Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

Ever Fortune International Holdings Limited (formerly known as "First Dragoncom Agro-Strategy Holdings Limited") (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in nurturing, selling and trading of tree seedlings and seeds.

The Company is a limited liability company incorporated in Bermuda and its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 20 April 2007.

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of biological assets, 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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

(i) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards/interpretations to existing standards have been published that are mandatory for the Group's accounting periods with effect from the next financial year that the Group has not early adopted:

- HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures, are effective for annual periods beginning on or after 1 January 2007. HKFRS 7 introduces new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements; and

Notes to the Financial Statements

For the year ended 31 December 2006

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN (Continued)

(a) Basis of preparation (Continued)

(i) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

(ii) Interpretation to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretation to existing standards have been published that are mandatory for the Group's accounting periods with effect from the next financial year but are not relevant for the Group's operations:

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations.

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. The Group will adopt HK(IFRIC)-Int 9 from 1 January 2007. As none of the group entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not expected to have any significant impact on the Group's consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2006

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN (Continued)

(a) Basis of preparation (Continued)

(iii) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations or do not have a significant impact on the Group's financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation;
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
HKAS 39 Amendment	The Fair Value Option;
HKAS 39 and HKFRS 4 Amendment	Financial Guarantee Contracts;
HKFRS 6	Exploration for and Evaluation of Mineral Resources;
HKFRS 1 Amendment	First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
HKFRS -Int 4	Determining whether an Arrangement contains a Lease;
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

(b) Material uncertainties in respect of going concern

The Group sustained consolidated loss attributable to equity holders of the Company of HK$138,911,000 (2005: HK$23,273,000) for the year ended 31 December 2006. At 31 December 2006, the Group had consolidated net current liabilities of HK$126,467,000 (2005: net current assets of HK$7,793,000) and provisions of HK$103,378,000 (2005: HK$Nil).

During the year, certain banks in the mainland of the People's Republic of China ("Mainland China") took legal actions against one of the PRC subsidaries of the Group demanding repayment of amounts due to them. As explained in note 23(b)(i) and (ii) to the financial statements, the banks had applied to the arbitration office in Zhengzhou and Luoyang Middle People's Court in Mainland China in demanding repayment of an aggregate amount of RMB100,536,000 (equivalent to HK$98,314,000) under guarantees provided to the banks in relation to the bank loans granted to a former related company and also, to freeze the assets of the PRC subsidiary claimed to be pledged as collateral.

In view of the liquidity problems faced by the Group, the directors have adopted the following measures with the view to improve the Group's overall financial and cash flow position and to maintain the Group's existence on a going concern basis:

(i) the directors are currently looking into the litigation and arbitration as mentioned in the preceeding paragraph and seeking legal advice as to the possible outcome and appropriate course of action to be taken in relation to the litigation and arbitration with the provisions of HK$100,155,000 already provided as at the balance sheet date;

Notes to the Financial Statements

For the year ended 31 December 2006

2. BASIS OF PREPARATION AND MATERIAL UNCERTAINTIES IN RESPECT OF GOING CONCERN (Continued)

(b) Material uncertainties in respect of going concern (Continued)

(ii) the directors are seeking financial support from its substantial shareholder to provide adequate funds for the Group to meet its liabilities as they fall due, both present and future, in view of the possibility of any unrecorded liabilities as at balance sheet date;

(iii) the directors are negotiating with potential purchasers to realise certain subsidiaries of the Group; and

(iv) the directors are planning to adopt various cost control measures to reduce various general and administrative and other operating expenses.

In the opinion of the directors, in light of the measures adopted, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the directors are of the view that it is appropriate to prepare the financial statements on a going concern basis.

Should the Group be unable to achieve the above and fail to continue in business as a going concern, adjustments would have to be made to restate the values of the assets to their immediate recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities (including special purposes entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidation (Continued)

(a) Subsidiaries *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that are recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	2% to 5%
Leasehold improvements	10% or over the remaining period of the lease, whichever is higher
Plant, machinery and equipment	10% to 30%
Furniture and fixtures	10% to 20%
Motor vehicles	10% to 20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss on disposal are determined by comparing the proceeds with the carrying amount, and is recognised in the income statement.

Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Production right

The production right is amortised on the straight-line basis over its estimated useful life of 10 years commencing from the date when it is put into commercial production and is stated at cost less accumulated amortisation and any impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

(c) Computer software development cost

Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding cost beyond one year, are recognised as intangible assets.

Expenditure which enhances or extends the performance of computer software programme beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognised as assets are amortised over their estimated useful lives, not exceeding a period of 5 years.

Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment . Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Biological assets

Trees, tree seedlings and seeds are measured at their fair value less estimated point-of-sale costs. The fair value of trees is determined by referring to the market-determined prices of biological assets with similar size, species and age. Gain or loss arising on initial recognition of trees at fair value less estimated point-of-sale costs is dealt with in the income statement when it arises.

Agricultural produce comprises tree seedlings and seeds which are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of tree seedlings and seeds is determined by the directors with reference to the market-determined prices, cultivation area, species, growing conditions, cost incurred and expected yield.

Financial assets

The Group classifies its financial assets as loans and receivables. The classification depends on the purposes for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 classified as trade and other receivables in the balance sheet.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Loans and receivables are carried at amortised cost using the effective interest method. 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.

Inventories

Inventories, other than agricultural produces which is measured in accordance with the accounting policy for "Biological assets" above, are stated at the lower of cost and net realisable value. Cost is determined on the weighted average 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 in the ordinary course of business, less any estimated costs to be incurred to completion and disposal.

Trade and other receivables

Trade and other receivables are recongised 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicator that the trade receivable is impaired. 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 original effective interest rate. The amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts (if any).

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.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

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, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized 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, 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.

Employee benefits

(a) Retirement benefits scheme

The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. 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 MPF Scheme. The assets of the MPF 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 MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

(b) Employment leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(c) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employees 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. 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 entity 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, with 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 option are exercised.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

(i) 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;

(ii) interest income, on a time proportion basis using the effective interest method.

Assets under leases

Leases in which a significant portion of the risks and rewards of ownership are retained by lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the party has the ability, directly or indirectly, to control the Group or exercise significant influence over the Group in making financial and operating decision, or vice versa, or where the Group and the party are subject to common control. The Group's associates, joint ventures and key management are also considered to be related parties of the Group.

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(i) Credit risk

The carrying amounts of bank balances and cash, trade and other receivables represented the Group's maximum exposure to credit risk in relation to financial assets. Management has a credit policy in place and the exposures to these credit risks are maintained on an ongoing basis. Impairment provisions are provided for losses that have been incurred by balance sheet date, if any.

