Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

Prosperity Investment Holdings Limited (the "Company") was incorporated in Bermuda with limited liability on 15 June 2001 as an exempted company under the Companies Act (1981) of Bermuda. The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information of the annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to the investee companies.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and generally accepted accounting principles in Hong Kong. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss and certain available-for-sale financial assets as further explained in note 3(h).

Impact of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting period beginning on or after 1 January 2006. The adoption of the new HKFRSs below did not result in substantial changes to the Group's accounting policies and had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

HKAS 21 Amendment	Net investment in a Foreign Operation
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
HKFRS-Int4	Determining whether an Arrangement contains a Lease

Notes to the Financial Statements

For the year ended 31 December 2006

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

Impact of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

The principal changes in accounting policies are as follows:

(a) HKAS 21 Amendment The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006.

(b) HKAS 39 & HKFRS 4 Amendments Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(c) HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions

This amendment has revised HKAS39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(d) HKAS 39 Amendment — The Fair Value Option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

Notes to the Financial Statements

For the year ended 31 December 2006

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS *(Continued)*

Impact of New and Revised Hong Kong Financial Reporting Standards *(Continued)*

(e) HKFRS-Int4 — Determining whether an Arrangement contains a Lease

HKFRS-Int4 Determining whether an arrangement contains a lease, which is effective for annual period beginning on or after 1 January 2006, requires the Group to determine whether arrangements which do not take the legal form of a lease, but convey the right to use an asset in return for a series of payments are in substance leases by assessing whether:

— the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and

— the arrangement conveys a right to use the asset.

Once an arrangement is determined to be a lease in accordance with this interpretation, the requirements of HKAS 17 are applied in classifying the arrangement as a finance lease or as an operating lease. As the Group has no such transaction during the year ended 2005 and 2006. This interpretation has had no effect on these financial statements.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK (IFRIC) — Int 8	Scope of HKFRS 2[3]
HK (IFRIC) — Int 9	Reassessment of Embedded Derivatives[4]
HK (IFRIC) — Int 10	Interim Financial Reporting and Impairment[5]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES

(a) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

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

Management fee income is recognised when service is rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries, that are not classified as held for sale in accordance with HKFRS 5, are stated at cost less any impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations) or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 Financial Instruments: Recognition and Measurement). Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

(e) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets ("disposal groups") previous carrying amount and fair value less costs to sell.

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

A jointly controlled entity is a corporation, partnership, or other entity in which two or more venturers have an interest, under a contractual arrangement that establishes joint control over the entity. The Group's interests in jointly controlled entities are accounted for by the equity method. The Group's interests in jointly controlled entities include the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition profits or losses of jointly controlled entities is included in the consolidated income statement.

Unrealised profits and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised in the consolidated income statement.

(g) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Investments

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in other receivables in the consolidated balance sheet *(Note 20)*.

(iii) Held-to-maturity investments

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

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Investments *(Continued)*

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date, or without specific plan and schedule of disposal.

Purchases and sales of investments are recognised on settlement date — the date that an asset is delivered to or by the Group. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets with reliably measured fair value and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available-for-sale financial assets which are unquoted equity securities are stated at cost. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the consolidated income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of quoted securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated income statement as gains or losses from investments securities.

The fair values of quoted investments are based on published closing prices at balance sheet dates. The fair value of embedded derivatives are based on the prices reported by the counter party who issued the embedded derivatives.

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

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(i) Golf club membership

Golf club membership is stated at cost less impairment losses, if any. The carrying amount of individual golf club membership is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such golf club membership is reduced to its fair value. The amount of the reduction is recognised as an expense in the consolidated income statement.

(j) Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value, having been within three months of maturity, at acquisition. For the purpose of the consolidated cash flow statement, bank overdrafts, if any, which are repayable on demand and form an integral part of an enterprise's cash management are also included as a component of cash and cash equivalents.

(k) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement.

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Impairment of assets *(Continued)*

In determining the estimated impairment of trade receivable, there is objective evidence of impairment loss. The Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are less than expected, a material impairment loss may arise.

(l) Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

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

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included as reserve in equity.

(iii) Group companies

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Foreign currency translation *(Continued)*

(iii) Group companies *(Continued)*

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

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

(n) Employee benefits

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the consolidated income statement as incurred.

(o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected 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 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 is remote.

(p) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowable. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(p) Taxation *(Continued)*

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

(q) Borrowing costs

All borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

(r) Events after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(s) 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.

