment loss in an associate		—	(21,246)
Reversal of impairment loss on leasehold land and buildings		—	(11,033)
Increase in fair value of investment properties	15	(400)	(3,350)
Interest expenses on bank and other borrowings		3,595	9,119
Interest expenses on convertible notes		4,568	5,066
Interest income from an associate		(7,124)	(7,022)
(Gain) loss on disposal of property, plant and equipment		(119)	96
Loss (gain) on disposal of investment properties		237	(730)
Net provision for bad and doubtful debts		—	63,747
Write back of provision for bad and doubtful debts		(5,050)	—
Profit on disposal of an unlisted investment		(20,528)	—
Loss on deemed acquisition of interest in an associate		13,331	—
Profit on disposal of interests in subsidiaries		(5,925)	—
(Profit) loss on deemed disposal of interest in an associate		(1,406)	24,045
Share of loss of an associate		99,351	180,577
Changes in working capital:			
Loans receivable		(57,844)	908
Other receivables		2,399	20,798
Investments held for trading		(10,724)	(2,902)
Other payables		1,517	1,874
Cash used in operations		(114,566)	(207)
Interest received from an associate		2,958	—
Net cash used in operating activities		(111,608)	(207)

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Note	2005 HK\$'000	2004 HK\$'000
INVESTING ACTIVITIES			
Purchase of investments held for trading		—	(427)
Purchase of additional interest in an associate		(50,000)	—
Purchase of property, plant and equipment		(1,812)	(53)
Proceeds from disposal of property, plant and equipment		273	850
Proceeds from disposal of investment properties		2,443	12,680
Proceeds from disposal of subsidiaries	28	24,720	—
Proceeds from disposal of an unlisted investment		38,000	—
Net advances to an associate		—	(38,279)
Redemption of convertible note issued by an associate	18(b)	25,300	—
Net cash from (used in) investing activities		38,924	(25,229)
FINANCING ACTIVITIES			
Issue of shares for cash		122,464	4,170
Issue of shares under share option scheme		25,810	6,635
Issue of shares on exercise of warrants		1,867	16,048
New bank loans raised		—	6,000
New other loans raised	22	77,000	84,921
Issue of convertible notes	23	98,000	55,000
Repayment of bank loans		(13,655)	(6,861)
Repayment of other loans	22	(173,080)	(79,360)
Redemption of convertible notes	23	(53,000)	(58,800)
Interest paid on bank and other borrowings		(11,087)	(11,761)
Interest paid on convertible notes		(878)	(5,066)
Net cash from financing activities		73,441	10,926
Net increase (decrease) in cash and cash equivalents		757	(14,510)
Cash and cash equivalents at beginning of year		10,663	25,173
Cash and cash equivalents at end of year		11,420	10,663

1. GENERAL INFORMATION

Willie International Holdings Limited ('the Company') is a public company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited.

The name of the Company was changed from China United International Holdings Limited to its present name which was effective from 15 June 2005.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted the following new/revised Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 January 2005. The major impacts on the changes in accounting policies are summarised below:

HKFRS 2: Share-based payment

The adoption of HKFRS 2 has resulted in a change in the accounting policy for the recognition of an expense and a corresponding entry to equity in respect of directors' and staff's share options. The Group has applied HKFRS 2 retrospectively and has taken advantage of the transitional provisions provided therein. As a result, the Group has applied HKFRS 2 only to share options granted after 7 November 2002 which had not yet vested on 1 January 2005. The accounting policy of share-based payment transactions is described in note 3 to the financial statements.

The adoption of HKFRS 2 had no significant impact on the results and financial position for the current and prior accounting years. The options granted during the year have been fully exercised. The expense so calculated is immaterial to the financial statements for the year ended 31 December 2005.

HKAS 17: Leases

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease and where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for as part of property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment.

Because of the allocation between the leasehold land and building elements cannot be made reliably, the leasehold interest in land is treated as a finance lease and continuously accounted for as leasehold land included within property, plant and equipment. The adoption of this Standard has no material impacts on the Group's financial statements for the current or prior accounting years.

Notes to the Financial Statements

Year ended 31 December 2005

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKAS 32 Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement

HKAS 32 requires retrospective application and primarily addresses the classification of financial instruments issued by an entity and prescribes disclosure requirements of financial instruments. HKAS 39 deals with recognition, measurement, derecognition of financial instruments and also prescribes requirements for hedge accounting. HKAS 39 generally does not permit the recognition, derecognition, or measurement of financial assets and liabilities on a retrospective basis. The principal effects of the adoption of the requirements of HKAS 32 and HKAS 39 are summarised below:

Prior to 31 December 2004, the Group classified its equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 *Accounting for Investments in Securities* ("SSAP 24"). Under SSAP 24, investments in equity securities were classified as "investments in securities" which were measured at fair value. Unrealised gains or losses of investments in securities were reported in income statement for the period in which gains or losses arose.

In accordance with HKAS 39, investments are classified into held-to-maturity investments, loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. Upon adoption of this Standard, the Group has redesignated its investments in securities as financial assets at fair value through profit or loss, described as "investments held for trading". Details of their accounting policies are set out in note 3 to the financial statements.

Apart from certain changes in presentation and disclosures, the adoption of HKAS 32 and 39 has no impact on the Group's financial statements.

HKAS 39 also requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using effective interest method. Convertible notes in issue by the Group during the year were split into the equity and liability portion. The liability portion of the loan was carried at amortised cost using effective interest method.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(Continued)

HKAS 40: Investment properties

In prior years, investment properties were stated at open market values on the basis of professional valuation. Changes in values are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the income statement.

On adoption of HKAS 40, investment properties are stated at fair value at balance sheet date, with all changes in fair value recognised in the income statement. There is no impact on these financial statements as a result of this change in accounting policy because the Group's investment properties had a net revaluation deficit position as at 31 December 2004 and the changes in valuation of the Group's investment properties during the year ended 31 December 2005 would be recognised in the income statement whether under the old policy or the new policy.

Future changes in HKFRS

At the date of authorisation of these financial statements, the HKICPA has issued a number of new or revised accounting standards and interpretations that are not yet effective and the Group has not early adopted. Except for the following amendments, which will be effective from the next financial year, the directors anticipate that the adoption of these new/revised HKFRS in the future accounting periods will have no material impact on the results of the Group.

HKAS 39 and HKFRS 4 (Amendments): Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are accounted for as financial instruments under HKAS 39 and are initially recognised at fair value. Subsequently, such contracts are measured at the higher of the amount determined in accordance with HKAS 37 *Provisions, contingent liabilities and contingent assets* and the amount initially recognised less, where appropriate, cumulative amortisation recognised over the life of the guarantee on a straight-line basis.

The Group is currently assessing the potential impact of the amendments but is not yet in a position to reasonably determine the impact on the Group's financial statements.

Notes to the Financial Statements

Year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and investments held for trading, which are measured at fair value as explained in the principal accounting policies set out below.

