1. GENERAL

China Investment Fund Company Limited (the "Company") is an exempted company incorporated with limited liability in the Cayman Islands on 18 September 2001. Its registered office is at Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is at 4/F, Aon China Building, 29 Queen's Road Central, Hong Kong. The Company was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 2 January 2002.

The Company is principally engaged in investing in listed and unlisted securities. The activities of its subsidiaries are set out in note 12 to the financial statements.

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

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("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 Hong Kong Companies Ordinance.

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2006 comprise the financial statements of the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation *(continued)*

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

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

(c) 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.

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.

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

(d) Subsidiaries

A subsidiary is an entity in which the Company is able to exercise its control on it. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Revenue

Revenue from sales of listed financial assets at fair values through profit or loss is recognised on a trade-date basis.

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

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

(g) Foreign currency

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the consolidated income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollars at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated income statement as part of the profit or loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises the financial assets that have been acquired for the purpose of selling or repurchasing it in the short-term or if so designated by the management. This category includes derivatives which are not qualified for hedge accounting. Debt securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss. They are carried in the balance sheet at fair value with changes in fair value recognised in the consolidated income statement.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost less any identified impairment losses.

Available-for-sale: Available-for-sale financial assets are non-derivatives that are designated or not classified as any of the other categories set out above. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery if such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(ii) Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liabilities were incurred. Other than financial liabilities in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only out-of-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognised in the consolidated income statement.

Other financial liabilities: Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

- Bank borrowings, certain preference shares and the debt element of convertible debt issued by the Group are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) Derecognition

The Group derecognises a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of consideration received and receivable and the cumulative gain or loss that had been recognised directly as equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Employee benefits

(i) Defined contribution retirement plan

Obligations for contributions to defined contribution retirement plan are recognised as an expense in the consolidated income statement as incurred.

(ii) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they are accrued to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services up to the balance sheet date.

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

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

(k) Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible 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. Impairment loss is recognized 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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) 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 consolidated 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 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 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, and interests in joint ventures, 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.

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.

(m) Cash and cash equivalents

Cash includes cash on hand and demand deposits with any bank or other financial institution. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturing at acquisition.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group achieves its investment objective through investing in equities, debts and options and therefore is exposed to market price, credit, liquidity, interest rate and currency risks in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments in the market.

The Group limits its exposure to market price risk by transacting securities, debts and options that the Group considers to be of good credit ratings.

The Group's investment activities expose it to the various types of market risks which are associated with the markets in which it invests and to the extent of the amount invested in equities, debts and options totaling HK$41,958,270 as at year end (2005: HK$34,564,119).

(b) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. Financial assets which potentially subject the Group to concentrations of credit risk consist principally of available-for-sale financial assets, financial assets at fair value through profit or loss, bank balances and amounts receivable on sale of investments.

The Group limits its exposure to credit risk by transacting the majority of its securities and contractual commitment activities with broker-dealers, banks and regulated exchanges with high credit ratings and that the Group considers to be well established. All transactions in listed securities are settled/paid for upon delivery using approved and reputable brokers.

Accordingly, the Group has no significant concentration of credit risk.

(c) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in selling a financial asset quickly at close to its fair value.

The Group considered that its significant liquidity risk is on the unlisted investments totaling HK$21,000,000 as at year end (2005: HK$10,000,000).

(d) Interest rate risk

The Group is exposed to minimal interest rate risk as the Group invests mainly in equities and only the bank balances and debts are exposed to interest rate risk which is considered to be minimal.

3. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(continued)*

(e) Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Group has no significant currency risk because substantially all assets and liabilities are denominated in Hong Kong dollars or US dollars.

(f) Fair values

As at 31 December 2006, the carrying amount of cash and cash equivalents, prepayments, deposits and other receivables, accrued liabilities and other payables approximated their fair values due to the short term maturities of these assets and liabilities. The Group considers that financial assets at fair value through profit and loss are included in the consolidated balance sheet at amounts approximating to their fair values. The available-for-sale financial assets included unlisted investments, which do not have a quoted market price in an active market, have been measured at cost less any impairment loss.

4. TURNOVER AND OTHER INCOME

The Group is principally engaged in investing in listed and unlisted securities. Turnover represents proceeds from sales of investments and dividend income. An analysis of turnover and other income is as follows:

	2006	2005
	HK$	HK$
Turnover		
Proceeds from sales of listed financial assets at fair value through profit or loss	**32,380,826**	25,901,235
Dividend income from listed financial assets at fair value through profit or loss	**321,371**	2,306,676
	32,702,197	28,207,911
Other income		
Exchange gain	**–**	114,604
Interest income	**900,248**	246,972
Sundry income	**100,000**	–
Recovery of the zero coupon debt security written off in previous year	**13,424,754**	–
	14,425,002	361,576

5. SEGMENT INFORMATION

The Group's turnover and net profit for the year are entirely derived from investing in listed and unlisted financial assets and dividends received. The directors consider that these activities constitute one business segment since these transactions are subject to common risks and returns. Given the nature of the Group's operation is trading of financial assets, it is not considered meaningful to provide a business segment analysis of operating profits and segment assets.