Notes to the Financial Statements

For the year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(t) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

(u) Related parties

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

(i) directly, or indirectly through one or more intermediaries, the party:

— controls, is controlled by, or is under common control with, the Group;

— has an interest in the Group that gives it significant influence over the Group; or

— has joint control over the Group;

(ii) the party is a member of key management personnel of the Company or its parent company;

(iii) the party is a close member of the family of any individual referred to in (i) and (ii);

(iv) 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, the individual referred to in (ii) or (iii); and

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

Notes to the Financial Statements

For the year ended 31 December 2006

4. SEGMENTAL INFORMATION

In accordance with the Group's financial reporting, the Group has determined that the business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

An analysis of the Group's turnover and profit/(loss) from operations by business segment and turnover by geographical segment for the year is as follows:

	Turnover		Profit/(loss) from operations	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
		(restated)		(restated)
By business segment:				
Management fees from jointly controlled entities	—	117,924	—	117,924
Dividend income from investment securities and other investments/ financial assets, listed	**2,373,336**	2,360,289	**2,373,336**	2,360,289
Proceeds from sale of investment securities and disposal of equity-linked notes	**135,741,519**	48,889,083	**13,037,950**	(8,606,449)
	138,114,855	51,367,296	**15,411,286**	(6,128,236)
Finance costs			**(8,079)**	(48,965)
Share of profits of jointly controlled entities			**—**	575,386
Loss on disposal of a subsidiary			**—**	(1,943,920)
Provision for impairment loss			**(23,553,701)**	(223,670)
Impairment loss of goodwill on acquisition of a subsidiary			**(999,688)**	—
Gain on disposal of an investment			**20,162,090**	—
Profit/(Loss) before taxation			**11,011,908**	(7,769,405)
Total assets (unallocated)			**264,270,410**	258,551,037
Total liabilities (unallocated)			**15,175,715**	24,188,899

Notes to the Financial Statements

For the year ended 31 December 2006

4. SEGMENTAL INFORMATION *(Continued)*

	Turnover	
	2006	2005
	HK$	*HK$*
		(restated)
By geographical segment:		
Hong Kong	**138,114,855**	51,249,372
The PRC	**—**	117,924
	138,114,855	51,367,296

Given the nature of the Group's operations is investment holding, segment assets and segment liabilities are unallocated. In addition, it is not considered meaningful to provide geographical analysis of profit/(loss) from operations and segment assets.

5. TURNOVER

	Group	
	2006	2005
	HK$	*HK$*
		(restated)
Turnover		
Management fees from jointly controlled entities	**—**	117,924
Dividend income from investment securities and other investments/financial assets, listed	**2,373,336**	2,360,289
Proceeds from sale of investment securities	**37,397,019**	7,915,083
Proceeds from disposal of equity-linked notes	**98,344,500**	40,974,000
	138,114,855	51,367,296
Other revenue		
Interest on bank deposits	**4,282,230**	1,648,651
Unrealized gain of financial assets	**2,657,030**	—
Other income	**502,046**	1,777,048
	7,441,306	3,425,699

Notes to the Financial Statements

For the year ended 31 December 2006

5. TURNOVER *(Continued)*

The Group is principally engaged in the trading of securities and other financial assets investment. The directors of the Group are in the opinions that reclassification of turnover, other revenue, cost of sales and other operating expenses for the year ended 31 December 2005 would reflect better presentation of the financial results for the Group. The cumulative effect on the restatement is summarized below:

Effect on income statement	2005 *HK$* (as previously reported)	Reclassification *HK$*	2005 *HK$* (as restated)
Turnover			
Management fees from jointly controlled entities	117,924	—	117,924
Dividend income from investment securities and other investments/financial assets, listed	2,360,289	—	2,360,289
Proceeds from sale of investment securities	—	7,915,083	7,915,083
Proceeds from disposal of equity-linked notes	—	40,974,000	40,974,000
	2,478,213		51,367,296
Other revenue			
Interest on bank deposits	1,648,651	—	1,648,651
Investment income from financial assets, unlisted	1,585,893	(1,585,893)	—
Other income	1,723,265	53,783	1,777,048
	4,957,809		3,425,699
Cost of sales			
Investment income from financial assets, unlisted	—	(45,716,923)	(45,716,923)
Other operating expenses			
Provision for Impairment loss	(223,670)	223,670	—
Loss on disposal of investment securities	(6,944,910)	6,944,910	—
Loss on disposal of derivatives	—	(8,584,960)	(8,584,960)
Other operating expenses	(2,639,198)	—	(2,639,198)
	(9,807,778)		(11,224,158)
Provision for impairment loss	—	(223,670)	(223,670)
		—	

Note: The restatement as described above has no effect on the result for the year.