Basis of consolidation

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

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

All inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is an entity in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power or controls the composition of the board of directors or equivalent governing body.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an entity, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, less any impairment in the value of individual investments. When the Group's share of losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or guaranteed obligations in respect of the associate.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisitions of subsidiaries is recognised as a separate asset. Goodwill on acquisitions of associates or jointly controlled entities is included in interests in associates or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Investment properties

Investment properties are properties which are held by lessee under finance lease to earn rentals and/or for capital appreciation and are stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in income statement for the period in which they arise.

A property interest held under operating lease is classified and accounted for as investment property when the Group holds it to earn rental income and/or capital appreciation and applies the fair value model as above.

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Notes to the Financial Statements

Year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	4%
Leasehold improvements	10% - 20%
Furniture and fixtures	10% - 20%
Office equipment	33 $\frac{1}{3}$ %
Motor vehicles	25%

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments, and on a trade date basis.

Investments held for trading

Investments held for trading are measured at fair value at each reporting dates. Gains and losses arising from changes in fair value are included in income statement for the period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Any gains and losses arising when the loans and receivables are derecognised or impaired, as well as through the amortisation process are recognised in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Convertible notes

On the issue of convertible notes, the proceeds are split into liability and equity components. The fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount, net of transaction costs, is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option and is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Payables and short-term borrowings

Payables and short-term borrowings are initially recognised at fair value, and are subsequently measured at amortised cost using effective interest method.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and on the following bases.

Proceeds from sale of investments held for trading are recognised on the transaction date when the relevant sale and purchase contract is entered into.

Interest income is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Rental income under operating leases is recognised in the period in which the properties are let out and on the straight-line basis over the lease terms.

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.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

Notes to the Financial Statements

Year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Long service payment

The Group's net obligation in respect of long service payment under the Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets, including retirement scheme benefit, is deducted.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

No deferred tax is provided for temporary differences arising from goodwill, the initial recognition of assets or liabilities in a transaction other than a business combination and that affecting neither accounting nor taxable profits, and investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Foreign currencies

Transactions involving foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

Share-based payment

The Company issues equity-settled share-based payments to eligible employees including directors of the Company and its subsidiaries, any other persons including consultants, advisors, agents, customers, suppliers etc. to subscribe for shares in the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Notes to the Financial Statements

Year ended 31 December 2005

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Related parties

A party is related to the Group if (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group; (b) the party is an associate of the Group; (c) the party is a joint venture in which the Group is a venturer; (d) the party is a member of the key management personnel of the Group or its parent; (e) the party is a close member of the family of any individual referred to in (a) or (d); (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Cash equivalents

For the purpose of cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Fair value estimation

The fair value of financial instruments traded in active markets such as investments held for trading is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

For the loans receivable carried at amortised cost, the Group uses the discounted cash flows valuation method together with impairment assessment if required to determine the carrying amount at the balance sheet date.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include debt and equity investments, other receivables and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

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

Financial risk factors

Interest rate risk

The Group's interest rates on its bank and other borrowings (included in current and non-current liabilities) are mainly the bank's prime rate plus certain percentage. The interest rates and terms of repayment have been disclosed in note 22.

Liquidity risk

The Group's liquidity risk is minimal in current year and is managed by matching the raising of loans or equity funding to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Price risk

The Group's investments held for trading 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.

6. TURNOVER

Turnover recognised from the principal activities of the Group during the year including investment holding, trading of listed investments, property investment and provision of financial services are as follows:

	2005	2004
	HK\$'000	HK\$'000
Proceeds from sale of investments held for trading	112,293	81,765
Interest income	12,028	10,661
Rental income	156	318
	<u>124,477</u>	<u>92,744</u>

Notes to the Financial Statements

Year ended 31 December 2005

7. OTHER INCOME

	2005 HK\$'000	2004 HK\$'000
Write back of other payables	3,155	—
Write back of provision for bad and doubtful debts	5,050	—
Increase in fair value of investment properties	400	3,350
Reversal of impairment loss on leasehold land and buildings	—	11,033
	<u>8,605</u>	<u>14,383</u>

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and no geographical segments have been presented as the Group's operations and assets are located in Hong Kong for the years ended 31 December 2005 and 2004.

Business segments

Business segments of the Group comprise the following:

Trading of investments	:	Purchase and sale of securities
Provision of financial services	:	Provide securities brokerage services, financial advisory services and loan financing
Property investment	:	Lease of properties for rentals
Investment holding	:	Holding investments for dividend income and capital appreciation

The following tables show segment information for the years ended 31 December 2005 and 2004.

Notes to the Financial Statements

Year ended 31 December 2005

8. SEGMENT INFORMATION (Continued)

Year ended 31 December 2005

	Provision of					Total
	Trading of	financial	Property	Investment	Unallocated	
	investments	services	investment	holding		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Turnover	112,293	12,028	156	—	—	124,477
Other revenue	—	5,050	400	2,540	615	8,605
Total revenue	<u>112,293</u>	<u>17,078</u>	<u>556</u>	<u>2,540</u>	<u>615</u>	<u>133,082</u>
Segment results						
	(37,954)	9,070	89	(2,026)	(7,944)	(38,765)
Reversal of impairment loss on interest in an associate						75,036
Impairment loss on amount due from an associate						(75,000)
Profit on deemed disposal of interest in an associate						1,406
Profit on disposal of interests in subsidiaries						5,925
Profit on disposal of an unlisted investment	20,528	—	—	—	—	20,528
Loss on deemed acquisition of interest in an associate						(13,331)
Share of loss of an associate	147	(4,743)	—	(94,605)	(150)	(99,351)
Finance costs						(8,163)
Taxation						—
Loss attributable to equity holders						<u>(131,715)</u>

Notes to the Financial Statements

Year ended 31 December 2005

8. SEGMENT INFORMATION (Continued)

Year ended 31 December 2004

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Segment revenue						
Turnover	81,765	10,661	318	—	—	92,744
Other revenue	—	—	3,350	—	11,033	14,383
Total revenue	<u>81,765</u>	<u>10,661</u>	<u>3,668</u>	<u>—</u>	<u>11,033</u>	<u>107,127</u>
Segment results	(7,634)	(66,433)	2,986	(542)	7,352	(64,271)
Impairment loss on interest in an associate						(75,036)
Negative goodwill released upon recognition of impairment loss in an associate						21,246
Loss on deemed disposal of interest in an associate						(24,045)
Share of loss of an associate	5,997	(139,578)	—	(20,136)	(26,860)	(180,577)
Finance costs						(14,185)
Taxation						—
Loss attributable to equity holders						<u>(336,868)</u>

Notes to the Financial Statements

Year ended 31 December 2005

8. SEGMENT INFORMATION (Continued)

Assets and liabilities as at 31 December 2005

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Total HK\$'000
Assets					
Segment assets	13,626	40,280	9,964	18,274	82,144
Interests in associates					238,549
Unallocated assets					23,504
Total assets					<u>344,197</u>
Liabilities					
Segment liabilities	3,384	—	24	10,422	13,830
Unallocated liabilities					18,800
Total liabilities					<u>32,630</u>