The following table presents revenue and certain assets for the Group's geographical segments.

	Hong Kong		United States of America		People's Republic of China		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
Segment revenue:								
Proceeds from sales of listed financial assets at fair value through profit or loss	**32,380,826**	25,901,235	**–**	–	**–**	–	**32,380,826**	25,901,235
Dividends received	**321,371**	2,306,676	**–**	–	**–**	–	**321,371**	2,306,676
	32,702,197	28,207,911	**–**	–	**–**	–	**32,702,197**	28,207,911
Segment assets	**52,524,416**	44,149,337	**10,000,000**	10,000,000	**11,000,000**	–	**73,524,416**	54,149,337
Unallocated assets							**–**	–
Total assets							**73,524,416**	54,149,337

6. PROFIT/(LOSS) BEFORE TAXATION

	2006 HK$	2005 HK$
The Group's profit/(loss) before taxation has been arrived at after charging:		
Directors' remuneration *(Note 7)*:		
Fees	**180,000**	180,000
Other emoluments	**120,000**	539,083
Provident fund contributions	**6,000**	20,438
Staff costs		
Salaries	**–**	–
Other benefits	**–**	–
Provident fund contributions	**–**	–
Total staff costs (including directors' remuneration)	**306,000**	739,521
Auditors' remuneration		
Current year	**65,000**	65,000
Underprovision in prior years	**2,550**	–
	67,550	65,000
Operating lease rentals of land and buildings	**36,000**	36,000
Unrealised loss on financial assets at fair value through profit or loss	**–**	3,483,526
Impairment loss on available-for-sale financial assets	**–**	13,500,000
And after crediting:		
Unrealised gain on financial assets at fair value through profit or loss	**1,644,397**	–
Bank interest income	**720,248**	246,972

7. DIRECTORS' REMUNERATION

(a) Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") is as follows:

	2006			
	Directors' Fees HK$	**Salaries, allowances and benefits in kind HK$**	**Provident Fund Contributions HK$**	**Total HK$**
Executive directors				
Ng Hon Cheung, Sannio	**–**	**60,000**	**3,000**	**63,000**
Wan Ho Yan, Letty	**–**	**60,000**	**3,000**	**63,000**
Independent non-executive directors				
Lo Wah Wai	**60,000**	**–**	**–**	**60,000**
Yan Mou Keung, Ronald	**60,000**	**–**	**–**	**60,000**
Cheng Wing Keung, Raymond	**60,000**	**–**	**–**	**60,000**
	180,000	**120,000**	**6,000**	**306,000**

	2005			
	Directors' Fees HK$	Salaries, allowances and benefits in kind HK$	Provident Fund Contributions HK$	Total HK$
Executive directors				
Ng Hon Cheung, Sannio	–	60,000	3,000	63,000
Wan Ho Yan, Letty	–	150,000	7,500	157,500
Wong Wai Kwok, Tony	–	329,083	9,938	339,021
Independent non-executive directors				
Lo Wah Wai	60,000	–	–	60,000
Yan Mou Keung, Ronald	60,000	–	–	60,000
Cheng Wing Keung, Raymond	60,000	–	–	60,000
	180,000	539,083	20,438	739,521

The above directors' fee, salaries, allowances and benefits in kind and provident fund contributions were paid to all directors, executives and non-executives, in respect of their length of services to the Group.

7. DIRECTORS' REMUNERATION *(continued)*

(a) *(continued)*

There was no arrangement under which a director waived or agreed to waive any remuneration during both years ended 31 December 2006 and 2005.

(b) Individuals with highest emoluments

The five highest paid individuals are all directors of the Group whose emoluments have been disclosed in note (a) above.

During the year, no remuneration was paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office (2005: Nil).

8. TAXATION

No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward (2005: HK$ nil). Tax losses carried forward amount to approximately HK$14,001,000.

The tax expense for the year can be reconciled to the profit/(loss) per consolidated income statement as follows:

	The Group	
	2006	2005
	HK$	HK$
Profit/(loss) before taxation	**19,328,745**	(17,838,601)
Tax calculated at the Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**3,382,530**	(3,121,755)
Tax effect of non-taxable income	**(2,837,440)**	2,099,534
Tax effect of utilization of tax losses not recognised	**(545,090)**	1,022,221
Taxation for the year	**–**	–

Details of the potential deferred tax asset not recognised in the year are set out in note 19.

