



Oriental Explorer Holdings Limited

(Formerly known as Linkful International Holdings Limited)

(Incorporated in Bermuda with limited liability)

(Stock Code: 0430)

2005

Annual Report

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Lau Chi Yung, Kenneth

(Chairman)

Lau Michael Kei Chi

(Vice-Chairman)

Independent Non-executive Directors

Choy Tak Ho

Lo Yick Wing

Wong Yim Sum

COMPANY SECRETARY

Poon Chun Shing, Edwin

PRINCIPAL BANKERS

Fortis Bank, Hong Kong Branch

The Bank of China (Hong Kong) Limited

United Commercial Bank

AUDITORS

HLB Hodgson Impey Cheng

SOLICITORS

Cheung, Tong & Rosa

REGISTERED OFFICE

Clarendon House

Church Street

Hamilton HM11

Bermuda

PRINCIPAL PLACE OF BUSINESS

8th Floor

Multifield House

54 Wong Chuk Hang Road

Hong Kong

PRINCIPAL SHARE REGISTRAR & TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

65 Front Street

Hamilton

Bermuda

HONG KONG BRANCH SHARE REGISTRAR & TRANSFER OFFICE

Tengis Limited

26/F Tesbury Centre,

28 Queen's Road East

Wanchai

Hong Kong

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

Generally speaking, the year of 2005 was a challenging year for the Group in both segments of steel trading and electronic products. Although the turnover of steel trading was significantly increased from approximately HK\$526 million to approximately HK\$1,143 million during the year, the profits generated were badly affected by the inherent volatility of the steel prices and control measures introduced by the central government.

During the year, the Group continued to undertake portfolio investments. Apart from the Hong Kong market, the Group also focused in the investments amongst Thailand, Japan and Korea stock markets with a diversification of investment risks.

As a result of the adoption of a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which have been effective for accounting periods beginning on or after 1 January 2005, the Group has recognized fair value losses of approximately HK\$4 million of financial assets during the year ended 31 December 2005.

Whilst 2006 will be no less challenging than 2005 especially in international steel trading, we are still optimistic that the future is good for the Group. Further, the Group will pay more attention on expansion and seeking opportunities which are profitable and deliver a strong recurring income to the Group while continuing to concentrate on organic growth.

Finally, I would like to thank our shareholders who have believed in us and been patient with our efforts in restructuring the Group. Again, I have to thank all the staff and Board colleagues for their loyalty and efforts during the past year.

Lau Chi Yung, Kenneth
Chairman

Hong Kong, 19 April 2006

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATION

During the year, the Group continued to focus on its core international steel trading business and cost efficiencies.

Steel trading

Succeeding from 2004, the year of 2005 was still a period with intense competition in the international steel trading as a result of the control measures introduced by the central government. Steel prices fluctuated significantly and thus customers were not willing to acquire bulk volume and accumulate stock of steel products at comparatively high price. Against this background, with an established worldwide network of supplier and customer base and successful business methodology adopted, the Group has again uphold its market position. For the year of 2005, our steel trading division recorded a trading volume of steel products of approximately 322,000 mt with a turnover of HK\$1,143 million, representing an increase of 117% over the previous year.

The management forecasted that the coming year would be a hard time for international steel market and accordingly, continuous effort has also been devoted to develop into outsourcing sources and expanding business opportunities.

Electronics

For the year under review, the electronics division reported a net loss of approximately HK\$1.8 million based on a turnover of HK\$7.4 million. In view of the continuing loss, it is our intention to seek a potential buyer to dispose of the related business.

Portfolio investments

During the year, the Group continued to undertake portfolio investments for 2 reasons. Firstly, the Group takes positions in businesses considered to be undervalued and which might evolve into strategic investments in the longer term if certain conditions are met. If those conditions are not met or the share price rises beyond the point where an investment is considered to be fully valued, the Group will then realise the profit on the investment. Secondly, the Group invests in market disequilibrium opportunities in shares where the management team of the Group has particular knowledge and expertise. The current financial structure of the Group means that substantial cash balances can be generated from time to time and limited portfolio investing activities will improve the return on cash balances and enhance the Group's profitability.

In order to diversify investment risk, apart from the Hong Kong market, the Group also focused in the investments among Thailand, Japan and Korea stock markets.

However, the stock market was very unstable and vulnerable during the year and as a result, the Group incurred fair value loss of HK\$4 million when the investment portfolio was marked to market as at 31 December 2005. Indeed, the Group realised more than HK\$5 million profit from portfolio investing activities.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong. As at 31 December 2005, the Group had available aggregate banking facilities of approximately HK\$443 million, which had not been utilized. In addition, the Group had other loan of HK\$1.6 million which was secured by certain cash and securities with investment bankers. The Group's cash and bank balances and short term bank deposits amounted to approximately HK\$45 million as at 31 December 2005.

Taking into account the available credit facilities, cash on hand and recurring cash flows from its core business, the Group has sufficient working capital for its present requirements.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2005, the Group had approximately 105 employees in Hong Kong and China. Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonus, contributory provident fund and professional tuition/training subsidies in order to retain competent employees.

PROSPECTS

The Group will continue to concentrate on organic growth while remaining attuned to market opportunities that can sustain growth and deliver a strong recurring income to the Group. In line with this corporate direction and philosophy, detailed feasibility study on both Hong Kong and the PRC property market has been performed and active participation in this sector of the business will be carried out once we consider the timing is appropriate. We strongly believe that we have the necessary skills and expertise to enable us to step into this sector of the business with good potential.

In addition to tapping into the Hong Kong and the PRC property market, the Group will work towards the goal of maximizing our shareholders' wealth through restructuring our business mix and strengthening the competitiveness of our business. We will pay more attention on expansion and opportunities which are profitable and have a promising outlook. Whether expansion will be organically driven or by way of acquisition, we can only say it will be a calculated and measured expansion, tempered by caution.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. LAU Chi Yung, Kenneth, aged 46, is the Chairman of the Company. He has over 24 years of experience in the manufacturing, international trading, property investment and development businesses. He joined the Group as a Non-executive Director in November 1995 and was appointed as Vice-Chairman in February 1996. He is responsible for steering the business direction and corporate development of the Group.

Mr. LAU Michael Kei Chi, aged 52, is the Vice-Chairman of the Company, who joined the Group in April 2003. He is responsible for assisting the Chairman in steering the business direction and corporated development of the Group. He is currently the Vice-Chairman of Multifield International Holdings Limited. He is the elder brother of Mr. Lau Chi Yung, Kenneth.

Independent Non-executive Directors

Mr. CHOY Tak Ho, aged 77, joined the Group in May 2000. He is a member of the 9th National Committee of the Chinese People's Political Consultation Conference, the Executive Committee Member of the 8th all China Federation of Industry and Commerce and the Executive Committee Member of the Chinese Manufacture Association of Hong Kong. He also served as a member of the Selection Committee of the First Government of the Hong Kong Special Administrative Region. He is the Honorary Life Chairman of the Chinese General Chamber of Commerce H.K., the Charter President of Hong Kong and Overseas Chinese Association of Commerce Limited and the Charter President of Hong Kong Kwun Tong Industries and Commerce Association Limited.

Mr. LO Yick Wing, aged 53, is a Registered Architect and Authorized Person in Hong Kong. He has attained Class I Registered Architect Qualification (中華人民共和國一級註冊建築師資格) in mainland People's Republic of China. He is a member of the Hong Kong Institute of Architects and the Royal Australian Institute of Architects and The Association of Architectural Practices Ltd. Mr. Lo is the founder and currently the Managing Director of Lo & Partners Architects & Development Consultants Ltd. which provide comprehensive professional services including architecture, planning, interior, landscaping and estate development consultancy.

Mr. WONG Yim Sum, aged 40, is currently the managing director of Conpak CPA Limited a firm of Certified Public Accountants in Hong Kong. Mr. Wong has extensive experience in the finance and auditing fields and is currently practicing as a Certified Public Accountant. He is a fellow member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Association of Chartered Certified Accountants (ACCA).

Senior Management

Mr. POON Chun Shing, Edwin, aged 47, joined the Group in 1994. He is the General Manager in charge of the Steel and Electronics Divisions of the Group. Further, he is the Group Financial Controller of the Group. He has extensive experience in the areas of corporate finance, accounting, businesses of steel trading and manufacturing, and electronics manufacturing in the PRC. He is a member of the Hong Kong Institute of Certified Public Accountants, CPA Australia and the Institute of Chartered Secretaries and Administration.

