Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The directors consider the parent and ultimate parent of the Company to be China United Telecom Limited ("China United"), a company incorporated in the British Virgin Islands with limited liability. The address of the registered office of the Company is disclosed in the corporate information of the annual report.

The nature of operations of the Group and its principal activities have not changed during the year and consisted of securities broking, underwriting, share margin financing and investment holding.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company (the "Directors") have given consideration to the future liquidity of the Group in light of its net current liabilities of HK$60,716,425 and net liabilities of HK$58,538,564 as at 31 December 2006. The Directors are taking active steps to improve the liquidity position of the Group. Included in the consolidated balance sheet at 31 December 2006 is a loan payable of HK$58,083,993 and an accrued interest of HK$10,886,781 owed to a third party, classified as current liabilities (herein collectively referred to as the "Total Amount Payable"). The Company is in process of negotiation with the third party for the settlement of the Total Amount Payable. In addition, the Company is in process of exploring with potential investors the injection into the Group of income generating investments in the People's Republic of China. Provided that the repayment arrangement for the Total Amount Payable can be agreed upon and provided that income generating investments are injected into the Group, the Directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED STANDARDS

In the current year, the Group has applied all of the new and revised standards and interpretations issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The application of these new and revised standards and interpretations had no material effect on how the results for the current or prior accounting periods have been prepared and presented.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group.

3. APPLICATION OF NEW AND REVISED STANDARDS (Continued)

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: disclosures[1]
HKFRS 8	Operating segments[8]
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]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasure share transactions[6]
HK(IFRIC) – INT 12	Service concession arrangements[7]

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
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008
8 Effective for annual periods beginning on or after 1 January 2009

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for the trading rights which were revalued as explained in the accounting policies set as below.

The financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Subsidiaries

A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by the Company.

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

Investments in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. 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, 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.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue arising from financial services are recognised on the following bases:

- Commission income for broking business is recorded as income on trade date basis.
- Arrangement, management, advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered.
- Interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

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

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

Service fees are recognised when the relevant services are rendered.

Intangible assets

Trading rights represent rights to trade on the Stock Exchange and Hong Kong Futures Exchange Limited (the "Futures Exchange"). They are stated at revalued amount and amortised using the straight-line method over its estimated useful life.

Trading rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the trading rights' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of determining the recoverable amount of trading rights, the Group estimates the recoverable amount of smallest cash generating unit to which the trading rights belong.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accounted impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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.

When 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum :

Motor vehicles	20%
Computers	20% – 50%
Office equipment and furniture	20% – $33^1/_3$%
Leasehold improvements	Over the shorter of lease term or 20%

Asset held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (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. At each balance sheet date subsequent to initial recognition, loans and receivables including account receivables, statutory deposits for financial services business, deposits and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's and the Company's financial liabilities are all classified as other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including account payables, other payables and accrued charges, loan payables, amount due to an associate, amounts due to directors and obligations under finance lease are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when, and only when it is extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

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.

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expenses as they fall due.

Share-based payment transactions

The Group issues equity-settled share-based payments to certain employees. The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense on a straight-line basis over the vesting period with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained earnings.

Impairment losses (other than intangible assets with indefinite useful lives)

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, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

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, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other Standard.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, the management has made various estimates based on past experience, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial information are disclosed below.

Going concern

The Group has net current liabilities of HK$60,716,425 and net liabilities of HK$58,538,564 as at 31 December 2006. The daily operation of the Group is mainly funded by the chairman of the Board. The Directors are taking active steps to improve the liquidity position of the Group. The Company is in the process of negotiation with the third party for the settlement of the Total Amount Payable. In addition, the Company is in process of exploring with potential investors the injection into the Group of income generating investments in the People's Republic of China. Accordingly, the financial statements have been prepared on a going concern basis.

Should all of the above steps failed, the financial statements should be prepared on a net realisable basis which requires, where appropriate, writing down the Group's assets to net realisable value, the non-current assets and non-current liabilities have to be reclassified as current assets and liabilities respectively.