Assets and liabilities as at 31 December 2004

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Total HK\$'000
Assets					
Segment assets	23,853	18,554	12,074	18,682	73,163
Interests in associates					181,113
Unallocated assets					31,659
Total assets					<u>285,935</u>
Liabilities					
Segment liabilities	—	18	42	178,020	178,080
Unallocated liabilities					16,404
Total liabilities					<u>194,484</u>

Notes to the Financial Statements

Year ended 31 December 2005

8. SEGMENT INFORMATION (Continued)

Other segment information for the year ended 31 December 2005

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital expenditure	—	—	—	—	1,812	1,812
Depreciation expense	—	—	191	—	1,116	1,307
Reversal of impairment loss on interest in an associate	—	—	—	(75,036)	—	(75,036)
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	—	—	—	5,156	—	5,156
Impairment loss on amount due from an associate	—	—	—	75,000	—	75,000
Net unrealised holding loss on investments held for trading	16,694	—	—	—	—	16,694
Increase in fair value of investment properties	—	—	(400)	—	—	(400)

Other segment information for the year ended 31 December 2004

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital expenditure	—	—	—	—	53	53
Depreciation expense	—	—	14	—	1,664	1,678
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	—	—	—	23,721	—	23,721
Impairment loss on interest in an associate	—	—	—	75,036	—	75,036
Net unrealised holding loss on investments held for trading	1,920	—	—	—	—	1,920
Increase in fair value of investment properties	—	—	(3,350)	—	—	(3,350)
Reversal of impairment loss on leasehold land and buildings	—	—	—	—	(11,033)	(11,033)
Net provision for bad and doubtful debts	—	63,747	—	—	—	63,747

Notes to the Financial Statements

Year ended 31 December 2005

9. LOSS BEFORE TAXATION

	2005 HK\$'000	2004 HK\$'000
This is stated after charging (crediting):		
Contributions to MPF Scheme	214	216
Included in other operating expenses:		
Auditors' remuneration	1,148	950
Operating lease charges:		
Equipment	59	33
Office premises	929	855
Net unrealised holding loss on investments held for trading	16,694	1,920
Net provision for bad and doubtful debts	—	63,747
Release of negative goodwill to income (included in share of loss of an associate)	—	(2,741)
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	5,156	23,721
Loss (gain) on disposal of investment properties	237	(730)
(Gain) loss on disposal of property, plant and equipment	(119)	96
Rental income from investment properties	(156)	(318)
Less: Outgoings	42	100
	<u>(114)</u>	<u>(218)</u>

10. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	2,369	7,564
Bank and other borrowings wholly repayable over five years	1,226	1,555
Convertible notes	4,568	5,066
	<u>8,163</u>	<u>14,185</u>

Notes to the Financial Statements

Year ended 31 December 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The aggregate amount of emoluments received or receivable by the Company's directors are as follows:

2005	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Executive directors				
Chuang Yueheng, Henry	—	2,400	12	2,412
Chung Wilson (redesignated to non-executive director on 15 September 2005)	—	357	9	366
Lo Kan Sun	—	810	12	822
King Phillip	—	592	9	601
Wong Wai Man, Raymond	—	269	8	277
Wong Ying Seung, Asiong	—	336	12	348
Non-executive directors				
Lau Da Yip	24	—	—	24
Chung Wilson	30	—	—	30
Independent non-executive directors				
Lam Ping Cheung	120	—	—	120
Lin Wai Yi	110	—	—	110
Miu Frank H.	120	—	—	120
Nakajima Toshiharu	24	—	—	24
Ong Peter	—	—	—	—
Pang Shuen Wai, Nichols	—	—	—	—
	<u>428</u>	<u>4,764</u>	<u>62</u>	<u>5,254</u>

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Directors' emoluments (Continued)

2004	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Executive directors				
Chuang Yueheng, Henry	—	2,400	12	2,412
Chung Wilson	—	800	12	812
Lo Kan Sun	—	810	12	822
Wong Ying Seung, Asiong	—	415	12	427
Independent non-executive directors				
Lam Ping Cheung	120	—	—	120
Miu Frank H.	100	—	—	100
Ong Peter	—	—	—	—
	<u>220</u>	<u>4,425</u>	<u>48</u>	<u>4,693</u>

Emoluments of the directors are within the following bands:

	Number of directors	
	2005	2004
Nil to HK\$1,000,000	12	6
HK\$2,000,001 to HK\$2,500,000	1	1
	<u>13</u>	<u>7</u>

Employees' emoluments

The five highest paid employees of the Group during the year included four (2004: four) directors, details of whose emoluments are set out above. The emolument of the remaining highest paid employee (2004: one) is as follows:

	2005 HK\$'000	2004 HK\$'000
Other emoluments	<u>768</u>	<u>768</u>

Notes to the Financial Statements

Year ended 31 December 2005

12. TAXATION

Hong Kong Profits Tax has not been provided as the Group incurred a loss for taxation purposes for the years ended 31 December 2005 and 2004.

Details of unrecognised deferred taxation are set out in note 33 to the financial statements.

	2005	2004
	HK\$'000	HK\$'000
Reconciliation of tax expense		
Loss before tax	<u>(131,715)</u>	<u>(336,868)</u>
Income tax at applicable tax rate of 17.5% (2004: 17.5%)	(23,050)	(58,952)
Non-deductible expenses	36,650	59,477
Tax exempt revenue	(18,157)	(4,291)
Unrecognised tax losses	4,571	3,797
Unrecognised temporary differences	<u>(14)</u>	<u>(31)</u>
Tax (income) expense for the year	<u>—</u>	<u>—</u>

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5% (2004: 17.5%).

13. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$131,715,000 (2004: HK\$336,868,000), a loss of HK\$67,715,000 (2004: HK\$279,505,000) has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$131,715,000 (2004: HK\$336,868,000) and on the weighted average number of 2,071,246,000 shares (2004: 1,209,700,000 shares) in issue during the year.

No diluted loss per share is presented for the year of 2005 as there are no potential ordinary shares in issue in current year. No diluted loss per share was presented for the year of 2004 as conversion of the Company's outstanding convertible notes had an anti-dilutive effect.

Notes to the Financial Statements

Year ended 31 December 2005

15. INVESTMENT PROPERTIES

	2005	2004
	HK\$'000	HK\$'000
Fair value of investment property		
At beginning of year	11,930	20,530
Disposals	(2,680)	(11,950)
Increase in fair value during the year	400	3,350
	<u>9,650</u>	<u>11,930</u>
At balance sheet date	<u>9,650</u>	<u>11,930</u>

The carrying value of investment properties held by the Group at the balance sheet date comprised:

	2005	2004
	HK\$'000	HK\$'000
Land in Hong Kong:		
Long lease	6,850	6,780
Medium-term lease	2,800	5,150
	<u>9,650</u>	<u>11,930</u>

The fair value of the Group's investment properties as at the balance sheet date has been arrived at on the basis of valuation, supported by market evidence, carried out at that date by Centaline Surveyors Limited, Chartered Surveyors, independent valuers not connected with the Group.

