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FAVA INTERNATIONAL HOLDINGS LIMITED
名家國際控股有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code : 8108

Annual Report 2006

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "GEM")

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This report, for which the directors (the "Directors") of FAVA International Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Ge
Mr. Zhao Guo Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie

REGISTERED OFFICE

Clarendon House,
2 Church Street,
Hamilton HM 11,
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1005, 10/F., C.C. Wu Building,
302-8 Hennessy Road,
Wanchai,
Hong Kong

QUALIFIED ACCOUNTANT

Mr. Chan Yuk Hiu

AUDIT COMMITTEE

Mr. Lee Yuen Kwong *(Chairman)*
Mr. Yang Dongli
Mr. Yang Jie

REMUNERATION COMMITTEE

Mr. Lee Yuen Kwong *(Chairman)*
Mr. Yang Dongli
Mr. Yang Jie

COMPLIANCE OFFICER

Mr. Li Ge

AUTHORISED REPRESENTATIVES

Mr. Li Ge
Mr. Zhao Guo Wei

COMPANY SECRETARY

Mr. Chan Yuk Hiu

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street,
Hamilton HM 11,
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Level 25,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

HONG KONG LEGAL ADVISER

Loong & Yeung
in association with Rodyk & Davidson
Suites 2911-12, 29/F.,
Two International Finance Centre,
No. 8 Finance Street,
Central,
Hong Kong

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F, Gloucester Tower,
The Landmark,
11 Pedder Street,
Central,
Hong Kong

GEM STOCK CODE

8108

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of FAVA International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), I hereby present the seventh annual report of the Group since the listing of the Company's shares on the GEM on 14 July 2000.

FINANCIAL RESULTS

For the year ended 31 December 2006, the Group recorded consolidated profit attributable to equity holders of the Company of approximately HK$47,518,000.

DIVIDEND

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December 2006 (2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS, REVIEW OF OPERATIONS AND FUTURE PROSPECTS

The improvement in turnover in 2006 was mainly the result of the introduction of two solid wood production lines which led to the expansion of the production capacity of the solid wood furniture and the continuing increase in the sales of household products in the PRC and foreign countries. As a result of the stable orders for household products both from domestic and overseas markets, the business of the Group has successfully transformed from information technology to consumer durable goods. The transformation of the Group's business has just been started. The Company has to put more effort solidify and enhance corporate governance and business promotion.

PROSPECT

In November 2006, the Group entered into a sales and purchase agreement with 廊坊華日家具股份有限公司 (Lang Fang Huari Furniture Joint Stock Co., Ltd, for identification purpose only) and 廊坊天誠家具有限公司 (Lang Fang Tian Cheng Furniture Co., Ltd, for identification purpose only) to acquire certain machineries and production equipment for manufacturing of solid wood home furniture. Upon the completion of the acquisition in February 2007, the production capacity of solid wood furniture has been strengthened further. Accompanied with the increasing recognition of the solid wood furniture in the PRC, the Company believes that the sales of solid wood furniture will be further improved in 2007. Based on the continuous growth in overseas orders, the overseas sales of household product are also expected to increase. At the same time, the Group will also put effort on the household product retail business.

CHAIRMAN'S STATEMENT

Given an increase in the sales of household products in the PRC and overseas, the revenue base of the Company will be broadened further. The Board is actively exploring business opportunities to further develop the sales of household products.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my deepest gratitude to all management and staff members for their precious commitments and contributions, and to thank shareholders for their continuing confidence in the Group. We will make every endeavor to explore potential opportunities for our business growth, creating a promising future for the Group as well as our valuable shareholders.

On behalf of the Board

Li Ge
Chairman and Executive Director

Hong Kong
23 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2006, the Group's turnover from continuing operations amounted to approximately HK$160,414,000 (2005 (restated): HK$22,656,000) while the net profit attributable to the shareholders amounted to approximately HK$47,518,000 (2005: net loss of HK$14,136,000). The improvement in turnover in 2006 was mainly the result of the introduction of two solid wood production lines which led to the expansion of the production capacity of the solid wood furniture and the continuing increase in the sales of household products in the PRC and foreign countries. As a result of the stable orders for household products both from domestic and overseas markets, the business of the Group has successfully transformed from information technology to consumer durable goods. The transformation of the Group's business has just been started. The Company has to put more effort to solidify and enhance corporate governance and business promotion.

Owing to the unfavourable market sentiments prevailing in the information technology market, the Group ceased the relevant operations during the year under review, and disposed of all related assets before 28 August 2006. The sales of household products in PRC and foreign countries have broadened the revenue base of the Group and also brought in conspicuous revenue to the Group's investment. For detailed information, please refer the section headed "Significant investments and material acquisitions and disposals".

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are basically managed and controlled by the senior management. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 31 December 2006, cash and bank balances of the Group was approximately HK$1,711,000 (2005: HK$392,000). The Group has no bank borrowings throughout the year under review.

Total borrowing of the Group amounted to approximately HK$26,000 (2005: HK$39,000), representing obligation under a finance lease contract with an interest rate of approximately 4.5% per annum and average lease term of approximately five years. Except for the finance lease contract for the Group's office equipment, the Group did not have any mortgage or charge on assets as at 31 December 2006 (2005: Nil).

As at 31 December 2006, the Group's gearing ratio was 0.01% representing a percentage of long term liabilities over total assets (2005: 0.48%).

PLACING OF NEW SHARES

On 20 March 2006, the Company placed under the refreshed general mandate a total of 28,420,000 new shares of HK$0.01 each to seven placees at a price of HK$0.064 per share. Proceeds of approximately HK$1.7 million was raised as general working capital. The total issued share capital of the Company immediately after the placing of new shares was 170,560,000 shares. For detailed information, please refer to the announcements of the Company dated 3 March 2006 and 20 March 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE CONSOLIDATION AND SUBDIVISION

By an ordinary resolution approved at the special general meeting held on 17 May 2006, every two (2) issued and unissued shares in the Company of par value of HK$0.01 each were consolidated into one (1) consolidated share of HK$0.02 each. Immediately before the share consolidation, the authorised share capital of the Company was HK$500,000,000 divided into 50,000,000,000 shares, of which 170,560,000 shares were issued and fully paid. Immediately after the share consolidation, the authorised share capital was HK$500,000,000 divided into 25,000,000,000 consolidated shares, comprising 85,280,000 consolidated shares in issue and fully paid.

By an ordinary resolution approved at the special general meeting held on 26 January 2007, each of the issued and unissued shares of HK$0.02 each in the Company was subdivided into five (5) subdivided shares of HK$0.004 each. Immediately before the share subdivision, the authorised share capital of the Company was HK$500,000,000, which was divided into 25,000,000,000 shares of which 100,279,997 shares were in issue. Immediately after the share subdivision, the authorised share capital of the Company was HK$500,000,000 divided into 125,000,000,000 subdivided shares of which 501,399,985 subdivided shares were in issue.

PLACING OF CONVERTIBLE NOTES

On 28 July 2006, the Company placed a principal amount of HK$18,000,000 convertible notes to seven subscribers. Net proceeds of approximately HK$17,160,000 were raised as general working capital. For detailed information, please refer to the announcements of the Company dated 7 July 2006 and 28 July 2006.

On 1 December 2006, the convertible notes were fully converted into 14,999,997 ordinary shares of the Company of HK$0.02 each at the conversion price of HK$1.2 per share. As a result, the issued shares of the Company increased from 85,280,000 shares to 100,279,997 shares.

TOP-UP PLACING

Pursuant to the Placing and Subscription Agreement dated 31 January 2007, Guotai Junan Securities (Hong Kong) Limited acting as placing agent placed a total of 100,000,000 shares of HK$0.004 each of the Company on behalf of True Allied Assets Limited (the substantial shareholder of the Company) to not less than six professional investors at a placing price of HK$1.08 per share on 6 February 2007. On 12 February 2007, 100,000,000 new shares of HK$0.004 each of the Company was issued to True Allied Assets Limited pursuant to the subscription under the Placing and Subscription Agreement. Immediately after the top-up placing, the issued shares of the Company increased from 501,399,985 to 601,399,985 shares. For detailed information, please refer to the announcements of the Company dated 1 February 2007, 6 February 2007 and 12 February 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS AND MATERIAL ACQUISITIONS AND DISPOSALS

Significant investments and material acquisitions and disposals made by the Group during the year ended 31 December 2006 are listed as follows:

(a) On 27 July 2006, the Company entered into a share sales agreement with an independent third party – Lippo Sun Enterprises Limited, pursuant to which, the Company agreed to sell 100% issued share capital of Smart Circle Enterprises Limited (together with all interests in Sun-iOMS Maintenance Limited held by Smart Circle Enterprises Limited) with effective date from 10 July 2006 held by the Company to Lippo Sun Enterprise Limited at a cash consideration of HK$1.

According to Chapter 19 of the GEM Listing Rules, the disposal of 100% issued share capital of Smart Circle Enterprises Limited (together with all interest in Sun-iOMS Maintenance Limited held by Smart Circle Enterprises Limited) held by the Company does not constitute a notifiable transaction of the Company.

(b) On 27 July 2006, the Company entered into a share sales agreement with an independent third party – China Wealth Trading Limited, pursuant to which, the Company agreed to sell 100% issued share capital of Grandmass ERP Limited (together with all interests in other entities held by Grandmass ERP Limited) held by the Company to China Wealth Trading Limited at a cash consideration of HK$100,000.

According to Chapter 19 of the GEM Listing Rules, the disposal of 100% issued share capital of Grandmass ERP Limited (together with all interests in other entities held by Grandmass ERP Limited) held by the Company does not constitute a notifiable transaction of the Company.

Before the completion of the above agreement, Grandmass ERP Limited was a wholly owned subsidiary of the Company, which directly holds 100% issued share capital of Grandmass iOMS Limited, 100% issued share capital of Sun-iOMS Limited, 100% issued share capital of Grandmass Solutions Limited, 100% issued share capital of Grandmass Cyber Factory (China) Limited and 49% issued share capital of Sun-iOMS Technology Holdings Limited; indirectly holds 100% equity interests in Grandmass iOMS (SZ) Co. Limited through Grandmass iOMS Limited, 100% issued share capital in Grandmass Enterprise System (Shanghai) Limited through Grandmass Cyber Factory (China) Limited and 49% equity interests in Sun-iOMS Development Limited and 49% equity interests in Sun-iOMS (HK) Limited through Sun-iOMS Technology Holdings Limited.

(c) On 28 August 2006, the Company entered into a share sales agreement (the "Share Sale Agreement") with an independent third party – Lead Asset Holdings Limited, pursuant to which, the Company agreed to sell 100% issued share capital of Grandmass Global Investment Limited (together with all interests in other entities held by Grandmass Global Investment Limited) held by the Company to Lead Asset Holdings Limited at a cash consideration of HK$50,000.

MANAGEMENT DISCUSSION AND ANALYSIS

According to Chapter 19 of the GEM Listing Rules, as the profits ratio and the revenue ratio are more than 5% but less than 25%, the disposal of 100% issued share capital of Grandmass Global Investment Limited (together with all interests in other entities held by Grandmass Global Investment Limited) held by the Company constitutes a discloseable transaction of the Company. For details of the transaction, please refer to the Company's announcements dated 30 August 2006 and 19 September 2006 and the circular dated 19 September 2006.

As disclosed in the clarification announcement of the Company dated 19 September 2006 (the "Clarification Announcement"), the gain on disposal in relation to the Share Sale Agreement of Grandmass Global Investment Limited together with all interests in other entities held by Grandmass Global Investment Limited ("Grandmass Global Group") was HK$11,198,000. This Clarification Announcement was made based on the advice of one of the Company's former joint auditors (the "Former Joint Auditors") after their review on the relevant calculations in relation to the Disposal of Grandmass Global Group (the "Disposal"). However, adjustments to reduce the gain on the disposal including a major adjustment which amounting to approximately HK$4,070,000 has been made by the Former Joint Auditors to reflect the omission of a waiver granted by Grandmass ERP Limited (a former indirect wholly-owned subsidiary of the Company disposed on 27 July 2006) to Grandmass Global Investment Limited during their review of the third quarter results of 2006 of the Company. Therefore, the unaudited gain on disposal of Grandmass Global Group, amounting to approximately HK$6,856,000, has been included in the unaudited consolidated income statement for the nine months ended 30 September 2006 in the Third Quarterly Report 2006 of the Company.