Allowance for doubtful debts

The policy for allowance for doubtful loans and bad debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. If the financial conditions of clients of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Valuation of share options granted

The Group estimates the fair value option using the Binomial option pricing model which involves the use of estimates. Details of the significant inputs to the valuation model are disclosed in note 33 to the financial statements.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include account receivables, other receivables, deposits, account payables, loan payables and amounts due to directors. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk

Foreign currency risk should not be significant to the Group since substantial assets and liabilities are either denominated in Hong Kong dollars or Renminbi which were quite stable during the year. No financial instruments have been employed for hedging purposes by the Group.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group also has significant concentration of credit risk by several debtors, further details of which are set out in note 34. The Group reviews the recoverable amount for each individual account receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Directors of the Company consider that the Group's credit risk is effectively controlled and significantly reduced.

Bank balances are placed in various authorised institutions and Directors of the Company consider the credit risk for such is minimal.

7. REVENUE

Revenue, which is also turnover of the Group, is analysed as follows:

	2006	2005
	HK$	*HK$*
Brokerage and commission income	**5,396,664**	3,249,338
Interest income	**203,820**	191,108
Management fees	**–**	101,837
	5,600,484	3,542,283

8. OTHER OPERATING INCOME

	2006	2005
	HK$	*HK$*
Management, handling fee and nominee services	**448,408**	401,377
Miscellaneous income	**162,749**	386,560
Net exchange gain	**873,185**	980,180
Gain on disposal of other intangible assets	**115,460**	–
	1,599,802	1,768,117

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$	*HK$*
Directors' remuneration		
– fees	**190,000**	190,000
– other emoluments	**1,320,000**	1,320,000
– retirement benefits scheme contribution	**24,000**	20,000
– share-based payments	**105,000**	288,740
Salaries, allowances and commission	**5,580,439**	5,903,789
Share-based payments	**144,000**	361,260
	7,363,439	8,083,789

10. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

(a) Directors' remuneration

The remuneration paid/payable to Directors during the year and their respective comparative figures for year 2005 are as follows:

	LU Ruifeng	YIU Hoi Ying	LU Ning	LI Chun	LAU Hak Lap	*(Note 1)* Chow Ching Yi	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
2006							
Fees	20,000	20,000	50,000	50,000	50,000	–	190,000
Other emoluments							
Salaries and other benefits	960,000	360,000	–	–	–	–	1,320,000
Retirements benefits scheme contribution	12,000	12,000	–	–	–	–	24,000
Share-based payments *(note 2)*	8,750	70,000	8,750	8,750	8,750	–	105,000
Total emoluments	1,000,750	462,000	58,750	58,750	58,750	–	1,639,000
2005							
Fees	20,000	20,000	50,000	50,000	50,000	–	190,000
Other emoluments							
Salaries and other benefits	960,000	360,000	–	–	–	–	1,320,000
Retirements benefits scheme contribution	8,000	12,000	–	–	–	–	20,000
Share-based payments *(note 2)*	24,060	192,500	24,060	24,060	24,060	–	288,740
Total emoluments	1,012,060	584,500	74,060	74,060	74,060	–	1,818,740

Note:

1. Director resigned during the year ended 31 December 2005.

2. These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4.

10. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

(a) Directors' remuneration (Continued)

During the year ended 31 December 2005, share options in respect of 12,000,000 shares of the Company were granted to the Directors.

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

(b) Five highest paid individuals

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

	2006	2005
Number of Directors	**2**	2
Number of employees	**3**	3

Details of the Directors' remuneration are presented above.

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

	2006	2005
	HK$	*HK$*
Basic salaries, housing allowances, other allowances and benefits in kind	**1,434,400**	1,348,400
Retirement benefits scheme contribution	**36,000**	36,000
Share-based payments	**105,000**	360,938
	1,575,400	1,745,338

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

During the year, no remuneration was paid by the Group to the Directors 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.

11. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution retirement benefits schemes which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a mandatory provident fund scheme established under the Mandatory Provident Fund Ordinance in December 2000. Contributions are made based on the lower of (i) a percentage of the employee's salaries and (ii) statutory ceiling, if any.

Contributions paid to retirement benefits schemes for Directors and staff are charged to the income statement for 2006 amounted to HK$246,829 (2005: HK$268,377). Any forfeited employer contributions in respect of employees who leave the ORSO Scheme prior to such contributions vesting fully will be used by the Group to reduce contributions. There was no forfeited contributions utilised by the Group in 2006 and 2005.

