Notes to Financial Statements

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1. CORPORATE INFORMATION

Dragon Hill Holdings Limited (formerly Magnum International Holdings Limited) is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Unit 505, 5th Floor, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- securities dealing and brokerage and provision of margin financing
- securities trading and investment holding
- money lending
- property investment

In the opinion of the directors, the parent and the ultimate holding company of the Company is Dragon Hill Development Limited, which is incorporated in Samoa.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

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2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

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

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

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 March 2007. This new interpretation prescribes that when the parent grants rights to equity instruments to the employees of the subsidiary, the subsidiary should account for such a scheme as an equity-settled scheme and as an equity contribution by the parent.

HKFRS 8, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 January 2009, 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and building	Over the shorter of 20 years or the remaining lease terms
Leasehold improvements	Over the shorter of the lease terms and the useful life
Furniture and fixtures	20%
Motor vehicles	25%
Computers and equipment	30% - 33%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. The intangible assets of the Group, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited and The Philippines Stock Exchange, Inc., have indefinite useful lives.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

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

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

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

Equity investments at fair value through profit or loss

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

Loans and receivables

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

Available-for-sale financial assets

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets **(continued)**

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

Available-for-sale financial assets

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

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

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

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible preference shares

The Group's convertible preference shares exhibit the characteristics of equity and are stated at subscription proceeds and included in shareholders' equity, net of transaction costs.

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- commission income on securities dealings, on a trade date basis;
- trading in securities, on the transaction date when the relevant contract notes have been exchanged;
- interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of financial asset;
- rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms; and
- dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Share-based payment transactions (applicable to options granted to employees on or before 7 November 2002)

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to options granted to employees on or before 7 November 2002.

The financial impact of share options granted to employees on or before 7 November 2002 under the share incentive plan is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal values of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Impairment allowances on loans and receivables

The Group regularly reviews its portfolio of accounts receivable, loans receivable and other receivables to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group considers whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable balance in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and with objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs from previous calculation, the provision estimated would be changed.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that offers different types of services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- The securities dealing and margin finance segment provides securities dealing services in acquiring, disposing of and subscribing for securities listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and financial accommodation to facilitate the trading of these marketable securities.

- The securities investment segment includes trading in securities and holding of securities investments.

- The consumer finance segment comprises the granting of personal loans.

- The property holding segment involves in property investment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers and assets are attributed to the segments based on the location of the assets.

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4. SEGMENT INFORMATION (continued)

(a) Business segments

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

	Securities dealing and margin finance		Securities investment		Consumer finance		Property holding		Intersegment sales eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Segment revenue:												
Services provided to external customers	3,124,290	4,249,628	11,367,431	5,104,680	1,015,616	825,753	1,163,950	2,156,084	(55,795)	(25,235)	16,615,492	12,310,910
Other revenue	1,262,845	92,056	22,214	40,884	-	-	12,408,167	-	-	-	13,693,226	132,940
Segment revenue	4,387,135	4,341,684	11,389,645	5,145,564	1,015,616	825,753	13,572,117	2,156,084	(55,795)	(25,235)	30,308,718	12,443,850
Segment results	(2,073,348)	(8,901,151)	1,003,151	287,980	740,091	(1,021,990)	12,056,553	10,752,471	-	-	11,726,447	1,117,310
Unallocated revenue and gains											20,109,868	103,933
Unallocated expenses											(6,312,271)	(3,959,479)
Finance costs											(3,439,343)	(5,692,556)
Profit/(loss) before tax											22,084,701	(8,430,792)
Tax											(19,000)	(325,598)
Profit/(loss) for the year											22,065,701	(8,756,390)