In respect of trade and other receivables, credit evaluation are performed on all customers requiring credit over a certain amount. These receivables are due within 90 to 180 days from the date of billing. Debtors with balances that are more than 6 months are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customer.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, other liquid assets and the ability to close market positions. The directors are of the opinion that adequate financial support is available from the substantial shareholder to meet the Group's liabilities as they fall due.

(iii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in notes 24 and 25 to the consolidated financial statements.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

Notes to the Financial Statements

For the year ended 31 December 2006

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(iv) Currency risk

The Company has foreign currency sales, which expose it to foreign currency risk. Certain receivables and deposits with bank are denominated in foreign currencies. The Company does not have a foreign currency hedging policy. However, the management monitors foreign currency exposure and will consider hedging significant exposure should the need arises.

(b) Fair value estimation

All financial instruments are carried at amounts not materially different from their values as at the balance sheet date.

5. 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:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimated provision for impairment of trade and other receivables

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provision are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

Notes to the Financial Statements

For the year ended 31 December 2006

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(c) Fair value of biological assets

The Group's management determines the fair value of tree seedlings with reference to the market-determined prices, cultivation area, species, growing conditions, cost incurred and expect yield. Should these assumptions be changed, there would be material changes to the carrying amount of the biological assets.

(d) Impairment of goodwill

The Group determines whether goodwill is impaired as least on annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$258,000 (2005: HK$Nil). More details are given in note 17.

6. TURNOVER, OTHER INCOME AND SEGMENT INFORMATION

Revenue and other income recognised during the year are as follows:

	2006 HK$'000	2005 HK$'000
Turnover		
Sales of tree seedlings and seeds	**1,705**	1,481
Other income and gains		
Debts waived by creditors	**9,253**	—
Bank interest income	**9**	1
Other interest income	**13**	—
Other income	**117**	103
	9,392	104
Total	**11,097**	1,585

Turnover represents the net invoiced value of goods sold, after allowances for trade discounts and returns.

Segment information

(a) Geographical segments

All of the activities of the Group are based in Mainland China and all of the Group's turnover and loss before income tax are derived from Mainland China. Accordingly, no geographical segment information is presented.

(b) Business segments

No separate analyis of financial information by business segments is presented as the Group's revenue, results, assets and liabilities were all derived from its principal line of business of nurturing, selling and trading of tree seedlings and seeds.

Notes to the Financial Statements

For the year ended 31 December 2006

7. OPERATING LOSS

Operating loss is stated after crediting and charging the followings:

	2006 HK$'000	2005 HK$'000
Cost of inventories sold	**527**	1,395
Staff costs, excluding directors' remuneration (note 13):		
Salaries, wages and allowances	**1,008**	285
Retirement benefits scheme contributions	**36**	10
	1,044	295
Amortisation of leasehold land and land use rights*	**2,565**	2,489
Auditors' remuneration		
— current year	**530**	700
— under provision in prior years	**—**	150
Depreciation*	**95**	432
Minimum lease payments under an operating lease in respect of land and buildings	**668**	330
Bank interest income	**(9)**	(1)
Other interest income	**(13)**	—
Exchange loss, net	**1**	76

* Included in "Depreciation and amortisation" on the face of the consolidated income statement.

At 31 December 2006, the Group had no material forfeited contributions available to reduce its contributions to its retirement benefits scheme in future years (2005: Nil).

8. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest expenses on		
— bank borrowings	**135**	—
— other borrowings wholly repayable within five years	**19**	847
	154	847

Notes to the Financial Statements

For the year ended 31 December 2006

9. INCOME TAX EXPENSES

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil). 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.

Below is a numerical reconciliation between tax expense in the consolidated income statement and aggregate tax expense at the domestic rates applicable to profits in respective territories concerned:

Group — 2006

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before income tax	(6,218)		(132,693)		(138,911)	
Tax credit at the applicable tax rate	(1,088)	(17.5)	(43,788)	(33)	(44,876)	(32.3)
Tax exemption	—	—	43,788	33	43,788	31.5
Income not subject to tax	(1,624)	(26.1)	—	—	(1,624)	(1.1)
Expenses not deductible for tax	963	15.5	—	—	963	0.7
Others	(5)	(0.1)	—	—	(5)	—
Tax losses not recognised	1,754	28.2	—	—	1,754	1.2
Tax charge at the Group's effective rate	—	—	—	—	—	—

Group — 2005

	Hong Kong		**Mainland China**		**Total**	
	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before income tax	(28,530)		5,257		(23,273)	
(Tax credit)/tax charge at the applicable tax rate	(4,993)	(17.5)	1,735	33	(3,258)	(14.0)
Tax exemption	—	—	(1,735)	(33)	(1,735)	(7.5)
Expenses not deductible for tax	3,247	11.4	—	—	3,247	14.0
Tax losses not recognised	1,746	6.1	—	—	1,746	7.5
Tax charge at the Group's effective rate	—	—	—	—	—	—

The Group did not have any significant unprovided deferred income tax in respect of the current and prior years.

Under the current PRC tax law, the subsidiary of the Group which is engaged in the nurturing, selling and trading of tree seedlings and seeds is exempted from PRC corporate income tax.

Notes to the Financial Statements

For the year ended 31 December 2006

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$6,711,000 (2005: HK$23,291,000) (note 27).

11. LOSS PER SHARE

Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006	2005
Loss attributable to equity holders of the Company	**HK$138,911,000**	HK$23,273,000
Weighted average number of ordinary shares in issue	**2,532,543,083**	2,496,378,699
Basic loss per share	**(HK5.49 cents)**	(HK0.93 cents)

Diluted

Diluted loss per share amount for the current and prior years have not been disclosed, as the share options outstanding during both years had no dilutive effect on the basic loss per share for those years.

12. RETIREMENT BENEFIT COSTS

The retirement benefits costs charged to the consolidated income statement represent contributions payable by the Group to the retirement benefit schemes and amounted to HK$36,000 (2005: HK$10,000). No contributions were payable to the retirement benefit schemes as at 31 December 2006 and 2005 and are included in trade and other payables. No forfeited contributions were utilised and no forfeited contributions were available to reduce future contributions as at 31 December 2006 and 2005.