Notes to the Financial Statements

For the year ended 31 December 2006

6. PROFIT/(LOSS) FROM OPERATIONS

Profit/(Loss) from operations is stated after charging/(crediting) the following:

	Group	
	2006	2005
	HK$	*HK$*
		(restated)
Auditors' remuneration	**130,000**	180,000
Provision for impairment loss	**23,553,701**	223,670
Operating lease payments on land and buildings	**3,638**	3,900
Retirement benefit costs	**38,874**	23,983
Interest on bank deposits	**(4,282,230)**	(1,648,651)
Exchange gains, net	**(47,501)**	(45,603)
Loss on disposal of derivatives	**—**	8,360,670
Unrealized (gain)/loss of financial assets	**(2,657,030)**	494,858

7. FINANCE COSTS

	Group	
	2006	2005
	HK$	*HK$*
Bank charges	**8,079**	15,111
Interest on other borrowing wholly repayable within five years	**—**	33,854
	8,079	48,965

8. GAIN ON DISPOSAL OF AN INVESTMENT

It represents the gain arising from the Group's disposal of its 18% equity interest in Dragon Fortune Limited which was indirectly holding Palm Island Golf Club and Resort at Huizhou in the People's Republic of China.

Notes to the Financial Statements

For the year ended 31 December 2006

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of fees payable to directors of the Company during the year are as follows:

	2006	2005
	HK$	*HK$*
Fees:		
Executive directors	**141,167**	123,710
Non-executive directors	**160,000**	160,000
Other emoluments	**—**	—
Retirement benefits scheme contributions:		
Executive directors	**7,058**	6,000
Non-executive directors	**—**	—
	308,225	289,710

Emoluments breakdown of each of the directors for the year ended 31 December 2006:

	Directors' fees	**Retirement benefits scheme contributions**	**Total**
	HK$	***HK$***	***HK$***
Executive directors			
Cheuk Yuk Lung	**60,000**	**3,000**	**63,000**
Tsui Yee Ni	**33,667**	**1,683**	**35,350**
Lam Kwing Wai, Alvin	**12,500**	**625**	**13,125**
Lam Wo	**5,000**	**250**	**5,250**
Wong Kwok Bui, George	**30,000**	**1,500**	**31,500**
	141,167	**7,058**	**148,225**
Non-executive directors			
Yan Mou Keung, Ronald	**60,000**	**—**	**60,000**
Chan Siu Wing, Raymond	**60,000**	**—**	**60,000**
Chan Fai Yue, Leo	**40,000**	**—**	**40,000**
	160,000	**—**	**160,000**
	301,167	**7,058**	**308,225**

Notes to the Financial Statements

For the year ended 31 December 2006

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Emoluments breakdown of each of the directors for the year ended 31 December 2005:

	Directors' fees *HK$*	Retirement benefits scheme contributions *HK$*	Total *HK$*
Executive directors			
Lam Wo	60,000	3,000	63,000
Cheuk Yuk Lung	60,000	3,000	63,000
Wong Kwok Bui, George	3,710	—	3,710
	123,710	6,000	129,710
Non-executive directors			
Yan Mou Keung, Ronald	60,000	—	60,000
Chan Siu Wing, Raymond	60,000	—	60,000
Chan Fai Yue, Leo	40,000	—	40,000
	160,000	—	160,000
	283,710	6,000	289,710

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

During the year, no share option was granted to the directors.

Notes to the Financial Statements

For the year ended 31 December 2006

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Five highest paid individuals

The five individuals with the highest emoluments in the Group for the year include:

	2006	2005
Number of directors	**3**	4
Number of employees	**2**	1

Details of the directors' emoluments are presented above.

The aggregate of the emoluments in respect of the remaining highest paid non-director individuals are as follows:

	2006	2005
	HK$	*HK$*
Fees, basic salaries and other benefits in kind	**746,766**	49,530
Retirement benefits scheme contributions	**34,270**	—
	781,036	49,530

The emoluments paid to each highest paid non-director individual during the year fall within the band of HK$Nil — HK$1,000,000.

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Financial Statements

For the year ended 31 December 2006

10. INCOME TAX EXPENSE

	Group	
	2006	2005
	HK$	*HK$*
Company and subsidiaries		
— Hong Kong profits tax	**1,338,120**	—
Share of taxation attributable to jointly controlled entities	**—**	155,354
	1,338,120	155,354

Hong Kong profits tax has been provided as the individual companies comprising the Group has assessable profit arising in Hong Kong for the year.

Taxation for other jurisdiction is calculated at the rates prevailing in the relevant jurisdictions.