Mr. KWAN Chi Fai, aged 44, joined the Group in 2000 as the Financial Controller. He has over 19 years of experience in finance and accounting. He is a Certified Management Accountant, a member of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management *(continued)*

Mr. NAGATA Tetsuya, aged 50, joined the Group in September 2002 as the General Manager of the Electronics Division in the Group. He has over 28 years of experience in overseas marketing and business development. He graduated from Meiji University, Tokyo with a bachelor's degree in commerce and had been working at Japanese trading firm for 13 years and Hong Kong based electronics manufacturing firm for 12 years. He is the Associate Director of the Group and is responsible for marketing and business development of the Group.

Ms. CHUNG Sau Wan, Tania, aged 36, joined the Group in 1999 as the Senior Manager in charge of the Steel Trading Division of the Group. She has over 14 years of experience in international steel trading.

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the accompanying financial statements.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated / reclassified as appropriate, is set out on page 65. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company during the year are set out in notes 27 and 28 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company's share premium account, in the amount of approximately HK\$418,511,000, may be distributed in the form of fully paid bonus shares. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company, in the amount of approximately HK\$88,380,000 as at 31 December 2005, is distributable to shareholders in certain circumstances, as prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 100% of the total sales for the year and sales to the largest customer included therein amounted to 72%. Purchases from the Group's five largest suppliers accounted for 88% of total purchases for the year and purchases from the largest supplier included therein amounted to 23%.

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

DIRECTORS

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

Executive directors

Mr. Lau Chi Yung, Kenneth	<i>(Chairman)</i>
Mr. Lau Michael Kei Chi	<i>(Vice-Chairman)</i>

Independent non-executive directors

Mr. Choy Tak Ho
Mr. Lo Yick Wing
Mr. Wong Yim Sum

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

In accordance with the Company's bye-laws, Mr. Lo Yick Wing will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 6 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Apart from those transactions disclosed in note 30 to the financial statements, no director had a material interest, either directly or indirectly, in any material contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the interests of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

Long position in ordinary shares of the Company

<u>Name of director</u>	<u>Capacity and nature of interest</u>	<u>Number of shares held</u>	<u>Percentage of the Company's issued share capital</u>
Lau Chi Yung, Kenneth	Through a controlled corporation	1,020,268,999 (Note)	56.68

Long position in shares of associated corporations

<u>Name of director</u>	<u>Name of associated corporation</u>	<u>Relationship with the Company</u>	<u>Shares</u>	<u>Number of shares held</u>	<u>Capacity and nature of interest</u>	<u>Percentage of the associated corporation's issued share capital</u>
Lau Chi Yung, Kenneth	Multifield International Holdings Limited	Company's intermediate holding company	Ordinary shares	2,685,515,712 (Note)	Through a controlled corporation	64.24

Note: The above shares are ultimately controlled by Power Resources Holdings Limited, which acts as the trustee under the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth and his family.

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

Other than certain nominee shares in subsidiaries held by a director in trust for the companies in the Group, no director held an interest in the share capital of the Company's subsidiaries during the year.

Save as disclosed above, as at 31 December 2005, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option schemes disclosures in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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

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

Long positions

<u>Name</u>	<u>Notes</u>	<u>Capacity and nature of interest</u>	<u>Number of ordinary shares held</u>	<u>Percentage of the Company's issued share capital</u>
Limitless Investment Limited	(a)	Directly beneficially owned	1,020,268,999	56.68
Multifield International Holdings (BVI) Limited	(a)	Through a controlled corporation	1,020,268,999	56.68
Multifield International Holdings Limited	(a)	Through a controlled corporation	1,020,268,999	56.68
Lucky Speculator Limited	(a)	Through a controlled corporation	1,020,268,999	56.68
Desert Prince Limited	(a)	Through a controlled corporation	1,020,268,999	56.68
Power Resources Holdings Limited	(a)	Through a controlled corporation	<u>1,020,268,999</u>	<u>56.68</u>

Note:

- (a) Power Resources Holdings Limited was deemed to have a beneficial interest in 1,020,268,999 ordinary shares of the Company by virtue of its indirect interests in Lucky Speculator Limited, Desert Prince Limited, Multifield International Holdings Limited, Multifield International Holdings (BVI) Limited and Limitless Investment Limited.

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

CONNECTED TRANSACTIONS

Details of the connected transactions are set out in note 30 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

REPORT OF THE DIRECTORS

AUDITORS

Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. Ernst & Young with effect from 27 January 2005. Save as aforesaid, there had been no other changes of the Company's auditors in the past three financial years.

A resolution for the reappointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lau Chi Yung, Kenneth
Chairman

Hong Kong
19 April 2006

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality Board, sound internal control, transparency and accountability to all shareholders.

The Code of Best Practice set out in Appendix 14 to the Listing Rules was replaced by the CG Code which has become effective for accounting periods commencing on or after 1 January, 2005.

BOARD COMPOSITION AND BOARD PRACTICE

The Board is mandated to promote the success of the Company by providing leadership and supervising control of Group's business.

Currently, the Board comprises two executive directors and three independent non-executive directors. The Board, led by Mr. Lau Chi Yung, Kenneth is responsible for the approval and monitoring of the Group's overall strategies and policies, approval of annual budgets and business plans; evaluating the performance of Group; and oversight of management. The Chairman ensures that the Board works effectively and discharges its responsibilities. All directors have been consulted on all major and material matters of the Company. With the support of the Company Secretary, the Chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Save as disclosed below, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005.

- (a) Under the code provisions of A.4.1 and A.4.2, (i) non-executive directors should be appointed for a specific term and subject to re-election; and (ii) all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Non-executive directors do not have a specific term of appointment and under the Bye-laws of the Company, at each general meeting, one third of the directors for the time being, or if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation save any director holding office as chairman and managing director. The Company intends to propose any amendment of relevant Bye-laws, if necessary, in order to ensure compliance with the Code on Corporate Governance Practices.

- (b) Under the code provision of A.2, the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company does not at present have any officer with the title of "chief executive officer". Mr Lau Chi Yung, Kenneth is the chairman and managing director of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company and is conducive to strong and consistent leadership, enabling the Company to respond promptly and efficiently.

Under the Listing Rules, every listed issuer is required to have at least three Independent Non-executive Directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Currently, the number of Independent Non-executive Directors represents more than one-third of the total board members.

CORPORATE GOVERNANCE REPORT

Each of the Independent Non-executive Director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. Review will be made regularly on the Board composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The biographical details of the Directors are set out on pages 6 to 7.

The Board has scheduled regular meetings per year and meets more frequently as and when required. During the financial year ended 31 December 2005, the attendance of individual director to the Board meeting is summarized below:-

Executive Directors	Meetings attended/ held
Lau Chi Yung, Kenneth	15/15
Lau Michael Kei Chi	12/15
Independent Non-executive Directors	
Choy Tak Ho	4/15
Lo Yick Wing	4/15
Wong Yim Sum	4/15

The Company Secretary keeps the Board minutes of the Company for inspection by the Directors. The Board has arranged appropriate insurance cover for the directors and officers of the Group to protect them from the risk exposure arising from the business of the Group.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. Based on specific enquiry of all the directors of the Company, the directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2005.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

With the assistance of the Finance Department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure that preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the financial statements of the Group is in a timely manner.

AUDIT COMMITTEE

The Company has established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The terms of the Audit Committee are consistent with the provisions set out in the relevant section of the CG Code.

The Audit Committee comprises three Independent Non-executive Directors of the Company, namely Choy Tak Ho, Lo Yick Wing and Wong Yim Sum. The Chairman of the committee, Wong Yim Sum, has extensive experience in the finance and auditing fields.

CORPORATE GOVERNANCE REPORT

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. It also acts an important link between the Board and the Company's auditors in matters within the scope of the group audit. In fact, the Group's interim report for the six months ended 30 June 2005 and the annual report for the year ended 31 December 2005 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

REMUNERATION COMMITTEE

The Company has set up a Remuneration Committee on 16 September 2005 to ensure that there are formal and transparent procedures for setting policies on the remuneration of the Directors. The committee comprises three Independent Non-executive Directors namely, Choy Tak Ho, Lo Yick Wing and Wong Yim Sum.

The terms of reference of the Remuneration Committee are consistent with the terms set out in the relevant section of the CG Code, and no Director is involved in deciding his own remuneration.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislation and regulations.

AUDITORS' REMUNERATION

In line with the sound practice that the independence of external auditors should not be impaired by other non-audit assignments, the Group ensures that assignments other than statutory audits undertaken by external auditors should not have an adverse impact on their independence.

For the year ended 31 December 2005, the Auditors of the Company received approximately HK\$300,000 for audit service and HK\$Nil for tax and consultancy services.