Notes to the Financial Statements

For the year ended 31 December 2006

13. DIRECTORS' AND MANAGEMENTS' EMOLUMENTS

In accordance with the disclosure requirements of Section 161B of the Hong Kong Companies Ordinance, the aggregate amounts of emoluments paid to directors of the Company during the year are set out as follows:

	2006 HK$'000	2005 HK$'000
Fees	**442**	196
Salaries and other allowances	**1,640**	763
Bonuses	**—**	—
Contribution to retirement benefits schemes	**—**	—
	2,082	959

Directors' fees disclosed above include HK$108,000 (2005: HK$184,000) paid to independent non-executive directors.

The Company did not grant any share options during the current year and prior year.

As at 31 December 2005 and 31 December 2006, no share options were held by directors of the Company.

Notes to the Financial Statements

For the year ended 31 December 2006

13. DIRECTORS' AND MANAGEMENTS' EMOLUMENTS (Continued)

(a) Directors' emoluments

Details and movement of share options granted and exercised during the year are set out in note 26(b) to the financial statements.

The directors' emoluments are analysed as follows:

		Year ended 31 December 2005				
Name of directors	**Note**	**Fees**	**Salary and other allowances**	**Bonuses**	**Contribution to retirement benefits schemes**	**Total**
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Yu Chinshih	(i)&(ii)	—	36	—	—	36
Chen Bin	(i)	16	—	—	—	16
Qin Li	(i)	16	—	—	—	16
Chu Cheong Kit, Raymond	(i)&(ii)	17	—	—	—	17
Jiang Guoan	(i)	—	120	—	—	120
Cheng Chuange	(i)	—	13	—	—	13
Ding Jiangyong	(i)	—	13	—	—	13
Zhao Ping	(i)	—	13	—	—	13
Lee Chunxiu	(i)	8	—	—	—	8
Ng Wing Hang, Patrick	(i)&(ii)	27	—	—	—	27
Chan Chung Yin, Victor	(i)&(ii)	18	—	—	—	18
Zhang Xiaoxiong	(i)&(ii)	—	135	—	—	135
Qin Qing Yun	(i)&(ii)	12	—	—	—	12
Zhao Cai Yuan	(i)&(ii)	12	—	—	—	12
Lau Ha	(i)&(ii)	8	—	—	—	8
Hon Fong Hing, Perry	(ii)	—	152	—	—	152
Zhang Jiebin	(ii)	—	24	—	—	24
Yu Enguang	(ii)	13	—	—	—	13
Ma Qingguo	(ii)	12	—	—	—	12
Lau Man Kin	(i)&(ii)	—	122	—	—	122
Huang Jianhua	(ii)	—	66	—	—	66
Han Jide	(ii)	—	24	—	—	24
Huang San Xing	(ii)	33	—	—	—	33
Chan Kam Man	(i)&(ii)	4	—	—	—	4
Qian Keming	(ii)	—	45	—	—	45
		196	763	—	—	959

Notes to the Financial Statements

For the year ended 31 December 2006

13. DIRECTORS' AND MANAGEMENTS' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

		Year ended 31 December 2006				
Name of directors	**Note**	**Fees**	**Salary and other allowances**	**Bonuses**	**Contribution to retirement benefits schemes**	**Total**
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Chen Bin	(i)&(iv)	—	14	—	—	14
Qin Li	(i)&(iv)	—	14	—	—	14
Gong Zengli	(i)&(iv)	—	22	—	—	22
Jiang Guoan	(i)&(iv)	—	221	—	—	221
Cheng Chuange	(i)&(iv)	—	23	—	—	23
Ding Jiangyong	(i)	—	80	—	—	80
Zhao Ping	(i)&(iv)	—	23	—	—	23
Lee Chunxiu	(i)&(iv)	—	14	—	—	14
Ji Kewei	(iii)	—	1,229	—	—	1,229
Zhou Wenjun	(iii)	58	—	—	—	58
Sun Kejun	(iii)	138	—	—	—	138
Dai Jun	(iii)	138	—	—	—	138
So Hoi Pan	(iii)	36	—	—	—	36
Yim Hing Wah	(iii)	36	—	—	—	36
Zhao Wen	(iii)	36	—	—	—	36
		442	1,640	—	—	2,082

Notes:

(i) appointed during the year ended 31 December 2005

(ii) resigned during the year ended 31 December 2005

(iii) appointed during the year ended 31 December 2006

(iv) resigned during the year ended 31 December 2006

The above analysis includes two (2005: four) directors whose emoluments were among the five highest in the Group.

Notes to the Financial Statements

For the year ended 31 December 2006

13. DIRECTORS' AND MANAGEMENTS' EMOLUMENTS (Continued)

(b) Managements' emoluments

Details of the aggregate emoluments paid to three (2005: one) individuals whose emoluments were the highest in the Group and have not been included in the directors' emoluments above are set out below:

	2006 HK$'000	2005 HK$'000
Salaries and other allowances	751	108
Bonuses	—	—
Contributions to retirement benefits schemes	23	5
	774	113

The emolument of the highest paid individuals fell within the following bands.

	Number of individuals	
	2006	2005
Emoluments band HK$Nil — HK$1,000,000	3	1

(c) During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

Notes to the Financial Statements

For the year ended 31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant, machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1 January 2005	862	492	5,091	292	930	7,667
Additions	—	—	4	—	—	4
Write off	—	(492)	(2,104)	—	(752)	(3,348)
Exchange realignment	18	—	62	—	—	80
At 31 December 2005	880	—	3,053	292	178	4,403
At 1 January 2006	880	—	3,053	292	178	4,403
Additions	—	33	16	—	—	49
Acquisition of subsidiary (note 29)	—	—	—	—	207	207
Write off	—	—	(36)	(262)	—	(298)
Exchange realignment	33	—	112	1	10	156
At 31 December 2006	913	33	3,145	31	395	4,517
Accumulated depreciation and impairment						
At 1 January 2005	52	114	1,407	182	533	2,288
Provided during the year	13	24	179	54	162	432
Impairment loss for the year	814	—	2,121	56	33	3,024
Write off	—	(138)	(671)	—	(549)	(1,358)
Exchange realignment	1	—	17	—	(1)	17
At 31 December 2005	880	—	3,053	292	178	4,403
At 1 January 2006	880	—	3,053	292	178	4,403
Provided during the year	—	16	2	—	77	95
Write off	—	—	(36)	(262)	—	(298)
Exchange realignment	33	—	112	1	10	156
At 31 December 2006	913	16	3,131	31	265	4,356
Net book value						
At 31 December 2006	—	17	14	—	130	161
At 31 December 2005	—	—	—	—	—	—

Notes to the Financial Statements

For the year ended 31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold improvements HK$'000	Plant, machinery and equipment HK$'000	Furniture and fixtures HK$'000	Total HK$'000
Cost				
At 1 January 2005	443	2,140	262	2,845
Write off	(443)	(2,104)	—	(2,547)
At 31 December 2005 and 1 January 2006	—	36	262	298
Additions	33	12	—	45
Write off	—	(36)	(262)	(298)
At 31 December 2006	33	12	—	45
Accumulated depreciation and impairment				
At 1 January 2005	89	679	172	940
Provided during the year	—	7	52	59
Impairment loss for the year	—	20	38	58
Write off	(89)	(670)	—	(759)
At 31 December 2005 and 1 January 2006	—	36	262	298
Provided during the year	16	2	—	18
Write off	—	(36)	(262)	(298)
At 31 December 2006	16	2	—	18
Net book value				
At 31 December 2006	17	10	—	27
At 31 December 2005	—	—	—	—

Note:

The accumulated impairment losses of property, plant and equipment for the Group as at 31 December 2006 amounted to HK$3,024,000 (2005: HK$3,024,000).