9. NET ASSET VALUE PER SHARE AND EARNINGS/(LOSS) PER SHARE

Net asset value per share

The net asset value per share is calculated by dividing the net assets included in the consolidated balance sheet of HK$73,290,453 (2005: HK$53,961,708) by the number of shares in issue as at 31 December 2006, being 480,000,000 (2005: 480,000,000).

Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the net profit for the year of HK$19,328,745 (2005: loss of HK$17,838,601) and on 480,000,000 (2005: 480,000,000) ordinary shares in issue during the year. The diluted earnings/(loss) per share is not presented because there were no potential dilutive shares for the both years ended 31 December 2006 and 2005.

10. DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006 (2005: Nil).

11. RETIREMENT BENEFITS SCHEME

The Group has arranged its Hong Kong employees to joint the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Legislation. The contributions from each of the employer and employees are subject to a maximum contribution of HK$1,000 per month and thereafter contributions are voluntary.

12. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$	HK$
Unlisted shares, at cost	**10,000,008**	10,000,008

12. INVESTMENTS IN SUBSIDIARIES *(continued)*

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

Name	Place of incorporation/ operation	Particulars of issued and paid-up share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activity
Capital Handle Investments Limited	British Virgin Islands	1 share of US$1 each	100%	–	Investment holdings
Crystal Shine Limited	British Virgin Islands	2 shares of US$1 each	100%	–	Investment holdings
San Francisco Alden, Inc.	United States of America	100 shares of US$10 each	–	100%	Investment holdings

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group 2006 HK$	The Group 2005 HK$
Overseas unlisted equity securities, at cost *(Note a)*	**14,000,000**	14,000,000
Less: Impairment *(Note c)*	**(4,000,000)**	(4,000,000)
	10,000,000	10,000,000
Overseas unlisted equity securities, at cost *(Note b)*	**11,000,000**	–
Less: Impairment *(Note c)*	**–**	–
	11,000,000	–
Total	**21,000,000**	10,000,000

	The Company 2006 HK$	The Company 2005 HK$
Overseas unlisted equity securities, at cost *(Note b)*	**11,000,000**	–
Less: Impairment *(Note c)*	**–**	–
	11,000,000	–

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(continued)*

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

Notes:

(a) Investment in the limited partnership of 765 Airport Boulevard Partnership is not equity accounted for in accordance with the HKAS 28 "Investments in associates". This is because the Group does not have the power to participate in the financial and operating policy decisions of the 765 Airport Boulevard Partnership. 765 Airport Boulevard Partnership is registered in the United States of America and is principally engaged in the holding and operation of a hotel. As at 31 December 2006, the cost of the investment in 765 Airport Boulevard Partnership was HK$14,000,000, against which a provision for impairment of HK$4,000,000 has been provided.

(b) During the year, the Group acquired 19.9% equity interest of Sino Win Pacific International Limited which main business objective is providing services in technology solutions for clients in the hospitality industry all around the world. As at 31 December 2006, the cost of the investment in Sino Win Pacific International Limited was HK$11,000,000 which no provision for impairment was provided.

(c) Provision for impairment loss was set up based on estimated recoverable amount of available-for-sale financial assets.

14. AMOUNTS DUE FROM SUBSIDIARIES

Amounts due from subsidiaries are unsecured, interest free and has no fixed repayment term.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group	
	2006	2005
	HK$	HK$
Held for trading:		
Equity securities listed in Hong Kong, at market value	**20,958,270**	24,564,119

	The Company	
	2006	2005
	HK$	HK$
Held for trading:		
Equity securities listed in Hong Kong, at market value	**8,136,270**	21,128,575

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

As at 31 December 2006, financial assets at fair value through profit or loss included the following investments:

The Group

Name of the investee company	Number of shares held	Proportion of investee company's capital owned	Cost HK$	Market value HK$	Unrealised holding gain/ (loss) arising on revaluation HK$	Dividend received/ receivable during the year HK$
(a) Regal Hotels International Holdings Limited	3,000,000	0.04%	2,290,000	2,070,000	(220,000)	–
(b) Kenfair International (Holdings) Limited	2,456,000	1.04%	1,612,240	1,866,560	254,320	–
(c) Prosperity Investment Holdings Limited	17,580,000	4.07%	2,229,307	2,320,560	91,253	–
(d) Golden Resources Development Holdings Limited	7,338,000	0.56%	2,426,224	2,458,230	32,006	133,450
(e) Industrial and Commercial Bank of China Limited	12,000	Less than 0.01%	36,840	57,960	21,120	–
(f) China Merchants Bank Co., Limited.	2,000	Less than 0.01%	17,100	32,960	15,860	–
(g) Sun Hung Kai & Co. Limited	1,550,000	0.12%	10,670,562	12,152,000	1,481,438	77,500