INVESTOR RELATIONS AND COMMUNICATION

The Company continues to pursue a proactive policy of promoting investor relations communications. All shareholders have 21 clear days' notice of the Annual General Meeting and Special General Meeting for passing of a special resolution and 14 clear days' notice of all other general meetings at which the Company's Directors and Committee Chairmen or members are available to answer their questions. The results of the voting by poll are declared on the first business day after the meeting, and are published in newspapers, if applicable, together with details of meetings including the time and venue and major resolutions. As a channel to further promote effective communication, the Company's website is maintained to disseminate corporate information and other relevant financial and non-financial information electronically.

REPORT OF THE AUDITORS



Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong SAR

TO THE SHAREHOLDERS OF ORIENTAL EXPLORER HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of 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 90 of the Companies Act 1981 of Bermuda, 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 of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong
19 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i> (Restated)
TURNOVER	6	1,150,827	538,175
Cost of sales		(1,121,317)	(521,750)
Gross profit		29,510	16,425
Other revenue and gains	6	13,980	21,015
Selling and distribution costs		(18,659)	(3,867)
Operating and administrative expenses		(10,611)	(12,094)
Other operating expenses		(4,057)	(5,588)
Operating profit	7	10,163	15,891
Finance costs	8	(336)	(370)
Share of profits of associates, net		1,470	2,198
Negative goodwill recognised as income on acquisition of an associate		—	2,818
PROFIT BEFORE INCOME TAX		11,297	20,537
Income tax	10	(734)	(428)
PROFIT FOR THE YEAR		10,563	20,109
ATTRIBUTABLE TO			
Equity holders of the Company	11	10,563	20,109
Minority interests		—	—
		10,563	20,109
EARNINGS PER SHARE			
Basic	12	0.59 cents	1.12 cents
Diluted	12	N/A	N/A

CONSOLIDATED BALANCE SHEET

At as 31 December 2005

	<i>Notes</i>	2005 HK\$'000	2004 <i>HK\$'000</i> (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,675	1,568
Prepaid land lease payments	14	484	493
Interests in associates	16	84,801	57,294
Available-for-sale financial assets/Long term investments	17	49,983	105,089
Loans to investee companies	18	50,199	—
Total non-current assets		187,142	164,444
CURRENT ASSETS			
Inventories	19	2,341	2,740
Trade receivables	20	1,576	1,900
Prepayments, deposits and other receivables	21	17,408	25,093
Financial assets at fair value through profit or loss/Short term investments	22	99,358	77,880
Pledged deposits	23	25,463	7,800
Cash and cash equivalents	23	19,636	33,191
Total current assets		165,782	148,604
TOTAL ASSETS		352,924	313,048
LESS: CURRENT LIABILITIES			
Trade payables	24	742	1,088
Other payables and accruals	25	10,646	8,852
Interest-bearing borrowings	26	1,603	—
Income tax payable		5,338	4,604
Total current liabilities		18,329	14,544
NET CURRENT ASSETS		147,453	134,060
TOTAL ASSETS LESS CURRENT LIABILITIES		334,595	298,504
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Share capital	27	18,000	18,000
Reserves	29	316,595	280,504
Total equity		334,595	298,504

Lau Chi Yung, Kenneth
Chairman

Lau Michael Kei Chi
Vice-Chairman

CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity holders of the Company							Total equity HK\$'000
	Share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Available-for-sale investment revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Accumulated losses HK\$'000	
As at 1 January 2004								
As previously reported	18,000	418,511	546	—	66	1,367	(162,509)	275,981
Opening adjustments for the adoption of HKAS 17 (Note 2(a)(i))	—	—	—	—	—	—	160	160
As restated	18,000	418,511	546	—	66	1,367	(162,349)	276,141
Share of surplus on revaluation of investment properties held by the associates	—	—	—	—	—	2,254	—	2,254
Total income and expense recognised directly in equity	—	—	—	—	—	2,254	—	2,254
Profit for the year (as restated)	—	—	—	—	—	—	20,109	20,109
Total income and expense for the year	—	—	—	—	—	2,254	20,109	22,363
As at 31 December 2004	18,000	418,511*	546*	—*	66*	3,621*	(142,240)*	298,504
As at 1 January 2005								
As previously reported	18,000	418,511	546	—	66	3,621	(142,420)	298,324
Opening adjustments for the adoption of HKAS 17 (Note 2(a)(i))	—	—	—	—	—	—	180	180
Opening adjustments for the adoption of HKAS 40 (Note 2(a)(iii))	—	—	—	—	—	(3,621)	3,621	—
Opening adjustments for the adoption of HKFRS 3 (Note 2(a)(v))	—	—	—	—	—	—	22,494	22,494
As restated	18,000	418,511	546	—	66	—	(116,125)	320,998
Change in fair value of available-for-sale financial assets	—	—	—	(509)	—	—	—	(509)
Share of exchange fluctuation reserve from the associates	—	—	—	—	3,543	—	—	3,543
Total income and expense recognised directly in equity	—	—	—	(509)	3,543	—	—	3,034
Profit for the year	—	—	—	—	—	—	10,563	10,563
Total income and expense for the year	—	—	—	(509)	3,543	—	10,563	13,597
As at 31 December 2005	18,000	418,511*	546*	(509)*	3,609*	—*	(105,562)*	334,595

* These reserve accounts comprise the consolidated reserves of approximately HK\$316,595,000 (2004: HK\$280,504,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	2005 HK\$'000	2004 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	11,297	20,537
Adjustments for:		
Interest expenses	336	370
Interest income	(3,525)	(1,287)
Dividend income from listed investments	(3,174)	(2,071)
Share of profits of associates, net	(1,470)	(2,198)
Gain on disposal of items of property, plant and equipment	—	(5,874)
Gain on disposal of financial assets at fair value through profit or loss/short term investments	(5,165)	(7,621)
Fair value losses, net		
Financial assets at fair value through profit or loss	4,057	—
Depreciation	459	1,267
Recognition of prepaid land lease payments	9	8
Negative goodwill recognised as income on acquisition of an associate	—	(2,818)
Gain on disposal of a deconsolidated subsidiary	—	(4,162)
Unrealised losses on revaluation of listed investments, net	—	5,143
Impairment of interest in an associate	—	445
Operating profit before working capital changes	2,824	1,739
Decrease/(increase) in inventories	399	(604)
Decrease in trade receivables	324	74,789
Decrease/(increase) in prepayments, deposits and other receivables	7,685	(20,031)
Decrease in trade payables	(346)	(52,843)
Increase/(decrease) in other payables and accruals	1,794	(518)
Net cash inflow from operating activities	12,680	2,532
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	3,525	1,287
Dividend income from listed investments	3,174	2,071
Purchases of items of property, plant and equipment	(566)	(510)
Purchases of available-for-sale financial assets/ long term investments	(11,202)	(15,600)
Loans to associates	—	(445)
Purchases of financial assets at fair value through profit or loss/ short term investments	(55,081)	(90,433)
Proceeds from disposal of items of property, plant and equipment	—	6,240
Proceeds from disposal of available-for-sale financial assets	15,600	—
Proceeds from disposal of financial assets at fair value through profit or loss/short term investments	34,711	61,272
Proceeds from disposal of a deconsolidated subsidiary	—	4,162
Increase in pledged time deposits	(17,663)	—
Net cash outflow from investing activities	(27,502)	(31,956)

CONSOLIDATED CASH FLOW STATEMENT (CONT'D)

For the year ended 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(336)	(370)
New borrowings raised		1,603	—
		<hr/>	<hr/>
Net cash inflow/(outflow) from financing activities		1,267	(370)
		<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of the year		33,191	62,985
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
		19,636	33,191
		<hr/>	<hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	3,470	15,004
Non-pledged time deposits with original maturity of less than three months when acquired	23	16,166	18,187
		<hr/>	<hr/>
		19,636	33,191
		<hr/>	<hr/>

BALANCE SHEET

As at 31 December 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	15	170,457	170,997
Available-for-sale financial assets/ Long term investments	17	670	330
Total non-current assets		171,127	171,327
CURRENT ASSETS			
Other receivables	21	227	227
Financial assets at fair value through profit or loss/ Short term investments	22	616	635
Cash and cash equivalents	23	1	1
Total current assets		844	863
TOTAL ASSETS		171,971	172,190
LESS: CURRENT LIABILITIES			
Other payables and accruals	25	124	118
NET CURRENT ASSETS		720	745
TOTAL ASSETS LESS CURRENT LIABILITIES		171,847	172,072
CAPITAL AND RESERVES			
Equity attributable to equity holders of the Company			
Share capital	27	18,000	18,000
Reserves	29	153,847	154,072
Total equity		171,847	172,072

Lau Chi Yung, Kenneth
Chairman

Lau Michael Kei Chi
Vice-Chairman

1. CORPORATE INFORMATION

Oriental Explorer Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

During the year, the Company and its subsidiaries (collectively, the “Group”) were involved in the following principal activities:

- trading of steel; and
- manufacturing and trading of electronic products.