Notes to the Financial Statements

For the year ended 31 December 2006

15. LEASEHOLD LAND AND LAND USE RIGHTS

Group

	2006 HK$'000	2005 HK$'000 (Restated)
At 1 January	**65,376**	66,505
Exchange differences	**2,396**	1,360
Additions	**—**	—
Amortisation	**(2,565)**	(2,489)
At 31 December	**65,207**	65,376
Non-current portion	**62,642**	62,887
Current portion	**2,565**	2,489
	65,207	65,376

Note:

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2006 HK$'000	2005 HK$'000
In PRC held on:		
Leases of over 50 years	**39,026**	38,456
Leases of between 10 to 50 years	**26,181**	26,920
	65,207	65,376

16. BIOLOGICAL ASSETS

Group

	2006 HK$'000	2005 HK$'000
Balance as at year end	**32,258**	35,364

(a) The analysis of the above is as follows:

	2006 HK$'000	2005 HK$'000
Non-current portion	**31,879**	34,572
Current portion	**379**	792
	32,258	35,364

Notes to the Financial Statements

For the year ended 31 December 2006

16. BIOLOGICAL ASSETS (Continued)

(b) The biological assets, representing trees, tree seedlings and seeds are summarised as follows:

	Tree		Trees seedlings and seeds		Total
	M^3	HK$'000	Number	HK$'000	HK$'000
Balance at 1 January 2005	70,800	27,307	4,592,048	760	28,067
Increase due to growth/acquisitions	17,000	—	1,178,730	532	532
Changes in fair value less estimated point-of-sale costs	—	6,615	—	—	6,615
Effect of movements in foreign exchange	—	650	—	15	665
Decrease due to sales	—	—	(1,000,000)	(515)	(515)
Balance at 31 December 2005	87,800	34,572	4,770,778	792	35,364
Non-current		34,572		—	34,572
Current		—		792	792
		34,572		792	35,364

	Tree		Trees seedlings and seeds		Total
	M^3	HK$'000	Number	HK$'000	HK$'000
Balance at 1 January 2006	87,800	34,572	4,770,778	792	35,364
Increase due to growth/acquisitions	—	—	—	94	94
Changes in fair value less estimated point-of-sale costs	—	(3,912)	—	—	(3,912)
Effect of movements in foreign exchange	—	1,219	—	30	1,249
Decrease due to sales/natural loss	(254)	—	(780,000)	(537)	(537)
At 31 December 2006	87,546	31,879	3,990,778	379	32,258
Non-current		31,879		—	31,879
Current		—		379	379
		31,879		379	32,258

Notes to the Financial Statements

For the year ended 31 December 2006

16. BIOLOGICAL ASSETS (Continued)

(c) The biological assets as at balance sheet dates are stated at fair value less estimated point-of-sale costs.

In accordance with the valuation report issued by an independent professional valuer, the fair values less estimated point-of-sale costs of the trees are determined by referring to the market-determined prices of biological assets with similar size, species and age.

The fair values of tree seedlings are determined by the directors with reference to market-determined prices, cultivation area, species, growing conditions, cost incurred and expected yield.

The valuation methodology is in compliance with HKAS 41 to determine the fair values of biological assets in their present location and condition.

(d) The fair value less estimated point-of-sale costs of the quantity and amount of agricultural produce harvested during the year were as follows:

	2006 Number	2005 Number
Trees	**—**	—
Tree seedlings	**780,000**	1,000,000

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For the year ended 31 December 2006

17. INTANGIBLE ASSETS

Group

	Production right (note a) HK$'000	Goodwill (note b) HK$'000	Computer software development cost (note c) HK$'000	Other (note d) HK$'000	Total HK$'000
At 1 January 2005					
Cost	28,500	45,436	6,510	–	80,446
Accumulated amortisation and impairment	(28,500)	(45,436)	(1,302)	–	(75,238)
Net book amount	–	–	5,208	–	5,208
Year ended 31 December 2005					
Opening net book amount	–	–	5,208	–	5,208
Write off	–	–	(5,208)	–	(5,208)
Closing net book amount	–	–	–	–	–
At 31 December 2005					
Cost	28,500	45,436	1,302	–	75,238
Accumulated amortisation and impairment	(28,500)	(45,436)	(1,302)	–	(75,238)
Net book amount	–	–	–	–	–
Year ended 31 December 2006					
Opening net book amount	–	–	–	–	–
Acquisition of subsidiary (note 29)	–	258	–	450	708
Closing net book amount	–	258	–	450	708
At 31 December 2006					
Cost	28,500	45,694	1,302	450	75,946
Accumulated amortisation and impairment	(28,500)	(45,436)	(1,302)	–	(75,238)
Net book amount	–	258	–	450	708

Notes to the Financial Statements

For the year ended 31 December 2006

17. INTANGIBLE ASSETS (Continued)

Company

	Computer software development cost (note c) HK$'000
At 1 January 2005	
Cost	6,510
Accumulated amortisation and impairment	(1,302)
Net book amount	5,208
Year ended 31 December 2005	
Opening net book amount	5,208
Write off	(5,208)
Closing net book amount	—
At 31 December 2005	
Cost	1,302
Accumulated amortisation and impairment	(1,302)
Net book amount	—
Year ended 31 December 2006	
Opening net book amount	—
Acquisition of subsidiary	—
Closing net book amount	—
At 31 December 2006	
Cost	1,302
Accumulated amortisation and impairment	(1,302)
Net book amount	—

Notes to the Financial Statements

For the year ended 31 December 2006

17. INTANGIBLE ASSETS (Continued)

Notes:

(a) The production rights represent the cost of acquiring the rights to produce, use and sell an immunological additive for shrimp feeds so as to improve the disease resistance of shrimps and to increase their survival rate.