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4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Securities dealing and margin finance		Securities investment		Consumer finance		Property holding		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Assets and liabilities												
Segment assets	37,547,991	28,957,750	4,736,974	2,539,878	7,059,427	17,059,240	27,607,326	45,201,183	(9,137,349)	(18,718,878)	67,814,369	75,039,173
Unallocated assets											3,256,236	720,823
Total assets											71,070,605	75,759,996
Segment liabilities	16,576,342	9,108,348	145,729	134,869	44,078,515	33,370,211	37,584,300	1,350,233	(63,276,034)	(31,644,099)	35,108,852	12,319,562
Unallocated liabilities											2,597,432	117,266,961
Total liabilities											37,706,284	129,586,523
Other segment information:												
Capital expenditure	451,602	650	-	-	-	-	27,124,480	100,038			27,576,082	100,688
Depreciation	38,641	5,135	-	-	-	-	176,664	46,364			215,305	51,499
Unrealised gains on equity investments at fair value through profit or loss, net	-	-	961,328	443,365	-	-	-	-			961,328	443,365
Impairment losses/ (reversal of impairment) recognised in the income statement	(1,500,000)	797,035	-	-	-	825,753	-	-			(1,500,000)	1,622,788
Changes in fair value of investment properties	-	-	-	-	-	-	141,126	10,630,000			141,126	10,630,000
Impairment of intangible assets recognised in the income statement	-	2,336,028	-	-	-	-	-	-			-	2,336,028

Notes to Financial Statements

31 December 2006

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

	Hong Kong		Philippines		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	HK$	HK$	HK$	HK$	HK$	HK$	HK$	HK$
Segment revenue:								
Services provided to external customers	16,413,447	12,310,910	202,045	-	-	-	16,615,492	12,310,910
Other revenue	12,524,026	216,614	1,205,366	20,259	-	-	13,729,392	236,873
Segment revenue	28,937,473	12,527,524	1,407,411	20,259	-	-	30,344,884	12,547,783
Other segment information:								
Segment assets	68,169,461	73,735,233	11,200,698	8,489,573	(8,299,554)	(6,464,810)	71,070,605	75,759,996
Capital expenditure	27,576,082	100,688	-	-	-	-	27,576,082	100,688

Notes to Financial Statements

31 December 2006

5. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Group's turnover), other income and gains are analysed as follows:

	Group	
	2006	2005
	HK$	HK$
Revenue		
Commission and interest income from securities dealing and margin finance	3,068,495	4,224,393
Interest income from consumer finance	1,015,616	825,753
Gross property rental income	1,163,950	2,156,084
Proceeds from the sale of equity investments at fair value through profit or loss	11,367,431	5,104,680
	16,615,492	12,310,910
Other income		
Dividend income from listed investments	22,214	40,884
Recovery of bad debts	976,547	-
Others	123,806	140,656
	1,122,567	181,540
Gains		
Gain on disposal of subsidiaries	12,408,167	-
Gain on the waiver of loan advances and related interest by former holding companies and a former fellow subsidiary	20,073,702	-
Foreign exchange gains, net	198,658	55,333
	32,680,527	55,333
	33,803,094	236,873

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6. FINANCE COSTS

	Group	
	2006	2005
	HK$	HK$
Interest on bank overdrafts wholly repayable within five years	1,416	12,015
Interest on bank loans wholly repayable after five years	193,311	-
Interest on amounts due to former holding companies/holding companies	3,244,616	6,494,276
	3,439,343	6,506,291

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	2006	2005
	HK$	HK$
Auditors' remuneration	768,000	750,000
Depreciation	215,305	52,575
Employee benefits expense (including directors' remuneration - note 8):		
Wages, salaries and allowances	4,557,643	7,063,026
Pension scheme contributions	72,506	297,433
Termination benefits	356,710	236,721
	4,986,859	7,597,180
Minimum lease payments under operating leases in respect of land and buildings	1,712,610	1,392,886
and after crediting:		
Gross property rental income	1,163,950	2,156,084
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	(65,431)	(112,192)
Net rental income	1,098,519	2,043,892
Bank interest income	100,129	120,124
Interest income for loans receivable	2,414,068	2,501,438
	2,514,197	2,621,562
Net gain on trading of equity investments at fair value through profit or loss	1,072,462	547,219