12. OTHER OPERATING EXPENSES

	2006	2005
	HK$	*HK$*
Included in other operating expenses are:		
Auditors' remuneration	**360,000**	800,000
Loss on disposal of property, plant and equipment	**–**	80,202
Loss on dissolution of an associate	**18,444**	–
Consultancy fees	**2,609,900**	5,476,202
Rentals in respect of office premises	**2,111,257**	3,014,293

13. FINANCE COSTS

	2006	2005
	HK$	*HK$*
Interest on:		
Bank loans, overdrafts and other loans wholly repayable within five years	**4,065,879**	4,075,743
Finance lease	**16,090**	16,090
	4,081,969	4,091,833

14. TAXATION

No provision for Hong Kong Profits Tax was made for both years as the Group either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by tax losses brought forward for the two years ended 31 December 2006 and 2005.

The tax charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2006	2005
	HK$	*HK$*
Loss before taxation	**(16,133,833)**	(22,736,301)
Tax at domestic income tax rate of 17.5%	**(2,823,420)**	(3,978,853)
Tax effect of income not taxable for tax purpose	**(23,867)**	(3,714)
Tax effect of expenses not deductible for tax purpose	**1,121,934**	1,471,089
Tax effect of tax losses not recognised	**1,725,353**	2,423,538
Others	**–**	87,940
Tax charge for the year	**–**	–

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$274 million (2005: HK$264 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams, and no deferred tax liabilities in respect of accelerated depreciation allowance have been recognised as the amount involved is insignificant.

15. LOSS FOR THE YEAR

The consolidated loss for the year included a loss of HK$15,544,848 (2005: HK$25,351,905) which has been dealt with in the financial statements of the Company.

16. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of HK$16,133,833 (2005: HK$22,736,301) and 1,457,527,296 (2005: 1,457,527,296) shares in issue during the year.

Diluted loss per share for the years ended 31 December 2006 and 2005 has not been presented as the effect of any dilution is anti-dilutive.

17. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into two main operating segments, namely financial services and investment holding. Financial services comprises securities broking, underwriting and share margin financing services.

Both financial services and investment holding are based in Hong Kong. The combined business and geographical segments are shown as follows:

Income statement for the year ended 31 December 2006

	Hong Kong		
	Financial services *HK$'000*	**Investment holding** *HK$'000*	**Consolidated** *HK$'000*
REVENUE	5,594	6	5,600
RESULT			
Segment profit/(loss)	91	(13,743)	(13,652)
Other operating income			1,600
Finance costs			(4,082)
Loss before taxation			(16,134)
Taxation			–
Loss for the year			(16,134)

Balance sheet as at 31 December 2006

	Hong Kong		
	Financial services *HK$'000*	**Investment holding** *HK$'000*	**Consolidated** *HK$'000*
ASSETS			
Segment assets	91,956	40,089	132,045
Interest in an associate	–	–	–
Consolidated total assets			132,045
LIABILITIES			
Segment liabilities	45,695	86,590	132,285
Unallocated corporate liabilities			58,298
Consolidated total liabilities			190,583

17. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other information for the year ended 31 December 2006

	Hong Kong		
	Financial services	**Investment holding**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*
Additions to property, plant and equipment	5	17	22
Allowance for doubtful debts	48	–	48
Depreciation of property, plant and equipment	32	694	726
Amortisation of intangible assets	271	–	271

Income statement for the year ended 31 December 2005

	Hong Kong		
	Financial services	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*
REVENUE	3,526	16	3,542
RESULT			
Segment loss	(2,181)	(18,231)	(20,412)
Other operating income			1,768
Finance costs			(4,092)
Share of loss of an associate			–
Loss before taxation			(22,736)
Taxation			–
Loss for the year			(22,736)

17. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance sheet as at 31 December 2005

	Hong Kong		
	Financial services *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
ASSETS			
Segment assets	46,199	37,528	83,727
Interest in an associate	–	716	716
Consolidated total assets			84,443
LIABILITIES			
Segment liabilities	40,416	28,297	68,713
Unallocated corporate liabilities			58,384
Consolidated total liabilities			127,097

Other information for the year ended 31 December 2005

	Hong Kong		
	Financial services *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
Additions to property, plant and equipment	–	316	316
Loss on disposal of property, plant and equipment	80	–	80
Allowance for doubtful debts	–	–	–
Depreciation of property, plant and equipment	155	853	1,008
Amortisation of intangible assets	271	–	271

18. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles	Computers	Office equipment and furniture	Leasehold improvements	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
THE GROUP					
COST					
At 1 January 2005	660,698	1,335,599	2,405,335	2,201,483	6,603,115
Additions	5,655	105,765	84,211	120,100	315,731
Disposals/written off	–	(905,070)	(1,927,313)	(985,483)	(3,817,866)
At 1 January 2006	666,353	536,294	562,233	1,336,100	3,100,980
Additions	–	21,715	–	–	21,715
At 31 December 2006	666,353	558,009	562,233	1,336,100	3,122,695
DEPRECIATION					
At 1 January 2005	32,157	1,014,362	1,978,031	1,022,985	4,047,535
Charge for the year	124,907	139,739	116,076	627,584	1,008,306
Eliminated on disposals/ written off	–	(837,025)	(1,908,839)	(982,519)	(3,728,383)
At 1 January 2006	157,064	317,076	185,268	668,050	1,327,458
Charge for the year	128,602	55,591	96,243	445,367	725,803
At 31 December 2006	285,666	372,667	281,511	1,113,417	2,053,261
NET BOOK VALUES					
At 31 December 2006	380,687	185,342	280,722	222,683	1,069,434
At 31 December 2005	509,289	219,218	376,965	668,050	1,773,522

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Motor vehicles *HK$*	Computers *HK$*	Office equipment and furniture *HK$*	Leasehold improvements *HK$*	Total *HK$*
THE COMPANY					
COST					
At 1 January 2005	660,698	15,700	395,235	1,216,000	2,287,633
Additions	5,655	105,765	84,211	120,100	315,731
At 1 January 2006	666,353	121,465	479,446	1,336,100	2,603,364
Additions	–	16,832	–	–	16,832
At 31 December 2006	666,353	138,297	479,446	1,336,100	2,620,196
DEPRECIATION					
At 1 January 2005	32,157	272	22,629	40,466	95,524
Charge for the year	124,907	18,022	82,204	627,584	852,717
At 1 January 2006	157,064	18,294	104,833	668,050	948,241
Charge for the year	128,602	24,804	95,563	445,367	694,336
At 31 December 2006	285,666	43,098	200,396	1,113,417	1,642,577
NET BOOK VALUES					
At 31 December 2006	380,687	95,199	279,050	222,683	977,619
At 31 December 2005	509,289	103,171	374,613	668,050	1,655,123

The net book value of the Group's and the Company's motor vehicles of HK$380,687 includes an amount of HK$243,105 (2005: HK$509,289 includes an amount of HK$328,908) in respect of assets held under finance lease.

19. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM /TO SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$	*HK$*
Unlisted shares, at cost	**13,460,222**	13,460,228
Impairment loss recognised	**(8,140,592)**	(8,085,206)
	5,319,630	5,375,022
Amount due from subsidiaries	**79,053,707**	87,344,233
Impairment loss recognised	**(79,053,707)**	(87,344,233)
	–	–
Amount due to subsidiaries	**5,319,630**	5,375,022

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. The carrying amount at the balance sheet date approximates their fair value.

Due to the continue losses incurred by the subsidiaries, the Directors reassessed the recoverable amount of the investment costs of the subsidiaries and the amounts due from subsidiaries based on discounted future cash flow from the subsidiaries and recognised an impairment of HK$8,140,592 (2005: HK$8,085,206) and HK$79,053,707 (2005: HK$87,344,233) respectively.

19. INVESTMENTS IN SUBSIDIARIES AND AMOUNT DUE FROM /TO SUBSIDIARIES (Continued)

Details of the Company's subsidiaries principally affected the results or assets of the Group as at 31 December 2006 are all operating in Hong Kong and are as follows:

Name of company	Place of incorporation	Paid up share capital	Class of share held	Percentage of nominal value of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Mansion House Financial Holdings Limited	British Virgin Islands	955,000 shares of US$1 each	Ordinary	100	–	Investment holding
Mansion House Securities (F.E.) Limited	Hong Kong	30,000,000 shares of HK$1 each	Ordinary	–	100	Securities broking, margin financing and asset management
Mansion House Asset Management Limited	Hong Kong	1,000,000 shares of HK$1 each	Ordinary	–	100	Inactive
Mansion House (Nominees) Limited	Hong Kong	100 shares of HK$1 each	Ordinary	–	100	Nominee services and investment holding
MHS Futures Limited	Hong Kong	6,000,000 shares of HK$1 each	Ordinary	100	–	Investment holding

20. INTEREST IN AN ASSOCIATE

	THE GROUP		THE COMPANY	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Unlisted shares, at cost	**–**	–	**–**	1,000,000
Impairment loss recognised	**–**	–	**–**	(284,156)
Share of net assets	**–**	715,844	**–**	–
	–	715,844	**–**	715,844

The interest in an associate represented 50% interest in Goctic Mansion House Investment Management Limited, a company incorporated in Hong Kong. The associate was dissolved on 1 December 2006. The loss on dissolution of the associate amounted to HK$18,444.