Reconciliation between taxation and tax at the applicable rate:

	Group	
	2006	2005
	HK$	*HK$*
Profit/(Loss) before taxation	**11,011,908**	(7,769,405)
Tax at the applicable tax rate	**1,927,084**	(1,359,646)
Tax effect of income that is not taxable in determining taxable profit	**(1,781,782)**	(999,732)
Tax effect of expenses that are not deductible in determining taxable profit	**759,105**	2,471,196
Tax effect of utilisation of tax losses not previously recognised	**—**	(11,125)
Tax effect of temporary differences not recognised	**(500)**	—
Tax effect of unused tax losses not recognised	**333,864**	—
Under provision of tax payable	**100,349**	—
Effect of tax rate of jointly controlled entity operating in other jurisdiction	**—**	54,661
Taxation charge	**1,338,120**	155,354

The applicable tax rate represents the weighted average of the rates of taxation prevailing in the relevant jurisdictions in which the Group operates.

Notes to the Financial Statements

For the year ended 31 December 2006

11. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year ended 31 December 2006 is dealt with in the financial statements of the Company to the extent of HK$864,904 (2005: Loss HK$10,430,192).

12. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on:

	Group	
	2006	2005
	HK$	*HK$*
Profit/(loss) attributable to shareholders	**9,673,788**	(7,924,759)
Weighted average number of ordinary shares	**431,952,000**	431,952,000

13. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$	*HK$*
Unlisted shares, at cost	**780**	780
Due from a subsidiary	**90,005,600**	90,001,310
	90,006,380	90,002,090

The amount due from a subsidiary is unsecured, interest free and not repayable within the next twelve months.

Notes to the Financial Statements

For the year ended 31 December 2006

13. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the principal subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Directly held by the Company:				
Accufocus Investments Limited	British Virgin Islands ("BVI")/Hong Kong	100 shares of US$1 each	100%	Investment holding
Indirectly held by the Company:				
Attentive Investments Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
B2C E-Commerce Group Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Best Policy Management Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Chief Success Management Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Ever Honest Investments Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Founder China Industrial Investments Company Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Investment holding
Linkson Investment Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Dormant
Founder Industrial Investments (Holdings) Company Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2006

13. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Indirectly held by the Company: *(Continued)*				
Genius Choice Investments Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
GR Investment Holdings Limited	Hong Kong	899,900,000 ordinary shares of HK$0.1 each	100%	Investment holding
Glorious Bright Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Money lending
Home Growth Assets Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
GR Investment International Limited	Hong Kong	2 ordinary shares of HK$1 each	100%	Dormant
Rich Concept Investments Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Rich Profits International Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Market Court Resources Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Target Plus Holdings Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding
Contessa Assets Limited	BVI/Hong Kong	1 share of US$1 each	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2006

14. INTERESTS IN ASSOCIATES

	Group	
	2006	2005
	HK$	*HK$*
		(restated)
Unlisted shares at cost	**4,189,781**	1,988,046
Post-acquisition profit	**—**	—
Share of associates' results	**4,189,781**	1,988,046
Less: Provision for impairment loss	**(1,890,000)**	—
	2,299,781	1,988,046
Amounts due from associates	**26,927,260**	17,097,045
Less: Provision for impairment loss	**(5,194,545)**	—
	21,732,715	17,097,045
	24,032,496	19,085,091

During the year ended 2006, the Group's share of losses in associates exceeds its interest in the associates, therefore, the Group's interest is reduced to nil and recognition of further losses is discontinued.

The amounts due from associates are unsecured, interest free and not repayable within the next twelve months.

Notes to the Financial Statements

For the year ended 31 December 2006

14. INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates, all of which are unlisted, as at 31 December 2006 are as follows:

Name	Place of incorporation	Particulars of issued share capital	Proportion of associates' capital owned	Principal activities
Luck Point Investments Limited	BVI	200 shares of US$1 each	35%	Investment holding
Happy Online Group Limited	BVI	14,000 shares of US$1 each	33.75%	Investment holding
Bright Honest Limited	BVI	50,000 shares of US$1 each	25%	Investment holding
Halway Development Limited	Hong Kong	10 ordinary shares of HK$1 each	30%	Investment holding
Skyplane Enterprises Limited	BVI	130 shares of US$1 each	30.77%	Investment holding

The summarised financial information of the Group's share of assets, liabilities, income and results of the associates based on the unaudited management accounts of the associates are as follows:

	2006	2005
	HK$	*HK$*
Assets	**125,308,631**	16,701,517
Liabilities	**(131,012,056)**	(17,090,378)
Income	**66,500**	—
Loss	**(1,367,660)**	(2,223)

Notes to the Financial Statements

For the year ended 31 December 2006

15. INTERESTS IN A JOINTLY CONTROLLED ENTITY

(a) The balances represent:

	Group	
	2006	2005
	HK$	*HK$*
Share of net assets other than goodwill	—	5,097,099
Less: Impairment loss	—	(2,323,671)
	—	2,773,428

The jointly controlled entity representing 25% equity interest for the Group held in an unlisted company, Shanghai Yong An Dairy Company Limited, which was established in PRC. Pursuant to an agreement dated 29 December 2004, the Group has committed to dispose its entire equity interest of the Company and consequently the amount was classified as non-current assets held for sale and disclosed in note 16.