Due to the discontinuance of the operations of the shrimp feeds business in Mainland China in the second half of 2003, a provision for impairment has been made in respect of the production right based on its value in use.

(b) The amount of the goodwill capitalised arising from the acquisitions of subsidiaries: Kwok Hong Company Limited (see note 29) and Zhangjiakou Xing Fa Development Limited ("Zhangjiakou Xing Fa") (formerly known as Hebei Bashang Nursery Company Limited).

Zhangjiakou Xing Fa is engaged in nurturing, selling and trading of tree seedlings and seeds, the business of which formed the major business activities for the Group as a whole. In view of the provision for loss on cash deposit amounting to RMB134,389,000 (approximately HK$126,845,000) made as mentioned in note 21 to the financial statements, the material effect of which may have significant impact on Zhangjiakou Xing Fa's ability to continue as a going concern. As a result, the directors decided that a provision for impairment of the outstanding balance as at 31 December 2004 is required.

The accumulated impairment losses of goodwill as at 31 December 2006 amounted to HK$40,513,000 (2005: HK$40,513,000).

(c) Computer software development cost represents the software cost incurred for the establishment of the Group's computerised information system. Computer software development cost recognised as assets are amortised using the straight-line method over their useful lives, not exceeding a period of 5 years.

The Group also incurred hardware cost amounting to HK$1,981,000 for this information system in prior year which had been included in property, plant and equipment in note 14.

(d) Other represents a special motor vehicle registration number that is stated at estimated market value as determined regularly by the directors of the Group since the registration number can be used forever with no expiry date and its useful life is considered to be indefinite, no amortisation was provided accordingly.

Notes to the Financial Statements

For the year ended 31 December 2006

18. SUBSIDIARIES

Company

	2006 HK$'000	2005 HK$'000
Unlisted investments, at cost	**159**	157
Due from subsidiaries	**318,419**	309,913
Due to subsidiaries	**(55)**	(54)
	318,523	310,016
Provisions for impairment loss	**(310,523)**	(310,016)
	8,000	—

Notes:

(a) The balances with subsidiaries are unsecured, interest-free and with no fixed terms of repayment.

(b) Details of the principal subsidiaries as at the balance sheet date are as follows:

Name	Place of incorporation/ registration	Place of operation	Nominal value of issued ordinary share/ registered capital	Percentage of of equity attributable to the Company 2006	2005	Principal activities
Indirectly held:						
Kwok Hong Company Limited	Hong Kong	Hong Kong	HK$2	100	—	Holding of a special motor vehicle registration number
連雲港豪景實業有限公司#	Mainland China	Mainland China	HK$8,000,000	100	—	Investment holding
Zhangjiakou Xing Fa^	Mainland China	Mainland China	US$1,829,000	70	70	Nurturing, selling and trading of tree seedlings and seeds

wholly foreign owned enterprise
^ Sino-foreign equity joint venture

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.

Notes to the Financial Statements

For the year ended 31 December 2006

19. INVENTORIES

Group

	2006 HK$'000	2005 HK$'000
Raw materials	**82**	79

20. TRADE AND OTHER RECEIVABLES

	Group		**Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Trade receivables (note a)	**22,478**	22,478	**—**	—
Less: Provision for impairment	**(22,478)**	(22,478)	**—**	—
	—	—	**—**	—
Other receivables, deposit and prepayments (note b)	**31,903**	28,377	**3,850**	290
Less: Provision for impairment	**(28,016)**	—	**—**	—
	3,887	28,377	**3,850**	290
Loan receivable (note c)	**7,983**	—	**—**	—
	11,870	28,377	**3,850**	290

Notes to the Financial Statements

For the year ended 31 December 2006

20. TRADE AND OTHER RECEIVABLES (Continued)

Note:

(a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period ranging from 90 to 180 days, except for certain major/well-established customers, whereby the credit period is extended beyond 180 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The ageing analysis of the trade receivables was as follows:

Group

	2006 HK$'000	2005 HK$'000
Within 90 days	**—**	2
91 days to 180 days	**—**	—
181 days to 365 days	**—**	—
Over 365 days	**22,478**	22,476
	22,478	22,478
Provision for impairment on receivables	**(22,478)**	(22,478)
	—	—

(b) The balance mainly includes a security deposit of HK$3,300,000 placed at High Court of the Hong Kong Special Administrative Region (the "High Court") in relation to the litigation as disclosed in note 23(a) to the financial statements.

In the financial statements for the year ended 31 December 2005, the balance mainly included a prepayment for acquisition of tree seedling and seeds paid to 綠色科技園苗木股份有限責任公司(「綠色科技園」) amounted to RMB29,174,000 (approximately HK$28,016,000). Due to cancellation of agreement in 2004, 綠色科技園 had refunded the whole amount to the Group on 31 May 2005 of RMB27,859,000. Further on 3 June 2005, the whole amount was re-financed to 綠色科技園. In addition, the Group further advanced approximately RMB1,315,000 to 綠色科技園 during 2005 which remains outstanding. During the year ended 31 December 2006, the Group has engaged an independent law firm in Mainland China to look into the matter and seek legal advice as to the appropriate course of action to be taken. The Group considered that the recoverability of such prepayment is uncertain and it is prudent to make a full provision.

(c) The loan is unsecured, interest bearing at 5.58% per annum and repayable on 19 March 2007. Subsequent to the balance sheet date on 14 March 2007, the amount has been fully recovered.

(d) The carrying amounts of trade receivables, prepayments and other receivables approximated their fair value.

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For the year ended 31 December 2006

21. CASH BALANCE AT PRC TRUST CO-OPERATIVE UNION

Group

	2006 **HK$'000**	2005 HK$'000
Balance as at year end	**126,845**	126,852
Less: Provision for loss in cash deposit	**(126,845)**	(126,845)
	–	7

The Group's cash balance at PRC Trust Co-operative Union 農村信用合作社("Union") at the balance sheet date represent the cash deposit in the Union by a PRC subsidiary (the "Deposit"). The Deposit with the Union was mainly a refund of deposits for potential future investments from 洛陽山嶺農林工程技術有限公司 on 10 June 2004.

During the prior year, the Board were negotiating with the management of the subsidiary to exercise control over the Deposit. Without much progress in the negotiation, in a directors' meeting on 20 July 2005, the Board considered that the recoverability of the Deposit is uncertain and it is prudent to make a full provision.