21. TRADING RIGHTS

	THE GROUP
	HK$
REVALUED AMOUNT	
At 1 January 2005, 1 January 2006 and 31 December 2006	6,000,000
AMORTISATION AND IMPAIRMENT	
At 1 January 2005	4,642,860
Provided for the year	271,430
At 1 January 2006	4,914,290
Provided for the year	271,430
At 31 December 2006	5,185,720
NET BOOK VALUES	
At 31 December 2006	814,280
At 31 December 2005	1,085,710

The Group holds 2 trading rights at the Stock Exchange and 1 trading right at the Futures Exchange. These trading rights were revalued as at 31 December 2001 and are amortised over 8 years since 2002.

Had the trading rights been carried at cost less accumulated amortisation, they would have been fully amortised as at 31 December 2006 and 31 December 2005.

22. LOAN RECEIVABLES

	THE GROUP	
	2006	2005
	HK$	*HK$*
Loan receivables	**80,843,667**	80,843,667
Less: Allowance for doubtful loans	**(80,843,667)**	(80,843,667)
	–	–

Details of the loan receivables are set out in note 34(a).

23. ACCOUNT RECEIVABLES

	THE GROUP	
	2006	2005
	HK$	*HK$*
Margin clients	**26,172,157**	26,186,153
Cash clients	**21,529,413**	6,706,321
Brokers, dealers and clearing houses	**4,812,538**	641,255
	52,514,108	33,533,729
Less: Allowance for doubtful debts	**(26,171,327)**	(26,185,827)
	26,342,781	7,347,902

The aged analysis of account receivables is as follows:

	THE GROUP	
	2006	2005
	HK$	*HK$*
Less than one month	**26,274,823**	7,230,486
Over one month but less than three months	**67,128**	36,893
Over three months	**26,172,157**	26,266,350
	52,514,108	33,533,729
Less: Allowance for doubtful debts	**(26,171,327)**	(26,185,827)
	26,342,781	7,347,902

23. ACCOUNT RECEIVABLES (Continued)

The settlement terms of account receivables arising from the business of dealing in securities are two days after trade date, except for the loans to margin clients, all the account receivables arising from the business of dealing in securities aged within 30 days. The loans to margin clients are aged over three months as the Group has not provided margin financing any more.

Included among the margin clients amount receivable, the Group granted HK$17,153,994 (2005: HK$17,153,994) margin loans to the related party, which were fully provided. Details of the loans are set out in note 34(b).

24. OTHER FINANCIAL ASSETS AND LIABILITIES

Statutory deposits for financial services business

The amounts represent deposits with various exchanges and clearing houses. They are non-interest bearing. The carrying amount of these assets at the balance sheet date approximates their fair value.

Other receivables, deposits and prepayments

Among the other receivables, deposits and prepayment, an amount equivalent to HK$27,725,067 (2005: HK$34,168,080) represented deposits with an agency.

The carrying amount of these assets at the balance sheet date approximates their fair value.

Bank balances – trust and segregate accounts

From the Group's ordinary business, it receives and holds money deposited by clients and other institutions in the course of the conduct of the regulated activities. These clients' monies are maintained in one or more segregated bank accounts. The Group has recognised the corresponding account payables to respective clients and other institutions. However, the Group does not have a currently enforceable right to offset those payables with the deposits placed. The fair values of these assets at the balance sheet date approximate their carrying amounts.

Bank balances (general accounts) and cash

The amounts comprise cash held by the Group. The fair values of these assets at the balance sheet date approximate their carrying amounts.

Other payables and accrued charges

The carrying amount of these liabilities at the balance sheet date approximates their fair value.

