

Notes to the Financial Statements of the Company

For the period from 6 April 2006 (date of incorporation) to 31 December 2006

1. General

The Company is incorporated and registered as an exempted company with limited liability on 6 April 2006 under the Companies Law of the Cayman Islands and acts as an investment holding company. Its ultimate holding company is Favor Choice Group Limited, a company which is incorporated in the British Virgin Islands.

Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30 March 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

Under a group reorganisation to rationalise the structure of the group in preparation for the listing of the Company's shares on the Stock Exchange (the "Group Reorganisation"), the Company has become the holding company of the Group on 8 March 2007. Details of the Group Reorganisation are set out in the paragraph headed "Corporate Reorganisation" in Appendix VI to the prospectus dated 19 March 2007 issued by the Company (the "Prospectus").

2. New Hong Kong Financial Reporting Standards

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued the following Standards, Amendment and Interpretations ("INT"s) that have been issued but are not yet effective. The Company has considered the following Standards, Amendment and INTs but does not expect they will have a material effect on how the results of operations and financial position of the Company are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating segment 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
HK(IFRIC)-INT 11	HKFRS 2 — Group and Treasury 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.

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3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

Bank balances are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method, less any identified impairment losses.

Financial liability and equity

Financial liabilities and equity instruments issued by the Company 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 Company after deducting all of its liabilities.

Amount due to a related company

Amount due to a related company is initially measured at fair value and is subsequently measured at amortised cost using the effective interest method.

Equity instruments

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

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 period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

Deferred tax is calculated at the tax rates that are expected to apply in the period 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.

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3. Significant Accounting Policies (Continued)

Foreign currencies

The financial statements of the Company are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

In preparing the financial statements of the Company, transactions in currencies other than the entity's functional currency (foreign currency) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in profit or loss for the period.

4. Loss for the Period

RMB

Loss for the period has been arrived at after charging:

Directors' remuneration	—
Auditor's remuneration	—
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Auditor's remuneration for the year was borne by an entity controlled by the Company's shareholder.

5. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company had no assessable profit for the period.

6. Bank Balances

Bank balance carry interest at market rates at 2.5% per annum.

7. Amount Due to a Related Company

The amount was advanced from an entity controlled by the Company's shareholder. It is unsecured, interest-free and is repayable on demand. The directors consider the carrying amount of amount due to a related company approximates its fair value.

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8. Share Capital

	Authorised HK\$	Issued and nil paid HK\$
Ordinary shares of HK\$0.10 each		
— on incorporation and balance at 31 December 2006	<u>380,000</u>	—
		RMB
Shown in the financial statements at 31 December 2006		<u>—</u>

The Company was incorporated on 6 April 2006 with an authorised share capital of HK\$380,000, divided into 3,800,000 ordinary shares of HK\$0.10 each. At the time of incorporation, one nil paid share was issued.

9. Post Balance Sheet Events

The following significant events took place subsequent to 31 December 2006:

- (a) On 8 March 2007, shareholder's resolutions were passed to approve the matters set out in the paragraph headed "Written resolutions of the shareholders of the Company passed on 8 March 2007" in Appendix VI to the Prospectus, pursuant to which:
- (i) The authorised share capital of the Company was increased from HK\$380,000 to HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each.
 - (ii) On 30 March 2007, 290,722,000 shares of HK\$0.10 each of the Company were issued ("New Issue") at HK\$5.47 by way of placing and public offer. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.
 - (iii) Subject to the share premium account of the Company being credited as a result of the New Issue, the directors of the Company were authorised to capitalise HK\$70,547,800 standing to the credit of the share premium account of the Company by applying such sum in paying up full at par 705,478,000 shares for allotment and issue to the shareholders of the Company on the register of the members of the Company at the close of business on 8 March 2007 in proportion to their then respective existing shareholdings in the Company and the directors allotted and issued such shares as aforesaid and gave effect to the capitalisation issue and the shares allotted and issued rank *pari passu* with all shares then in issue.
- (b) On 8 March 2007, the Company took up the entire issued share capital of Favor Will Investments Limited from Madam Poon Wai, Messrs. Cheng Wai Tao and Katsuaki Shigemitsu, Shigemitsu Industry, Sirius Investment Inc. and Sirius Capital Holdings Pte Limited by exchange of its shares through (i) the crediting as fully paid up at par the one nil-paid share registered in the name of Favor Choice and (ii) the allotment and issue of 3,001,999 shares to Favor choice, credited as fully paid, at the direction of Madam Poon Wai, 418,000 shares to Mr. Cheng Wai Tao, credited as fully paid, 76,000 shares to Shigemitsu Industry, credited as fully paid, 190,000 shares to Mr. Katsuaki Shigemitsu, credited as fully paid, 76,000 shares to Sirius Investment Inc., credited as fully paid and 38,000 Shares to Sirius Capital Holdings Pte Limited, credited as fully paid.

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9. Post Balance Sheet Events (Continued)

- (c) Pursuant to the written resolution of the shareholders of the Company on 8 March 2007, the Company has adopted a Pre-IPO Share Option Scheme, details of which have been set out in the sub-section headed "Share Option Schemes" in Appendix VI to the Prospectus. Up to the date of this report, 20,000,000 options were granted under the Pre-IPO Share Option Scheme to subscribe shares in the Company at HK\$4.6495 per share, representing 85% of the final offer price to the public, and remained outstanding as at the date of this report. These options are exercisable over a period of 10 years commencing from and including the date falling twelve months after the date of listing of the shares of the Company on the Stock Exchange.
- (d) On 10 April 2007, an over-allotment option was exercised and a further 45,000,000 shares of HK\$0.10 each were issued at HK\$5.47 per share.