At the same time, an independent investigation committee ("Independent Investigation Committee"), comprising members of the audit committee was established by the Board on 20 July 2005 to conduct a full review and investigation on the annual accounts of the Group for the year ended 31 December 2004, in particular, regarding the ownership and existence of the Deposit together with interest thereon amounting to RMB134,389,000 (approximately HK$126,845,000) as at 31 December 2004.

As described with details in the public announcement of the Company dated 5 August 2005, the Independent Investigation Committee engaged an independent firm of professional accountants to investigate the existence and validity of the Deposits placed in the Union. The conclusion of the investigation report dated 29 July 2005 from the independent firm to the Board indicated that the Deposit did not exist.

On 28 July 2005, the directors of the Company decided to report the case to the police in 尚義縣 (Shanyi County), PRC. In addition, the Independent Investigation Committee has resolved to report the matters to relevant regulatory authorities in Hong Kong. This matter was reported to the Stock Exchange and the Hong Kong Police Force on 29 July 2005 and 4 August 2005, respectively. Up to the date of this report, the case is still under investigation by the respective authorities.

Notes to the Financial Statements

For the year ended 31 December 2006

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 **HK$'000**	2005 HK$'000	**2006** **HK$'000**	2005 HK$'000
Trade payables				
— third parties (note a)	**747**	814	**—**	—
Other payables and accruals	**8,637**	15,174	**3,145**	9,767
Due to related companies (note b)	**29,789**	2,507	**28,871**	2,498
	39,173	18,495	**32,016**	12,265

Notes:

(a) The ageing analysis of the trade payables balances was as follows:

Group

	2006 **HK$'000**	2005 HK$'000
Within 90 days	**—**	19
91 days to 180 days	**—**	—
181 days to 365 days	**—**	—
Over 365 days	**747**	795
	747	814

(b) The amounts due to related companies are unsecured, interest-free and with no fixed terms of repayment.

Notes to the Financial Statements

For the year ended 31 December 2006

23. PROVISIONS

Group

	Legal claim HK$'000	Guarantees HK$'000	Total HK$'000
At 1 January 2005, 31 December 2005 and 1 January 2006	—	—	—
Charged to the income statement	3,223	99,174	102,397
Used during the year	—	(860)	(860)
Exchange difference	—	1,841	1,841
At 31 December 2006	3,223	100,155	103,378

Company

	Legal claim HK$'000	Guarantees HK$'000	Total HK$'000
At 1 January 2005, 31 December 2005 and 1 January 2006	—	—	—
Charged to the income statement	3,223	860	4,083
Used during the year	—	(860)	(860)
At 31 December 2006	3,223	—	3,223

Notes:

(a) Legal claim

The amount represent a provision for legal claim brought against the Company by a law firm in relation to the legal fees and disbursement of HK$3,223,190 for the provision of professional and legal services rendered to the Company in prior year. The provision charge is recognised in income statement. In the directors' opinion, after taking appropriate legal advice, the outcome of the legal claim will not give rise to any significant loss beyond the amount provided at 31 December 2006.

Notes to the Financial Statements

For the year ended 31 December 2006

23. PROVISIONS (Continued)

Notes: (Continued)

(b) Guarantees

(i) Zhangjiakou Xing Fa, the 70% owned subsidiary of the Company has received a notice of arbitration from the arbitration office in Zhengzhou on 15 August 2006 about a guarantee provided to the China Agricultural Bank on 4 July 2005 in respect of bank loan granted to 河南省龍浩實業有限公司 ("河南龍浩"), a former related company of the Group. The China Agricultural Bank is now demanding repayment amounting to RMB73,005,000 (including principal of RMB63,100,000 and accrued interest up to the extent known by the Board of RMB9,905,000) (equivalent to HK$71,392,000). At a hearing on 6 March 2007, the arbitration office ordered the vertifcation of the authentication of certain evidence so as to determine whether it would have jurisdiction to hear the case. The Directors are now looking into the matter and in particular, the circumstances under which the guarantee was being granted and seeking legal advice as to the appropriate course of action to be taken. The guarantee loss was fully provided for in 2006. In the directors' opinion, after taking appropriate legal advice, the outcome of this litigation will not give rise to any significant loss beyond the amounts provided at 31 December 2006. In addition, the Group reserve their rights to demand compensation from 河南龍浩 after bearing the loss on the guarantee, if any.

(ii) Subsequent to the balance sheet date in March 2007, Zhangjiakou Xing Fa has received another execution notice from People's Court of Luoyang High-tech Development Zone (the "Court") in Mainland China about a guarantee provided to Luoyang City Commercial Bank on 15 June 2005 in respect of bank loan granted to 河南龍浩. Luoyang City Commercial Bank had demanded repayment amounting to RMB27,531,000 (including principal of RMB27,500,000 and execution charges of RMB31,000) (equivalent to HK$26,922,000) by filing persecution to the Court.

Upon receiving the notice, the Group appointed an independent law firm to look into the matter and collect certain documents from the Court. It was found that on 14 June 2006, the Court had issued <民事調解書> in which Zhangjiakou Xing Fa was bound to bear the responsibility of providing the guarantee. In addition, Luoyang City Commercial Bank has right to apply for the forced sale of certain leasehold land and land use rights of Zhangjiakou Xing Fa if 河南龍浩 failed to make the principal repayment of RMB27,500,000 on or before 15 August 2006. The proceeds arising from such forced sale will be used for repayment to Luoyang City Commercial Bank first. Due to failure in fulfilling the obligation, the Court further issued <申報財產通知書> on 31 January 2007 by requesting Zhangjiakou Xing Fa to provide a breakdown of all its assets to the Court on or before 23 March 2007.

According to <民事裁定書> issued by the Court on 5 March 2007, the bank balance of Zhangjiakou Xing Fa will be frozen. If the bank balance is not sufficient to cover the repayment from bank, asset of Zhangjiakou Xing Fa of equivalent amount will be seized and sold. Further on 13 March 2007, the Court issued <人民法院執行通知書> and require Zhangjiakou Xing Fa to pay a sum of approximately RMB27,531,000 to the Court within the period from 13 March 2007 to 23 March 2007. On the same date, the Court issued <協助執行通知書> to 尚義縣林業局, the minority shareholder of Zhangjiakou Xing Fa, asking them for assistance to seize certain leasehold land and land use rights of Zhangjiakou Xing Fa. Up to the date of this report, no transfer of assets of Zhangjiakou Xing Fa has been effected.

The Directors are now looking into the matter and in particular, the circumstances under which the guarantee was being granted and seeking legal advice as to the appropriate course of action to be taken. The guarantee loss was fully provided for in 2006. In the directors' opinion, after taking appropriate legal advice, the outcome of this litigation will not give rise to any significant loss beyond the amounts provided at 31 December 2006. In addition, the Group reserve their rights to demand compensation from 河南龍浩 after bearing the loss on the guarantee, if any.