Notes to the Financial Statements

Year ended 31 December 2005

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Reconciliation of carrying amount – year ended 31 December 2004						
At beginning of year	28,799	644	501	487	285	30,716
Additions	—	—	21	32	—	53
Disposals	—	(533)	(130)	(284)	—	(947)
Depreciation	(1,107)	(23)	(116)	(147)	(285)	(1,678)
Reversal of impairment loss	11,033	—	—	—	—	11,033
At balance sheet date	<u>38,725</u>	<u>88</u>	<u>276</u>	<u>88</u>	<u>—</u>	<u>39,177</u>
Reconciliation of carrying amount – year ended 31 December 2005						
At beginning of year	38,725	88	276	88	—	39,177
Additions	—	849	211	310	442	1,812
Disposals	(16,897)	—	(147)	(6)	(241)	(17,291)
Depreciation	(638)	(182)	(114)	(172)	(201)	(1,307)
At balance sheet date	<u>21,190</u>	<u>755</u>	<u>226</u>	<u>220</u>	<u>—</u>	<u>22,391</u>
At 1 January 2005						
Cost	41,272	5,012	7,260	2,393	3,514	59,451
Accumulated depreciation and impairment losses	(2,547)	(4,924)	(6,984)	(2,305)	(3,514)	(20,274)
	<u>38,725</u>	<u>88</u>	<u>276</u>	<u>88</u>	<u>—</u>	<u>39,177</u>
At 31 December 2005						
Cost	25,758	5,861	902	1,932	—	34,453
Accumulated depreciation and impairment losses	(4,568)	(5,106)	(676)	(1,712)	—	(12,062)
	<u>21,190</u>	<u>755</u>	<u>226</u>	<u>220</u>	<u>—</u>	<u>22,391</u>

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Year ended 31 December 2005

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

The leasehold land and buildings with a net book value of HK\$21,190,000 at the balance sheet date (2004: HK\$38,725,000) are held by the Group under medium-term lease in Hong Kong.

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK\$'000	HK\$'000
Unlisted shares, at cost	952,534	952,881
Impairment loss	(921,415)	(875,957)
	31,119	76,924
Due from subsidiaries	492,700	290,025
Provision for doubtful debts	(98,100)	(125,600)
	394,600	164,425
	425,719	241,349

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the year of 2004, an amount due from a subsidiary of approximately HK\$25,913,000 was interest-bearing at 8% per annum.

In the opinion of the directors, a complete list of the particulars of all subsidiaries will be of excessive length and therefore the table below lists the principal subsidiaries at the balance sheet date which materially affect the result or assets of the Group.

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Alpha Aim International Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding

Notes to the Financial Statements

Year ended 31 December 2005

17. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Cuve Asset Management Limited	British Virgin Islands	26,000 shares of US\$1 each	—	100	Investment holding
China United International Administrative Services Limited	Hong Kong	53,000 shares of HK\$100 each	100	—	Provision of administrative service
CU International Finance Limited	Hong Kong	2 shares of HK\$1 each	—	100	Money lending
Embrace Assets Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Grand Wishes Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Golden Clip Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding
International Stamps & Coins Exchange Gallery Limited	Hong Kong	20,200 shares of HK\$1 each	—	100	Property investment
Leapfly Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding
Pearl Decade Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding
Radford Portfolio Management Limited	Hong Kong	10,000 shares of HK\$1 each	—	100	Property holding
Ronford Properties Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment

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17. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Skill Cheer Limited	Cayman Islands	692,900,008 shares of HK\$1 each	63.92	36.08	Investment holding
Wellhand Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Winport Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Yearwise Finance Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding

All of the above subsidiaries operate principally in Hong Kong.

Note:

No loan capital has been issued by any of the subsidiaries.

18. INTERESTS IN ASSOCIATES

	Note	2005 HK\$'000	2004 HK\$'000
Share of net assets		32,549	128,827
Impairment loss		—	(75,036)
	18(a)	32,549	53,791
Due from an associate – HMIL	18(b)	131,000	127,322
Due from an associate – Found Macau Loan	18(j)	75,000	—
		238,549	181,113

Notes to the Financial Statements

Year ended 31 December 2005

18. INTERESTS IN ASSOCIATES (Continued)

Notes:

(a) Details of the unlisted associates as at 31 December 2005 were as follows:

Name of associate	Place of incorporation	Particulars of issued ordinary and paid up capital held by the Group	Interest held	Principal activities
Hennabun Management International Limited ("HMIL")	British Virgin Islands	309,633,333 shares of US\$0.01 each	49.87%	Investment holding
Found Macau Investments International Limited ("Found Macau")	British Virgin Islands	30 shares of US\$1 each	29.7%	Investment holding and trading of prestige Hi-Fi equipment

- (i) During the year, the Group's interest in HMIL was firstly reduced from 42.03% to 41.54% because of HMIL's issue of shares to third parties and then increased from 41.54% to 44.50% because of HMIL's repurchase of own shares from a third party. As a result of the above change in shareholding in HMIL, profit on deemed disposal of HK\$1.4 million and loss on deemed acquisition of HK\$13.3 million were recognised in the income statement. The shareholding of HMIL was further increased to 49.87% as at 31 December 2005 by the conversion of 60 million of HMIL shares (details refer to note 18(b) and (d)).
- (ii) During the year, the Company, through its wholly-owned subsidiary, (a) acquired approximate 29.7% equity interest in Found Macau at the consideration of US\$30; (b) became a party to a shareholders agreement relating to Found Macau and made a shareholder loan of HK\$150 million to Found Macau (the "Found Macau Loan", details refer to note 18(j)); and (c) issued the New Convertible Notes (details refer to note 23) in the principal amount of HK\$100 million and paid cash of HK\$50 million to Found Macau to satisfy the Group's obligation to the Found Macau Loan.

18. INTERESTS IN ASSOCIATES (Continued)

(b) Details of the amount due from HMIL are as follows:-

	Note	2005 HK\$'000	2004 HK\$'000
Convertible notes receivable:			
Existing Note			
At beginning of the year		127,322	—
Subscription through set-off of advances due		—	150,000
Interest accrued		2,978	7,022
Redemption		(25,300)	—
Partial disposal to a third party		—	(29,700)
Existing Note and interest accrued surrendered by the issue of Second New Note	(c)(ii)	(105,000)	—
		—	127,322
New Notes (including First New Note and Second New Note)			
Issue of New Notes	(c)(i,ii)	146,000	—
Conversion of convertible notes	(d)	(15,000)	—
		131,000	127,322

(c) Pursuant to an agreement dated 3 August 2005 entered into by the Company and HMIL:

- (i) the Company transferred a wholly-owned subsidiary to HMIL in nominal value together with the assignment of loan receivable of HK\$41 million in exchange for the issue of a convertible note by HMIL in the principal amount of HK\$41 million ("First New Note") and
- (ii) the 6% convertible note issued by HMIL on January 2004 with the outstanding principal amount of HK\$95 million and accrued interest of HK\$10 million were surrendered to HMIL at a consideration of HK\$105 million which was satisfied by the issue of a convertible note issued by HMIL in the principal amount of HK\$105 million ("Second New Note").