(b) The following amounts represent the Group's share of the assets and liabilities, and sales and results of the joint venture:

	2006	2005
	HK$	*HK$*
Assets:		
Non-current assets	—	4,108,427
Current assets	—	4,563,760
	—	8,672,187
Liabilities:		
Long-term liabilities	—	119,909
Current liabilities	—	3,106,868
	—	3,226,777
Net assets	—	5,445,410
Income	—	6,601,785
Expenses	—	(6,181,753)
Profit after income tax	—	420,032

Notes to the Financial Statements

For the year ended 31 December 2006

16. NON-CURRENT ASSETS HELD FOR SALE

	Group	
	2006	2005
	HK$	*HK$*
Interests in a jointly controlled entity held for sale		
Share of net assets other than goodwill	**5,097,099**	—
Less: Impairment loss	**(2,323,671)**	—
	2,773,428	—

The Group has committed to dispose its 25% equity interest in Shanghai Yong An Dairy Company Limited to a third party for a consideration of RMB2.8 million (approximately HK$2.7 million). The transaction was completed on 12 February 2007 as described in note 15. It gives rise to immaterial financial effect in the income statement for the year ended 2007.

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$	*HK$*
Held for trading:		
Equity securities, at fair value		
— listed in Hong Kong	**5,680,000**	3,375,000
— listed outside Hong Kong *(Note a)*	**2,248,054**	5,616,051
	7,928,054	8,991,051
Embedded derivatives, at fair value	**—**	17,368,298
	7,928,054	26,359,349

Note:

(a) The equity securities listed outside Hong Kong are denominated in US dollars.

Changes in fair values of financial assets at fair value through profit or loss are recognised as unrealized gains of financial assets in the consolidated income statement.

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For the year ended 31 December 2006

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
		(restated)		
Non-current assets				
Hong Kong unlisted equity securities, at cost	**17,070,000**	—	**—**	—
Overseas unlisted equity securities, at cost	**25,626,167**	25,626,167	**—**	—
Less: Impairment loss	**(25,626,167)**	(9,157,010)	**—**	—
	17,070,000	16,469,157	**—**	—
Hong Kong listed equity securities, at fair value	**79,892,527**	56,990,660	**17,891,412**	10,027,635
Overseas unlisted equity securities, at fair value	**15,274,740**	—	**—**	—
	112,237,267	73,459,817	**17,891,412**	10,027,635
Current assets				
Overseas unlisted equity securities, at cost	**—**	3,698,235	**—**	—
Overseas unlisted equity securities, at fair value	**19,766,204**	—	**—**	—
	19,766,204	3,698,235	**—**	—

The fair value of the unlisted equity securities cannot be measured reliably as there is no active market for the trading of the securities at arm's length.

Notes to the Financial Statements

For the year ended 31 December 2006

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

As at 31 December 2006, the carrying amounts of interests in the following available-for-sale financial assets exceeded 5% of total assets of the Group and the Company:

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto	Directors' valuation/ market value	Dividend income received during the year	Dividend cover	Net assets attributable to the investment	Unrealised gain taken in the accounts	Principal activities/ place of operation
			HK$ million	*HK$ million*	*HK$ million*		*HK$ million*	*HK$ million*	
Golden Resources Development International Limited	Bermuda	5.28%	22	23	1.72	76%	46	0.90	Investment holding/ Hong Kong
Cosmopolitan International Holdings Limited	Cayman Islands	9.92%	17	18	—	—	7	0.87	Investment holding/ Hong Kong
Sun Hung Kai & Co. Limited	Hong Kong	0.16%	12	14	0.18	99%	10	2.22	Investment holding/ Hong Kong
Golden Chain Development Limited	Hong Kong	15%	12	12	—	—	5	—	Investment holding/ Hong Kong

19. OTHER ASSET

	Group	
	2006	2005
	HK$	*HK$*
Golf club membership, at cost	**150,000**	150,000

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For the year ended 31 December 2006

20. OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Prepayments and deposits	**15,250,850**	13,889,268	**229,891**	217,891
Loan to an investee company *(Note a)*	**—**	48,139,674	**—**	—
Other loan *(Note a)*	**150,000**	—	**—**	—
Others	**5,650,000**	5,500,000	**150,000**	—
	21,050,850	67,528,942	**379,891**	217,891

Note:

(a) The ageing analysis of the receivables other than the prepayments and deposits and others is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Within 3 months	**—**	—	**—**	—
3 to 6 months	**150,000**	—	**—**	—
6 to 12 months	**—**	—	**—**	—
Over 1 year	**—**	48,139,674	**—**	—
	150,000	48,139,674	**—**	—

The other loan amounted to HK$150,000 is secured, interest bearing at 6% per annum and will be repaid on 28 May 2007.