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

The Company

Name of the investee company	Number of shares held	Proportion of investee company's capital owned	Cost HK$	Market value HK$	Unrealised holding gain/ (loss) arising on revaluation HK$	Dividend received/ receivable during the year HK$
(a) Regal Hotels International Holdings Limited	3,000,000	0.04%	2,290,000	2,070,000	(220,000)	–
(b) Kenfair International (Holdings) Limited	2,456,000	1.04%	1,612,240	1,866,560	254,320	–
(c) Prosperity Investment Holdings Limited	17,580,000	4.07%	2,229,307	2,320,560	91,253	–
(d) Golden Resources Development Holdings Limited	5,338,000	0.56%	1,756,224	1,788,230	32,006	133,450
(e) Industrial and Commercial Bank of China Limited	12,000	Less than 0.01%	36,840	57,960	21,120	–
(f) China Merchants Bank Co., Limited.	2,000	Less than 0.01%	17,100	32,960	15,860	–

A brief description of the business and financial information of the listed investee companies which represents a significant proportion of the Group's assets, which are extracted from their latest published annual reports is as follows:

Notes:

(a) Regal Hotels International Holdings Limited ("Regal") is principally engaged in hotel ownership and management, property investment, other investment.

For the year ended 31 December 2006, the audited consolidated profit from ordinary activities attributable to shareholders of Regal was HK$528,500,000 and the basic profit per share was HK6.3 cents. As at 31 December 2006, its audited consolidated net asset value was HK$1,769,200,000.

(b) Kenfair International (Holdings) Limited ("Kenfair") is principally engaged in organizing of trade fairs, trade shows and related activities to promote and facilitate trade between international buyers and manufacturers.

For the year ended 31 March 2006, the audited consolidated loss from ordinary activities attributable to shareholders of Kenfair was HK$32,224,000 and the basic loss per share was HK15 cents. As at 31 March 2006, its audited consolidated net asset value was HK$73,504,000.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

The Company *(continued)*

Notes: (continued)

(c) Prosperity Investment Holdings Limited ("Prosperity"), formerly known as GR Investment International Limited, is principally engaged in holding equity and equity-related investments and providing management services to its investee companies.

For the year ended 31 December 2006, the audited consolidated profit from ordinary activities attributable to shareholders of Prosperity was HK$9,673,788 and the basic earnings per share was HK2.24 cents. As at 31 December 2006, its audited consolidated net asset value was HK$249,094,695.

(d) Golden Resources Development International Limited ("Golden Resources") is principally engaged in sourcing, importing, wholesaling, processing, packaging marketing and distribution of rice, warehousing operation, property investment, securities investment and investment holding.

For the year ended 31 March 2006, the audited consolidated profit from ordinary activities attributable to shareholders of Golden Resources was HK$90,991,000 and the basic earnings per share was HK6.8 cents. As at 31 March 2006, its audited consolidated net asset value was HK$930,094,000.

(e) Industrial and Commercial Bank of China Limited ("ICBC") is principally engaged in corporate banking, personal banking, treasury operations and other operations.

For the year ended 31 December 2006, the audited consolidated profit from ordinary activities attributable to shareholders of ICBC was RMB49,880,000,000 and the basic earnings per share was RMB18 cents. As at 31 December 2006, its audited consolidated net asset value was RMB471,001,000,000.

(f) China Merchants Bank Co., Ltd. ("CMB") is principally engaged in corporate banking, retail banking and treasury operations.

For the year ended 31 December 2006, the audited consolidated profit from ordinary activities attributable to shareholders of CMB was RMB6,794,000,000 and the basic earnings per share was RMB53 cents. As at 31 December 2006, its audited consolidated net asset value was RMB55,160,000,000.

(g) Sun Hung Kai & Co. Limited ("Sun Hung Kai") is principally engaged in investment holding, securities, leveraged forex, bullion, commodities, futures and options broking, provision of online financial services and online financial information, share margin and structured financing, financial planning and wealth management, asset management, corporate finance, strategic investment, and insurance broking.

For the year ended 31 December 2006, the audited consolidated profit from ordinary activities attributable to shareholders of Sun Hung Kai was HK$571,143,000 and the basic earnings per share was HK36.2 cents. As at 31 December 2006, its audited consolidated net asset value was HK$9,208,392,000.