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8. DIRECTORS' REMUNERATION

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

	Group	
	2006 HK$	2005 HK$
Fees	1,014,014	210,000
Other emoluments:		
Salaries, allowances and benefits in kind	500,481*	2,235,320*
Fixed bonuses	-	354,815
Pension scheme contributions	11,630	84,963
	512,111	2,675,098
	1,526,125	2,885,098

* Included in the amount was termination benefits of HK$356,710 (2005: HK$106,605) for certain directors of the Company for loss of office as a director of the Company or a wholly-owned subsidiary of the Company.

(a) Independent non-executive directors

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

	2006 HK$	2005 HK$
Mr. Yu Xiumin	31,500	-
Mr. Zuo Duofu	31,500	-
Mr. Cheng Kin Wah, Thomas	63,000	-
Mr. Wong Ming Shiang	15,000	30,000
Mr. Lim Eng Ho	15,000	30,000
Mr. Soo Tho Him Yip	5,014	30,000
	161,014	90,000

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

Notes to Financial Statements

31 December 2006

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

	Fees HK$	Salaries, allowances and benefits in kind HK$	Fixed bonuses HK$	Pension scheme contributions HK$	Total remuneration HK$
2006					
Executive directors:					
Mr. Lee Shing	630,000	-	-	7,000	637,000
Ms. Liu Yaling	63,000	-	-	-	63,000
Mr. Pei Qingrong	50,000	-	-	-	50,000
Mr. Wang Shaohua	50,000	-	-	-	50,000
Mr. Lim Teong Leong	15,000	-	-	-	15,000
Mr. Tam Cheok Wing	15,000	-	-	-	15,000
Mr. Ooi Sin Heng	15,000	500,481	-	4,630	520,111
Mr. Chan Hon Ming, Alan	15,000	-	-	-	15,000
	853,000	500,481	-	11,630	1,365,111
2005					
Executive directors:					
Mr. Lim Teong Leong	30,000	-	-	-	30,000
Mr. Tam Cheok Wing	30,000	-	-	-	30,000
Mr. Ooi Sin Heng	30,000	652,236	35,000	21,000	738,236
Mr. Chan Hon Ming, Alan	30,000	1,583,084	319,815	63,963	1,996,862
	120,000	2,235,320	354,815	84,963	2,795,098

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

Notes to Financial Statements

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, one of whom resigned as a director of the Company during the year but remains as an employee of the Group, details of whose remuneration in a capacity as directors are set out in note 8 above. Details of the remuneration of the resigned director since his resignation and the remaining three (2005: three) non-director, highest paid employees for the year are set out below:

	Group	
	2006	**2005**
	HK$	**HK$**
Salaries, allowances and benefits in kind	1,581,251	1,257,467
Fixed bonuses	82,610	95,180
Pension scheme contributions	59,846	57,108
	1,723,707	1,409,755

The remuneration of each of the non-director, highest paid employees fell within the band of nil to HK$1,000,000 for the two years ended 31 December 2006 and 2005.

10. TAX

No provision for Hong Kong profits tax has been made for the current and prior years as the Group has available tax losses brought forward from prior years to offset the estimated assessable profits arising in Hong Kong during the two years.

	Group	
	2006	**2005**
	HK$	**HK$**
Deferred tax - note 28	19,000	325,598

A reconciliation of the tax charge applicable to profit/(loss) before tax using the statutory rate to the tax expense at the effective tax rate is as follows:

	2006	**2005**
	HK$	**HK$**
Profit/(loss) before tax	22,084,701	(8,430,792)
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	3,864,823	(1,475,389)
Income not subject to tax	(6,196,641)	(1,472,707)
Expenses not deductible for tax	1,601,686	1,900,298
Tax losses not recognised	972,789	1,382,057
Tax losses utilised from previous periods	(223,657)	(8,661)
Tax charge at the Group's effective rate of 0.1% (2005: 3.9%)	19,000	325,598

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11. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit/(loss) for the year attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of HK$25,951,617 (2005: HK$6,009,873) which has been dealt with in the financial statements of the Company (note 31(b)).