In the opinion of the directors, the parent company of the Group is Limitless Investment Limited, which is incorporated in the British Virgin Islands, and the ultimate holding company of the Group is Power Resources Holdings Limited, which is incorporated in the British Virgin Islands.

These financial statements are presented in Hong Kong dollars (HK\$) and all values are rounded to the nearest thousand (HK\$’000) unless otherwise stated. These financial statements were approved and authorised for issue by the board of directors on 19 April 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the period presented, unless otherwise stated.

a. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). They have been prepared under the historical cost convention, except for the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**a. Basis of preparation** (continued)*Adoption of new/revised HKFRSs and changes in accounting policies*

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 33, 36, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior periods, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***a. Basis of preparation** *(continued)*

The impact of adopting the other HKFRSs is summarised as follows:

(i) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effects of the above changes are summarised in the section headed "Summary of the impact of changes in accounting policies" below. The comparative amounts in the consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of the leasehold land.

(ii) HKAS 32 and HKAS 39 – Financial Instruments

In prior years, the Group classified its investments in unlisted equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses. Debt securities that the Group had the ability to hold to maturity were classified as held-to-maturity securities and were stated in the balance sheet at amortised cost less impairment losses. The investments in listed securities were classified as short term investments and stated at fair value and the gains or losses arising from changes in the fair values of such securities were credited or charged to the income statement in the period in which they arose.

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurement. HKAS 32 requires retrospective application while HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis.

Upon the adoption of HKASs 32 and 39, debt securities, investments in listed securities, and investments in unlisted equity securities are classified as held-to-maturity financial assets, financial assets at fair value through profit or loss, and available-for-sale financial assets, respectively. Held-to-maturity financial assets are stated at amortised cost less impairment losses. Available-for-sale financial assets are classified at fair value, where an active market exists, with any realised gains and losses recognised in equity. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by valuation techniques are carried at cost less impairment. Financial assets at fair value through profit or loss are carried at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***a. Basis of preparation** *(continued)**(ii) HKAS 32 and HKAS 39 – Financial Instruments (continued)*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Trade and other receivables were previously carried at cost less impairment of receivables.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings were previously stated at cost.

The effects of the above changes are summarised in the section headed "Summary of the impact of changes in accounting policies" below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(iii) HKAS 40 – Investment Property

The Group's share of its associates' post-acquisition results is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves.

In prior years, changes in the fair values of investment properties held by an associate were dealt with as movements in the investment property revaluation reserve of the associate. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement of the associate. Any subsequent revaluation surplus was credited to the income statement of the associate to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties held by the associate are included in the income statement of the associate in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement of the associate in the year of the retirement or disposal.

The Group's associate has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained earnings rather than restating the comparative amounts to reflect the changes retrospectively for the earlier year. The effects of the above changes are summarised in the section headed "Summary of the impact of changes in accounting policies" below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***a. Basis of preparation** *(continued)**(iv) HKFRS 2 – Share-based Payment*

In prior years, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005. As all the share options of the Group were granted before 7 November 2002, the adoption of HKFRS 2 has had no impact on the financial statements of the Group.

(v) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior years, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group’s interest in the net fair value of the acquirees’ identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as “negative goodwill”), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise the carrying amounts of negative goodwill against retained earnings.

The effects of the above changes are summarised in the section headed “Summary of the impact of changes in accounting policies” below. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***a. Basis of preparation** *(continued)*

The Group has not applied the following new/revised HKFRSs, that have been issued but are not yet effective, to these financial statements:

HKAS 1 Amendment	Capital Disclosures <i>(Note (a))</i>
HKAS 21 Amendment	Net Investment on a Foreign Operation <i>(Note (b))</i>
HKAS 39 Amendment	The Fair Value Option <i>(Note (b))</i>
HKFRS 7	Financial Instruments: Disclosures <i>(Note (a))</i>

Notes:

(a) Effective for accounting periods beginning on or after 1 January 2007

(b) Effective for accounting periods beginning on or after 1 January 2006

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1 January 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**a. Basis of preparation** (continued)

Summary of the impact of changes in accounting policies

(1) Effect on consolidated balance sheet as at 1 January 2005 and 31 December 2005

As at 1 January 2005	Effect of adopting				Total HK\$'000
	HKAS 17#	HKASs 32 and 39*	HKAS 40* Surplus on revaluation of investment properties of associates	HKFRS 3* Derecognition of negative goodwill	
Effect of new policies (Increase/(decrease))	Prepaid land lease payments HK\$'000	Change in classification of equity investments HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	(313)	—	—	—	(313)
Prepaid land lease payments	493	—	—	—	493
Negative goodwill	—	—	—	(22,494)	(22,494)
Available-for-sale financial assets	—	54,890	—	—	54,890
Loans to investee companies	—	50,199	—	—	50,199
Long term investments	—	(105,089)	—	—	(105,089)
Financial assets at fair value through profit or loss	—	77,880	—	—	77,880
Short term investments	—	(77,880)	—	—	(77,880)
Investment property revaluation reserve	—	—	(3,621)	—	(3,621)
Retained Profits	180	—	3,621	22,494	26,295

* Adjustments taken effect prospectively from 1 January 2005

Adjustments/presentation taken effect retrospectively

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**a. Basis of preparation** (continued)

Summary of the impact of changes in accounting policies (continued)

(1) Effect on consolidated balance sheet as at 1 January 2005 and 31 December 2005 (continued)

As at 31 December 2005	Effect of adopting				Total HK\$'000
	HKAS 17 Prepaid land lease payments HK\$'000	HKASs 32 and 39 Change in classification of equity investments HK\$'000	HKAS 40 Surplus on revaluation of investment properties of associates HK\$'000	HKFRS 3 Derecognition of negative goodwill HK\$'000	
Effect of new policies (Increase/(decrease))					
Property, plant and equipment	(284)	—	—	—	(284)
Prepaid land lease payments	484	—	—	—	484
Negative goodwill	—	—	—	(19,676)	(19,676)
Available-for-sale financial assets	—	49,983	—	—	49,983
Loans to investee companies	—	50,199	—	—	50,199
Long term investments	—	(100,182)	—	—	(100,182)
Financial assets at fair value through profit or loss	—	99,358	—	—	99,358
Short term investments	—	(99,358)	—	—	(99,358)
Investment property revaluation reserve	—	—	(4,823)	—	(4,823)
Available-for-sale investment revaluation reserve	—	509	—	—	509
Retained Profits	200	—	4,823	19,676	24,699

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**a. Basis of preparation** (continued)

Summary of the impact of changes in accounting policies (continued)

(2) Effect on opening balance of total equity as at 1 January 2004 and 2005

	Effect of adopting			Total HK\$'000
	HKAS 17 Prepaid land lease payments HK\$'000	HKAS 40 Surplus on revaluation of investment properties of associates HK\$'000	HKFRS 3 Derecognition of negative goodwill HK\$'000	
Effect of new policies (Increase/(decrease))				
As at 1 January 2004				
Retained Profits	160	—	—	160
				<u>160</u>
As at 1 January 2005				
Investment property revaluation reserve	—	(3,621)	—	(3,621)
Retained Profits	180	3,621	22,494	26,295
				<u>22,674</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**a. Basis of preparation** (continued)

Summary of the impact of changes in accounting policies (continued)

(3) Effect on consolidated income statement for the years ended 31 December 2005 and 2004

Effect of new policies	Effect of adopting			Total HK\$'000
	HKAS 1 Share of post-tax results of associates HK\$'000	HKAS 17 Prepaid land lease payments HK\$'000	HKFRS 3 Discontinuation of recognition of negative goodwill as income HK\$'000	
Year ended 31 December 2005				
Decrease in share of profits of associates	(400)	—	—	(400)
Decrease in income tax	400	—	—	400
Decrease in administrative expenses	—	20	—	20
Decrease in negative goodwill recognised as income on acquisition of an associate	—	—	(2,818)	(2,818)
Total increase/(decrease) in profit	—	20	(2,818)	(2,798)
Decrease in basic earnings per share	—	—	0.16 cents	0.16 cents
Year ended 31 December 2004				
Decrease in share of profits of associates	(395)	—	—	(395)
Decrease in income tax	395	—	—	395
Decrease in administrative expenses	—	20	—	20
Total increase in profit	—	20	—	20
Effects on basic earnings per share	—	—	—	—