Adjustment on release of exchange reserve of approximately HK$140,000 has been made on the gain on disposal of Grandmass Global Group by the Company's auditors during their audit for the year ended 31 December 2006, the audited amount in relation to the gain on disposal of Grandmass Global Group for the year ended 31 December 2006 was approximately HK$6,716,000.

Before the completion of the Share Sale Agreement, Grandmass Global Investment Limited was a wholly-owned subsidiary of the Company, which directly holds 33% issued share capital of Signking Science Limited, 36% issued share capital of Grand Teton Limited and 100% issued share capital of Lucky Force Development Limited; indirectly holds 8.25% equity interests in Shanghai Signking Science & Technology Company Limited through Signking Science Limited, 32.4% issued share capital in IFS HK Limited through Grand Teton Limited and 66.7% equity interests in 深圳新弘茂科技有限公司 (Shenzhen Xinghongmao Technology Limited) through Lucky Force Development Limited; and also indirectly holds 66.7% interests in 深圳市新弘茂工貿發展有限公司龍華通訊設備廠 (Long Hua Telecom Factory of Shenzhen Xinghongmao Industrial and Trading Development Limited) through 深圳新弘茂科技有限公司 (Shenzhen Xinghongmao Technology Limited). Grandmass Global Investment Limited together with its interests in other entities are mainly engaged in the provision of telephone sets subcontracting services.

MANAGEMENT DISCUSSION AND ANALYSIS

(d) On 29 November 2006, an indirect wholly-owned subsidiary of the Company, 廊坊天豐家居有限公司(Lang Fang Tian Feng Home Co., Ltd., for identification purpose only), entered into the conditional sales and purchase agreement with 廊坊華日家具股份有限公司(Lang Fang Huari Furniture Joint Stock Co., Ltd, for identification purpose only) ("Huari Furniture") and 廊坊天誠家具有限公司(Lang Fang Tian Cheng Furniture Co., Ltd., for identification purpose only), for acquisition of certain machineries and equipment for the manufacturing of furniture (the "Acquisition") at a total consideration of RMB75,398,100. The Acquisition constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules and was subject to the approval of the independent shareholders. The Acquisition was approved by an ordinary resolution at a special general meeting held on 26 January 2007. For details, please refer to the Company's circular dated 3 January 2007. As at the date of this annual report, the Acquisition has been completed.

(e) On 31 January 2007, 廊坊恆宇家居有限公司 (Lang Fang Hengyu Home Co., Ltd, for identification purpose only) ("Langfang Hengyu"), an indirect wholly-owned subsidiary of the Company (i) entered into a letter of intent with 北京錦繡投資有限公司 (Beijing Glory Investment Co., Ltd, for identification purpose only) ("Beijing Glory"), setting out the basic understanding between the parties thereto in connection with proposed acquisition by Langfang Hengyu of the furniture retail business of Beijing Glory in Beijing City; and (ii) entered into another letter of intent with Huari Furniture setting out the basic understanding between the parties thereto in connection with the proposed acquisition by Langfang Hengyu of the furniture retail business of Huari Furniture in the Hebei Province.

The letters of intent do not constitute the relevant parties' legally binding commitments as to the proposed acquisitions, which are subject to the execution and completion of formal sale and purchase agreements by the relevant parties. However, the letters of intent constitute legally binding obligation on the part of Beijing Glory and Huari Furniture in favour of Langfang Hengyu under which, inter alia, Beijing Glory and Huari Furniture may not contact, negotiate, discuss, consider or enter into contract, whether directly or indirectly with, any third party (other than the professional advisers of themselves and Langfang Hengyu) in relation to the proposed acquisitions within six months from the date of the letters of intent (subject to extension by agreement of the relevant parties in writing).

As at the date of this annual report, the terms of the proposed acquisitions are still under negotiation and no formal sale and purchase agreement has been concluded yet. The proposed acquisitions, if materialize, may or may not constitute notifiable transactions for the Company under the provisions of Chapter 19 of the GEM Listing Rules and the Company shall comply with the relevant disclosures and/or shareholders' approval requirements of the GEM Listing Rules where appropriate. The proposed acquisitions may or may not materialize.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2006, the Group has the following contingent liabilities:

On 2 March 2000, an independent third party executed a Deed of Guarantee in favour of Sun-iOMS Maintenance Limited, a former indirect wholly-owned subsidiary of the Company which was disposed of by the Group on 27 July 2006, guaranteeing that the income accrued to Sun-iOMS Maintenance Limited arising from sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK$15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, Sun-iOMS Maintenance Limited and the Company took legal action against the abovementioned independent third party and the two executive directors resigned in 2001 in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly. Up to the date of this report, the proceedings relating to the claim were still in progress. The case has been set down for trial and the hearing is scheduled for a four-day trial commencing from 17 September 2007. In the opinion of the Company's special legal advisors in respect of the above litigation, it is difficult to predict the outcome of the proceedings at this stage; and as the matters now stand, there is no actual liability on the Company's part save and except the legal costs involved. In the opinion of the Directors of the Company, no provision for legal costs was required as at 31 December 2006.

Save as disclosed above, the Group had no contingent liabilities as at 31 December 2006.

CHARGE ON GROUP ASSETS

The Group did not have any charge on its assets as at 31 December 2006.

FOREIGN CURRENCY RISK

As most of the Group's monetary assets and liabilities were denominated in Renminbi and Hong Kong dollars, the exchange rate risks of the Group were considered to be minimal. As at 31 December 2006, no related hedges were made by the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

EXECUTIVE DIRECTORS

Mr. Li Ge, aged 39, obtained a diploma in financial accountancy and a diploma in law from Hebei University, after that, he obtained a master of science in engineering from Wuhan Industry University. Past experience includes being the CFO of Beijing Zhengyou Network & Communication Technology Co., Limited, and the executive director and senior consultant of Lang Fang Huari Furniture Joint Stock Co. Limited ("Huari Furniture"). Mr. Li has experience in the management of PRC listed company and Hong Kong listed company, and in the management of production and sales of household products in China. Mr. Li became a member of Chinese Institute of Certified Public Accountants in 1994, and is now a senior consultant of Beijing China Regal United Certified Public Accountants. Mr. Li has joined our Group since March 2006, he now holds directorship in Alwin Asia Investment Limited and Tedwood International Limited which are the wholly-owned subsidiaries of the Company.

Mr. Zhao Guo Wei, aged 44, obtained a diploma in accountancy from Shandong China Accounting Postal Tuition School, and has over twenty years of experience in management of household products manufacturing including production flow path control and production cost control. Past experience includes being the General Manager of Quality Control Department of Huari Furniture. Mr. Zhao is now the Vice General Manager of Lang Fang Tian Feng Home Co. Limited. Lang Fang Tian Feng Home Co. Limited is a wholly-owned subsidiary of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lee Yuen Kwong, aged 46, graduated at University of Sunderland, England, he is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lee is now a senior director of Lynks CPA Limited, he has over twenty years of experience in accountancy and financial management. Mr. Lee is a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Yang Dongli, aged 34, is a Production Department Manager and Senior Engineer in Beijing D&G Machinery Co., Ltd. Mr. Yang graduated in Air Industrial University North of China majoring in Management Engineering. Mr. Yang has over 10 years working experience. Mr. Yang is a member of the Audit Committee and Remuneration Committee of the Company.

Mr. Yang Jie, aged 25, is now an engineer of Technical Service Support Department of Epson (China) Co., Limited. Mr. Yang graduated from Beijing Petrochemistry Institute majoring in Process Equipment and Control Engineering, he has over two years of working experience. In addition, Mr. Yang has taken the training course on Human Resources Management and Listed Company Regulations held by Ren Ming University, and has also taken the training course on Business Administration held by Qing Hua University. Mr. Yang is a member of the Audit Committee and Remuneration Committee of the Company.

COMPANY SECRETARY

Mr. Chan Yuk Hiu, aged 29, is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, he has worked in certified public accountants firms and participated in various audit and accounting works. He has over six years experiences in professional accounting practices. Mr. Chan is also the qualified accountant of the Company.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the audited financial statements of FAVA International Holdings Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2006.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at the special general meeting of the Company held on 31 October 2006, the name of the Company was changed from Co-winner Enterprise Limited to FAVA International Holdings Limited.

The Chinese translation of the Company name for identification purposes was changed from匯盛實業有限公司to名家國際控股有限公司.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year. During the year, the Group disposed of certain wholly owned subsidiaries engaged in provision of telephone sets subcontracting businesses.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution by principal business segments during the year are set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at the balance sheet date are set out in the financial statements on pages 33 to 35.

No dividend has been declared or proposed by the directors of the Company in respect of the year ended 31 December, 2006 (2005: Nil).

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 pages 98 to 100. This summary does not form part of the audited financial statements.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE NOTES

Details of movements in the Company's share capital, share options and convertible notes during the year are set out in notes 31, 32 and 29 to the financial statements respectively.

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 its existing shareholders.

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

During the year ended 31 December 2006, the Company did not redeem any of its shares. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year under review.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company has no reserves available for distribution, calculated in accordance with the provisions of the Bermuda Companies Act 1981 and the Company's bye-laws.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 51% of the total sales for the year and sales to the largest customer included therein amounted to 22%. Purchases from the Group's five largest suppliers accounted for 48% of the total purchases for the year and purchases from the largest supplier included therein amounted to 19%.

None of the Directors 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 or suppliers.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors:	
Mr. Li Ge	*(appointed on 31 August 2006)*
Mr. Zhao Guo Wei	*(appointed on 6 July 2006)*
Mr. Tai Chi Ching	*(resigned on 31 August 2006)*
Mr. Tse Wai Kwok, Raymond	*(resigned on 6 July 2006)*
Independent non-executive Directors:	
Mr. Lee Yuen Kwong	*(appointed on 12 June 2006)*
Mr. Yang Dongli	
Mr. Yang Jie	*(appointed on 30 June 2006)*
Mr. Tok Beng Tiong	*(resigned on 12 June 2006)*
Mr. Shen Jiahui	*(resigned on 30 June 2006)*

In accordance with bye-laws 86(2) and 87(1) of the Company's bye-laws, Messrs. Li Ge, Zhao Guo Wei, Lee Yuen Kwong, Yang Dongli and Yang Jie will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from Mr. Lee Yuen Kwong, Mr. Yang Dongli, and Mr. Yang Jie, and as at the date of this report still considers them to be independent.

REPORT OF THE DIRECTORS

BIOGRAPHICAL DETAILS OF DIRECTORS AND COMPANY SECRETARY

Biographical details of the Directors and the company secretary of the Company are set out on page 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

The independent non-executive Directors, Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, are appointed for an initial term of one year renewable by mutual agreement in writing two months in advance to the expiry of the initial term of appointment for successive terms of one year.

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.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

Details of the directors' remunerations are set out in Note 10 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

As at 31 December 2006, none of the Directors had any direct or indirect interest in any assets which were acquired or disposed of by, or leased to, the Company or any of its subsidiaries, or are proposed to acquired or disposed of by, or lease to, the Company or any of its subsidiaries.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board may for a consideration of HK$1.00 offer to selected eligible persons (as defined in the circular of the Company dated 6 May 2002) to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued. The total number of shares issued and to be issued upon exercise of the options granted (including both exercised and outstanding options) in any 12-month period to each eligible person shall not exceed 1% of the shares in issue. If any further grant of options to such eligible person which would result in the shares issued or to be issued upon exercise of all options granted or to be granted to such eligible person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of further grant would exceed 1% of the shares in issue, such grant must be separately approved by shareholders in general meeting, with such eligible person and its associates abstaining from voting. A shareholders' circular containing the information required by the GEM Listing Rules shall be despatched to the shareholders. An option may be exercised in whole or in part at any time during the Option Period (as defined in the circular of the Company dated 6 May 2002).