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

The calculation of basic earnings/(loss) per share amounts is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue, as adjusted by the rights issue, conversion of convertible preference shares, issuance of additional shares and the consolidation of shares, during the year.

The basic earnings/(loss) per share for the current year and the prior year have been adjusted to reflect the rights issue (note 29(c)) and the consolidation of shares during the year (note 29(f)).

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted loss per share amount for the year ended 31 December 2005 has not been disclosed, as the share options outstanding during the prior year had an anti-dilutive effect on the basic loss per share for the prior year.

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

	2006 HK$	2005 HK$
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	22,065,701	(8,756,390)

	Number of shares 2006	 2005 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	324,679,041	175,320,460
Effect of dilution - weighted average number of ordinary shares:		
Warrants	1,232,877	-
	325,911,918	175,320,460

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13. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and building HK$	Leasehold improvements HK$	Furniture and fixtures HK$	Motor vehicles HK$	Computers and equipment HK$	Total HK$
31 December 2006						
At 1 January 2006:						
Cost	-	1,832,697	968,417	650,000	867,667	4,318,781
Accumulated depreciation	-	(1,696,995)	(955,648)	(650,000)	(864,949)	(4,167,592)
Net carrying amount	-	135,702	12,769	-	2,718	151,189
At 1 January 2006, net of accumulated depreciation	-	135,702	12,769	-	2,718	151,189
Additions	10,641,843	458,870	385,669	108,000	308,826	11,903,208
Depreciation provided during the year	(133,023)	(35,178)	(9,723)	(5,200)	(32,181)	(215,305)
Disposal of subsidiaries - note 32	-	(176,601)	(21,304)	-	-	(197,905)
At 31 December 2006, net of accumulated depreciation	10,508,820	382,793	367,411	102,800	279,363	11,641,187
At 31 December 2006:						
Cost	10,641,843	390,010	890,513	758,000	903,852	13,584,218
Accumulated depreciation	(133,023)	(7,217)	(523,102)	(655,200)	(624,489)	(1,943,031)
Net carrying amount	10,508,820	382,793	367,411	102,800	279,363	11,641,187

Notes to Financial Statements

31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Leasehold improvements HK$	Furniture and fixtures HK$	Motor vehicles HK$	Computers and equipment HK$	Total HK$
31 December 2005					
At 1 January 2005:					
Cost	1,732,659	968,417	650,000	867,017	4,218,093
Accumulated depreciation	(1,654,701)	(950,120)	(650,000)	(860,196)	(4,115,017)
Net carrying amount	77,958	18,297	-	6,821	103,076
At 1 January 2005, net of accumulated depreciation	77,958	18,297	-	6,821	103,076
Additions	100,038	-	-	650	100,688
Depreciation provided during the year	(42,294)	(5,528)	-	(4,753)	(52,575)
At 31 December 2005, net of accumulated depreciation	135,702	12,769	-	2,718	151,189
At 31 December 2005:					
Cost	1,832,697	968,417	650,000	867,667	4,318,781
Accumulated depreciation	(1,696,995)	(955,648)	(650,000)	(864,949)	(4,167,592)
Net carrying amount	135,702	12,769	-	2,718	151,189

Notes to Financial Statements

31 December 2006

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Leasehold improvements HK$	Furniture and fixtures HK$	Computers and equipment HK$	Total HK$
31 December 2006				
At 1 January 2006	-	-	-	-
Additions	25,000	9,776	60,153	94,929
Depreciation provided during the year	(417)	(296)	(2,741)	(3,454)
At 31 December 2006, net of accumulated depreciation	24,583	9,480	57,412	91,475
At 31 December 2006:				
Cost	25,000	9,776	60,153	94,929
Accumulated depreciation	(417)	(296)	(2,741)	(3,454)
Net carrying amount	24,583	9,480	57,412	91,475

The Group's leasehold land and building is situated in Hong Kong and is held under a long term lease.