21. OTHER PAYABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Accruals	**314,509**	452,409	**307,163**	331,997

Notes to the Financial Statements

For the year ended 31 December 2006

22. DUE TO SINOX FUND MANAGEMENT LIMITED

The amount due to SINOX represents investment management fees payable at the year end. The amount due is unsecured, interest free and repayable on demand.

SINOX is the Investment Manager of the Group and provides administrative and investment management services to the Group in relation to the investment of the Group's assets.

23. DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest free and repayable on demand.

24. SHARE CAPITAL

		Number of shares		Share capital	
		2006	2005	**2006**	2005
	Notes			***HK$***	*HK$*
Ordinary shares of HK$0.01 each (2005: HK$0.10 each)					
Authorised:					
At beginning of the year		**3,000,000,000**	3,000,000,000	**300,000,000**	300,000,000
Capital Reduction	*(a)*	**—**	—	**(270,000,000)**	—
At end of the year		**3,000,000,000**	3,000,000,000	**30,000,000**	300,000,000
Issued and fully paid:					
At beginning of the year		**431,952,000**	431,952,000	**43,195,200**	43,195,200
Capital Reduction	*(a)*	**—**	—	**(38,875,680)**	—
At end of the year		**431,952,000**	431,952,000	**4,319,520**	43,195,200

Note:

(a) Pursuant to a special resolution passed at the special general meeting held on 20 June 2006, the nominal value of each authorized but unissued or issued share of the Company was reduced from HK$0.10 to HK$0.01.

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24. SHARE CAPITAL *(Continued)*

The Company adopted an Employee Share Option Scheme under which the Board may grant to eligible employees, including the executive directors, the officers and the full or part-time employees of the Company or its subsidiaries, options to subscribe for shares in the Company.

The exercise price is set at not less than the highest of:

(i) the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant;

(ii) the average of the closing prices of the shares as stated in the daily quotations sheet of the Stock Exchange for the 5 business days immediately preceding the date of grant; and

(iii) the nominal value of a share.

The Share Option Scheme has been expired on 10 December 2006. No option was granted, exercised, lapsed or cancelled during the year or remained outstanding as at 31 December 2006.

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25. RESERVES

	Share premium HK$	Capital reserve on consolidation HK$	Contributed surplus HK$	Exchange fluctuation reserve HK$	Changes in fair value of available-for-sale financial assets HK$	(Accumulated losses)/ Retained profits HK$	Total HK$
Group							
At 31 December 2004							
— As originally stated	169,564,710	468,163	86,752,510	(1,755,174)	—	(63,610,223)	191,419,986
— Effect for the adoption of HKFRS 3	—	(468,163)	—	—	—	468,163	—
— Effect for the adoption of HKAS 39	—	—	—	—	2,280,083	595,122	2,875,205
At 1 January 2005, as restated	169,564,710	—	86,752,510	(1,755,174)	2,280,083	(62,546,938)	194,295,191
Realisation of exchange fluctuation reserve on disposal of a subsidiary	—	—	—	1,887,093	—	—	1,887,093
Increase in fair value of available-for-sale financial assets	—	—	—	—	1,364,105	—	1,364,105
Loss for the year	—	—	—	—	—	(7,924,759)	(7,924,759)
At 31 December 2005	169,564,710	—	86,752,510	131,919	3,644,188	(70,471,697)	189,621,630
At 31 December 2005							
— As originally stated	169,564,710	—	86,752,510	131,919	3,644,188	(70,471,697)	189,621,630
— Prior year adjustments (see Notes below)	—	—	—	—	—	1,545,308	1,545,308
At 1 January 2006, as restated	169,564,710	—	86,752,510	131,919	3,644,188	(68,926,389)	191,166,938
Increase in fair value of available-for-sale financial assets	—	—	—	—	5,058,769	—	5,058,769
Credit arised on capital reduction set off against accumulated losses of the Company and remaining balance transferred to contributed surplus account	—	—	13,630,807	—	—	25,244,873	38,875,680
Profit for the year	—	—	—	—	—	9,673,788	9,673,788
At 31 December 2006	169,564,710	—	100,383,317	131,919	8,702,957	(34,007,728)	244,775,175
Retained by:							
Company and subsidiaries	169,564,710	—	100,383,317	131,919	8,702,957	(33,958,644)	244,824,259
Associates	—	—	—	—	—	(182,826)	(182,826)
Jointly controlled entities	—	—	—	—	—	133,742	133,742
	169,564,710	—	100,383,317	131,919	8,702,957	(34,007,728)	244,775,175