(iii) In prior years, the Company has provided certain corporate guarantees of unknown amount to the bankers of its former wholly owned subsidiary, Corasia International Limited (" Corasia HK") to secure certain bank facilities granted to Corasia HK. During the year, the Company has successfully come to agreement with relevant bankers and all contingent liabilities regarding these corporate guarantees have now been either released or crystallized.

Notes to the Financial Statements

For the year ended 31 December 2006

24. BANK BORROWING

Group and Company

	2006 HK$'000	2005 HK$'000
Bank loan, unsecured	**747**	976
The analysis of the above balance is as follows:		
Within one year or on demand	**498**	976
More than one year, but not exceeding two years	**249**	—
	747	976
Amounts due within one year included under current liabilities	**(498)**	(976)
Non-current borrowing	**249**	—

According to a consent order issued by the High Court dated 14 February 2005, the balance was unsecured and repayable by instalment from 5 January 2005 to 30 June 2005. Interest was charged at the daily rate of HK$317 from 5 January 2005 to the date hereof and thereafter at judgement rate until full payment. After repaying two instalments of HK$120,000 each, the Company had defaulted the repayment.

Further on 31 July 2006, the Company entered into an agreement with the bank in which the Company undertakes to pay to the bank a sum of HK$996,000 by 24 equal monthly instalments of HK$41,500 each until full payment thereof. The first instalment was paid on 31 July 2006.

25. OTHER BORROWINGS

	Group		**Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Other borrowings, unsecured				
Within one year	**86**	4,728	**86**	4,632

Interest is charged at 3% per month (2005: at rates ranging from 12% per annum to 3% per month) on outstanding balance.

Notes to the Financial Statements

For the year ended 31 December 2006

26. ISSUED CAPITAL

	2006 HK$'000	2005 HK$'000
Authorised:		
160,000,000,000 ordinary shares of HK$0.01 each	**1,600,000**	1,600,000
Issued and fully paid:		
2,532,543,083 (2005: 2,532,543,083) ordinary shares of HK$0.01 each	**25,325**	25,325

(a) The movements of the issued share capital of the Company are summarised as follows:

	Number of ordinary shares	**Nominal value** HK$'000
At 1 January 2005	2,132,543,083	21,325
Shares issued under a placement (note)	400,000,000	4,000
At 31 December 2005, 1 January 2006 and 31 December 2006	2,532,543,083	25,325

Note:

Pursuant to a placing agreement on 3 February 2005, 400,000,000 new ordinary shares of the Company of HK$0.01 each were allotted to independent investors at a price of HK$0.035 per placing share. The amounts of HK$3,010,000 and HK$910,000 were deposited into bank account of the Company on 4 February 2005 and 5 February 2005 respectively. The remaining balance of HK$10,080,000 was taken up by a former related company on behalf of the Company.

(b) Share options

The Company operates a share option scheme (the "Scheme") for the purpose of recognising the significant contributions of eligible participants to the growth of the Group and to further motivate and encourage the eligible participants to contribute and improve their performance and efficiency. Eligible participants of the Scheme include the Company's directors, independent non-executive directors, other directors/employees of the Group or its investees, suppliers of goods or services to the Group or customers of the Group or its investees, persons/entities that provide research, development or other technological support, shareholders of any member of the Group or such other persons from time to time as determined by the directors. The Scheme was approved and adopted on 21 June 2002 (the "Adoption Date") and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The total number of shares in respect of which options may be granted under the Scheme (excluding options lapsed) is not permitted to exceed 10% of the shares of the Company in issue as at the Adoption Date, without a prior approval from the Company's shareholders.

The maximum number of shares issuable under share options to each eligible participant in the 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.

Notes to the Financial Statements

For the year ended 31 December 2006

26. ISSUED CAPITAL (Continued)

(b) Share options (Continued)

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 all 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 closing 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 on or before the close of business on the date specified in the offer document. The exercise period of the share options granted is determinable by the directors, and commences on the first business date from the date of the grant of the share options and ends on the close of business on the last day of such period as determined by the directors, but no later than ten years from the date of the grant of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the closing price of the Company's shares published on daily quotation sheet of the Stock Exchange on the date of the grant of the share options; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the grant.

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

Notes to the Financial Statements

For the year ended 31 December 2006

26. ISSUED CAPITAL (Continued)

(b) Share options (Continued)

Movement of the share options during the years ended 31 December 2006 and 2005 under the Scheme are set out below:

	For the year ended 31 December 2006 Number of share options							
Name or category of participant	**At 1 January 2006**	**Granted during the year**	**Exercised during the year**	**Cancelled during the year**	**At 31 December 2006**	**Date of grant of share options** (note ii)	**Exercise period of share options (both dates inclusive)**	**Exercise price of share options** (note iii) HK$
Employees								
In aggregate	11,474,000	–	–	(11,474,000)	–	26-06-02	26-06-02 to 20-06-12	0.1312
Suppliers of goods or services								
In aggregate	48,680,000	–	–	(48,680,000)	–	26-06-02	26-06-02 to 20-06-12	0.1312
	500,000	–	–	(500,000)	–	30-07-02	30-07-02 to 20-06-12	0.2360
	49,180,000	–	–	(49,180,000)	–			
Others								
In aggregate	60,426,000	–	–	(60,426,000)	–	26-06-02	26-06-02 to 20-06-12	0.1312
	9,000,000	–	–	(9,000,000)	–	30-07-02	30-07-02 to 20-06-12	0.2360
	69,426,000	–	–	(69,426,000)	–			
	130,080,000	–	–	(130,080,000)	–			

Notes to the Financial Statements

For the year ended 31 December 2006

26. ISSUED CAPITAL (Continued)

(b) Share options (Continued)