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***b. Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

c. Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

d. Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are classified as non-current assets and are stated at cost less any impairment losses.

e. Goodwill

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**f. Impairment of assets**

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each balance sheet date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued assets.

g. Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any 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. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment and the cost of an item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Leasehold improvements	Over the lease terms
Plant and machinery	10% - 20%
Furniture, fixtures, office and computer equipment	20% - 33 1/3%
Motor vehicles	20% - 25%
Vessels	30%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***g. Property, plant and equipment** *(continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

h. Leases

Leases that transfer substantially all the rewards and risks of ownership of the assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

i. Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets held for trading are included in the category "financial assets at fair value through profit or loss". A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***i. Investments** *(continued)**(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***j. Trade and other receivables**

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

k. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

l. Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

m. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

n. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***o. Provisions**

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

p. Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

q. Revenue recognition

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;
- (c) dividend income, when the shareholders' right to receive payment has been established; and
- (d) proceeds from the disposal of listed investments, when the relevant sale contract is entered into.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***r. Employee benefits***(i) Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(ii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(iii) Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Foreign currency translation

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and associates are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and associates which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

The Group operates mainly in Mainland China and Hong Kong and is exposed to foreign exchange risk arising from Renminbi currency exposures, primarily with respect to Hong Kong dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group's risk management policy is to have the liquid assets mainly denominated in Hong Kong dollars, United States dollars and Renminbi.

3. FINANCIAL RISK MANAGEMENT *(continued)***(a) Financial risk factors** *(continued)**(ii) Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. It has policies in place to ensure that credits are granted to customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure adequate impairment losses are made for irrecoverable amounts.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and financial assets at fair value through profit or loss, the Group's exposure to credit risk arises from default of the counterparty, with maximum exposure equal to the carrying amount of these instruments. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

(iii) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

(iv) Interest rate risk

As the Group has no significant interest-bearing assets and the Group's borrowings are fixed rate borrowings, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

The nominal value less estimated impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

The Group's management determines the impairment of accounts receivable on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of accounts receivable at the balance sheet date.

5. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the steel trading segment is a supplier of steel products mainly for use in construction and other heavy industries;
- (b) the electronic products segment is a supplier of electronic components mainly for use in the manufacture of electronic products; and
- (c) the corporate and other segment.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group	Steel trading		Electronic products		Corporate and others		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue								
Sales to external customers	<u>1,143,393</u>	<u>525,737</u>	<u>7,434</u>	<u>12,438</u>	<u>—</u>	<u>—</u>	<u>1,150,827</u>	<u>538,175</u>
Segment results	<u>3,835</u>	<u>2,280</u>	<u>(1,880)</u>	<u>986</u>	<u>1,231</u>	<u>(2,822)</u>	<u>3,186</u>	<u>444</u>
Other revenue and gains							<u>13,980</u>	<u>21,015</u>
Unallocated expenses							<u>(7,003)</u>	<u>(5,568)</u>
Operating profit							<u>10,163</u>	<u>15,891</u>
Finance costs							<u>(336)</u>	<u>(370)</u>
Share of profits of associates, net							<u>1,470</u>	<u>2,198</u>
Negative goodwill recognised as income on acquisition of an associate							<u>—</u>	<u>2,818</u>
Profit before income tax							<u>11,297</u>	<u>20,537</u>
Income tax							<u>(734)</u>	<u>(428)</u>
Profit for the year							<u>10,563</u>	<u>20,109</u>

5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group	Steel trading		Electronic products		Corporate and others		Eliminations		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment assets	18,112	13,522	5,136	7,370	45,335	51,713	—	—	68,583	72,605
Unallocated assets	—	—	—	—	—	—	—	—	199,540	183,149
Interests in associates	—	—	—	—	—	—	—	—	84,801	57,294
Total assets	18,112	13,522	5,136	7,370	45,335	51,713	—	—	352,924	313,048
Segment liabilities	3,981	3,239	4,335	4,567	4,675	2,134	—	—	12,991	9,940
Unallocated liability – Income tax payable	—	—	—	—	—	—	—	—	5,338	4,604
Total liabilities	3,981	3,239	4,335	4,567	4,675	2,134	—	—	18,329	14,544
Other segment information										
Gain on disposal of a deconsolidated subsidiary	—	—	—	—	—	4,162	—	—	—	4,162
Depreciation	—	—	201	400	258	867	—	—	459	1,267
Other non-cash expenses	—	—	—	—	8	445	—	—	8	445
Capital expenditure	—	—	23	46	543	464	—	—	566	510

5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group	Hong Kong		Mainland China		Thailand		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue								
Sales to external customers	<u>7,434</u>	<u>12,438</u>	<u>—</u>	<u>—</u>	<u>1,143,393</u>	<u>525,737</u>	<u>1,150,827</u>	<u>538,175</u>
Other segment information								
Segment assets	<u>175,417</u>	<u>162,446</u>	<u>177,507</u>	<u>150,601</u>	<u>—</u>	<u>1</u>	<u>352,924</u>	<u>313,048</u>
Capital expenditure	<u>543</u>	<u>464</u>	<u>23</u>	<u>46</u>	<u>—</u>	<u>—</u>	<u>566</u>	<u>510</u>

6. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of turnover, other revenue and gains is as follows:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Trading of steel	<u>1,143,393</u>	<u>525,737</u>
Manufacturing and trading of electronic products	<u>7,434</u>	<u>12,438</u>
	<u>1,150,827</u>	<u>538,175</u>
Other revenue and gains		
Interest income	<u>3,525</u>	<u>1,287</u>
Gain on disposal of financial assets at fair value through profit or loss/short term investment	<u>5,165</u>	<u>7,621</u>
Dividend income from listed investments	<u>3,174</u>	<u>2,071</u>
Reversal of provision for impairment of interest in an associate	<u>2,116</u>	<u>—</u>
Gain on disposal of items of property, plant and equipment	<u>—</u>	<u>5,874</u>
Gain on disposal of a deconsolidated subsidiary (Note)	<u>—</u>	<u>4,162</u>
	<u>13,980</u>	<u>21,015</u>
	<u>1,164,807</u>	<u>559,190</u>

Note:

In prior years, Jiangyin Bofeng Steel Company Limited ("Jiangyin Bofeng") was a 51.3% owned subsidiary of the Group. During the year ended 31 December 2001, the Group entered into an agreement with an independent third party for the disposal of the Group's entire equity interests in Jiangyin Bofeng at a cash consideration of RMB6,000,000. Jiangyin Bofeng was accounted for as a deconsolidated subsidiary of the Group with effect from 1 July 2001. During the year ended 31 December 2004, the Group received an aggregate amount of RMB5,000,000 in respect of the aforesaid disposal which resulted in a net gain of approximately HK\$4,162,000.

7. OPERATING PROFIT

The Group's operating profit is arrived at after charging/(crediting):

	2005 HK\$'000	2004 HK\$'000 (Restated)
Cost of inventories sold	1,121,317	521,750
Depreciation of owned assets	459	1,267
Minimum lease payments under operating leases for land and buildings	611	1,252
Auditors' remuneration	300	211
Fair value losses, net		
Financial assets at fair value through profit or loss	4,057	—
Unrealised losses on revaluation of listed investments, net	—	5,143
Impairment of interest in an associate	—	445
Foreign exchange differences, net	(448)	(406)
	<hr/>	<hr/>
Employee benefits expenses, including directors' remuneration (Note 9):		
Salaries and allowances	4,675	5,184
Pension scheme contributions (Note (i))	91	116
	<hr/>	<hr/>
	4,766	5,300
	<hr/>	<hr/>

Note:

- (i) As at 31 December 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil)

8. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on discounted bills	336	370
	<hr/>	<hr/>

9. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2005 HK\$'000	2004 HK\$'000
Short-term employee benefits	3,158	1,457
Post-employment benefits	48	36
	<hr/>	<hr/>
	3,206	1,493
	<hr/>	<hr/>

9. COMPENSATION TO KEY MANAGEMENT PERSONNEL (continued)**(a) Directors' remuneration**

The remuneration of every director of the Company for the year ended 31 December 2005 is set out below:

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<i>Executive directors</i>				
Mr. Lau Chi Yung, Kenneth	350	650	12	1,012
Mr. Lau Michael Kei Chi	500	—	—	500
<i>Independent non-executive directors</i>				
Mr. Choy Tak Ho	60	—	—	60
Mr. Lo Yick Wing	60	—	—	60
Mr. Wong Yim Sum	60	—	—	60
	1,030	650	12	1,692

The remuneration of every director of the Company for the year ended 31 December 2004 is set out below:

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Pension scheme contributions <i>HK\$'000</i>	Total remuneration <i>HK\$'000</i>
<i>Executive directors</i>				
Mr. Lau Chi Yung, Kenneth	—	260	12	272
Mr. Lau Michael Kei Chi	—	—	—	—
Mr. Tsang Pak Chung, Eddy (Note (i))	—	—	—	—
Mr. Cho Po Hong, Jimmy (Note (ii))	—	360	9	369
<i>Independent non-executive directors</i>				
Mr. Choy Tak Ho	60	—	—	60
Mr. Lo Yick Wing (Note (iii))	15	—	—	15
Mr. Wong Yim Sum (Note (iii))	15	—	—	15
Mr. Albert Thomas da Rosa, Junior (Note (ii))	45	—	—	45
	135	620	21	776

9. COMPENSATION TO KEY MANAGEMENT PERSONNEL (continued)**(a) Directors' remuneration** (continued)

Notes:

- (i) Resigned on 1 August 2004.
- (ii) Resigned on 28 September 2004.
- (iii) Appointed on 28 September 2004.