The New Notes will bear interest at 8% per annum, payable monthly and will mature in ten years from the date of issue but can be converted into shares of HMIL at a conversion price of HK\$0.25 per ordinary share at any time after the date of issue of the convertible notes and before its maturity date.

- (iii) HMIL will provide an unsecured standby credit facility in the amount of HK\$50 million made available to the Company by HMIL or its subsidiaries or independent parties at prime rate and such facility is repayable on demand. The Company did not utilise such standby credit facility during the year ended 31 December 2005.
- (d) Subsequent to the completion of the agreement mentioned in note (c), the Group converted the convertible note with principal amount of HK\$15 million into 60,000,000 ordinary shares of US\$0.01 each of the HMIL at a conversion price of HK\$0.25 per share. Positive goodwill arising from the acquisition of such additional interest in HMIL of approximately HK\$5.1 million was fully impaired during the year. In determining whether the positive goodwill has suffered such impairment loss, the directors have given due consideration of the financial and operating performance of HMIL and its subsidiaries during the year ended 31 December 2005.
- (e) The directors considered the fair value of the New Notes is the transaction price initially recognised.

Notes to the Financial Statements

Year ended 31 December 2005

18. INTERESTS IN ASSOCIATES (Continued)

- (f) During the year ended 31 December 2005, the Group received interest income amounting to approximately HK\$7,124,000 (2004: HK\$7,022,000) on convertible notes receivable from HMIL.
- (g) Subsequent to the balance sheet date, the shareholding of HMIL was diluted to 35.55% when HMIL issued new shares to third parties and the conversion price of the New Notes was adjusted to HK\$0.15 per share by HMIL.
- (h) Details of the consolidated operating results and financial position of HMIL based on audited financial statements, after adjusting for the fair value of assets acquired at the date of acquisition, are as follows:-

	2005	2004
	HK\$'000	HK\$'000
Operating results for the year ended 31 December 2005		
Turnover	<u>33,606</u>	<u>35,870</u>
Loss for the year	<u>(222,457)</u>	<u>(421,199)</u>
Loss for the year attributable to the Group	(94,195)	(159,597)
Release of negative goodwill as income	—	2,741
Impairment loss on goodwill arising from acquisition of additional interest in HMIL	<u>(5,156)</u>	<u>(23,721)</u>
Share of loss of HMIL	<u>(99,351)</u>	<u>(180,577)</u>
	2005	2004
	HK\$'000	HK\$'000
Financial position at the balance sheet date		
Total non-current assets	94,909	8,500
Total current assets	348,266	522,345
Total current liabilities	(246,908)	(104,033)
Total non-current liabilities	<u>(131,000)</u>	<u>(120,300)</u>
Total equity	<u>65,267</u>	<u>306,512</u>
Amount attributable to the Group	<u>32,549</u>	<u>128,827</u>

- (i) In last year, HMIL's auditors had disclaimed their opinion because of the limitation of audit scope in respect of (1) the uncertainty of the consequential effect of the previous year's audit qualifications on the results of 2004, and (2) the auditors' inability to assess the financial strength of a director, who had provided a personal guarantee for the recoverability of certain loans receivable as at 31 December 2004. Therefore, the Group had made a further provision for impairment loss of approximately HK\$75 million against the interest in HMIL as at 31 December 2004.

During the year, HMIL has disposed of the subsidiary which held the relevant loans receivable at a loss and the Group's share of the loss of HMIL has included such loss on disposal. Accordingly, the provision of HK\$75 million previously made was no longer required and has been written back by the Group in the current year.

18. INTERESTS IN ASSOCIATES *(Continued)*

- (j) The carrying amount of the Found Macau Loan at the balance sheet date is measured at amortised cost, which represents the present value of its estimated future cash flows that have been discounted using the prevailing market rate at the balance sheet date, less impairment loss.

The Found Macau Loan was interest-free, unsecured and was repayable on demand after 8 years from 28 February 2005. Subsequent to the balance sheet date, the Found Macau Loan of HK\$150 million was disposed of to a third party at cash consideration of HK\$75 million. Accordingly, the Found Macau Loan was stated at the balance sheet date at its subsequent realisable value of HK\$75 million.

Under the equity method of accounting, the share of the loss of Found Macau attributable to the Group during 2005 was insignificant.

19. OTHER FINANCIAL ASSET

	2005 HK\$'000	2004 HK\$'000
Option fee paid	<u>7,143</u>	<u>—</u>

During the year, the Company, through its wholly-owned subsidiary ("Leapfly"), and a brother of a director of the Company ("Mr. Chuang") entered into a conditional call option deed (the "deed") relating to the acquisition of 50% of registered capital of RMB15 million of Tianjin Kai Sheng Automobile Service Co., Ltd ("Kai Sheng"), which was newly established in the mainland China and to be engaged in the motor cars repairs and maintenance services and selling of car components.

Pursuant to the deed, the option fee paid of approximately HK\$7.14 million (equivalent to RMB7.5 million) represents the consideration paid to Mr. Chuang for an call option granted to the Group to be exercisable at any time during the period of 2 years commencing on 1 September 2008 (the "option period") to purchase Mr. Chuang's 50% equity interests in the registered capital of Kai Sheng of RMB7.5 million. The call option shall be lapsed if it has not been exercised during the option period. Before that, Mr. Chuang undertakes to Leapfly: i) to transfer all dividends received for his entitlement in Kai Sheng to Leapfly immediately after Kai Sheng declares dividends out of distributable profits in future; ii) to procure at least one representative of Leapfly to become a director of Kai Sheng.

At the balance sheet date, Kai Sheng was in the process of capital validation. Mr. Chuang and Mr. Wong Ying Seung, Asiong have been appointed as directors of Kai Sheng.

Subsequent to the balance sheet date, Leapfly together with the option was disposed of at a cash consideration of HK\$7 million to a third party.

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Year ended 31 December 2005

20. INVESTMENTS HELD FOR TRADING/INVESTMENTS IN SECURITIES

	2005 HK\$'000	2004 HK\$'000
Equity securities		
Listed investments in Hong Kong	13,626	2,902
Unlisted investment	—	17,472
	<u>13,626</u>	<u>20,374</u>

As mentioned in note 2, following the adoption of HKAS 39, the Group's investments in securities have been reclassified as investments held for trading on 1 January 2005.