Notes to the Financial Statements

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25. RESERVES *(Continued)*

	Share premium HK$	Capital reserve on consolidation HK$	Contributed surplus HK$	Exchange fluctuation reserve HK$	Changes in fair value of available-for-sale financial assets HK$	(Accumulated losses)/ Retained profits HK$	Total HK$
Company							
At 31 December 2004							
— As originally stated	3,237,490	—	86,752,510	—	—	(15,684,681)	74,305,319
— Effect for the adoption of HKAS 39	—	—	—	—	(664,267)	870,000	205,733
At 1 January 2005, as restated	3,237,490	—	86,752,510	—	(664,267)	(14,814,681)	74,511,052
Decrease in fair value of available-for-sale financial assets	—	—	—	—	(1,055,540)	—	(1,055,540)
Loss for the year	—	—	—	—	—	(10,430,192)	(10,430,192)
At 31 December 2005	3,237,490	—	86,752,510	—	(1,719,807)	(25,244,873)	63,025,320
At 1 January 2006							
— As brought forward	3,237,490	—	86,752,510	—	(1,719,807)	(25,244,873)	63,025,320
Increase in fair value of available-for-sale financial assets	—	—	—	—	2,586,074	—	2,586,074
Credit arised on capital reduction set off against accumulated losses of the Company and remaining balance transferred to contributed surplus account	—	—	13,630,807	—	—	25,244,873	38,875,680
Profit for the year	—	—	—	—	—	864,904	864,904
At 31 December 2006	**3,237,490**	**—**	**100,383,317**	**—**	**866,267**	**864,904**	**105,351,978**

The contributed surplus of the Group and the Company represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation scheme completed on 12 December 2001 over the nominal value of the Company's shares issued in exchange.

Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

Notes to the Financial Statements

For the year ended 31 December 2006

25. RESERVES *(Continued)*

Prior year adjustments represent the following:

The effects of the prior year adjustments in the consolidated balance sheet and other significant related disclosure items as previously reported for the balances at 1 January 2005 are summarized below:

	2005 *HK$* (as previously reported)	Adjustment	2005 *HK$* (as restated)
Consolidated balance sheet items			
Interests in associates	17,562,305	1,522,786	19,085,091
Available-for-sale financial assets	73,437,295	22,522	73,459,817
		1,545,308	
Net asset value	232,816,830		234,362,138
Net asset value per share	54 cents		54 cents

Notes:

(1) In previous years, the Group had mistakenly recognised, in the interests in associates, a share of the loss of its associate, namely Luck Point Investments Limited, by the amount of HK$1,522,786. The correction of this error has resulted in an increase in retained profits and increase in the interests in associates at 1 January 2005 by that amount.

(2) In addition, the impairment loss for the disposed financial assets amounted to HK$22,522 was not yet reversed at the year when it was sold. The reversal of the impairment loss has increased the retained profits and the available-for-sale financial assets at 1 January 2005 for the amount.

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For the year ended 31 December 2006

26. DISPOSAL OF A SUBSIDIARY

	Group	
	2006	2005
	HK$	*HK$*
Net assets disposed of:		
Interests in jointly controlled entities	—	25,079,151
Property, plant and equipment	—	57,399
Cash and bank balances	—	41,426,454
Other receivables	—	110,950
Other payables	—	(1,493,756)
	—	65,180,198
Realisation of exchange fluctuation reserve	—	1,887,093
	—	67,067,291
Sales proceeds	—	(65,123,371)
Loss on disposal	—	1,943,920

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	Group	
	2006	2005
	HK$	*HK$*
Sales proceeds	—	65,123,371
Cash and bank balances of the disposed subsidiary	—	(41,426,454)
Net inflow of cash and cash equivalents in respect of disposal of the subsidiary	—	23,696,917

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27. ACQUISITION OF A SUBSIDIARY

The Group had acquired 100% of the issued share capital of Contessa Assets Limited. Contessa Assets Limited is engaged in investment holding. The purchase consideration for the acquisition was in the form of cash, with HK$1,000,000 paid at the acquisition date.

The fair values of the identifiable assets and liabilities of Contessa Assets Limited as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	2006 Fair value recognized on acquisition	Carrying amount
	HK$	*HK$*
Investment in an associate	**312**	312
Amount due from an associate	**—**	10,851,203
	312	10,851,515
Goodwill	**999,688**	
Satisfied by cash	**1,000,000**	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2006
	HK$
Cash consideration	1,000,000
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	1,000,000

The goodwill arising on acquisition was reviewed and subsequently an impairment loss of this goodwill has been recognised in the consolidated income statement for the year ended 31 December 2006.