25. OTHER INTANGIBLE ASSETS

	THE GROUP AND THE COMPANY HK$
COST	
At 1 January 2005 and 1 January 2006	2,035,000
Disposal	(2,035,000)
At 31 December 2006	–
IMPAIRMENT	
At 1 January 2005 and 1 January 2006	1,535,000
Eliminated on disposal	(1,535,000)
At 31 December 2006	–
CARRYING VALUE	
At 31 December 2006	–
At 31 December 2005	500,000

Other intangible assets represented memberships of a society with indefinite useful lives and were tested for impairment annually by comparing its carrying value with its recoverable amount. On 23 November 2006, the Company sold the memberships to a third party at a consideration of HK$680,000 that gave rise to a gain after deducting direct cost of disposal of HK$115,460.

26. ACCOUNT PAYABLES

	THE GROUP	
	2006	2005
	HK$	*HK$*
Margin clients	**1,202,070**	1,350,741
Cash clients	**84,886,854**	38,733,051
Brokers, dealers and clearing houses	**1,301**	1,480
	86,090,225	40,085,272

There was no payable to Directors for transactions in securities as at 31 December 2006 and 31 December 2005.

The age of accounts payable is less than one month.

26. ACCOUNT PAYABLES (Continued)

The account payables amounting to HK$62,437,833 (2005: HK$33,699,531) was payable to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

The carrying amount of these account payables at the balance sheet date approximate their fair value.

27. LOAN PAYABLES

	THE GROUP AND THE COMPANY	
	2006	2005
	HK$	*HK$*
Loan payables	**58,083,993**	58,083,993

Loan payables are unsecured and bears interest at 7% per annum for both years.

The carrying amount of the loan payables at the balance sheet date approximate to their fair value.

28. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest free and repayable on demand.

The carrying value of the balance at the balance sheet date approximates the fair value.

29. OBLIGATIONS UNDER FINANCE LEASE

	THE GROUP AND THE COMPANY			
	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$	*HK$*	***HK$***	*HK$*
Amount payable under finance lease				
Within one year	**93,401**	93,401	**78,652**	78,652
In the second to fifth year inclusive	**161,329**	263,221	**135,853**	221,655
	254,730	356,622	**214,505**	300,307
Less: Future finance charges	**(40,225)**	(56,315)		
Present value of lease obligation	**214,505**	300,307		
Less: Amount due for settlement with twelve months (shown under current liabilities)			**(78,652)**	(78,652)
Amount due for settlement after twelve months			**135,853**	221,655

It is the Group's policy to lease its motor vehicle under finance lease. The lease term is 5 years and the effective borrowing rate is 3.75%. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's and the Company's obligations under finance lease are secured by the lessor's charge over the leased assets.

30. SHARE CAPITAL

	Number of shares		Amount	
	2006	2005	**2006**	2005
			HK$	*HK$*
Ordinary shares of HK$0.20 each				
Authorised:				
At the beginning and				
at the end of the year	**2,000,000,000**	2,000,000,000	**400,000,000**	400,000,000
Issued and fully paid:				
At the beginning and				
at the end of the year	**1,457,527,296**	1,457,527,296	**291,505,459**	291,505,459

31. RESERVES

	Share premium account	**Share option reserve**	**Accumulated losses**	**Total**
	HK$	*HK$*	*HK$*	*HK$*
THE COMPANY				
As at 1 January 2005	30,797,455	–	(346,219,874)	(315,422,419)
Loss for the year and total recognised income and expense	–	–	(25,351,905)	(25,351,905)
Recognition of equity-settled share based payments	–	650,000	–	650,000
As at 1 January 2006	30,797,455	650,000	(371,571,779)	(340,124,324)
Loss for the year and total recognised income and expense	–	–	(15,544,848)	(15,544,848)
Recognition of equity-settled share based payments	–	249,000	–	249,000
Forfeiture of share options	–	(5,544)	5,544	–
As at 31 December 2006	30,797,455	893,456	(387,111,083)	(355,420,172)

32. OPERATING LEASE COMMITMENT

At 31 December 2006, the Group and the Company had total commitments for future minimum lease payment under non-cancellable operating leases in respect of office premises which fall due as follows:

	THE GROUP AND THE COMPANY	
	2006	2005
	HK$	*HK$*
Within one year	**988,178**	2,331,489
In the second to fifth year inclusive	**–**	1,483,459
	988,178	3,814,948

Operating lease payments represent rental payable by the Group for certain of its office premises. Leases are negotiated for an average term of three years.

33. SHARE OPTION SCHEMES

The Company operates share option schemes under which eligible persons are entitled to benefit in respect of their services to the Group.

(a) 1998 Share Option Scheme

The major terms of the 1998 Share Option Scheme are summarised as follows:

(i) The purpose is to provide incentives to the participants.