21. LOANS RECEIVABLE

Loans granted to borrowers are repayable according to set maturity dates. The balance comprises loans receivable from:

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Third parties	40,280	158,342	40,280	—
Related company	—	20,460	—	—
	<u>40,280</u>	<u>178,802</u>	<u>40,280</u>	<u>—</u>
Provision for bad and doubtful debts	—	(160,000)	—	—
Balances due within one year included in current assets	<u>40,280</u>	<u>18,802</u>	<u>40,280</u>	<u>—</u>

Notes to the Financial Statements

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21. LOANS RECEIVABLE (Continued)

An aging analysis of loans receivable (before provision for bad and doubtful debts) as at the balance sheet date is set out below:

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within maturity dates	40,280	65,386	40,280	—
Balances overdue for repayment:				
1-3 months	—	—	—	—
4-6 months	—	15,362	—	—
7-12 months	—	26,518	—	—
Over 12 months	—	71,536	—	—
	40,280	178,802	40,280	—

22. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Secured bank loans (Note ii)	18,399	32,054	—	—
Unsecured other loans (Note i & ii)	—	96,080	—	96,080
	18,399	128,134	—	96,080

Notes to the Financial Statements

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22. INTEREST-BEARING BORROWINGS (Continued)

Maturities of the above borrowings are as follows:

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	<u>4,629</u>	<u>104,683</u>	<u>—</u>	<u>96,080</u>
In the second year	<u>2,201</u>	<u>2,749</u>	<u>—</u>	<u>—</u>
In the third year	<u>2,388</u>	<u>2,902</u>	<u>—</u>	<u>—</u>
In the fourth year	<u>2,590</u>	<u>3,064</u>	<u>—</u>	<u>—</u>
In the fifth year	<u>2,809</u>	<u>3,236</u>	<u>—</u>	<u>—</u>
Over five years	<u>3,782</u>	<u>11,500</u>	<u>—</u>	<u>—</u>
	<u>13,770</u>	<u>23,451</u>	<u>—</u>	<u>—</u>
	<u>18,399</u>	<u>128,134</u>	<u>—</u>	<u>96,080</u>

Note:

(i) Movements in other loans are as follows:

	The Group		The Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
At beginning of year	<u>96,080</u>	<u>90,519</u>	<u>96,080</u>	<u>90,519</u>
Addition	<u>77,000</u>	<u>84,921</u>	<u>77,000</u>	<u>84,921</u>
Repayment	<u>(173,080)</u>	<u>(79,360)</u>	<u>(173,080)</u>	<u>(79,360)</u>
At balance sheet date	<u>—</u>	<u>96,080</u>	<u>—</u>	<u>96,080</u>

(ii) Bank loans are variable-rate borrowings which carried interest ranging from prime rate to prime rate plus 1% for the years of 2005 and 2004. Other loans carried interest ranging from prime rate to prime rate plus 2% and 2% per month for the years of 2005 and 2004.

23. CONVERTIBLE NOTES

	The Group		The Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year (Note i)	53,000	63,840	53,000	63,840
Issuance during the year (Note ii)	200,000	55,000	200,000	55,000
Redemption (Note i)	(53,000)	(58,800)	(53,000)	(58,800)
Conversion (Note iii)	(200,000)	(7,040)	(200,000)	(7,040)
At balance sheet date	—	53,000	—	53,000
Represented by:				
Current portion	—	53,000	—	53,000
Non-current portion	—	—	—	—
	—	53,000	—	53,000

Note:-

- (i) The convertible notes bear interest at 7.8% per annum and can be converted into ordinary shares of the Company at a conversion price of HK\$0.5 per share in integral multiples of HK\$1,000,000 at any time from date of issue and up to 7 days before (and excluding) the maturity date on 19 August 2009. The conversion price of the convertible notes is adjusted from HK\$0.5 to HK\$0.45 with effect from 10 November 2004 as a result of the bonus issue last year.

During the year, convertible notes with principal sum of HK\$53,000,000 were fully redeemed by the Group.

- (ii) On 28 February 2005, the Company issued a series of non-interest bearing convertible notes ("New Convertible Notes") with principal amounts of HK\$100,000,000 to Found Macau and HK\$100,000,000 to third parties. The New Convertible Notes will be converted into the ordinary shares of the Company at a conversion price of HK\$0.25 per share. The Company may redeem in whole or in part the notes in integral multiples of HK\$500,000 at any time from the date of issue and up to 7 days before (and excluding) the maturity date on 28 February 2010.

The carrying amounts of New Convertible Notes have been split between a liability component and an equity component at issuance of the notes in order to determine their respective fair values. The fair value of liability component (included in non-current liability) was calculated using an effective interest rate of 6.35% per annum which was determined when the notes were issued. The equity component represented the fair value of the embedded option to convert the liability into equity of the Group.

- (iii) During the year, the New Convertible Notes with principal sum of HK\$200,000,000 were fully converted into 800,000,000 ordinary shares of HK\$0.1 each of the Company.

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24. ISSUED CAPITAL

	2005	2004
	HK\$	HK\$
Authorised:		
Ordinary shares of HK\$0.1 each	<u>2,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each	<u>303,208,635</u>	<u>136,938,906</u>
2004	Number of ordinary shares	Nominal value HK\$
Issued and fully paid:		
At beginning of year	368,868,495	36,886,850
Exercise of warrants	45,739,040	4,573,904
Conversion of convertible notes	7,405,405	740,541
Issuance of shares	130,440,000	13,044,000
Issuance of shares under share option scheme	24,573,467	2,457,347
Bonus issue	792,362,647	79,236,264
	<u>1,369,389,054</u>	<u>136,938,906</u>
At balance sheet date		
2005	Number of ordinary shares	Nominal value HK\$
	Note	
Issued and fully paid:		
At beginning of year	1,369,389,054	136,938,906
Exercise of warrants	(i) 13,338,925	1,333,892
Conversion of convertible notes	(ii) 800,000,000	80,000,000
Issuance of shares under share option scheme	(iii) 137,358,374	13,735,837
Issuance of shares	(iv) 712,000,000	71,200,000
	<u>3,032,086,353</u>	<u>303,208,635</u>
At balance sheet date		

24. ISSUED CAPITAL (Continued)

Note:

- (i) During the year, an aggregate of 13,338,925 new shares of HK\$0.1 each of the Company were issued to certain warrant holders upon exercise of warrants at the cash subscription price of HK\$0.14 per share.
- (ii) During the year, an aggregate of 800,000,000 ordinary shares of HK\$0.1 each of the Company were issued to Found Macau and other convertible note holders upon the conversion of convertible notes as set out in note 23.
- (iii) Pursuant to the ordinary resolutions passed during the year, an aggregate of 137,358,374 ordinary shares of HK\$0.1 each of the Company were issued to certain individuals under the share option scheme at the exercise price range from HK\$0.1810 to HK\$0.2028 each.
- (iv) Pursuant to placing agreement dated 9 March 2005, the Company agreed to conditionally place 274,000,000 ordinary shares of HK\$0.1 each of the Company on a fully underwritten basis to independent investors at a price of HK0.168 each.

Pursuant to placing agreement dated 21 November 2005, the Company agreed to conditionally place 438,000,000 ordinary shares of HK\$0.1 each of the Company on a fully underwritten basis to independent investors at a price of HK0.18 each.