At 31 December 2006, the leasehold land and building of the Group with a carrying amount of HK$10,508,820 (2005: Nil) was pledged to secure general banking facilities granted to the Group (note 25).

14. INVESTMENT PROPERTIES

	Group 2006 HK$	2005 HK$
Carrying amount at 1 January	43,920,000	33,290,000
Disposal of subsidiaries - note 32	(43,920,000)	-
Additions	15,672,874	-
Net profit from a fair value adjustment	141,126	10,630,000
Carrying amount at 31 December	15,814,000	43,920,000

Notes to Financial Statements

31 December 2006

14. INVESTMENT PROPERTIES (continued)

The Group's investment properties are all situated in Hong Kong and are held under long term leases.

The Group's investment properties were revalued on 31 December 2006 by Vigers Appraisal & Consulting Limited, independent professionally qualified valuers, at HK$15,814,000 on an open market, existing use basis.

The investment properties are currently leased to third parties under operating leases, further summary details of which are included in note 34(a) to the financial statements.

At 31 December 2006, the investment properties of the Group with a total carrying amount of HK$15,814,000 (2005: HK$43,570,000) were pledged to secure general banking facilities granted to the Group (note 25).

Particulars of the investment properties are as follows:

Location		Approximate floor area	Existing use	Lease term	Group interest
a.	Office No. 506 on 5th Floor, China Insurance Group Building, No. 141 Des Voeux Road, No. 73 Connaught Road Central, No. 61-65 Gilman Street, Central, Hong Kong	1,103 sq. ft.	Commercial	Long	100%
b.	Portion B on 23rd Floor, Yardley Commercial Building, No. 3 Connaught Road West, Sheung Wan, Hong Kong	2,057 sq. ft.	Commercial	Long	100%

15. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK$	2005 HK$
Unlisted shares, at cost	143,919,955	143,919,955
Impairment	(135,378,190)	(135,378,190)
	8,541,765	8,541,765
Amounts due from subsidiaries	353,863,950	276,857,250
Impairment	(293,164,677)	(253,478,700)
	60,699,273	23,378,550
Amounts due to subsidiaries	(102,070,355)	(54,847,591)
	(32,829,317)	(22,927,276)

The balances with subsidiaries are unsecured, interest-free and not repayable within one year.

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15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and operations	Nominal value of issued share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Hilcrest Limited	British Virgin Islands/ Hong Kong	US$1	100	-	Property investment
Watary Investments Limited	British Virgin Islands/ Hong Kong	US$36,000	100	-	Investment holding
Dragon Hill Financial Services Holdings Limited (formerly Magnum Financial Services Holdings Limited)	British Virgin Islands/ Hong Kong	US$2	100	-	Investment holding
Dragon Hill Credit Limited (formerly Magnum International Finance Limited)	Hong Kong	HK$10,000,000	-	100	Money lending
Dragon Hill Financial Services Limited (formerly Magnum International Securities Limited)	Hong Kong	HK$40,000,000	-	100	Securities dealing and margin finance
Dragon Hill (HK) Limited (formerly Magnum Industries Limited)	Hong Kong	HK$10	-	100	Trading of marketable securities
DH Corporate Services Limited (formerly Magnum International Holdings Services Limited)	Hong Kong	HK$2	-	100	Provision of administrative services
Jenpoint Limited	Hong Kong	HK$2	-	100	Trading of marketable securities and property investment
Continuous Gain Limited*	British Virgin Islands/ Hong Kong	US$1	-	100	Property investment
Lismore Properties Limited*	British Virgin Islands/ Hong Kong	US$1	-	100	Property services and investment holding
Ongreat Properties Limited*	British Virgin Islands/ Hong Kong	US$1	-	100	Property investment
Wolston Limited*	British Virgin Islands/ Hong Kong	US$1	-	100	Property investment