None of the directors of the Company waived or agreed to waive any emoluments during the year ended 31 December 2005 (2004: Nil).

(b) Five highest paid individuals

The five highest paid employees during the year included two (2004: one) directors, details of whose remuneration are set out in note 9(a) above. Details of the remuneration of the remaining three (2004: four) non-director, highest paid employees for the year are as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	1,478	1,745
Pension scheme contributions	36	48
	1,514	1,793

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2005	2004
Nil to HK\$1,000,000	3	4

- (c) During the year ended 31 December 2005, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2004: Nil).

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Current tax – Hong Kong		
Charge for the year	734	348
Overprovision in prior years	—	(330)
Current tax – Mainland China		
Charge for the year	—	410
Total tax charge for the year	734	428

A reconciliation of the tax expense applicable to profit before income tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2005		2004	
	HK\$'000	%	HK\$'000	%
			(Restated)	
Profit before income tax	11,297		20,537	
Tax at applicable tax rate	1,517	13	3,106	15
Adjustments in respect of current tax of previous periods	—	—	(330)	(2)
Income not subject to tax	(2,394)	(21)	(1,300)	(6)
Expenses not deductible for tax	994	9	195	1
Tax losses not recognised	479	4	413	2
Tax losses utilised from prior years	—	—	(687)	(3)
Others	138	1	(969)	(5)
Tax charge at the Group's effective rate	734	6	428	2

The share of tax attributable to associates amounting to approximately HK\$400,000 (2004: HK\$395,000) is included in "Share of profits of associates, net" on the face of the consolidated income statement.

10. INCOME TAX (continued)

The principal components of the Group's deferred tax asset not recognised in the financial statements, calculated at the rate of 17.5% (2004: 17.5%) on the cumulative timing differences at the balance sheet date, are as follows:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Tax losses	26,758	10,297
Accelerated depreciation allowances	92	171
	<u>26,850</u>	<u>10,468</u>

The Group's tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company is a loss of approximately HK\$225,000 (2004: profit of approximately HK\$87,000) (Note 29(b)).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to equity holders of the Company for the year ended 31 December 2005 of approximately HK\$10,563,000 (2004: HK\$20,109,000 (restated)) and the weighted average number of 1,800,000,000 (2004: 1,800,000,000) ordinary shares in issue during the year.

Diluted earnings per share, reflecting the exercise of subscription rights under the share options granted pursuant to the Company's share option schemes, have not been presented because the share options had no dilutive effects for both the years ended 31 December 2005 and 2004.

13. PROPERTY, PLANT AND EQUIPMENT**Group**

	Buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, office and computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
31 December 2005						
As at 31 December 2004 and 1 January 2005						
Cost	746	2,926	37,994	5,288	1,677	48,631
Accumulated depreciation	(336)	(2,917)	(37,717)	(5,206)	(887)	(47,063)
Net carrying amount	<u>410</u>	<u>9</u>	<u>277</u>	<u>82</u>	<u>790</u>	<u>1,568</u>
As at 1 January 2005, net of accumulated depreciation						
Additions	—	—	23	—	543	566
Depreciation provided for the year	(37)	(9)	(164)	(30)	(219)	(459)
As at 31 December 2005, net of accumulated depreciation	<u>373</u>	<u>—</u>	<u>136</u>	<u>52</u>	<u>1,114</u>	<u>1,675</u>
As at 31 December 2005						
Cost	746	2,926	38,017	5,288	1,920	48,897
Accumulated depreciation	(373)	(2,926)	(37,881)	(5,236)	(806)	(47,222)
Net carrying amount	<u>373</u>	<u>—</u>	<u>136</u>	<u>52</u>	<u>1,114</u>	<u>1,675</u>

13. PROPERTY, PLANT AND EQUIPMENT (continued)**Group**

	Buildings <i>HK\$'000</i> <i>(Restated)</i>	Leasehold improve- ments <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, office and computer equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Vessels <i>HK\$'000</i>	Total <i>HK\$'000</i> <i>(Restated)</i>
31 December 2004							
As at 1 January 2004							
Cost	746	2,926	37,971	5,265	1,213	4,863	52,984
Accumulated depreciation	(298)	(2,894)	(37,372)	(5,169)	(671)	(3,889)	(50,293)
Net carrying amount	<u>448</u>	<u>32</u>	<u>599</u>	<u>96</u>	<u>542</u>	<u>974</u>	<u>2,691</u>
As at 1 January 2004, net of accumulated depreciation	448	32	599	96	542	974	2,691
Additions	—	—	23	23	464	—	510
Depreciation provided for the year	(38)	(23)	(345)	(37)	(216)	(608)	(1,267)
Disposals	—	—	—	—	—	(366)	(366)
As at 31 December 2004, net of accumulated depreciation	<u>410</u>	<u>9</u>	<u>277</u>	<u>82</u>	<u>790</u>	<u>—</u>	<u>1,568</u>
As at 31 December 2004							
Cost	746	2,926	37,994	5,288	1,677	—	48,631
Accumulated depreciation	(336)	(2,917)	(37,717)	(5,206)	(887)	—	(47,063)
Net carrying amount	<u>410</u>	<u>9</u>	<u>277</u>	<u>82</u>	<u>790</u>	<u>—</u>	<u>1,568</u>

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2005 HK\$'000	2004 <i>HK\$'000</i> (Restated)
Carrying amount as at 1 January		
As previously reported	—	—
Effect of adoption of HKAS 17 (<i>Note 2(a)(i)</i>)	493	501
	<hr/>	<hr/>
As restated	493	501
Recognised during the year	(9)	(8)
	<hr/>	<hr/>
Carrying amount as at 31 December	484	493
	<hr/>	<hr/>

The Group's leasehold land is situated in the PRC and is held under long term leases.

15. INTERESTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 <i>HK\$'000</i>
Unlisted shares, at cost	136,380	136,380
Provision for impairment	(88,480)	(88,480)
	<hr/>	<hr/>
	47,900	47,900
	<hr/>	<hr/>
Due from subsidiaries	564,273	564,813
Provision against amounts due from subsidiaries	(441,716)	(441,716)
	<hr/>	<hr/>
	122,557	123,097
	<hr/>	<hr/>
	170,457	170,997
	<hr/>	<hr/>

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from subsidiaries approximate their fair values.

15. INTERESTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct %	Indirect %	
Linkful (Holdings) Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred HK\$20,000,000	—	100	Investment holding
Linkful Metals Trading Limited	British Virgin Islands/ Thailand	US\$1	—	100	Metal trading
Linkful (PRC) Investments Limited	Hong Kong	HK\$2	—	100	Investment holding
Linkful Management Services Limited	Hong Kong	HK\$2	—	100	Provision of management services
Linkful Strategic Investment Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Properties Company Limited	Hong Kong/ Mainland China	HK\$2	—	100	Investment and property holding
Inter China Limited	British Virgin Islands	US\$100	—	57	Investment holding
East Winner Limited	British Virgin Islands	US\$1	100	—	Investment holding
Linkful Electronics Limited	British Virgin Islands	US\$1	100	—	Investment holding
Alphatronics Limited	Hong Kong	HK\$6,000,000	—	75	Trading of electronic products
Alphatronics Electronic (Shenzhen) Co., Ltd. (Note)	People's Republic of China ("PRC")/ Mainland China	US\$3,310,000	—	75	Manufacture of electronic components
Snowdon Worldwide Limited	British Virgin Islands	US\$1	—	100	Investment holding

15. INTERESTS IN SUBSIDIARIES (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note: Registered as a wholly-foreign owned enterprise under the PRC law.