All the shares issued during the year rank pari passu in all respects with the then existing shares.

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25. RESERVES

Group	Share	Capital	Merger	Convertible	Accumulated	Total
	premium	reserve	reserve	notes – equity	losses	
	HK\$'000	HK\$'000	HK\$'000	portion	HK\$'000	HK\$'000
				HK\$'000		
At 1 January 2004	—	18,273	88,128	—	160,494	266,895
Exercise of warrants	11,474	—	—	—	—	11,474
Shares issued under share option scheme	4,177	—	—	—	—	4,177
Shares issued at premium, net of issuing expenses	88,070	—	—	—	—	88,070
Issue of bonus issue	(79,236)	—	—	—	—	(79,236)
Set off against accumulated losses	—	—	(88,128)	—	88,128	—
Loss for the year	—	—	—	—	(336,868)	(336,868)
At 31 December 2004	<u>24,485</u>	<u>18,273</u>	<u>—</u>	<u>—</u>	<u>(88,246)</u>	<u>(45,488)</u>

Group	Share	Capital	Merger	Convertible	Accumulated	Total
	premium	reserve	reserve	notes – equity	losses	
	HK\$'000	HK\$'000	HK\$'000	portion	HK\$'000	HK\$'000
				HK\$'000		
At 1 January 2005	24,485	18,273	—	—	(88,246)	(45,488)
Equity portion of convertible notes issued	—	—	—	55,725	—	55,725
Exercise of warrants	533	—	—	—	—	533
Shares issued under share option scheme	12,074	—	—	—	—	12,074
Shares issued at premium, net of issuing expenses	51,264	—	—	—	—	51,264
Conversion of convertible notes	121,690	—	—	(55,725)	—	65,965
Loss for the year	—	—	—	—	(131,715)	(131,715)
At 31 December 2005	<u>210,046</u>	<u>18,273</u>	<u>—</u>	<u>—</u>	<u>(219,961)</u>	<u>8,358</u>

Included in the reserves of the Group as at 31 December 2005 were accumulated losses of an associate attributable to the Group amounting to HK\$627,959,000 (2004: HK\$512,866,000).

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Year ended 31 December 2005

25. RESERVES (Continued)

Company	Share premium HK\$'000	Merger reserve HK\$'000	Convertible notes – equity portion HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2004	—	291,448	—	(107,655)	183,793
Exercise of warrants	11,474	—	—	—	11,474
Shares issued at premium, net of issuing expenses	88,070	—	—	—	88,070
Shares issued under share option scheme	4,177	—	—	—	4,177
Issue of bonus issue	(79,236)	—	—	—	(79,236)
Set off against accumulated losses	—	(291,448)	—	291,448	—
Loss for the year	—	—	—	(279,505)	(279,505)
At 31 December 2004	<u>24,485</u>	<u>—</u>	<u>—</u>	<u>(95,712)</u>	<u>(71,227)</u>

Company	Share premium HK\$'000	Merger reserve HK\$'000	Convertible notes – equity portion HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	24,485	—	—	(95,712)	(71,227)
Exercise of warrants	533	—	—	—	533
Equity portion of convertible notes issued	—	—	55,725	—	55,725
Shares issued under share option scheme	12,074	—	—	—	12,074
Shares issued at premium, net of issuing expenses	51,264	—	—	—	51,264
Conversion of convertible notes	121,690	—	(55,725)	—	65,965
Loss for the year	—	—	—	(67,715)	(67,715)
At 31 December 2005	<u>210,046</u>	<u>—</u>	<u>—</u>	<u>(163,427)</u>	<u>46,619</u>

The application of the Company's share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

At the balance sheet date, the Company has no reserves available for distribution to the shareholders.

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26. SHARE OPTION SCHEME

Pursuant to the Group Reorganisation during 2002, a share option scheme ("New Scheme") of the Company was approved on 20 November 2002 by the shareholders of the Company and became effective on 3 January 2003. The New Scheme is valid and effective for a period of ten years. The board of directors of the Company may grant options to eligible employees including directors of the Company and its subsidiaries and any other persons including consultants, advisors, agents, customers, suppliers, etc. to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12 month period is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. Options granted to any director, chief executive or substantial shareholder of the Company or any of their respective associates in excess of 0.1% of the Company's share capital in issue and having an aggregate value in excess of HK\$5 million must be subject to prior approval by the Company's shareholders.

An amount of HK\$1 is payable on the grant of an option. Options may be exercised no later than ten years from the date of grant of the share option. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares on the date of grant.

(a) Movement in share option scheme

	2005 Number	2004 Number
At the beginning of year	—	—
Granted	137,358,374	24,573,467
Exercised	(137,358,374)	(24,573,467)
At balance sheet date	<u>—</u>	<u>—</u>

26. SHARE OPTION SCHEME *(Continued)*

(b) Details of share options exercised during the year

Exercise date	Exercise price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$	Number
21 January 2005	0.2028	0.188	2,028,000	10,000,000
24 January 2005	0.2028	0.185	1,086,678	5,358,374
26 January 2005	0.1914	0.181	6,124,800	32,000,000
28 January 2005	0.1852	0.187	9,260,000	50,000,000
4 February 2005	0.1880	0.181	1,880,000	10,000,000
15 February 2005	0.1810	0.184	5,430,000	30,000,000
			<u>25,809,478</u>	<u>137,358,374</u>

At the balance sheet date, no share option was granted by the Company but not vested under the share option scheme.

27. WARRANTS

During the year, the registered holders of 13,338,925 warrants exercised their rights to subscribe for ordinary shares. The 2003 Warrants of the Company was expired on 11 May 2005.

28. DISPOSAL OF SUBSIDIARIES

	2005 HK\$'000
Net assets disposed of:	
Property, plant and equipment	17,138
Loans receivable	41,416
Other receivables	340
Due from an associate	1,188
Trade and other payables	(287)
	<u>59,795</u>
Profit on disposal of subsidiaries	<u>5,925</u>
Total consideration	65,720

Notes to the Financial Statements

Year ended 31 December 2005

28. DISPOSAL OF SUBSIDIARIES (Continued)

Analysis of inflow of cash and cash equivalents in respect of disposal of subsidiaries:

	2005 HK\$'000
Total consideration	65,720
Convertible note of HK\$41 million issued by HMIL received (note 18(c) (i))	(41,000)
Net inflow of cash and cash equivalents	24,720

The subsidiaries disposed of during the year contributed approximately HK\$338,000 to turnover and contributed negatively to loss before tax of the Group in the amount of approximately HK\$3,117,000 during the period from the last balance sheet date to the date of disposal.

29. MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions during the years of 2005 and 2004 have been disclosed in note 18, 23 and 24 respectively.

30. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment, which are payable as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	846	855
In the second to fifth year inclusive	947	713
	1,793	1,568

The Group leases out all its investment properties under operating leases with average lease terms of 1 year. The future aggregate minimum rental receivable under non-cancellable operating leases is as follows:

	2005 HK\$'000	2004 HK\$'000
Within one year	17	133
In the second to fifth year inclusive	—	—
	17	133

31. CONTINGENT LIABILITIES

Guarantees for banking facilities

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantee of HK\$38,000,000 (2004: HK\$38,000,000) and HK\$30,000,000 (2004: HK\$75,000,000) for banking facilities granted to subsidiaries and an associate respectively, which were utilised by subsidiaries and an associate to the extent of HK\$18,399,000 (2004: HK\$32,054,000) and HK\$21,425,000 (2004: HK\$31,589,000) respectively.

32. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to secure general banking facilities granted to the Group:

	2005 HK\$'000	2004 HK\$'000
Leasehold land and buildings	21,190	38,725
Investment properties	9,650	11,930
	<u>30,840</u>	<u>50,655</u>

33. DEFERRED TAXATION

Unrecognised deferred tax assets arising from

	2005 HK\$'000	2004 HK\$'000
Deductible temporary differences	1,692	10,755
Tax losses	178,895	184,708
At balance sheet date	<u>180,587</u>	<u>195,463</u>

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation. Deferred tax assets of HK\$31,603,000 (2004: HK\$34,206,000) have not been recognised in respect of these items due to uncertainty of their recoverability.

Notes to the Financial Statements

Year ended 31 December 2005

34. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, there are other related party transactions entered by the Group during the year, details of which are set out below:-

- (a) A property of the Group with net book value of HK\$21,190,000 (2004: HK\$21,724,000) is occupied by a brother of a director of the Company free of rental. The director's brother is a director of certain companies within the HMIL Group.
- (b) Details of the securities margin loans granted by HMIL Group to the executive directors of the Company are as follows:

Name of director	Granted by	Balance at 31.12.2005 HK\$'000	Balance at 1.1.2005 HK\$'000	Maximum amount outstanding during the year HK\$'000	Maturity	Interest rate per annum
King Phillip -margin loan	HMIL Group	264	—	561	N/A	5% - 7.5%
Wong Ying Seung, Asiong -margin loan	HMIL Group	6,011	45	7,545	N/A	5% - 7.5%
		<u>6,275</u>	<u>45</u>			

There was neither any interest due but unpaid nor any provision made against these loans at 31 December 2005.

- (c) During the year, the Group paid placing commission of HK\$690,480 (2004: HK\$825,000) and financial advisory fee of HK\$38,000 (2004: HK\$400,000) to subsidiaries of HMIL.
- (d) Compensation of key management personnel

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

	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and benefits in kind	5,606	5,439
Contributions to MPF Scheme	78	72
	<u>5,684</u>	<u>5,511</u>

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

35. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in the financial statements, the following post balance sheet events were conducted:-

- (a) On 12 January 2006, the Company, through its subsidiary, entered into an agreement with a third party to acquire 25% interest in Amerinvest Coal Industry Holding Company Limited ("Amerinvest") at a consideration of HK\$66.25 million which has been satisfied by the issue and allotment of the 250,000,000 ordinary shares of HK\$0.1 each of the Company at a price of HK\$0.265 per share to the third party. Amerinvest, through holding of 25% of the registered capital of West China Coking & Gas Company Limited, is an investment holding vehicle set up for the purpose of exploring and investing in coking and chemical projects in the mainland China.

On 20 March 2006, the Company, through its subsidiary, entered into another agreement with another third party to acquire a further 25% interest in Amerinvest at a consideration of HK\$69.9 million.

On completion of these agreements, Amerinvest will be accounted for as an associate of the Group.

- (b) On 13 January 2006, the Company, through its subsidiary, entered into an agreement ("the FM Agreement") with a third party to dispose of the Group's investment in Found Macau together with the Found Macau Loan of HK\$150 million at the cash consideration of HK\$75 million. Pursuant to the FM Agreement, a deposit of HK\$25 million has been received in January 2006 and the consecutive two instalments of HK\$25 million each will be paid on the dates falling 4 months and 8 months respectively from the date of the FM Agreement.
- (c) Subsequent to the balance sheet date, cash subscriptions of approximately HK\$51.3 million have been received for share options granted and exercised under the share option scheme.

Summary of Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	<u>124,477</u>	<u>92,744</u>	<u>138,937</u>	<u>180,682</u>	<u>194,365</u>
Loss before taxation	(131,715)	(336,868)	(116,844)	(177,450)	(354,996)
Taxation	<u>—</u>	<u>—</u>	<u>5,800</u>	<u>(10,011)</u>	<u>86</u>
Loss after taxation	(131,715)	(336,868)	(111,044)	(187,461)	(354,910)
Minority interests	<u>—</u>	<u>—</u>	<u>77,305</u>	<u>(11,908)</u>	<u>23,350</u>
Loss for the year	<u>(131,715)</u>	<u>(336,868)</u>	<u>(33,739)</u>	<u>(199,369)</u>	<u>(331,560)</u>

Summary of Financial Information

ASSETS AND LIABILITIES

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Investment properties	9,650	11,930	20,530	157,470	218,000
Property, plant and equipment	22,391	39,177	30,716	129,670	255,911
Intangible assets	—	—	—	(20,783)	3,000
Interests in associates	238,549	181,113	320,624	1,485	22,285
Other financial asset	7,143	—	—	—	—
Investments in securities	—	—	—	58,739	48,245
Other long term assets	—	—	—	2,053	2,070
Loans and other loan receivable	—	—	—	1,369	20,344
Current assets	66,464	53,715	133,304	698,608	645,123
Current liabilities	(18,860)	(171,033)	(171,220)	(482,605)	(412,779)
	<u>325,337</u>	<u>114,902</u>	<u>333,954</u>	<u>546,006</u>	<u>802,199</u>
Equity holders' funds	311,567	91,451	303,782	345,510	428,354
Minority interests	—	—	—	24,266	36,164
Deferred taxation	—	—	—	10,000	—
Obligations under finance leases	—	—	—	47	174
Long term interest-bearing borrowings	13,770	23,451	30,172	102,343	273,667
Convertible notes	—	—	—	63,840	63,840
	<u>325,337</u>	<u>114,902</u>	<u>333,954</u>	<u>546,006</u>	<u>802,199</u>

Particulars of Properties Held by the Group

(A) INVESTMENT PROPERTIES

Description	Use	Lease term
Flat C8, 26th Floor, Block C, Elizabeth House, Nos. 250-254 Gloucester Road, Hong Kong	Residential	Long term
Flat C on 13th Floor of Block 12, No. 17 Laguna Street, Laguna City, Kowloon	Residential	Medium term
Flat A & B on 12th Floor together with a Portion of Roof immediately there above, Scholar Court, No. 15 Sands Street, Kennedy Town, Hong Kong (Note)	Residential	Long term

Note : properties disposed of subsequent to balance sheet date

(B) LEASEHOLD LAND AND BUILDINGS

Description	Use	Lease term
Duplex Flat A, 21st and 22nd Floor together with a portion of roof thereabove and Car Parking Space No. 33, Royalton, 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong	Residential	Medium term