For the year ended 31 December 2005

Name or category of participant	At 1 January 2005	Granted during the year	Exercised during the year	Cancelled during the year	Transfer (to)/from other category during the year (note iv)	At 31 December 2005	Date of grant of share options (note ii)	Exercise period of share options (both dates inclusive)	Exercise price of share options (note iii) HK$
	Number of share options								
Directors									
Dr. Hon Fong Ming, Perry	900,000	–	–	–	(900,000)	–	26-06-02	26-06-02 to 20-06-12	0.1312
	8,000,000	–	–	–	(8,000,000)	–	30-07-02	30-07-02 to 20-06-12	0.2360
	8,900,000	–	–	–	(8,900,000)	–			
Dr. Qian Keming	864,000	–	–	–	(864,000)	–	26-06-02	26-06-02 to 20-06-12	0.1312
Mr. Zhang Jiebin	900,000	–	–	–	(900,000)	–	26-06-02	26-06-02 to 20-06-12	0.1312
Mr. Yu Enguang	864,000	–	–	–	(864,000)	–	26-06-02	26-06-02 to 20-06-12	0.1312
Prof. Ma Qingguo	864,000	–	–	–	(864,000)	–	26-06-02	26-06-02 to 20-06-12	0.1312
	12,392,000	–	–	–	(12,392,000)	–			
Employees									
In aggregate	11,474,000	–	–	–	–	11,474,000	26-06-02	26-06-02 to 20-06-12	0.1312
Suppliers of goods or services									
In aggregate	48,680,000	–	–	–	–	48,680,000	26-06-02	26-06-02 to 20-06-12	0.1312
	500,000	–	–	–	–	500,000	30-07-02	30-07-02 to 20-06-12	0.2360
	49,180,000	–	–	–	–	49,180,000			
Others									
In aggregate	56,034,000	–	–	–	4,392,000	60,426,000	26-06-02	26-06-02 to 20-06-12	0.1312
	1,000,000	–	–	–	8,000,000	9,000,000	30-07-02	30-07-02 to 20-06-12	0.2360
	57,034,000	–	–	–	12,392,000	69,426,000			
	130,080,000	–	–	–	–	130,080,000			

Notes to the Financial Statements

For the year ended 31 December 2006

26. ISSUED CAPITAL (Continued)

(b) Share options (Continued)

Notes:

(i) All the outstanding options were vested and exercisable as at 31 December 2005. The Group has no legal or constructive obligation to repurchase or settle the options in cash. As all grants of share options were vested on or before 1 January 2005 and accordingly, no adjustment is made in the Group's financial statements pursuant to the transitional provisions as set out in HKFRS 2.

(ii) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(iii) 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.

(iv) On 31 March 2005, Dr. Hon Fong Ming, Perry and Mr. Zhang Jiebin resigned as executive directors of the Company. On the same date, Mr. Yu Enguang and Prof. Ma Qingguo resigned as independent non-executive directors of the Company. Further on 29 July 2005. Dr. Qian Keming resigned as an executive director of the Company. In this respect, the options granted to the aforesaid ex-directors were reclassified from the category of "Directors" to the category of "Others". Those options exercised by them subsequent to their resignation or retirement were grouped thereon accordingly.

(v) By passing the board of directors' meeting on 1 August 2006, all share options outstanding under the Scheme were cancelled pursuant to the relevant rules of the Scheme.

27. RESERVES

Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		153,532	153,519	(336,552)	(29,501)
Issue of shares	26(a)	10,000	—	—	10,000
Loss for the year	10	—	—	(23,291)	(23,291)
At 31 December 2005 and 1 January 2006		163,532	153,519	(359,843)	(42,792)
Loss for the year	10	—	—	(6,711)	(6,711)
At 31 December 2006		163,532	153,519	(366,554)	(49,503)

The contributed surplus of the Group represents the difference between the aggregate of the nominal value of (i) the share capital of the subsidiaries acquired pursuant to the Group reorganisation completed on 5 June 1998; (ii) the debt of approximately HK$17,039,000 (the "Debt") due by the then shareholders, Mr. Kwok Man Yu and his wife, Ms. Lam Yuk Ang, to Corasia International (BVI) Limited ("Corasia BVI"), the former holding company of the Group, and assumed by the Company by virtue of the same Group reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor; and (iii) the credit arising from the capital reduction of approximately HK$112,950,000.

Notes to the Financial Statements

For the year ended 31 December 2006

27. RESERVES (Continued)

The contributed surplus of the Company arose as a result of the same Group reorganisation and represents the excess of the then combined net assets of the subsidiaries acquired, as reduced by the balance of the Debt assumed by the Company by virtue of the capital reorganisation, over the nominal value of the share capital of the Company issued in exchange therefor; and the credit arising from the capital reduction of approximately HK$112,950,000.

The Company has no reserves available for distribution to shareholders as at 31 December 2006 (2005: Nil)

28. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

The movements of major deferred income tax assets and liabilities recognised by the Group during the current and prior years is as follows:

	Accelerated depreciation allowance HK$'000	**Tax losses** HK$'000	**Total** HK$'000
Deferred income tax arising from:			
At 1 January 2005	1,159	(1,159)	—
(Credited)/charged to income statement	(1,159)	1,159	—
At 31 December 2005	—	—	—
At 1 January 2006	—	—	—
Charged/(credited) to income statement	—	—	—
At 31 December 2006	—	—	—

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2006, the Group has unrecognised tax losses of HK$4,875,000 (2005: HK$4,875,000), which have no expiry date, to carry forward.

No deferred income tax has been made in the financial statements as there is no significant temporary differences for the year.

Notes to the Financial Statements

For the year ended 31 December 2006

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Acquisition of subsidiary — Kwok Hong Company Limited

	Note	2006 HK$'000
Net assets acquired:		
Property, plant and equipment	14	207
Intangible asset	17	450
Due to an immediate holding company		(329)
Due to a related campany		(10)
Accrual		(5)
		313
Goodwill on acquisition	17	258
		571
Satisfied by:		
Consideration payable		571

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiary during the year ended 31 December 2006 is as follows:

	HK$'000
Cash consideration	—
Cash and bank balances acquired	—
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiary	—

The consideration payable was fully settled during the year by transferring the balance to a related company.

Notes to the Financial Statements

For the year ended 31 December 2006

30. OPERATING LEASE ARRANGEMENTS

As lessee

At the balance sheet date, the Group and the Company had future aggregate minimum lease payments under operating leases in respect of land and buildings as follows:

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Within one year	**297**	220	**297**	—

31. CAPITAL COMMITMENTS

The Group and the Company did not have any significant capital commitments for the current and prior years.

32. RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year.

Related parties	**Nature of transactions**	**Term and pricing policies**	**2006 HK$'000**	2005 HK$'000
Related companies	Rental expenses (Note i)	(ii)	**378**	—
	Acquisition of a subsidiary (Note i)	(ii)	**571**	—
	Debts waived (Note i)	(ii)	**1,397**	—

Note:

(i) Mr. Ji Kewei is the common director.

(ii) Agreed by parties concerned.

Key management compensation paid during the year are disclosed in note 13 to the financial statements.

33. EVENTS AFTER THE BALANCE SHEET DATE

Other than those disclose elsewhere in the financial statements, the Group did not have other significant events after the balance sheet date need to be disclosed.

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.