The Share Option Scheme became effective for a period of 10 years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

The details and major provisions of the Share Option Scheme were set out in the circular of the Company dated 6 May 2002.

No options under the Share Option Scheme had been granted to any persons during the period under review and up to the date of this report.

As at 31 December 2006, there are no outstanding options was granted under the Share Option Scheme.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading of "Directors' and chief executive's interests and short positions in shares, underlying shares" below and the share option scheme as disclosed above, 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 subsidiaries a party to any arrangement to enable the Directors of the Company to acquire such rights in any other body corporate.

INTEREST DISCLOSURE AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE ("THE SFO")

(a) Directors' and chief executive's interests and short positions in shares and underlying shares

As at 31 December 2006, the interests and short positions of the Directors and chief executive in the share capital, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rule 5.46 to 5.67of the GEM Listing Rules were as follows:

Long positions in ordinary shares of HK$0.02 each of the Company

	Number of shares held, capacity and nature of interest					
Name of director	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Total	Percentage of the Company's total issued share capital
Mr. Li Ge	3,606,000	–	–	–	3,606,000	3.60%

Save as disclosed above, as at 31 December 2006, none of the Directors and chief executive of the Company was, under Divisions 7 & 8 of Part XV of the SFO, taken to be interested or deemed to have any other interests of short positions in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), that were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules.

REPORT OF THE DIRECTORS

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 31 December 2006, the following interests and/or short positions 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 in the ordinary shares of HK$0.02 each of the Company

Name	Notes	**Capacity and nature of interest**	**Number of ordinary shares held**	**Percentage of the Company's issued share capital** *(Note 1)*
True Allied Assets Limited		Beneficial owner	25,784,500	25.71%
Ms. Huang Ye-hua	2	Interest of controlled corporation	25,784,500	25.71%
Sino Hope Investments Limited		Beneficial owner	6,243,333	6.23%
Zhao Jiangong	3	Interest of controlled corporation	6,243,333	6.23%
Integrated Asset Management (Asia) Limited		Beneficial owner	5,670,666	5.65%
Yam Tak Cheung	4	Interest of controlled corporation	5,670,666	5.65%

REPORT OF THE DIRECTORS

Note:

(1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 100,279,997 issued shares as at 31 December 2006.

(2) Ms. Huang Ye-hua is interested by virtue of her 100% beneficial interest in True Allied Assets Limited.

(3) Zhao Jiangong is interested by virtue of his 100% beneficial interest in Sino Hope Investments Limited.

(4) Yam Tak Cheung is interested by virtue of his 100% beneficial interest in Integrated Asset Management (Asia) Limited.

Save as disclosed above, as at 31 December 2006, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions 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.

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.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors of the Company or their respective associates has any interest in a business which competes or might compete with the business of the Group.

EMPLOYEE INFORMATION

As at 31 December 2006, the Company had 441 employees (2005: 5). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees includes retirement benefits.

REPORT OF THE DIRECTORS

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

Since the functional currencies of the Group's operations are HK Dollars and RMB, the Board considers that the exchange rate risk of the Group is minimal.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rule 5.34 of the GEM Listing Rules during the year under review.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

AUDIT COMMITTEE

The Company set up an Audit Committee (the "Committee") on 7 July 2000 with written terms of reference being in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. Approved by the Directors attending the board meeting held on 7 December 2006, the terms of reference set out in "A Guide for Effective Audit Committees", published by Hong Kong Institute of Certified Public Accountants in February 2002, were adopted as written terms of reference for the Audit Committee of the Company. As at 31 December 2006, the Committee comprises three members, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie, all of them being independent non-executive Directors of the Company.

The primary duties of the Committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board, and had held meeting for several times during the year. The Group's financial statements for the year ended 31 December 2006 have been reviewed by the members of the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made.

REPORT OF THE DIRECTORS

AUDITORS

Messrs. HLB Hodgson Impey Cheng and Messrs Cheung & Siu, Certified Public Accountants ("CS") were appointed as joint auditors of the Company on 21 March 2005 in succession to Messrs RSM Nelson Wheeler which resigned on 27 January 2005.

During the year, on 20 November 2006, Messrs Cheung & Siu, Certified Public Accountants, resigned as joint auditors of the Company. There have been no other changes of auditors in the past three years.

Messrs HLB Hodgson Impey Cheng retire, and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Messrs HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Mr. Li Ge
Executive Director

Hong Kong
23 March 2007

CORPORATE GOVERNANCE REPORT

The Group has complied with the code provisions set out in the code on Corporate Governance Practices of the GEM Listing Rules (the "CG Code") (except code provisions A.5.4 and A.2.1). This report describes its corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

SECURITIES TRANSACTIONS BY DIRECTORS (Code provision A.5.4)

Save as disclosed hereinafter, during the year ended 31 December 2006, the Company had followed the required standard of Directors' dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company had not been notified of any non-compliance with the required standard of dealings regarding securities transactions by Directors.

A former executive Director, Mr. Tse Wai Kwok Raymond ("Mr. Tse") sold 250,000 shares, 200,000 shares and 150,000 shares of the Company held by him to independent third parties on the Stock Exchange on 28 April 2006, 2 May 2006 and 4 May 2006 respectively, who has is in breach of Rule 5.56 of the GEM Listing Rules; and prior to the disposals of the Company's shares on 28 April 2006, 2 May 2006 and 4 May 2006, Mr. Tse did not notify the chairman of the Company in writing and also not obtained a dated written acknowledgment, who has also in breach of the Rule 5.61 of the GEM Listing Rules. The Company made detailed disclosures of these breaches in the announcements dated 4 May 2006 and 9 May 2006 on the GEM website.

In consideration of the above-mentioned events, the Company has explained to the Directors the standard to be complied with in securities dealings to ensure no recurrence of such breach.

In the Board meeting held on 20 November 2006, a resolution was passed to adopt Rules 5.48 to 5.67 of the GEM Listing Rules as the Company's code of conduct regarding securities transactions by directors, and Mr. Zhao Guo Wei was appointed by the Board as the designated director for the purpose of Rule 5.61 of the GEM Listing Rules.

The Company will also enhance the training for the Directors, and will provide relevant information and training to all newly appointed directors to make sure that all the newly appointed directors understand and quickly perform their duties as directors of the Company.

BOARD OF DIRECTORS

The Board comprises five Directors, of whom two are executive Directors (one is the chairman and chief executive officer of the Company), and three are independent non-executive Directors. The participation of independent non-executive Directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

CORPORATE GOVERNANCE REPORT

The Board members during the year ended 31 December 2006 were:

Executive Directors

Mr. Li Ge *(Chairman and Chief Executive Officer)*
Mr. Zhao Guo Wei
Mr. Tai Chi Ching *(resigned on 31 August 2006)*
Mr. Tse Wai Kwok *(resigned on 6 July 2006)*

Independent non-executive Directors

Mr. Lee Yuen Kwong
Mr. Yang Dongli
Mr. Yang Jie
Mr. Tok Beng Tiong *(resigned on 12 June 2006)*
Mr. Shen Jiahui *(resigned on 30 June 2006)*

The independent non-executive Directors should be responsible for making independent decisions in relation to the matters such as strategy, performance, conflict of interest and management process of the Group, in order to ensure the interest of the shareholders as a whole has been considered properly. Furthermore, in accordance with the requirement of the GEM Listing Rules, the audit committee was chaired by an independent non-executive Director with appropriate accounting qualifications and professional experiences.

The Board considers that all of the independent non-executive Directors are independent and has received from each of them the annual confirmation of independence required by the Section 5.09 of the GEM Listing Rules.

The Board is responsible for the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of the management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive Directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through the executive Directors who attend Board meetings.

CORPORATE GOVERNANCE REPORT

There is no relationship (whether financial, business, family or other material/relevant relationships) among the members of the Board.

The Board held a fixed board meeting for each quarter. Details of the attendance of the Board are as follows:

Name of Directors	Note	**Attendance**
Executive Directors		
Mr. Li Ge *(chairman and chief executive officer)*	1	2/2
Mr. Zhao Guo Wei	2	2/2
Mr. Tai Chi Ching	3	2/2
Mr. Tse Wai Kwok	4	2/2
Independent non-executive Directors		
Mr. Lee Yuen Kwong	5	2/2
Mr. Yang Dongli		4/4
Mr. Yang Jie	6	2/2
Mr. Tok Beng Tiong	7	2/2
Mr. Shen Jiahui	8	2/2

Note:

(1) appointed as executive Director on 31 August 2006

(2) appointed as executive Director on 6 July 2006

(3) resigned as executive Director on 31 August 2006

(4) resigned as executive Director on 6 July 2006

(5) appointed as independent non-executive Director on 12 June 2006

(6) appointed as independent non-executive Director on 30 June 2006

(7) resigned as independent non-executive Director on 12 June 2006

(8) resigned as independent non-executive Director on 30 June 2006

CORPORATE GOVERNANCE REPORT

All directors were given at least 14 days notice for a regular board meeting. Agenda and relevant documents of the meeting was given to all the Directors before the date of the regular board meeting; the initial draft of the minutes of the board meeting was sent to the Directors for reviewing and providing comments; and the final draft of the minutes will be sent to the Directors for signature and records.

Directors can access to the company secretary or the intermediary for advices with a view to ensuring that board procedures and all applicable rules and regulations are followed. The minutes of board meeting were kept by the company secretary, and such minutes were opened for inspection at any reasonable time on reasonable notice by any Director.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER (Code Provision A.2.1)

Mr. Li Ge ("Mr. Li") assumes the roles of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Li leads the Board and is responsible for the proceedings and workings of the Board. He ensures that:

– the Board acts in the best interests of the Group; and

– the Board functions effectively, and that all key and appropriate issues are properly briefed to and discussed by the Board.

The Group deviates from Code Provision A.2.1 in the CG Code. The roles of chairman and chief executive officer of the Group rests on the same individual without having a clear division of responsibilities. However, the Board is of the view that, such non-compliance does not compromise accountability and independent decision making for the following reasons:

– the three independent non-executive Directors form the majority of the five-member Board;

– the Audit Committee is composed exclusively of independent non-executive Directors; and

– the independent non-executive Directors could have free and direct access to the Company's external auditors and independent professional advice whenever necessary.

Mr. Li has considerable industry experience. He is dedicated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman, so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and their progress, for the purpose of facilitating open dialogue between the Board and the management.

CORPORATE GOVERNANCE REPORT

In order to comply with the CG Code, the Company is now seeking for proper candidate to serve as the chief executive officer of the Company.

APPOINTMENTS, RE-ELECTION AND REMOVAL

Each of the independent non-executive Directors was appointed of an initial term of one year renewable by mutual agreement in writing two months in advance prior to the expiry of the initial term appointment for successive terms of one year. Each of the Directors is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the bye-laws of the Company.

REMUNERATION COMMITTEE

The remuneration committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong (Chairman), Mr. Yang Jie and Mr. Yang Dongli.

The principal functions include:

– to recommend to the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;

– to determine the remuneration packages of all executive Directors and senior management of the directors and senior management of the Group;

– to review and approve their performance-based remuneration.

The principal elements of executive remuneration package include basic salary, discretionary bonus and share option. The emoluments of executive Directors are based on skill, knowledge and involvement in the Company's affairs of each director and are determined by reference to the Company's performance and profitability, as well as remuneration benchmark in the industry and the prevailing market conditions.