* Disposed of during the year

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to Financial Statements

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16. INTANGIBLE ASSETS

Trading rights

	Group 2006 HK$	Group 2005 HK$
At beginning of year:		
Cost	8,675,042	8,476,908
Accumulated amortisation and impairment	(7,847,796)	(5,341,429)
Net carrying amount	827,246	3,135,479
Cost at beginning of year, net of accumulated amortisation and impairment	827,246	3,135,479
Impairment during the year	-	(2,336,028)
Exchange realignment	48,310	27,795
At end of year	875,556	827,246
At end of year:		
Cost	9,019,418	8,675,042
Accumulated amortisation and impairment	(8,143,862)	(7,847,796)
Net carrying amount	875,556	827,246

In the opinion of the directors, the carrying amounts of the trading rights, which are considered to have indefinite lives, approximate to their recoverable amounts which were based on their estimated realisable values with reference to the prevailing market conditions.

17. LOANS RECEIVABLE

Loans receivable comprise margin clients accounts receivable and a consumer finance loan receivable of HK$8,205,719 (2005: HK$8,969,290) and HK$7,015,616 (2005: HK$6,000,000), respectively.

The margin clients accounts receivable are secured by the underlying pledged securities, repayable on demand and bear interest at annual effective rates of 11% to 11.25% (2005: 8% to 11%). No aged analysis is disclosed as, in the opinion of the directors, an aged analysis is not relevant in view of the nature of the business of securities margin financing.

The consumer finance loan receivable is secured by the pledged properties situated in Hong Kong, repayable on demand and bears interest at annual effective rates of 10% to 10.25% (2005: 7% to 10%). At 31 December 2006, the open market value of the pledged properties was approximately HK$9.6 million (2005: approximately HK$9.6 million).

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18. ACCOUNTS RECEIVABLE

Accounts receivable arise from the Group's securities dealing and brokerage business with settlement terms of two days after the trade date.

Details of the accounts receivable of the Group as at the balance sheet date, based on the transaction date and net of provisions, are as follows:

	Group	
	2006	2005
	HK$	HK$
Not yet due	8,982,258	1,083,493
0 - 30 days	316,492	112,834
	9,298,750	1,196,327

The accounts receivable are non-interest-bearing. Overdue balances are reviewed regularly by senior management. In view of the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	HK$	HK$	HK$	HK$
Prepayments	360,035	367,026	217,765	217,237
Deposits	888,302	1,170,251	11,648	12,650
Other receivables	172,508	868,523	4	-
	1,420,845	2,405,800	229,417	229,887

Other receivables are non-interest-bearing and have no fixed terms of repayment.

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$	HK$
Listed equity investments, at market value:		
Hong Kong	684,480	642,640
Elsewhere	2,222,222	1,268,309
	2,906,702	1,910,949

The above equity investments at 31 December 2005 and 2006 were classified as held for trading.

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21. CLIENT TRUST BANK ACCOUNTS

Client trust bank accounts represent clients' trust monies kept in the trust bank accounts of a subsidiary engaged in the securities dealing business. The application of amounts maintained in such trust bank accounts is prescribed by the Securities and Futures Ordinance. The Group has classified the clients' monies as client trust bank accounts under the current assets section of the balance sheet and recognised the corresponding accounts payable to respective clients on grounds that is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash and bank balances and time deposit, which are not restricted as to use.

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$	**HK$**	**HK$**	**HK$**
Cash and bank balances	6,906,554	2,581,554	2,493,325	62,010
Time deposit, non-pledged	700,000	5,000,000	-	-
Cash and cash equivalents	7,606,554	7,581,554	2,493,325	62,010

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

23. ACCOUNTS PAYABLE

Accounts payable arise from the Group's securities dealing and brokerage business with settlement terms of two days after the trade date.