16. CASH AND CASH EQUIVALENTS

The Group

	2006 HK$	2005 HK$
Deposits with banks and other financial institutions	**9,080,727**	9,370,323
Cash at bank and in hand	**2,704,745**	1,554,109
	11,785,472	10,924,432

The Company

	2006 HK$	2005 HK$
Deposits with banks and other financial institutions	**7,035,554**	7,169,158
Cash at bank and in hand	**2,646,128**	1,495,492
	9,681,682	8,664,650

Included in cash and cash equivalents in the consolidated balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

The Group

	2006	2005
US Dollars	**USD268,539**	USD266,252

As at 31 December 2006, the Company holds no cash and cash equivalents denominated in a currency other than its functional currency.

17. SHARE CAPITAL

	Number of shares		Amount	
	2006	2005	2006 HK$	2005 HK$
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning of year and at end of year	**600,000,000**	600,000,000	**6,000,000**	6,000,000
Issued and fully paid:				
At beginning of year and at end of year	**480,000,000**	480,000,000	**4,800,000**	4,800,000

18. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 December 2001. The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives and/or rewards for their contribution and support to the Company. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees and executives, including all the Directors of the Company and any substantial shareholders as defined in the Listing Rules to subscribe shares in the Company.

The maximum number of shares in respect of which options may be granted under the Scheme must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period preceding the date of grant, without prior approval from the Company's shareholders.

HK$1 per option is payable on the acceptance of an option offer. Options may be exercised in accordance with the terms of the Scheme at any time during the five-year period commencing on the date upon which the option is accepted by the grantee and expiring on the last day of the five-year period or the expiry of the tenth anniversary of the Scheme, whichever is the earlier.

The exercise price is determined by the Board of Directors, and should not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The Scheme will remain in force for a period of 10 years commencing on 3 December 2001.

No option had been granted or agreed to be granted under the Scheme from the date of adoption of the Scheme.

19. DEFERRED TAXATION

At the balance sheet date, the Group has estimated unrecognised tax losses of approximately HK$14,001,000 (2005: HK$17,115,000) to set off against future taxable income. No deferred tax asset is recognised in respect of such tax losses carried forward as the realisation of the related tax benefit through future taxable profits is not certain. The tax losses do not have any expiry date under the current tax legislation.

The Group and the Company had no material unprovided deferred tax liabilities at the balance sheet date (2005: Nil).

20. RELATED PARTY AND CONNECTED TRANSACTIONS

During the year, the Group had the following significant related party and connected transactions:

	Notes	2006 HK$	2005 HK$
Investment management fees paid to Baron Asset Management Limited (the "Investment Manager")	*(i)*	**420,550**	420,000
Rental expenses paid to Baron International Investment Holdings Limited ("Baron International")	*(ii)*	**36,000**	36,000

Notes:

(i) Pursuant to the investment management agreement dated 12 December 2001 (the "Investment Management Agreement") entered into between the Company and the Investment Manager, the Investment Manager has agreed to provide the Company with investment management services commencing on the date of agreement. The Investment Management Agreement will continue for successive periods unless terminated at any time by either the Company or the Investment Manager serving not less than six months prior notice in writing. Under the Investment Management Agreement, the Investment Manager is entitled to an annual management fee of HK$500,000.

Under the Supplementary Agreement entered into between the Company and the Investment Manager on 30 September 2003, the annual management fee is revised to HK$420,000 effective from 1 October 2003. The Directors consider that the Investment Management Agreement was entered into with reference to normal commercial terms.

(ii) Pursuant to a tenancy agreement signed on 20 March 2004 between the Company and Baron International, Baron International has leased office premises to the Company commencing on 1 April 2004 for a monthly rental of HK$3,000. The tenancy agreement will continue for successive period unless terminated at any time by either the Company or the lessor by notice in writing. The Directors consider that the tenancy agreement was negotiated between the parties with reference to the normal commercial terms. Baron International is a fellow subsidiary of the Investment Manager.

(iii) Remuneration for key management personnel, including amounts paid to the Company's Directors as disclosed in note 7(a) and certain of the highest paid employees as disclosed in note 7(b), is as follows:

	2006 HK$	2005 HK$
Directors' fee	**180,000**	180,000
Salaries, allowance and benefits in kind	**120,000**	539,083
Provident Fund Contributions	**6,000**	20,438
	306,000	739,521

21. SUBSEQUENT EVENT

On 30 March 2007, a preliminary offer was made by an independent third party to dispose of the equity investment in 765 Airport Boulevard Partnership at a consideration of HK$10,000,000.