The remuneration committee consults the chairman and chief executive officer about its proposals relating to the remuneration of other executive Directors. The remuneration committee decisions were approved by way of written resolutions passed by all the committee members. A resolution in writing signed by all the committee members shall be as valid and effectual as if it had been passed at a meeting of the remuneration committee duly convened and held. During the year, no meeting of remuneration committee was held. A meeting of the remuneration committee will be convened in 2007.

CORPORATE GOVERNANCE REPORT

NOMINATION OF DIRECTORS

The Company does not establish a nomination committee. The Board is empowered under the Company's bye-laws to appoint any person as a director either to fill a casual vacancy on or, subject to authorization by the shareholders of the Company in general meeting, as an additional member of the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year ended 31 December 2006, the Board held four meetings for the nomination of directors. Details of the attendance of the Board are as follows:

Name of Directors	Attendance
Executive Directors	
Mr. Zhao Guo Wei	1/4
Mr. Tai Chi Ching	4/4
Mr. Tse Wai Kwok	3/4
Independent non-executive Directors	
Mr. Lee Yuen Kwong	3/4
Mr. Yang Dongli	4/4
Mr. Yang Jie	2/4
Mr. Tok Beng Tiong	1/4
Mr. Shen Jiahui	2/4

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

An amount of approximately HK$300,000 (2005: HK$315,000) was charged to the Group's income statement for the year ended 31 December 2006 as auditors' fee.

The nature of audit and non-audit services provided by HLB Hodgson Impey ("HLB") and Cheung & Siu, Certified Public Accountants ("CS"), one of the former joint auditors resigned on 20 November 2006, and fees paid to HLB and CS and set out below:

	To HLB HK$'000	To CS HK$'000
Audit services	300	–
Tax	–	–
Other services	590	94
	890	94

AUDIT COMMITTEE

The Audit Committee was established on 7 July 2000 to review the Group's financial reporting, internal controls and make relevant recommendations to the Board.

The Audit Committee comprises the three independent non-executive Directors, namely Mr. Lee Yuen Kwong, Mr. Yang Dongli and Mr. Yang Jie. The chairman of the Audit Committee is Mr. Lee Yuen Kwong.

The Audit Committee held four meetings in 2006, which were attended by all members. The Group's 2006 quarterly reports, 2006 half-yearly report, 2006 annual results and 2006 annual report have been reviewed by the Audit Committee, which was of the opinion that such reports and results were prepared in accordance with the applicable accounting standards and requirements. The committee also monitored the Company's progress in implementing the code provisions of corporate governance practices as required under the GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND INTERNAL CONTROLS

The Directors acknowledge their responsibility for preparing all information and representations contained in the consolidated financial statements of the Company for the year under review. As at 31 December 2006, the Directors have conducted a review of the effectiveness of the system of internal control of the Group and are not aware of any material uncertainties relating to events or conditions which may cost significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the Consolidated financial statements is set out in the auditors' report on pages 31 to 32 of the annual report of the Company for the year ended 31 December 2006.

The Company is now considering to adopt "Internal Control and Risk Management – A Basic Framework" that revised by Hong Kong Institute of Certified Public Accountants in June 2005 as the guideline for the future internal control of the Company.

COMMUNICATIONS WITH SHAREHOLDERS

The Board communicates with the shareholders through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company issued regular reports, announcements, circulars, notice of general meetings. Shareholders can get the latest information of the Company through these publications of the Company.

INDEPENDENT AUDITORS' REPORT

國衛會計師事務所
Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

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

TO THE SHAREHOLDERS OF
FAVA INTERNATIONAL HOLDINGS LIMITED
(FORMERLY KNOWN AS CO-WINNER ENTERPRISE LIMITED)
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of FAVA International Holdings Limited set out on pages 33 to 97, which comprise the consolidated and company balance sheets as at 31 December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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, 23 March 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Turnover	6	**160,414**	22,656
Cost of sales		**(110,423)**	(19,987)
Gross profit		**49,991**	2,669
Other revenue	6	**371**	3
Other income	7	**1,145**	–
Gain on disposal of subsidiaries	34	**1,158**	–
Provision for amounts due from associates		**–**	(3)
Fair value loss on derivative liability	29	**(1,616)**	–
Selling and distribution costs		**(1,041)**	–
Administrative expenses		**(7,513)**	(4,602)
Other operating expenses		**(105)**	(571)
Profit/(loss) from operations	7	**42,390**	(2,504)
Finance costs	8	**(724)**	(3)
Share of results of associates		**–**	–
Profit/(loss) before tax		**41,666**	(2,507)
Tax	12	**–**	–
Profit/(loss) for the year from continuing operations		**41,666**	(2,507)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	9	**5,852**	(11,629)
Profit/(loss) for the year attributable to equity holders of the Company		**47,518**	(14,136)
Earnings/(loss) per share from continuing and discontinued operations	15		
– Basic		**HK11.38 cents**	(HK4.69 cents)
– Diluted		**HK11.24 cents**	(HK4.69 cents)
Earnings/(loss) per share from continuing operations	15		
– Basic		**HK9.98 cents**	(HK0.83 cents)
– Diluted		**HK9.92 cents**	(HK0.83 cents)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**239**	373
Current assets			
Inventories	20	**28,609**	2,293
Trade and bills receivables	21	**9,862**	222
Prepayments, deposits and other receivables	22	**58,784**	2,190
Amount due from a former subsidiary		**51**	–
Cash and bank balances	24	**1,711**	392
		99,017	5,097
Less: Current liabilities			
Trade payables	25	**18,351**	2,963
Other payables and accruals	26	**3,271**	7,284
Received in advance	27	**13,677**	672
Amount due to an associate	19	**–**	2
Tax payable		**–**	186
Short term loan from a shareholder	28	**–**	600
Amount due to a director	23	**761**	–
Obligations under finance lease – due within one year	30	**13**	13
		36,073	11,720
Net current assets/(liabilities)		**62,944**	(6,623)
Total assets less current liabilities		**63,183**	(6,250)
Less: Non-current liabilities			
Obligations under finance lease – due after one year	30	**13**	26
Net assets/(liabilities)		**63,170**	(6,276)
Capital and reserves			
Issued capital	31	**2,005**	1,421
Reserves	33(a)	**61,165**	(7,697)
Total equity attributable to equity holders of the Company		**63,170**	(6,276)

Approved by the Board of Directors on 23 March 2007 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	**12**	38
Interests in subsidiaries	18	**78**	78
		90	116
Current assets			
Prepayments, deposits and other receivables	22	**210**	110
Amounts due from subsidiaries	18	**14,976**	–
Amount due from a former subsidiary		**51**	–
Cash and bank balances	24	**380**	10
		15,617	120
Less: Current liabilities			
Amounts due to subsidiaries	18	**–**	2,932
Amount due to an associate	19	**–**	1,256
Amount due to a director	23	**962**	–
Other payables and accruals	26	**1,431**	500
Short term loan from a shareholder	28	**–**	600
		2,393	5,288
Net current assets/(liabilities)		**13,224**	(5,168)
Net assets/(liabilities)		**13,314**	(5,052)
Capital and reserves			
Issued capital	31	**2,005**	1,421
Reserves	33(b)	**11,309**	(6,473)
Total equity attributable to equity holders of the Company		**13,314**	(5,052)

Approved by the Board of Directors on 23 March 2007 and signed on its behalf by:

Mr. Li Ge
Director

Mr. Zhao Guo Wei
Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to equity holders of the Company						
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Contributed surplus** *HK$'000*	**Accumulated losses** *HK$'000*	**Exchange reserve** *HK$'000*	**Statutory reserves** *HK$'000*	**Total equity** *HK$'000*
At 1 January 2005	23,690	22,859	36,527	(79,696)	–	–	3,380
Exchange differences arising from translation of financial statements of subsidiaries	–	–	–	–	(140)	–	(140)
Total income/expense for the year recognised in equity	–	–	–	–	(140)	–	(140)
Loss for the year	–	–	–	(14,136)	–	–	(14,136)
Total income and expense for the year	–	–	–	(14,136)	(140)	–	(14,276)
Capital reduction *(note 31)*	(23,098)	–	–	23,098	–	–	–
Premium arising from issue of new shares, net of expense *(note 31)*	–	3,791	–	–	–	–	3,791
Issue of shares *(note 31)*	829	–	–	–	–	–	829
At 31 December 2005 and 1 January 2006	1,421	26,650	36,527	(70,734)	(140)	–	(6,276)
Exchange differences arising from translation of financial statements of subsidiaries	–	–	–	–	1,114	–	1,114
Total income/expense for the year recognised in equity	–	–	–	–	1,114	–	1,114
Disposal of subsidiaries	–	–	(527)	–	140	–	(387)
Profit for the year	–	–	–	47,518	–	–	47,518
Total income and expense for the year	–	–	(527)	47,518	1,254	–	48,245
Transfer to reserve	–	–	–	(7,388)	–	7,388	–
Premium arising from issue of new shares *(note 31)*	–	20,734	–	–	–	–	20,734
Issue of shares *(note 31)*	584	–	–	–	–	–	584
Share issue expense *(note 31)*	–	(117)	–	–	–	–	(117)
At 31 December 2006	**2,005**	**47,267**	**36,000**	**(30,604)**	**1,114**	**7,388**	**63,170**

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax from continuing operations		**41,666**	(2,507)
Profit/(loss) before tax from discontinued operations		**5,852**	(11,629)
Profit/(loss) before tax for the year		**47,518**	(14,136)
Adjustments for:			
Finance costs	8	**724**	3
Interest income	6	**–**	(3)
Gain on disposal of items of property, plant and equipment	7	**(21)**	–
Gain on disposal of subsidiaries	7	**(7,874)**	–
Depreciation	7	**63**	117
Impairment loss recognised in respect of goodwill of a subsidiary	17	**–**	9,948
Provision for impairment of trade receivables	7	**179**	137
Provision for impairment of other receivables	7	**1**	–
Bad debts written off	7	**–**	245
Provision for prepaid tax	7	**–**	563
Provision for amounts due from an associate	7	**–**	3
Waiver of amount due to a former associate	7	**(1,124)**	–
Fair value loss on derivative liability	29	**1,616**	–
Exchange difference		**1,138**	(146)
Operating cashflow before working capital changes		**42,220**	(3,269)
Increase in inventories		**(26,329)**	(2,222)
Increase in trade and bills receivables		**(10,041)**	(168)
Increase in amount due from a former subsidiary		**(51)**	–
Increase in prepayments, deposits and other receivables		**(56,601)**	(1,852)
Increase in trade payables		**18,351**	494
Increase in other payables and accruals		**1,101**	501
Increase in received in advance		**13,005**	672
Increase in amount due to an associate		**982**	–
Increase in amount due to a director		**761**	–
Cash used in operations		**(16,602)**	(5,844)
Interest element on finance lease rental payments		**(2)**	(3)
Overseas taxes paid		**(36)**	–
Net cash outflow from operating activities		**(16,640)**	(5,847)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		–	3
Purchases of items of property, plant and equipment		(200)	(57)
Disposal of subsidiaries	34	(91)	–
Repayment of loan receivable		–	446
Increase in amounts due from associates		–	(3)
Net cash (outflow)/inflow from investing activities		(291)	389
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	31	1,819	4,975
Share issue expenses	31	(117)	(355)
Proceeds from issue of convertible bonds	29	17,161	–
Increase in short term loan from a shareholder		–	600
Repayment of short term loan from a shareholder		(600)	–
Capital element of finance lease rental payments		(13)	(11)
Net cash inflow from financing activities		18,250	5,209
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,319	(249)
Cash and cash equivalents at the beginning of the year		392	641
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,711	392
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		1,711	392

The accompanying notes form an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. CORPORATE INFORMATION

FAVA International Holdings Limited (formerly known as "Co-winner Enterprise Limited") (the "Company") is a limited liability company incorporated in Bermuda. The registered office and the principal place of business of the Company are disclosed in "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. During the year, the principal activity of the Group was manufacture and sale of household products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 3 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impact of new and revised HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material impact on these financial statements.