(ii) The participants include any full-time employee (including full-time executive directors) of the Group.

(iii) The maximum number of shares of the Company ("Shares") in respect of which options may be granted (together with Shares issued pursuant to options exercised and Shares in respect of which any option remains outstanding) under the 1998 Share Option Scheme and any other share option schemes of the Company remaining outstanding will not exceed 10% of the issued share capital of the Company from time to time, excluding any Shares issued pursuant to the 1998 Share Option Scheme.

33. SHARE OPTION SCHEMES (Continued)

(a) 1998 Share Option Scheme (Continued)

(iv) No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued under all the options previously granted to him which have been exercised, and issuable under all the options previously granted to him which are for the time being subsisting and unexercised, would exceed 25% of the aggregate number of Shares for the time being issued and issuable under the 1998 Share Option Scheme.

(v) The option period shall be a period to be notified by the Board of Directors (the "Board") to each grantee and shall not exceed a period of 5 years commencing on the expiry of 6 months after the date on which the option is accepted and beyond 3 February 2008. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.

(vi) The acceptance of an offer to an option shall be made within 28 days from the date of grant together with a non-refundable payment of HK$1.00 from the grantee.

(vii) The exercise price of an option must be the higher of:

- a price being not less than 80% of the average closing price of the Share on the Stock Exchange for the 5 trading days immediately preceding the grant; and

- the nominal value of the Share.

(viii) The duration of the 1998 Share Option Scheme was originally effective for 10 years until 3 February 2008. On 27 June 2002, the shareholders of the Company resolved to terminate the 1998 Share Option Scheme. The options granted under the 1998 Share Option Scheme are still exercisable in accordance with the terms of the 1998 Share Option Scheme.

33. SHARE OPTION SCHEMES (Continued)

(b) 2002 Share Option Scheme

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 27 June 2002, the Company adopted the 2002 Share Option Scheme to replace the 1998 Share Option Scheme. All the options granted under the 1998 Share Option Scheme remain valid and unchanged and shall be treated in accordance with the terms under the 1998 Share Option Scheme. The major terms of the 2002 Share Option Scheme are summarised as follows:

(i) The purpose is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company as a whole.

(ii) The participants include any employee, director or consultant of the Group, whether full time or otherwise.

(iii) The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company as at the adoption date of the 2002 Share Option Scheme and such limit may be refreshed by shareholders of the Company in general meeting. However, the overall limit on the number of Shares which may be issued upon exercise of all options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes must not exceed 30% of the Shares of the Company in issue from time to time.

(iv) Unless approved by the shareholders of the Company, the total number of Shares issued and to be issued upon exercise of the options granted to a participant (including both exercised and outstanding options) in any 12 months period must not exceed 1% of the Shares in issue.

(v) The option period shall be a period to be notified by the Board to each grantee at the time of making an offer subject to such conditions as the Board may think fit and which shall not expire later than 10 years from the date of grant.

(vi) Acceptance of an option shall be made within 21 days from the date of grant together with a non-refundable payment of HK$10.00 from the grantee.

33. SHARE OPTION SCHEMES (Continued)

(b) 2002 Share Option Scheme (Continued)

(vii) The exercise price of an option must be at least the highest of:

- the closing price of the Share as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day;
- the average closing price of the Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and
- the nominal value of the Share.

(viii) The 2002 Share Option Scheme shall be valid and effective for 10 years from the date of adoption.

33. SHARE OPTION SCHEMES (Continued)

The following table discloses details of the Company's share options held by the Directors and the employees of the Group and movements in such holdings during the year.