16. INTERESTS IN ASSOCIATES

	Group	
	2005	2004
	HK\$'000	HK\$'000
		(Restated)
Share of net assets	53,347	48,334
Loans to associates	33,019	33,019
	86,366	81,353
Provision for impairment	(1,565)	(1,565)
	84,801	79,788
Negative goodwill on acquisition	—	(22,494)
	84,801	57,294

The loans to associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate their fair values.

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

Name	Particular of issued shares held	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Prince Properties Limited	5,000 ordinary shares of HK\$1 each	Hong Kong	50	Investment holding
Call Rich Investments Limited ("Call Rich")	12,520 ordinary shares of US\$1 each	British Virgin Islands	25.04	Investment holding

The shareholdings in the associates' equity shares are held through wholly-owned subsidiaries.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

16. INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the associates of the Group as extracted from their financial statements:

	2005 HK\$'000	2004 <i>HK\$'000</i>
Total assets	700,866	698,125
Total liabilities	358,723	379,300
Revenue	27,149	26,609
Profit	<u>9,168</u>	<u>13,746</u>

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG TERM INVESTMENTS

	Group		Company	
	2005 HK\$'000	2004 <i>HK\$'000</i>	2005 HK\$'000	2004 <i>HK\$'000</i>
Listed debt investments, at fair value	10,353	—	—	—
Held-to-maturity debt securities, at cost	—	15,600	—	—
Unlisted debt investments, at cost	670	—	670	—
Unlisted equity investments, at cost	48,967	49,297	—	330
Loans to investee companies	—	50,199	—	—
Provision for impairment	(10,007)	(10,007)	—	—
	<u>49,983</u>	<u>105,089</u>	<u>670</u>	<u>330</u>

The loans to investee companies are unsecured, interest-free and have no fixed terms of repayment. The loans are separately presented on the face of the consolidated balance sheet as at 31 December 2005 (Note 18).

During the year, the gross loss of the Group's available-for-sale financial assets recognised directly in equity amounted to approximately HK\$509,000 (2004: Nil).

As at 31 December 2005, the Group's listed debt investments with a carrying value of approximately HK\$10,353,000 (2004: Nil) were pledged to secure interest-bearing borrowings, further details of which are disclosed in note 26 to the financial statement.

The above equity investments were designated as available-for-sale financial assets on 1 January 2005 and have no fixed maturity date or coupon rate. The unlisted equity investments of the Group are not stated at fair value but at cost less any accumulated impairment losses because they do not have a quoted market price in an active market. In addition, the directors of the Company consider that the fair value of such investments cannot be reliably measured as the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS/LONG TERM INVESTMENTS (continued)

Particulars of unlisted equity investments as at 31 December 2005 were as follows:

Name	Place of incorporation	Nominal value of issued ordinary share capital	Percentage of equity interest attributable to the Group	Principal activities
Rich Returns Limited	British Virgin Islands	US\$100	18	Investment holding
Head Wonder International Limited	British Virgin Islands	US\$10,000	5	Investment holding

18. LOANS TO INVESTEE COMPANIES

The loans to investee companies are unsecured, interest-free and have no fixed terms of repayment.

The fair values of the Group's loans to investee companies included in the amount at the balance sheet date approximate the corresponding carrying amounts.

19. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	1,614	1,538
Work in progress	10	10
Finished goods	717	1,192
	<u>2,341</u>	<u>2,740</u>

20. TRADE RECEIVABLES

	Group	
	2005	2004
	HK\$'000	HK\$'000
Trade receivables	1,791	2,115
Less: Provision for impairment of receivables	(215)	(215)
	<u>1,576</u>	<u>1,900</u>

An aged analysis of trade receivables at the balance sheet date, based on invoice date and stated net of provision for impairment, is as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within three months	<u>1,576</u>	<u>1,900</u>

The Group's trading terms with customers are mainly on credit. Invoices are normally payable within two months of issuance, except for certain well established customers, where the terms are extended to three to six months in some cases, subject to the approval of senior management. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management. Trade receivables are non-interest-bearing.

The fair values of the Group's trade receivables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The fair values of the Group's and the Company's prepayments, deposits and other receivables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed equity investments, at market value				
Hong Kong	76,356	54,054	616	635
Elsewhere	23,002	23,826	—	—
	<u>99,358</u>	<u>77,880</u>	<u>616</u>	<u>635</u>

The above equity investments as at 31 December 2005 were classified as held for trading. As at 31 December 2005, the Group's listed equity investments with a carrying value of approximately HK\$17,048,000 (2004:Nil) were pledged to secure interest-bearing borrowings, further details of which are disclosed in note 26 to the financial statements.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cash and bank balances	3,470	15,004	1	1
Time deposits	41,629	25,987	—	—
	45,099	40,991	1	1
Less: Pledged time deposits	(25,463)	(7,800)	—	—
Cash and cash equivalents	19,636	33,191	1	1

The time deposits of HK\$25,463,000 (2004: HK\$7,800,000) were pledged as security for banking facilities granted.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate their fair values.

24. TRADE PAYABLES

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade payables	742	1,088

An aged analysis of trade payables at the balance sheet date, based on invoice date, is as follows:

	Group	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Within three months	628	960
Four to six months	114	128
	742	1,088

The trade payables are non-interest-bearing and are normally settled on 60-days terms. The fair values of the Group's trade payables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

25. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accruals and other liabilities	10,056	8,262	124	118
Due to a minority shareholder	590	590	—	—
	10,646	8,852	124	118

The amount due to the minority shareholder is unsecured, interest-free and has no fixed terms of repayment. Accruals and other liabilities are non-interest-bearing and have an average term of two months.

The fair values of the Group's and the Company's other payables and accruals included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

26. INTEREST-BEARING BORROWINGS

	Effective interest rate (%)	Maturity	Group	
			2005	2004
			HK\$'000	HK\$'000
Other loan – secured	0.58	4 January 2006	1,603	—
Analysed into:				
Other loan repayable:				
Within one year			1,603	—

The Group's other loan with an investment bank is secured by certain cash deposits and securities with a carrying amount of approximately HK\$46,129,000 as at 31 December 2005, bears interest at 0.58% and is repayable on 4 January 2006.

The carrying amounts of the Group's current borrowings approximate their fair values.

27. SHARE CAPITAL**Shares**

	2005	2004
	HK\$'000	HK\$'000
Authorised		
20,000,000,000 (2004: 20,000,000,000) ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid		
1,800,000,000 (2004: 1,800,000,000) ordinary shares of HK\$0.01 each	18,000	18,000

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 28 to the financial statements.

28. SHARE OPTION SCHEMES**(a) The 1993 Scheme**

On 8 March 1993, the Company adopted a share option scheme (the "1993 Scheme") for the purpose of providing incentives and rewards to eligible participants who contributed to the success of the Group's operations. Eligible participants of the 1993 Scheme included the Company's directors, including independent non-executive directors and employees of the Group. The 1993 Scheme remained in force for 10 years from that date and expired on 7 March 2003.

The maximum number of shares over which options could be granted could not exceed 10% of the ordinary share capital in issue from time to time, excluding those shares which had been issued under the 1993 Scheme.

Under the 1993 Scheme, the directors could, at their discretion, at any time during the 10 years from the date of approval of the 1993 Scheme, grant to directors, including independent non-executive directors, and employees of the Group options to subscribe for shares in the share capital of the Company. The share subscription price of any options granted under the 1993 Scheme was the higher of 80% of the average of the closing prices of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date on which an option is granted and the nominal value of the shares.

Pursuant to a directors' resolution passed on 7 February 1998, options to subscribe for an aggregate of 58,500,000 shares in the Company within 10 years from the date of grant, at a subscription price of HK\$0.112 per share, were granted by the Company. None of these share options has since been exercised by the grantees.

Name or category of participant	Date of grant of share options	Exercise price of share options HK\$ (Note)	Number of share options as at 1 January and 31 December 2005	Exercise period of share options	Price of Company's shares at grant date of options HK\$
<i>Director</i>					
Lau Chi Yung, Kenneth	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
<i>Others</i>					
Tsang Pak Chung, Eddy	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
Leung Wei San, Saskia	7 February 1998	0.112	19,500,000	7 February 1998 to 6 February 2008	0.19
			58,500,000		

No share options were granted, exercised, expired or forfeited during the year.

28. SHARE OPTION SCHEMES (continued)**(a) The 1993 Scheme** (continued)

Note: The exercise price of the share options is subject to adjustment in the case of rights or bonus issues or other similar changes in the Company's share capital.