Notes to the Financial Statements

For the year ended 31 December 2006

28. NET ASSET VALUE PER SHARE

Net asset value per share is computed based on:

	Group	
	2006	2005
	HK$	*HK$*
		(restated)
Net assets	**249,094,695**	234,362,138
Number of ordinary shares	**431,952,000**	431,952,000

29. DEFERRED TAXATION

No provision for deferred taxation has been made in the financial statements as the tax effect of temporary differences is immaterial to the Group.

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2006	2005
	HK$	*HK$*
Within one year	**122,440**	—
In the second to fifth year inclusive	**40,800**	—
	163,240	—

Notes to the Financial Statements

For the year ended 31 December 2006

31. RELATED PARTY TRANSACTIONS

Apart from the transactions with related parties disclosed elsewhere in the financial statements, the following transactions were entered into by the Group with the related parties negotiated on terms mutually agreed with these related parties:

(a) **Group**

	2006	2005
	HK$	*HK$*
Management fees received from jointly controlled entities	**—**	117,924

(b) Details of guarantees issued by the Company in favour of banks to a direct subsidiary of an associate are set out in note 32.

32. CONTINGENT LIABILITIES

There were contingent liabilities in respect of letters of guarantee issued by the Company, as guarantor, in favour of a bank in respect of banking facilities granted by the bank to the indirect subsidiaries of an investee company and the direct subsidiary of an associate. The banking facilities granted to the investee company's indirect subsidiaries are also secured by the mortgage of the investment properties of the investee company's indirect subsidiaries. The banking facilities granted to the associate's direct subsidiary is also secured by the mortgage of the investment properties of the associate's direct subsidiaries.

	Group	
	2006	2005
	HK$	*HK$*
Indirect subsidiaries of an investee company:		
— Fortune Leader Overseas Chinese (Daiyawan) Real Estate Development Company Limited	**—**	13,573,000
— Fortune Leader Overseas Chinese (Daiyawan) Investment Company Limited	**—**	9,855,000
Direct subsidiary of an associate:		
— Great Fidelity Limited	**17,250,000**	7,250,000
	17,250,000	30,678,000

Notes to the Financial Statements

For the year ended 31 December 2006

33. FINANCIAL RISK MANAGEMENT

(A) Financial Risk Factors

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

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar, US dollar and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Since the exchange rate of RMB is subject to exchange control and HK dollar is pegged to US dollar, the directors consider that the Group's foreign exchange risk is not significant.

(ii) Price risk

The Group is exposed to price risk of equity securities, derivatives and embedded derivatives which are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. The Group regards the maximum credit risk exposure limited to held-to-maturity debt securities, loans to an investee company, investment securities, other investments, available-for-sale financial assets, financial assets at fair value through profit or loss, other receivables, due from SINOX and cash with brokers.

(c) Liquidity risk

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its investment commitments.

Notes to the Financial Statements

For the year ended 31 December 2006

33. FINANCIAL RISK MANAGEMENT *(Continued)*

(A) Financial Risk Factors *(Continued)*

(d) Cash flow and 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.

(B) Fair value estimation

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

Fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are mainly impairment of financial assets. Note 3(h) contains information on the assumptions on impairment of unlisted securities.

35. EVENT AFTER THE BALANCE SHEET DATE

During the year 2000, the Group disposed of its 26.8% equity interest in an associated company, Shanghai White Cat Company Limited ("White Cat"), for a consideration of RMB108 million (approximately HK$100 million). This gave rise to a gain on disposal of approximately HK$17 million (net of taxation of approximately HK$14 million which comprised enterprise tax and business tax in the PRC). RMB33 million out of the consideration was not received since then and a provision for non-recovery of receivable had also been made in the year 2003. Subsequent to the balance sheet date, the Group has finalised all necessary procedures for the disposal of White Cat with the purchaser and obtaining all necessary approvals from the PRC government authorities by receiving a final payment of approximately HKD22 million, after expenses, which will be recognized in the financial statements for the year ended 31 December 2007.

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36. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Cash at bank and in hand	**10,679,787**	6,478,981	**169,675**	179,072
Cash with brokers	**7,206,335**	1,279,521	**—**	—
Short term bank deposits	**58,445,989**	57,737,673	**58,445,989**	36,756,694
	76,332,111	65,496,175	**58,615,664**	36,935,766

The average interest rate on short term bank deposits was approximately 4.2% (2005: approximately 2.16%); these deposits have an average maturity of 4 days.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on page 23 to 73 were approved and authorized for issue by the board of directors on 14 March 2007.