HKAS 21 Amendment	Net investment in a foreign operation
HKAS 27 Amendment	Consolidated and separate financial statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial guarantee contracts
HKAS 39 Amendment	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 Amendment	The fair value option
HK(IFRIC)-Int 4	Determining whether an arrangement contains a lease

Impact of new and revised HKFRSs not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not effective.

	Effective for accounting period beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
HKFRS 8, Operating segments	1 January 2009
HK(IFRIC) – Int 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) – Int 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 9, Reassessment of embedded derivatives	1 June 2006
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007
HK(IFRIC) – Int 10, Interim financial reporting and impairment	1 November 2006
HK(IFRIC) – Int 11, HKFRS 2 – Group and treasury share transactions	1 March 2007
Revised Guidance on Implementing HKFRS 4 – Insurance contracts	1 January 2007
HK(IFRIC) – Int 12, Service concession arrangements	1 January 2008

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

The management is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards. The directors of the Company so far has concluded that the application of these new standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

A summary of the significant accounting policies adopted by the Group in the preparation of the financial statements is set out below:

Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention except for derivative financial instrument which has been carried at fair value as explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), 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.

An assessment is made at each reporting date as to whether there is any 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 and certain financial assets 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 any 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

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 where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

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:

Plant and machinery	18%
Leasehold improvements	Over the lease terms
Motor vehicles	18%
Furniture and fixtures	20%
Office and computer equipment	30%

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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of 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.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Leases where substantially all the rewards and risks of ownership of 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.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified accordingly to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is an contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and financial liabilities at amortised costs.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are classified into (i) financial liabilities held for trading and (ii) those designated as at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities at fair value through profit or loss *(Continued)*

- The financial liability forms part of a group of financial assets or financial liabilities or both which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amount due to a shareholder and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Convertible loan notes

Convertible loan notes issued by the Company that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument is an equity instrument. For conversion option that does not meet the definition of an equity instrument, it is classified as a derivative financial liability and is carried at fair value.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Convertible loan notes *(Continued)*

Convertible notes that contain an equity component

On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest rate method. The equity component will remain in convertible loan note equity reserve until the conversion option is exercised (in which case the amount will be transferred to the share premium account). Where the option remains unexercised at the expiry date, the amount stated in the convertible loan note equity reserve will be released to retained profits. No gain or loss is to be recognised in the income statement upon conversion or expiration of the option.

Convertible notes that do not contain an equity component

Conversion option that is classified as derivative financial liability are re-measured at each balance sheet date subsequent to initial recognition with changes in fair value recognised directly in the income statement in the period in which they arise.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. The difference between the carrying value of the financial liability derecognised and the consideration paid is recognised in the income statement.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out or 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 less any estimated costs to be incurred to completion and disposal.

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 sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefit is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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) from the rendering of services, when services are provided; and

(c) interest income, on an 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the 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.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

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 the income statement. 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.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries 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 the 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.

Current assets and liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

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.

Inter-segment pricing is based on similar terms as those available to other external parties.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment and those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, borrowings, corporate and financial expenses.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Estimates and judgments 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.

Critical accounting estimates and assumptions

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) Income tax

The Group is subject to income taxes in Hong Kong and the People's Republic of China (the"PRC") . Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(b) Impairment of assets

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations which require the use of assumptions and estimates.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES *(Continued)*

Critical accounting estimates and assumptions *(Continued)*

(c) *Impairment of trade receivables*

The aged debt profile of trade debtors is reviewed on a regular basis to ensure that the trade debtor balances are collectible and follow up actions are promptly carried out if the agreed credit periods have been exceeded. However, from time to time, the Group may experience delays in collection. Where recoverability of trade debtor balances are called into doubts, specific provisions for bad and doubtful debts are made based on credit status of the customers, the aged analysis of the trade receivable balances and write-off history. Certain receivables may be initially identified as collectible, yet subsequently become uncollectible and result in a subsequent write-off of the related receivable to the income statement. Changes in the collectibility of trade receivables for which provisions are not made could affect our results of operations.

(d) *Estimation of fair value of derivative liability*

The fair value of derivative liability is determined by valuation techniques. The Group use its judgment to select methods and make assumptions that are mainly based on market conditions existing at the date of determination of fair value.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise finance leases and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

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

The Group's interest rate risk arises from interest-bearing borrowings. Borrowings issued at fixed rate expose the Group to fair value interest rate risk. As the 2% convertible notes issued during the year was converted during the year and has a maturity of 12 months, the Group did not enter into interest rate swap to hedge against its exposures to changes in fair values of the borrowings.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's markets mainly located in the United States of America, Europe and Mainland China and its sales are denominated in United Sates dollars, Euro dollars and Reminbi respectively whilst almost all of costs are denominated in the units' functional currency.

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 required to pay deposits which amounts are varied from customers to customers. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Internally generated cash flow and funds raising from issuance of convertible notes and placing of shares during the year are the general source of funds to finance the operation of the Group. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

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.

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. For the year ended 31 December 2006, almost 100% of the Group's revenue and assets relate to the manufacture and sale of household products.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

5. SEGMENT INFORMATION *(Continued)*

In determining the Group's geographical segments, revenues are 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.

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

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables and cash and bank balances.

Segment liabilities comprise operating liabilities.

Unallocated assets and liabilities comprise items such as corporate borrowings.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	Continuing		**Discontinued**			
	Manufacture and sale of household products		**Telephone sets sale and subcontracting services**		**Total**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000 (Restated)
Segment revenue:						
Sales to external customers	**160,414**	22,656	**614**	3,329	**161,028**	25,985
Segment results	**45,852**	2,037	**5,852**	(11,629)	**51,704**	(9,592)
Interest income and unallocated gains					**2,303**	3
Corporate and other unallocated expenses					**(5,765)**	(4,544)
Finance costs					**(724)**	(3)
Profit/(loss) before tax					**47,518**	(14,136)
Tax					**–**	–
Profit/(loss) for the year					**47,518**	(14,136)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

5. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Continuing		Discontinued			
	Manufacture and sale of household products		Telephone sets sale and subcontracting services		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Assets and liabilities						
Segment assets	**98,603**	4,689	**–**	2	**98,603**	4,691
Interests in associates					**–**	–
Corporate and other unallocated assets					**653**	779
Total assets					**99,256**	5,470
Segment liabilities	**33,868**	2,342	**–**	4,307	**33,868**	6,649
Corporate and other unallocated liabilities					**2,218**	5,097
Total liabilities					**36,086**	11,746

	Continuing		Discontinued					
	Manufacture and sale of household products		Telephone sets sale and subcontracting services		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Other segment information								
Depreciation	**11**	–	**20**	51	**32**	66	**63**	117
Capital expenditure	**233**	4	**–**	1	**–**	52	**233**	57
Impairment loss recognised in the income statement – goodwill in respect of a subsidiary	**–**	–	**–**	9,948	**–**	–	**–**	9,948

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

5. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

During the year, the Group's turnover was mainly made to customers located at the PRC, United States of America ("USA") and European Union. All assets are located in the PRC (including Hong Kong). Over 90% of the Group's results, assets and capital expenditures are derived from operations carried out in the PRC. Accordingly, no further geographical segment information is presented in the financial statements except for turnover.

	Continuing		**Discontinued**			
	Manufacture and sale of household products		**Telephone sets sale and subcontracting services**		**Total**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Sales						
The PRC	**125,242**	11,544	**614**	3,329	**125,856**	14,873
USA	**3,618**	11,112	**–**	–	**3,618**	11,112
European Union	**30,995**	–	**–**	–	**30,995**	–
Others	**559**	–	**–**	–	**559**	–
	160,414	22,656	**614**	3,329	**161,028**	25,985

Sales are allocated based on the countries in which customers are located.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. TURNOVER AND OTHER REVENUE

The Group's turnover represents the net invoiced value of household products sold and the service income from the provision of telephone sets subcontracting service, after allowances for returns and trade discounts, during the year.

An analysis of the Group's turnover and other revenue is as follows:

	2006	2005
	HK$'000	HK$'000
Turnover:		
Sale of household products	**160,414**	22,656
Sale of telephone sets	**–**	782
Provision of telephone sets subcontracting services	**614**	2,547
	161,028	25,985
Attributable to continuing operations reported in the consolidated income statement	**160,414**	22,656
Telephone sets sale and subcontracting services attributable to discontinued operations (note 9)	**614**	3,329
	161,028	25,985
Other revenue:		
Bank interest income	**–**	3
Commission income	**371**	–
	371	3

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

7. PROFIT/(LOSS) FROM OPERATIONS

The Group's profit/(loss) from operations is arrived at after charging:

	2006 HK$'000	2005 HK$'000
Cost of inventories sold	**110,423**	19,987
Cost of services provided	**583**	3,124
Auditors' remuneration	**300**	315
Depreciation on owned property, plant and equipment	**54**	98
Depreciation on property, plant and equipment held under hire purchase contracts/finance lease	**9**	19
	63	117
Minimum lease payments under operating leases:		
Plant and machinery	**2,142**	–
Land and buildings	**1,198**	713
Trademark	**579**	–
	3,919	713
Employee benefits expense (excluding directors' remuneration (note 10)):		
Wages, salaries and other allowances	**4,962**	2,162
Pension scheme contributions	**14**	26
	4,976	2,188
Provision for impairment of trade receivables	**179**	137
Provision for impairment of other receivables	**1**	–
Bad debts written off	**–**	245
Provision for prepaid tax	**–**	563
Provision for amounts due from associates	**–**	3
and after crediting:		
Gain on disposal of subsidiaries (note 34)	**7,874**	–
Reversal of provision for obsolete inventories #	**–**	793
Other income:		
Waiver of amount due to a former associate	**1,124**	–
Gain on disposal of items of property, plant and equipment	**21**	–
	1,145	–

Included in profit/(loss) for the year from discontinued operations

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

8. FINANCE COSTS

	The Group	
	2006	2005
	HK$'000	HK$'000
Interest on convertible notes (note 29)	**722**	–
Interest on obligations under finance leases	**2**	3
Total interest	**724**	3

9. DISCONTINUED OPERATIONS

Disposal of the telephone sets sale and subcontracting services business

On 28 August 2006, the Group entered into a share sales agreement to dispose of the Group's telephone sets sale and subcontracting services business. The disposal of the telephone sets sale and subcontracting services business is consistent with the Group's long-term policy to focus its activities on the household product industry. The disposal was completed on 28 August 2006.