Name of Scheme	Date of grant	Exercise period	Exercise price HK$	Outstanding as at 1.1.2005	Granted in 2005	Lapsed in 2005	Outstanding as at 31.12.2005	Granted in 2006	Lapsed in 2006	Outstanding as at 31.12.2006
1998 Share option scheme										
Employees	1.3.2001	1.9.2001 – 31.8.2006	0.38	600,000	–	(200,000)	400,000	–	(400,000)	–
2002 Share option scheme										
Directors										
Mr. LU Ruifeng	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	500,000	–	500,000	–	–	500,000
		23.3.2007 – 22.3.2010	0.20	–	500,000	–	500,000	–	–	500,000
Mr. YIU Hoi Ying	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	4,000,000	–	4,000,000	–	–	4,000,000
		23.3.2007 – 22.3.2010	0.20	–	4,000,000	–	4,000,000	–	–	4,000,000
Mr. LU Ning	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	500,000	–	500,000	–	–	500,000
		23.3.2007 – 22.3.2010	0.20	–	500,000	–	500,000	–	–	500,000
Mr. LI Chun	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	500,000	–	500,000	–	–	500,000
		23.3.2007 – 22.3.2010	0.20	–	500,000	–	500,000	–	–	500,000
Mr. LAU Hak Lap	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	500,000	–	500,000	–	–	500,000
		23.3.2007 – 22.3.2010	0.20	–	500,000	–	500,000	–	–	500,000
Employees and consultant	23.3.2005	23.3.2005 – 22.3.2010	0.20	–	9,999,000	(483,000)	9,516,000	–	(144,000)	9,372,000
		23.3.2007 – 22.3.2010	0.20	–	9,999,000	(483,000)	9,516,000	–	(144,000)	9,372,000
	26.10.2006	26.10.2006 – 25.10.2011	0.20	–	–	–	–	30,000,000	–	30,000,000
		26.10.2008 – 25.10.2011	0.20	–	–	–	–	30,000,000	–	30,000,000
				–	31,998,000	(966,000)	31,032,000	60,000,000	(288,000)	90,744,000
				600,000	31,998,000	(1,166,000)	31,432,000	60,000,000	(688,000)	90,744,000

The estimated fair value of the options granted during the year was HK$0.0005 (2005: HK$0.035).

33. SHARE OPTION SCHEMES (Continued)

These fair value was calculated using the Binomial pricing model (2005: Black-Scholes pricing model). The inputs into the model were as follows:

	2006
Share price	HK$0.08
Exercise price	HK$0.2
Expected volatility	17%
Expected life	5 years
Risk-free rate	3.907%
Expected dividend yield	Nil

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

A share-based payment expense amounting to HK$249,000 (2005: HK$650,000) has been recognised by the Company for the year ended 31 December 2006 in relation to share options granted by the Company.

34. RELATED PARTY TRANSACTIONS

Save as disclosed in notes 19 and 28 to the financial statements, the following summarises the significant related party transactions.

(a) The Group granted the following related party loans on 20 October 1998 to enable the borrowers to reduce the outstanding balances in their margin accounts. These loans were approved by shareholders in the extraordinary general meeting held on 23 July 1999 as required by the Listing Rules.

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. SO Shu Ching, Jason, brother of an ex-director, Ms. SO Wai Yin, Irene	Company controlled by Ms. SO Wai Kwan, Sheila, sister of an ex-director, Ms. SO Wai Yin, Irene
Lender:	A wholly owned subsidiary, Mansion House Capital Limited	A wholly owned subsidiary, Mansion House Capital Limited
Terms of the loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Partially secured by marketable securities and unlisted shares	Partially secured by marketable securities and unlisted shares
– repayment terms	By 14 equal instalments payable semi-annually with the last instalment due in May 2006	By 14 equal instalments payable semi-annually with the last instalment due in May 2006
Balance at 31 December 2005 and 2006	HK$73,769,288	HK$7,074,379
Allowance at 31 December 2005 and 2006	HK$73,769,288	HK$7,074,379

These loans were rescheduled in 1999 with the last instalment due in May 2006. However, the loans have been in default since 2000 and a total allowance of HK$80,843,667 (2005: HK$80,843,667) has been made.

34. RELATED PARTY TRANSACTIONS (Continued)

(b) The Group provided margin financing to the following related parties:

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. SO Shu Ching, Jason, brother of an ex-director, Ms. SO Wai Yin, Irene	Company controlled by Ms. SO Wai Kwan, Sheila, sister of an ex-director, Ms. SO Wai Yin, Irene
Lender:	A wholly owned subsidiary, Mansion House Securities (F.E.) Limited	A wholly owned subsidiary, Mansion House Securities (F.E.) Limited
Terms of the loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Marketable securities	Marketable securities
Balance at 31 December 2006	HK$8,795,445	HK$8,358,549
Balance at 31 December 2005	HK$8,795,445	HK$8,358,549
Allowance at 31 December 2005 and 2006	HK$8,795,445	HK$8,358,549

The loans have been in default and a total allowance of HK$17,153,994 (2005: HK$17,153,994) has been made.

35. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The key management of the Group comprises all Directors, details of their remuneration are disclosed in note 10.