As at 31 December 2005, 58,500,000 share options remained outstanding under the 1993 Scheme, which represented approximately 3.25% of the Company's shares in issue as at that date. The exercise in full of such share options would, under the present capital structure of the Company, result in the issue of 58,500,000 additional ordinary shares of the Company and additional share capital of HK\$585,000 and share premium of HK\$5,967,000 (before issue expenses).

(b) The 2003 Scheme

On 27 June 2003, a new share option scheme (the "2003 Scheme"), in compliance with the requirements of Chapter 17 of the Listing Rules, was adopted by the Company for a period of 10 years, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the 2003 Scheme include any employee (including any executive and non-executive director), adviser, consultant, agent, contractor, client or customer, or supplier of any member of the Group.

The maximum number of unexercised share options currently permitted to be granted under the 2003 Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the 2003 Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 days from the date of the offer upon payment of a nominal consideration by the grantee. The exercise period of the share options granted is determinable by the directors, commences after a certain vesting period and ends on a date which is not later than 10 years from the date of grant of the option.

The subscription price is determined by the directors, but in any event may not be less than the higher of (i) the closing price of the shares on the date of grant, which must be a trading date; (ii) the average closing price of the shares for the five trading days immediately preceding the date of grant; and (iii) the nominal value of share.

No share options were granted, exercised, expired or forfeited during the year.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

29. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Company

	Share premium account	Capital redemption reserve	Contributed surplus	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2004	418,511	546	88,380	(353,452)	153,985
Profit for the year	—	—	—	87	87
As at 31 December 2004 and 1 January 2005	418,511	546	88,380	(353,365)	154,072
Loss for the year	—	—	—	(225)	(225)
As at 31 December 2005	418,511	546	88,380	(353,590)	153,847

The Company's contributed surplus represents the difference arising between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the value of the net assets of the subsidiaries acquired at the time of the Group's reorganisation in a prior year. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders in certain circumstances prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

- (a) The Group received rental income in the amount of HK\$115,000 (2004: HK\$115,000) from Alpha Japan Limited ("Alpha Japan"), the minority shareholder of a subsidiary of the Group. The rental income was charged based on open market rental.
- (b) The Group paid rental expenses in the amount of HK\$Nil (2004: HK\$525,000) to Verywell Properties Limited, a wholly-owned subsidiary of Multifield International Holdings Limited, a company controlled by Mr. Lau Chi Yung, Kenneth, a director and a substantial shareholder of the Company. The terms of the rental were on a monthly renewal basis and were arrived at after negotiations between both parties with reference to the prevailing market rents.
- (c) A subsidiary sold finished goods of approximately HK\$3,197,000 (2004: HK\$4,302,000) to and purchased raw materials and equipment parts of approximately HK\$1,186,000 (2004: HK\$1,236,000) from a related company of Alpha Japan. These transactions were based on published prices and conditions normally offered by the Group to third party customers in the ordinary course of business of the Group (in respect of the sales), and offered by a related company of Alpha Japan to its third party customers (in respect of the purchases).

31. OPERATING LEASE COMMITMENTS

The Group and the Company had no significant commitments under non-cancellable operating leases at the balance sheet date (2004: Nil).

32. CONTINGENT LIABILITIES

As at 31 December 2005, the amount of guarantees given to banks by the Company in connection with facilities granted to subsidiaries and associates was approximately HK\$442,752,000 (2004: HK\$289,057,000).

FIVE-YEAR FINANCIAL INFORMATION

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

	Year ended 31 December				
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>	2003 <i>HK\$'000</i> <i>(Restated)</i>	2002 <i>HK\$'000</i> <i>(Restated)</i>	2001 <i>HK\$'000</i> <i>(Restated)</i>
RESULTS					
CONTINUING OPERATIONS					
Turnover	1,150,827	538,175	483,467	1,051,836	504,822
Operating profit	10,163	15,891	3,369	7,035	46,055
Finance costs	(336)	(370)	(1,009)	(2,070)	(5,015)
Share of profit/(loss) of associates, net	1,470	2,198	2,009	102	(145)
Negative goodwill recognised as income on acquisition of an associate	—	2,818	2,818	45	—
Profit before income tax	11,297	20,537	7,187	5,112	40,895
Income tax	(734)	(428)	281	(1,224)	6,816
Profit for the year from continuing operations	10,563	20,109	7,468	3,888	47,711
DISCONTINUED OPERATIONS					
Loss for the year from discontinued operations	—	—	—	—	(36,289)
Profit for the year	10,563	20,109	7,468	3,888	11,422
Attributable to:					
Equity holders of the Company	10,563	20,109	7,468	3,888	28,956
Minority interests	—	—	—	—	(17,534)
	10,563	20,109	7,468	3,888	11,422
ASSETS, LIABILITIES AND MINORITY INTERESTS					
	As at 31 December				
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> <i>(Restated)</i>	2003 <i>HK\$'000</i> <i>(Restated)</i>	2002 <i>HK\$'000</i> <i>(Restated)</i>	2001 <i>HK\$'000</i> <i>(Restated)</i>
Total assets	352,924	313,048	343,618	341,507	379,964
Total liabilities	(18,329)	(14,544)	(67,477)	(72,834)	(126,900)
Minority interests	—	—	—	—	—
	334,595	298,504	276,141	268,673	253,064

Total assets as at 31 December 2004, 2003, 2002 and 2001 have been restated as a result of the prior year adjustments in respect of the adoption of Hong Kong Accounting Standard 17 "Leases" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Profit before income tax for the years ended 31 December 2004, 2003, 2002 and 2001 have been restated as a result of the prior year adjustments in respect of the adoption of Hong Kong Accounting Standards 1 "Presentation of Financial Statements" and 17 "Leases" issued by the HKICPA.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Oriental Explorer Holdings Limited (the "Company") will be held at 8th Floor, Multifield House, No. 54 Wong Chuk Hang Road, Hong Kong on Wednesday, 28 June 2006 at 3:00 p.m. for the following purposes:-

1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and the Auditors for the year ended 31 December 2005.
2. To re-elect Directors and authorise the Board of Directors to fix the remuneration of the Directors.
3. To appoint Auditors and authorise the Directors to fix their remuneration.
4. To consider as Special Business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT:-

- (A) subject to paragraph (C) of this Resolution, the exercise by the Directors of the Company during the Relevant Period of all the power of the Company to allot, issue and deal with shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power 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 of the Company pursuant to the approval in paragraph (A) of this Resolution, otherwise than pursuant to (i) a Rights issue, (ii) the exercise of the subscription rights attaching to any warrants of the Company, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers or employees of the Company and/or any of its subsidiaries or other eligible persons of shares or rights to acquire shares in the capital of the Company, or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Bye-laws of the Company, or (v) any offer, agreement or option made or granted prior to the date of passing this Resolution, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (D) for the purpose of this Resolution:-

"Relevant Period" means the period from 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 Bye-laws of the Company or any applicable laws to be held; and

NOTICE OF ANNUAL GENERAL MEETING

- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting; and

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

- 5. To consider as Special Business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:-

- (A) subject to paragraph (B) of this Resolution, the exercise by the Directors of the Company during the Relevant Period of all the power of the Company to repurchase shares in the capital of the Company and warrants, if any, issued by the Company be and is hereby generally and unconditionally approved;
- (B) the amount of the securities of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (A) of this Resolution shall:-
 - (i) in the case of shares, not exceed 10% of the aggregate nominal amount of the share capital in issue as at the date of the passing of this Resolution; and
 - (ii) in the case of warrants, if any, not exceed 10% of warrants outstanding as at the date of the passing of this Resolution

and the authority pursuant to paragraph (A) of this Resolution shall be limited accordingly; and

- (C) for the purpose of this Resolution:-

“Relevant Period” means the period from 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 Bye-laws of the Company or any applicable laws to be held; and
- (iii) the date on which the authority given under this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting.”

NOTICE OF ANNUAL GENERAL MEETING

6. To consider as Special Business, and if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT conditional upon resolutions nos. 4 and 5 set out in the notice convening this meeting being duly passed, the general mandate granted to the Directors of the Company to exercise the power of the Company to allot and issue shares pursuant to resolution no. 4 set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed conditionally or unconditionally to be allotted and issued by the Directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 set out in the notice convening this meeting, provided that such an amount shall not exceed 10% of the nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution.”

By Order of the Board
Lau Chi Yung, Kenneth
Chairman

Hong Kong, 19 April 2006

Notes:

- (i) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
- (ii) In order to be valid, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney or authority, must be lodged at the Company's Branch Share Registrar in Hong Kong, Tengis Limited, 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting (or the adjourned meeting as the case may be).
- (iii) An explanatory statement containing further details regarding resolutions nos. 4 to 6 will be sent to shareholders shortly together with the 2005 Annual Report.