	2006	2005
	HK$'000	HK$'000
Profit/(loss) for the year from discontinued opeations		
Revenue (note 6)	**614**	3,329
Expenses	**(1,478)**	(14,958)
Profit/(loss) before tax	**(864)**	(11,629)
Income tax expense	**–**	–
	(864)	(11,629)
Gain on disposal of operations (note 34)	**6,716**	–
Profit/(loss) for the year from discontinued operations	**5,852**	(11,629)
Cash flows from discontinued operations		
Net cash flows from operating activities	**205**	(456)
Net cash flows	**205**	(456)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

9. DISCONTINUED OPERATIONS *(Continued)*

	2006	2005
Profit/(loss) per share from the discontinued operations		
– Basic	**HK1.40 cents**	(HK3.86 cents)
– Diluted	**HK1.32 cents**	(HK3.86 cents)
Earnings/(loss)	**HK$'000**	HK$'000
Profit/(loss) attributable to equity holders of the Company from the discontinued operations	**5,852**	(11,629)
Shares	**'000**	'000
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation (note 15)	**417,587**	301,480
Weighted average number of ordinary shares used in the diluted earnings/(loss) per share calculation (note 15)	**443,477**	301,480

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Fees	**439**	209
Other emoluments:		
Salaries, allowances and benefits in kind	**–**	332
Discretionary bonuses	**–**	–
Pension scheme contributions	**7**	12
	446	553

During the years ended 31 December 2005 and 2006, none of the directors were granted share options under the share option scheme operated by the Company.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

10. DIRECTORS' REMUNERATION *(Continued)*

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
	HK$'000	HK$'000
Mr. Yang Dongli	**16**	4
Mr. Lee Yuen Kwong (Appointed on 12 June 2006)	**50**	–
Mr. Yang Jie (Appointed on 30 June 2006)	**6**	–
Mr. Tok Beng Tiong (Resigned on 12 June 2006)	**54**	47
Mr. Shen Jia Hui (Resigned on 30 June 2006)	**11**	5
Mr. Ma Lee (Resigned on 17 May 2005)	**–**	23
	137	79

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors and non-executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Mr. Tai Chi Ching #	121	–	–	7	128
Mr. Tse Wai Kwok, Raymond ##	92	–	–	–	92
Mr. Zhao Guo Wei *	29	–	–	–	29
Mr. Li Ge **	60	–	–	–	60
	302	–	–	7	309

\# Resigned on 31 August 2006

\## Resigned on 6 July 2006

* Appointed on 6 July 2006

** Appointed on 31 August 2006

There were no non-executive directors during the year ended 31 December 2006.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

10. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005					
Executive directors:					
Mr. Tai Chi Ching *	–	171	–	8	179
Mr. Tse Wai Kwok, Raymond **	–	113	–	–	113
Mr. Zhao Ming #	–	48	–	2	50
Ms. Kwong Wai Man, Karina ##	112	–	–	2	114
	112	332	–	12	456

* Appointed on 16 February 2005
** Appointed on 1 April 2005
# Resigned on 15 July 2005
Re-designated as non-executive director on 15 February 2005

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Non-executive directors:					
Ms. Kwong Wai Man, Karina #	–	–	–	–	–
Mr. Ng Ming Wah, Ricky ##	18	–	–	–	18
	18	–	–	–	18

Resigned on 17 May 2005
Resigned on 8 March 2005

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2005: two) non-director, highest paid employees for the year are as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**463**	366
Pension scheme contributions	**14**	10
	477	376

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

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**3**	2

During the year, no share options were granted to a non-director, highest paid employee in respect of his or her services to the Group.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

12. TAX

No provision for Hong Kong profits tax has been made during the year as the Group has no assessable profits arising in Hong Kong (2005: Nil).

No provision for PRC income taxes has been made during the year (2005: Nil) as the subsidiaries operated in the PRC either enjoy tax holiday or had no assessable profit for the year.

No provision for Hong Kong profits tax or PRC income tax has been made for the discontinued operations as the companies comprising the discontinued operations have no assessable profit during the year.

A reconciliation between tax expense and accounting profit/(loss) at appreciate tax rates is set out below:

	2006		2005	
	HK$'000	**%**	HK$'000	%
Profit/(loss) before tax:				
Continuing operations	**41,666**		(2,507)	
Discontinued operations	**5,852**		(11,629)	
	47,518		(14,136)	
National tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the countries concerned	**15,336**	**32.3**	(2,475)	(17.5)
Tax holiday for a subsidiary operating in the PRC	**(15,227)**	**(32.0)**	–	–
Tax effect of expenses not deductible for tax purpose	**252**	**0.5**	2,902	20.5
Tax effect of income not taxable for tax purpose	**(1,471)**	**(3.1)**	(430)	(3.0)
Tax loss not recognised	**1,110**	**2.3**	3	–
Tax charge for the year at the Group's effective rate	**–**	**–**	–	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

12. TAX *(Continued)*

Deferred taxation

Deferred tax assets have not been recognised in respect of the following items:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**325**	31,700	**17**	17
Deductible temporary differences	**11**	784	**–**	–
	336	32,484	**17**	17

The above tax losses are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

13. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity holders of the Company for the year ended 31 December 2006 included a loss of approximately HK$717,000 (2005: loss of HK$7,720,000) which has been dealt with in the financial statements of the Company (note 33(b)).

14. DIVIDEND

No dividend has been declared or proposed by the Directors of the Company in respect of the year ended 31 December 2006 (2005: Nil).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the share consolidation effective on 18 May 2006 during the year and the share subdivision effective after the balance sheet date.

The calculation of diluted earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible notes and fair value loss on derivative liability, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued on conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted loss per share amount for the year ended 31 December 2005 has not been disclosed as no diluting events existed during that year.

The calculations of basic and diluted earnings/(loss) from continuing and discontinued operations per share are based on:

	2006	2005
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**47,518**	(14,136)
Interest on convertible notes (note 8)	**722**	–
Fair value loss on derivative liability (note 29)	**1,616**	–
Profit/(loss) attributable to ordinary equity holders of the Company before interest on convertible notes and fair value loss on derivative liability	**49,856**	(14,136)

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

Number of shares

	2006	2005
	'000	'000
		(Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**417,587**	301,480#
Effect of dilution – weighted average number of ordinary shares:		
Convertible notes issued on 28 July 2006	**25,890**	–
	443,477	301,480

\# Pursuant to an ordinary resolution passed in the special general meeting held on 17 May 2006, every two issued and unissued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.02 each. Subsequent to the balance sheet date, pursuant to an ordinary resolution passed in the special general meeting held on 26 January 2007, each of the existing issued and unissued shares of the Company of HK$0.02 were subdivided into five subdivided shares of HK$0.004 each. As such, the weighted average number of ordinary shares in issue during the year ended 31 December 2005 used in the basic earnings/(loss) per share calculation is restated to 301,480,000.

The calculations of basic and diluted earnings/(loss) per share from continuing operations are based on:

	2006	2005
	HK$'000	HK$'000
Earnings/(loss)		
Profit/(loss) for the year from continuing operations, attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation	**41,666**	(2,507)
Interest on convertible notes (note 8)	**722**	–
Fair value loss on derivative liability (note 29)	**1,616**	–
Profit/(loss) attributable to ordinary equity holders of the Company before interest on convertible notes and fair value loss on derivative liability	**44,004**	(2,507)

The denominators used are the same as those detailed above for basic earnings/(loss) per share from continuing and discontinued operations.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Office and computer equipment HK$'000	Total HK$'000
Cost:						
At 1 January 2005	607	99	112	117	385	1,320
Additions	–	51	–	1	5	57
Disposals	–	(99)	–	(63)	(106)	(268)
Exchange difference	18	–	3	2	–	23
At 31 December 2005 and 1 January 2006	625	51	115	57	284	1,132
Additions	172	–	–	1	60	233
Disposals	–	–	–	–	(62)	(62)
Disposals of subsidiaries *(Note 34)*	(625)	–	(115)	(55)	–	(795)
At 31 December 2006	172	51	–	3	282	508
Accumulated depreciation:						
At 1 January 2005	343	99	51	89	316	898
Charge for the year	42	15	6	3	51	117
Disposals	–	(99)	–	(63)	(106)	(268)
Exchange difference	10	–	1	1	–	12
At 31 December 2005 and 1 January 2006	395	15	58	30	261	759
Charge for the year	18	26	2	1	16	63
Disposals	–	–	–	–	(50)	(50)
Disposals of subsidiaries *(Note 34)*	(412)	–	(60)	(31)	–	(503)
At 31 December 2006	1	41	–	–	227	269
Net book value:						
At 31 December 2006	**171**	**10**	**–**	**3**	**55**	**239**
At 31 December 2005	230	36	57	27	23	373

The net book value of the Group's office and computer equipment held under finance lease as at 31 December 2006 was approximately HK$27,000 (2005: HK$19,000).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

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

The Company

	Leasehold improvements HK$'000	Office and computer equipment HK$'000	Total HK$'000
Cost:			
At 1 January 2005	–	217	217
Additions	51	2	53
At 31 December 2005 and 31 December 2006	51	219	270
Accumulated depreciation:			
At 1 January 2005	–	185	185
Charge for the year	15	32	47
At 31 December 2005 and 1 January 2006	15	217	232
Charge for the year	25	1	26
At 31 December 2006	40	218	258
Net book value:			
At 31 December 2006	**11**	**1**	**12**
At 31 December 2005	36	2	38

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

17. GOODWILL

The Group

	HK$'000
At 1 January 2005:	
Carrying value	9,948
Accumulated impairment	–
Net carrying amount	9,948
Carrying value at 1 January 2005, net of accumulated impairment	9,948
Impairment during the year	(9,948)
At 31 December 2005	–
At 31 December 2005:	
Cost	9,948
Accumulated impairment	(9,948)
Net carrying amount	–
Carrying value at 1 January 2006, net of accumulated impairment	–
At 31 December 2006	–

In the year ended 31 December 2005, with regard to the current market situation in the telephone sets subcontracting industry, the Directors reviewed the carrying value of goodwill arising from the acquisition of Lucky Force Development Limited which was incorporated in the British Virgin Islands with its subsidiaries principally engaged in the provision of telephone sets subcontracting services. Based on the Directors' assessment which was by reference to the value in use of operations, a full provision for impairment loss on goodwill of approximately HK$9,948,000 was recognised in the year ended 31 December 2005.

In the current financial year, the Group's equity interest in Lucky Force Development Limited was disposed of through the disposal of the Group's interest in Grandmass Global Investment Ltd (note 9).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**78**	12,246
Less: Provision for impairment loss in respect of investments in subsidiaries	**–**	(12,168)
	78	78
Amounts due from subsidiaries (note i)	**–**	63,677
Less: Provision for impairment loss in respect of amounts due from subsidiaries	**–**	(63,677)
	–	–
	78	78
Amounts due from subsidiaries (note ii)	**15,947**	–
Less: Provision for impairment loss in respect of amounts due from subsidiaries	**(971)**	–
	14,976	–
Amounts due to subsidiaries (note i)	**–**	2,932

Notes:

i. The amounts due from and to subsidiaries were unsecured, interest free and were repaid or waived during the year.

ii. The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and are repayable on demand. The carrying amounts of these amounts due from subsidiaries approximate their fair values.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

18. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and paid-up capital	Percentage of equity attributable to the Group	Percentage of voting power held	Principal activities and place of operation
Alwin Asia Investment Limited	British Virgin Islands, limited liability company	US$10,000	100%	100%	Investment holding, Hong Kong
Tedwood International Limited #	Hong Kong, limited liability company	HK$1	100%	100%	Provision of trading services, Hong Kong
Lang Fang Tian Feng Home Co. Ltd.	The PRC, wholly owned foreign enterprise	US$1,850,000	100%	100%	Manufacture and sales of household products, the PRC
Trader Group International Limited	British Virgin Islands, limited liability company	US$1	100%	100%	Investment holding, Hong Kong
Langfang Hengyu Home Co. Ltd. ##	The PRC, wholly owned foreign enterprise	–	100%	100%	Not yet commenced business

\# subsidiary not audited by HLB Hodgson Impey Cheng. The aggregate total assets of the subsidiary not audited by HLB Hodgson Impey Cheng amounted to approximately 1.2% of the Group's total assets and 0% of the Group's turnover.

\## The subsidiary was incorporated on 25 December 2006. Upon incorporation, the registered capital amounted to US$100,000. On 16 January 2007, the registered capital was increased to US$12,600,000. Capital injection of registered capital of US$100,000 and US$12,000,000 were injected by the Group on 7 January 2007 and 14 February 2007 respectively. The remaining amount of the registered capital of US$500,000 is required to be injected on or before 15 January 2009. The principal activity of the subsidiary is manufacture and sales of household products.

During the year, the Group disposed of Grandmass ERP Limited and Grandmass Global Investment Limited, two direct wholly owned subsidiaries of the Company, together with the interest in subsidiaries and associates held by the two subsidiaries. For further details, please refer to note 34 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

19. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share of net liabilities	–	(66)	–	–
Goodwill on acquisition of an associate less amortisation and impairment loss	–	66	–	–
	–	–	–	–
Amount due from associates	–	567	–	1,677
Loans to an associate	–	279	–	–
Less: Provision for impairment loss recognised in respct of loan to an associate	–	(279)	–	–
Less: Provision for impairment loss recognised in respct of amount due from associates	–	(567)	–	(1,677)
	–	–	–	–
Amount due to an associate	–	2	–	1,256

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

19. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) The amounts due to/from the associates were unsecured, interest-free and repaid or waived during the year.

(b) During the year, the Group disposed of its interests in associates upon its disposal of subsidiaries.

(c) The movement in goodwill arising on acquisition of an associate is as follows:

The Group

	HK$'000
Cost:	
At 1 January 2005	5,478
Less: Effect of adopting HKFRS 3	(5,412)
At 31 December 2005	66
Less: Eliminated on disposal of associates	(66)
At 31 December 2006	–
Accumulated amortisation and impairment losses:	
At 1 January 2005	5,412
Less: Effect of adopting HKFRS 3	(5,412)
At 31 December 2005 and 31 December 2006	–
Net book value:	
At 31 December 2006	–
At 31 December 2005	66

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

20. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**319**	–
Work in progress	**22,310**	–
Finished goods	**5,980**	2,293
	28,609	2,293

21. TRADE AND BILLS RECEIVABLES

All sales invoices are due and payable upon presentation. In view of the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest bearing.

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**2,178**	359	**–**	–
Bills receivables	**7,863**	–	**–**	–
	10,041	359	**–**	–
Less: Provision for impairment of trade receivables	**(179)**	(137)	**–**	–
	9,862	222	**–**	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

21. TRADE AND BILLS RECEIVABLES *(Continued)*

An aging analysis of the trade and bills receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
0 – 60 days	**9,215**	170
61 – 90 days	**260**	52
91 – 180 days	**245**	–
Over 180 days	**142**	–
	9,862	222

The Directors considered that the carrying values of trade and bills receivables approximate their fair values.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**58,032**	1,447	**174**	74
Deposits and other receivables	**753**	743	**36**	36
	58,785	2,190	**210**	110
Less: Provision for impairment of other receivables	**(1)**	–	**–**	–
	58,784	2,190	**210**	110

Prepayments, deposits and other receivables are non-interest bearing and the Directors considered that the carrying values of prepayment, deposits and other receivables approximate their fair values.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

23. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and repayable on demand. The carrying amount of the amount due approximate its fair value.

24. CASH AND BANK BALANCES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**1,711**	392	**380**	10

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,258,000 (2005: HK$196,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. TRADE PAYABLES

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

	The Group	
	2006	2005
	HK$'000	HK$'000
0 – 60 days	**14,081**	423
61 – 90 days	**1,713**	–
91 – 180 days	**2,111**	–
Over 180 days	**446**	2,540
	18,351	2,963

Trade payables are non-interest bearing and the Directors considered that the carrying values of trade payables approximate their fair values.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

26. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**538**	7,284	**1,431**	500
Accruals	**2,733**	–	**–**	–
	3,271	7,284	**1,431**	500

Other payables and accruals are non-interest-bearing and the Directors considered that the carrying value of other payables and accruals approximate their fair values.

27. RECEIVED IN ADVANCE

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Received in advance	**13,677**	672	**–**	–

Received in advance is non-interest-bearing and the Directors considered that its carrying value approximates its carrying value.

28. SHORT TERM LOAN FROM A SHAREHOLDER

The Group

The loan from a shareholder, True Allied Assets Limited, was unsecured, interest free and was repaid during the year.

29. CONVERTIBLE NOTES

On 28 July 2006, the Company issued 2% convertible notes ("Convertible Notes") with a principal amount of HK$18,000,000. Each note entitled the holder to convert to ordinary share of the Company at a conversion price of HK$1.20 each (subject to adjustment as stipulated in the agreement of the convertible notes).

The Convertible Notes carried interest at a rate of 2% per annum, which is payable half-yearly in arrears. The maturity date of the Convertible Notes is the date immediately preceding the first anniversary of the date of issue of the Convertible Notes.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

29. CONVERTIBLE NOTES *(Continued)*

The fair value of the liability component was estimated at the issue date of the Convertible Notes using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the liability component is 10.3665% p.a.. The residual amount is assigned as the derivative liability component.

The Convertible Notes issued during the year have been split as to the liability and derivative liability components, as follows:

	2006 **HK$'000**	2005 HK$'000
Nominal value of convertible notes issued during the year	**18,000**	–
Derivative liability component	**(1,339)**	–
Direct transaction costs attributable to the liability component	**(839)**	–
Liability component at the issuance date	**15,822**	–
Interest expense charged (note 8)	**722**	–
Liability component prior to conversion	**16,544**	–

The Convertible Notes were fully converted into 14,999,997 ordinary shares of the Company on 1 December 2006 at the conversion price of HK$1.20 per share.

	2006 **HK$'000**	2005 HK$'000
Derivative liability at the issuance date	**1,339**	–
Fair value loss on derivative liability component prior to conversion	**1,616**	–
Fair value of derivative liability component prior to conversion	**2,955**	–

The estimate of the fair value of the conversion option embedded in the convertible notes is measured using Black-Scholes-Merton Option Pricing Model.

Fair value of conversion options and assumptions

Exercise price	HK$1.20
Expected volatility	106.63%
Option life	8 months
Risk-free interest rate	3.597%

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

30. OBLIGATIONS UNDER FINANCE LEASE

As at 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2006 HK$'000**	Minimum lease payments 2005 HK$'000	**Present value of minimum lease payments 2006 HK$'000**	Present value of minimum lease payments 2005 HK$'000
Amount payable:				
Within one year	**15**	15	**13**	13
In the second to fifth years, inclusive	**14**	31	**13**	26
Total minimum finance lease payments	**29**	46	**26**	39
Future finance charges	**(3)**	(7)		
Total net finance lease payables	**26**	39		
Portion classified as current liabilities	**(13)**	(13)		
Non-current liabilities	**13**	26		

It is the Group's policy to lease certain of its property, plant and equipment under finance leases. The interest rate on finance lease was approximately 4.5% per annum and the term entered into was five years. Interest rate is fixed at the contract rate. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

31. SHARE CAPITAL

Ordinary shares

	Par value HK$	Number of shares '000	Share capital HK$'000
Authorised:			
At 1 Januray 2005	0.01	10,000,000	100,000
Increase in authorised share capital (note i(a))		40,000,000	400,000
At 31 December 2005 and 1 January 2006		50,000,000	500,000
Share consolidation (note v)	0.02	(25,000,000)	–
At 31 December 2006		25,000,000	500,000
Issued and fully paid:			
At 1 January 2005	0.01	2,369,000	23,690
Share consolidation (note i(b))	0.4	(2,309,775)	–
Capital reduction (note i(c))	0.01	–	(23,098)
Issue of shares – open offer (note ii)		59,225	592
Placing of shares (note iii)		23,690	237
At 31 December 2005 and 1 January 2006	0.01	142,140	1,421
Placing of shares (note iv)		28,420	284
Share consolidation (note v)	0.02	(85,280)	–
Convertible notes exercised (note vi)		15,000	300
At 31 December 2006		**100,280**	**2,005**

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

31. SHARE CAPITAL *(Continued)*

Ordinary shares *(Continued)*

Notes:

(i) Pursuant to a resolution passed in the special general meeting held on 10 January 2005,

(a) the authorised share capital of the Company was increased from HK$100,000,000 to HK$500,000,000 by the creation of an additional 40,000,000,000 unissued shares;

(b) every forty shares of the issued share capital of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.40 each;

(c) the nominal value of the issued shares of the Company of HK$0.40 each was reduced to HK$0.01 each by way of a reduction of capital pursuant to the Bermuda Companies Act 1981. As such, the issued share capital of the Company as at 10 January 2005 was reduced from HK$23,690,000 (divided into 59,225,000 shares of HK$0.40 each) to HK$592,250 (divided into 59,225,000 shares of HK$0.01 each).

(ii) On 22 February 2005, the Company issued 59,225,000 shares of HK$0.01 each at an open offer price of HK$0.06 each for the purpose of increasing working capital of the Company.

(iii) On 22 July 2005, the Company, through a placing agent, placed 23,690,000 shares of HK$0.01 each at a placing price of HK$0.06 each for the purpose of increasing working capital for the daily operation.

(iv) On 20 March 2006, the Company placed 28,420,000 shares of HK$0.01 each at a placing price of HK$0.064 each to seven placees through a placing agent for the purpose of increasing general working capital. The Company received net proceeds of approximately HK$1,702,000.

(v) Pursuant to an ordinary resolution passed in the special general meeting held on 17 May 2006, every two issued and unissued shares of the Company of HK$0.01 each were consolidated into one consolidated share of HK$0.02 each.

(vi) On 1 December 2006, 14,999,997 ordinary shares of HK$0.02 each were issued by the Company as a result of the exercise of the conversion rights attached to the Convertible Notes of an aggregate principal amount of HK$18,000,000 issued by the Company on 28 July 2006 at a conversion price of HK$1.2 each *(note 29)*.

Upon conversion of the convertible notes, the carrying value of the liability component and the derivative liability component amounted to approximately HK$16,544,000 and HK$2,955,000 respectively (note 29).

Share options

Details of the Company's share option scheme are included in note 32 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

32. SHARE OPTION SCHEME

Share options

Pursuant to the share option scheme adopted by the shareholders of the Company on 24 May 2002 (the "Share Option Scheme"), the Board of the Company may for a consideration of HK$1 offer to selected eligible persons to subscribe for shares of the Company as incentive or rewards for their contribution to the Group. The subscription price will be determined by the Board of the Company in its absolute discretion, in any event, shall not be less than the higher of the nominal value for the time being of each share of the Company, the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date on which the relevant option is granted and the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date on which the relevant option is granted.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme and other schemes of the Company may not, in aggregate, exceed 30% of the issued share capital of the Company from time to time which have been duly allotted and issued.

The Share Option Scheme became effective for a period of ten years commencing 24 May 2002 (the date on which the Share Option Scheme was adopted).

At the date of approval of these financial statements, there was no outstanding share options issued by the Company under the Share Option Scheme.

33. RESERVES

(a) The 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 on page 36 of the financial statements.

The Group's contributed surplus as at 31 December 2006 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

33. RESERVES *(Continued)*

(a) The Group *(Continued)*

A subsidiary of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval.

Apart from the above, the subsidiary is also required to appropriate its annual statutory net profit (after offsetting any prior years' losses) to the statutory welfare fund to be utilised for employees' common welfare in accordance with the PRC Company Law. The directors recommended that 5% of statutory net profit for the entity should be appropriated to this reserve.

Movements in the statutory reserves are as follows:

	Statutory welfare fund HK'000	Statutory reserve fund HK'000	Total HK'000
At 1 January 2005, 31 December 2005 and 1 January 2006	–	–	–
Appropriations for the year	2,462	4,926	7,388
At 31 December 2006	**2,462**	**4,926**	**7,388**

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

33. RESERVES *(Continued)*

(b) The Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		22,859	38,118	(86,619)	(25,642)
Capital reduction	(31 note (i)(c))	–	–	23,098	23,098
Issue of shares					
– open offer	(31 note (ii))	2,961	–	–	2,961
Placing of shares	(31 note (iii))	1,185	–	–	1,185
Share issue expense		(355)	–	–	(355)
Loss for the year (note 13)		–	–	(7,720)	(7,720)
At 31 December 2005 and 1 January 2006		26,650	38,118	(71,241)	(6,473)
Placing of shares	(31 note(iv))	1,535	–	–	1,535
Shares issue expense	(31 note (iv))	(117)	–	–	(117)
Convertible notes exercised	(31 note (vi))	19,199	–	–	19,199
Release upon disposal of subsidiaries		–	(2,118)	–	(2,118)
Loss for the year (note 13)		–	–	(717)	(717)
At 31 December 2006		47,267	36,000	(71,958)	11,309

The Company's contributed surplus at 31 December 2006 represents the amount of HK$36,000,000 transfer from share capital due to a capital reduction in the year ended 31 December 2001.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

34. DISPOSAL OF SUBSIDIARIES

During the year, the Group entered into two share sales agreements dated 27 July 2006 to dispose of (i) the Group's equity interest in Grandmass ERP Limited, a direct wholly owned subsidiary of the Company, at a consideration of HK$100,000, and (ii) the Group's equity interest in Smart Circle Enterprises Limited, a direct wholly owned subsidiary of the Company, at a consideration of HK$1. The disposal of the Group's interest in Grandmass ERP Limited was completed on 27 July 2006. The disposal of the Group's interest in Smart Circle Enterprises Limited was effective on 10 July 2006.

Pursuant to a share sales agreement dated 28 August 2006, the Group had disposed of its 100% equity interest in Grandmass Global Investment Limited, a direct wholly owned subsidiary of the Company. at a consideration of HK$50,000. For further details of the disposal of interest in Grandmass Global Investment Limited, please refer to the Company's circular dated 19 September 2006. Summary of the effects of the disposal of subsidiaries are as follows:

	2006	2005
	HK$'000	HK$'000
Net liabilities disposed of:		
Property, plant and equipment	**292**	–
Cash and bank balances	**241**	–
Inventories	**133**	–
Trade receivables	**156**	–
Prepayments and other receivables	**7**	–
Amount due from an associate	**142**	–
Trade payables	**(3,004)**	–
Accruals and other payables	**(5,682)**	–
Tax payable	**(149)**	–
	(7,864)	–
Release of exchange reserve	**140**	–
Gain on disposal of subsidiaries from continuing operations (include contribution surplus release upon disposal)	**1,158**	–
Gain on disposal of subsidiaries from discontinued operations (note 9)	**6,716**	–
Total consideration	**150**	–
Satisfied by:		
Cash	**150**	–

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

34. DISPOSAL OF SUBSIDIARIES *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006	2005
	HK$'000	HK$'000
Cash consideration	**150**	–
Cash and bank balances disposed of	**(241)**	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	**(91)**	–

For the period from 1 January 2006 to the respective dates of disposal, the above subsidiaries were engaged in investment holding and provision of telephone sets sale and subcontracting services, contributed approximately HK$614,000 to the Group's turnover and loss of approximately HK$873,000 to the Group's profit before taxation.

35. CONTINGENT LIABILITIES

On 2 March 2000, an independent third party executed a Deed of Guarantee in favour of Sun-iOMS Maintenance Limited, a former indirect wholly-owned subsidiary disposed of by the Group on 27 July 2006, guaranteeing that the income accrued to Sun-iOMS Maintenance Limited arising from sales of iOMS Millennium Edition Software for a period of 18 months from the date of the guarantee would not be less than HK$ 15,000,000. However, the aforesaid independent third party has not fulfilled his commitment under the Deed of Guarantee. Hence, Sun-iOMS Maintenance Limited and the Company took legal action against the abovementioned independent third party and the two executive directors resigned in 2001 in respect of the breach of the Deed of Guarantee and their fiduciary duties accordingly. Up to the date of approval of these financial statements, the proceedings relating to the claim were still in progress. The case has been set down for trial and the hearing is scheduled for a four-days' trial commencing from 17 to 20 September 2007. In the opinion of the Company's special legal advisors in respect of the above litigation, as the matter now stand, there is no actual liability on the Group's part save as the legal costs involved. In the opinion of the Directors of the Company, no provision for the Group's exposure to the above litigation was required as at 31 December 2006.

Save as disclosed above, the Group and the Company had no other contingent liabilities at the balance sheet date.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

36. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain office properties and director's quarter under operating lease arrangements. Leases for properties are negotiated for an average term of two years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Land and buildings	**The Group**	
	2006	2005
	HK$'000	HK$'000
Within one year	**120**	892
In the second to fifth years, inclusive	**–**	2,694
	120	3,586

The Company had no operating lease commitment at the balance sheet date (2005: Nil).

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

37. MATERIAL RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group:

	2006 HK$'000	2005 HK$'000
Short term employee benefits	**704**	708
MPF contribution	**18**	20
Total compensation paid to key management personnel	**722**	728

Further details of directors' emoluments are included in note 10 to the financial statements.

(b)

Name of related parties	Nature of transaction	Note	2006 HK$'000	2005 HK$'000
K. K. Lau & Co.	Legal fee	(i)	**399**	350

Note:

(i) The legal fee paid to K. K. Lau & Co. was charged at rates negotiated by reference to market rates. Mr. Lau Kwok Kee, who resigned as an independent non-executive director of the Company on 30 September 2004, is a partner of K. K. Lau & Co.

(ii) A director, Mr. Li Ge, has executed personal guarantee of HK$30,000 in favour of bank for corporate card granted to a wholly owned subsidiary of the Company.

(c) On 28 July 2006, the Company placed convertible notes with principal amount of HK$18,000,000 to seven subscribers. The convertible notes were secured by a share mortgage of True Allied Assets Limited (a substantial shareholder of the Company) and the personal guarantee by Ms. Huang Ye Hua who holds 100% beneficial interest in True Allied Assets Limited to secure the obligations of the Company under the convertible notes.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

38. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, an indirect wholly owned subsidiary of the Company, 廊坊天豐家居有限公司(Lang Fang Tian Feng Home Co., Ltd., for identification purpose only), entered into a conditional sale and purchase agreement dated 29 November 2006 with 廊坊華日家具股份有限公司(Lang Fang Huari Furniture Joint Stock Co., Ltd, for identification purpose only) ("Huari Furniture") and 廊坊天誠家貝有限公司(Lang Fang Tian Cheng Furniture Co., Ltd., for identification purpose only), for acquisition of certain machineries and equipment for the manufacturing of furniture (the "Acquisition") at a total consideration of RMB75,398,100. The Acquisition constitutes a very substantial acquisition of the Company under Chapter 19 of the GEM Listing Rules and was subject to the approval of the independent shareholders. The Acquisition was approved by an ordinary resolution at a special general meeting held on 26 January 20007. For details, please refer to the Company's circular dated 3 January 2007.

(b) On 29 December 2006, the Board announced that the Board proposed to implement a share subdivision scheme under which each of the existing issued and unissued shares of the Company of HK$0.02 each were subdivided into five subdivided shares of HK$0.004 each. The share subdivision was approved by an ordinary resolution at a special general meeting held on 26 January 2007.

(c) After the balance sheet date, the Company and a substantial shareholder of the Company, True Allied Assets Limited (the "Vendor"), entered into a placing and subscription agreement dated 31 January 2007 with Guotai Junan Securities (Hong Kong) Limited (the "Placing Agent") pursuant to which (i) the Placing Agent would on a fully underwritten basis procure purchasers to acquire, and the Vendor would sell 100,000,000 existing shares of the Company (the "Placing Shares") at a price of HK$1.08 per share; and (ii) the Vendor has conditionally agreed to subscribe for such number of new shares equivalent to the number of shares placed, i.e. 100,000,000 new shares at a subscription price of HK$1.08 each per share.

The placing of existing 100,000,000 shares to not less than six professional investors was completed on 6 February 2007 at a placing price of HK$1.08 per share. The subscription of 100,000,000 new shares to the Vendor was completed on 12 February 2007 at a subscription price of HK$1.08 each. The Company received net proceeds from the subscription of approximately HK$105,000,000 for the purpose of increasing general working capital.

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2006

38. POST BALANCE SHEET EVENTS *(Continued)*

(d) On 31 January 2007, an indirect wholly owned subsidiary of the Company, 廊坊恒宇家居有限公司(Langfang Hengyu Home Co., Ltd., for identification purpose only) ("Langfang Hengyu"), entered into a letter of intent with Huari Furniture for the proposed acquisition of the furniture retail business of Huari Furniture in the Hebei Province by Langfang Hengyu. The letter of intent sets out the basic understanding between the parties of the proposed acquisition. The consideration is to be determined with reference to (i) the audited and valued asset value of the furniture retail business of Huari Furniture in the Hubei Province and/or (ii) the audited net profit of the furniture retail business of Huari Furniture in the Hebei Province, multiplied by a price-to-earnings ratio of four to six times. Details of the consideration are to be further negotiated between both parties.

For further details, please refer to the Company's announcement dated 1 February 2007. Up to the date of approval of these financial statements, the terms of the proposed acquisition are still under negotiation and no formal sale and purchase agreement has been concluded by the Group.

(e) On 31 January 2007, an indirect wholly owned subsidiary of the Company, Langfang Hengyu, entered into a letter of intent with 北京錦繡投資有限公司(Beijing Glory Investment Co., Ltd., for identification purpose only) ("Beijing Glory") for the proposed acquisition of the furniture retail business of Beijing Glory in the Beijing City by Langfang Hengyu. The letter of intent set out the basic understanding between the parties of the proposed acquisition. The consideration is to be determined with reference to (i) the audited and valued asset value of the furniture retail business of Beijing Glory in the Beijing City and/or (ii) the audited net profit of the furniture retail business of Beijing Glory in the Beijing City, multiplied by a price-to-earnings ratio of approximately four to six times. Details of the consideration are to be further negotiated between both parties.

For further details, please refer to the Company's announcement dated 1 February 2007. Up to the date of approval of these financial statements, the terms of the proposed acquisition are still under negotiation and no formal sale and purchase agreement has been concluded by the Group.

39. COMPARATIVE FIGURES

The comparative income statement has been re-presented as if the operations discontinued during the current year had been discontinued at the beginning of the comparative period (note 9).

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2007.

FIVE YEARS SUMMARY

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				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
TURNOVER	**160,414**	22,656	–	1,020	3,444
Cost of sales	**(110,423)**	(19,987)	–	(320)	(1,835)
Gross profit	**49,991**	2,669	–	700	1,609
Other revenue	**371**	3	11	58	152
Other income	**1,145**	–	–	–	–
Selling and distribution costs	**(1,041)**	–	–	(768)	(3,162)
Administrative expenses	**(7,513)**	(4,602)	(4,075)	(3,826)	(9,402)
Impairment loss recognised in respect of goodwill of a subsidiary	**–**	–	–	(1,797)	(11,055)
Impairment loss recognised in respect of goodwill of an associate	**–**	–	(2,702)	(1,000)	–
Provision for amounts due from associates	**–**	(3)	(262)	–	–
Other operating expenses	**(105)**	(571)	(1,160)	(1,699)	(2,955)

FIVE YEARS SUMMARY

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
PROFIT/(LOSS) FROM OPERATIONS	**42,848**	(2,504)	(8,188)	(8,332)	(24,813)
Finance costs	**(724)**	(3)	(3)	–	(7)
Gain on disposal of partial interest in a subsidiary	**–**	–	–	–	1,146
Gain on disposal of a jointly controlled entity	**–**	–	–	–	220
Share of results of an associate	**–**	–	–	(480)	(2)
Gain on disposal of subsidiaries	**1,158**	–	–	510	–
Gain on deemed disposal of partial interest in an associate	**–**	–	135	313	–
Loss on disposal of a long term investment	**–**	–	–	(1,972)	–
Fair value loss on derivative liability	**(1,616)**	–	–	–	–
PROFIT/(LOSS) BEFORE TAX	**41,666**	(2,507)	(8,056)	(9,961)	(23,456)
Tax					
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**41,666**	(2,507)	(8,056)	(9,961)	(23,456)
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	**5,852**	(11,629)	(6,085)	–	–
PROFIT/(LOSS) FOR THE YEAR	**47,518**	(14,136)	(14,141)	(9,961)	(23,456)

FIVE YEARS SUMMARY

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Attributable to:					
Equity holders of the Company	**47,518**	(14,136)	(14,023)	(9,840)	(22,837)
Minority interests	**–**	–	(118)	(121)	(619)
	47,518	(14,136)	(14,141)	(9,961)	(23,456)
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**99,256**	5,470	12,865	16,216	22,180
TOTAL LIABILITIES	**(36,086)**	(11,746)	(9,485)	(903)	(1,962)
MINORITY INTERESTS	**–**	–	–	–	(13)