Details of the accounts payable of the Group as at the balance sheet date, based on the transaction date, are as follows:

	Group	
	2006	**2005**
	HK$	**HK$**
Not yet due	8,752,427	1,013,054
0 - 30 days	3,581,524	424,543
Over 30 days	2,492,113	2,205,953
	14,826,064	3,643,550

Accounts payable are non-interest-bearing.

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24. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	2006	2005
	HK$	HK$	HK$	HK$
Interest payable to the immediate holding company	-	22,419,289	-	15,866,647
Interest payable to an intermediate holding company	-	24,611,255	-	-
Interest payable to a fellow subsidiary	-	246,457	-	246,457
Other payables	2,317,094	743,955	1,342,097	103,168
Accruals	2,997,033	3,539,329	705,448	1,452,024
	5,314,127	51,560,285	2,047,545	17,668,296

The interest payables to the holding companies and a fellow subsidiary were unsecured, interest-free and were fully settled during the year.

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25. INTEREST-BEARING BANK BORROWINGS

	2006			2005
Group	**Effective interest rate (%)**	**Maturity**	**HK$**	**HK$**
Current				
Current portion of long term bank loans - secured	Hong Kong prime rate minus 2.6	2007	808,000	-
Non-current				
Secured bank loans	Hong Kong prime rate minus 2.6	2008 - 2021	16,687,059	-
			17,495,059	-

	Group 2006 HK$	Group 2005 HK$
Analysed into:		
Bank loans repayable:		
Within one year	808,000	-
In the second year	849,450	-
In the third to fifth years, inclusive	2,827,419	-
Beyond five years	13,010,190	-
	17,495,059	-

Notes:

The Group's bank loans are secured by:

(i) mortgages over the Group's investment properties situated in Hong Kong, which had an aggregate carrying value at the balance sheet date of HK$15,814,000 (note 14);

(ii) a mortgage over the Group's leasehold land and building, which had a carrying value at the balance sheet date of HK$10,508,820 (note 13); and

(iii) a personal guarantee given by a substantial shareholder of the Company at the balance sheet date.

All borrowings of the Group bear interest at floating interest rates.

The carrying amounts of the Group's bank borrowings approximate to their fair values.

Notes to Financial Statements

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26. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

The amount due to the immediate holding company at the prior year end was unsecured, bore interest at annual effective rates ranging from 7% to 8% and was fully repaid during the year.

27. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY

The amount due to an intermediate holding company at the prior year end was unsecured, bore interest at annual effective rate of 6.50% and was fully repaid during the year.

28. DEFERRED TAX LIABILITIES

	Accelerated tax depreciation	
	2006	2005
	HK$	HK$
At 1 January	411,507	85,909
Disposal of subsidiaries - note 32	(411,507)	-
Deferred tax charged to the income statement during the year - note 10	19,000	325,598
At 31 December	19,000	411,507

The Group has tax losses arising in Hong Kong of HK$181,854,666 (2005: HK$183,353,825), subject to the agreement by the Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

29. SHARE CAPITAL

	2006	2005
	HK$	HK$
Authorised:		
25,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.004 (2005: HK$0.10) each	100,000,000	100,000,000
1,521,400,000 convertible preference shares of HK$0.001 each (2005: Nil)	1,521,400	-
	101,521,400	100,000,000
Issued and fully paid:		
767,288,049 (2005: 615,024,175) ordinary shares of HK$0.004 (2005: HK$0.10) each	3,069,152	61,502,418

Notes to Financial Statements

31 December 2006

29. SHARE CAPITAL (continued)

A summary of the movements in the Company's authorised and issued share capital, and share premium account is as follows:

	Notes	Authorised Number of shares	Authorised Amount HK$	Issued and fully paid Number of shares	Issued and fully paid Amount HK$	Share premium account Amount HK$
Ordinary shares						
At 1 January 2005, 31 December 2005 and 1 January 2006		1,000,000,000	100,000,000	615,024,175	61,502,418	168,315,330
Capital reduction	(a)(ii)	-	-	-	(60,887,394)	-
Subdivision of shares	(a)(iii)	99,000,000,000	-	-	-	-
Rights issue	(c)	-	-	307,512,087	307,512	9,394,494
Conversion of convertible preference shares	(d)	-	-	2,023,615,935	2,023,616	45,976,554
Issue of shares	(e)	-	-	123,000,000	123,000	6,125,400
Share consolidation	(f)	(75,000,000,000)	-	(2,301,864,148)	-	-
		24,000,000,000	-	152,263,874	(58,433,266)	61,496,448
Share issue expenses		-	-	-	-	(1,225,429)
At 31 December 2006		25,000,000,000	100,000,000	767,288,049	3,069,152	228,586,349
Convertible preference shares						
At 1 January 2005, 31 December 2005 and 1 January 2006		-	-	-	-	-
Issue of convertible preference shares	(b)	1,521,400,000	1,521,400	1,521,400,000	48,000,170	-
Conversion of convertible preference shares	(d)	-	-	(1,521,400,000)	(48,000,170)	-
At 31 December 2006		1,521,400,000	1,521,400	-	-	-
Total issued share capital At 31 December 2006					3,069,152	228,586,349
At 31 December 2005					61,502,418	168,315,330

Notes to Financial Statements

31 December 2006

29. SHARE CAPITAL (continued)

Notes:

(a) Pursuant to a special resolution passed at a special general meeting of the Company on 23 May 2006, the following events took place on 19 June 2006:

(i) a reduction of the par value of each issued ordinary share of the Company from HK$0.10 to HK$0.001 by cancelling the paid-up capital to the extent of HK$0.099 on each issued ordinary share, resulting in a reduction of the Company's issued share capital from HK$61,502,418 to HK$615,024;

(ii) a transfer of the credit arising from the cancellation of the paid-up capital in the amount of HK$60,887,394 to the contributed surplus; and

(iii) a subdivision of each unissued ordinary share in the Company with the par value of HK$0.10 into 100 new unissued ordinary shares in the Company with the par value of HK$0.001 each, resulting in an increase in authorised ordinary shares from 1,000,000,000 shares to 100,000,000,000 shares.

(b) Pursuant to a special resolution passed at a special general meeting of the Company on 23 May 2006, the authorised share capital of the Company was increased by HK$1,521,400 divided into 1,521,400,000 convertible preference shares of HK$0.001 each.

(c) A rights issue of one rights share for every two existing shares held by members on the register of members on 16 August 2006 was made, at an issue price of HK$0.03155 per rights share, resulting in the issue of 307,512,087 ordinary shares of HK$0.001 each for a total cash consideration, before expenses, of HK$9,702,006.

(d) On 26 September 2006 and 11 October 2006, 1,521,400,000 convertible preference shares were converted into 1,300,000,000 and 723,615,935 ordinary shares of HK$0.001 each, respectively. Further details of the convertible preference shares are set out in the section headed "Convertible preference shares" below.

(e) On 9 November 2006, the Company allotted and issued a total of 123,000,000 ordinary shares of HK$0.001 each for cash to independent third parties at a price of HK$0.0508 per share for a total cash consideration, before expenses, of HK$6,248,400.

(f) With effective from 27 November 2006, every four shares in the issued and unissued ordinary share capital of the Company of HK$0.001 each were consolidated into one consolidated share of HK$0.004 each.

Convertible preference shares

On 20 June 2006, the Company issued 1,521,400,000 convertible preference shares (the "Convertible Preference Shares") with a nominal value of HK$48,000,170. The Convertible Preference Shares are non-voting, freely transferable and not entitled to any right of participation in the profits of the Company. Holders of the Convertible Preference Shares are not entitled to any dividend distribution whether in cash or otherwise. The Company does not have the right to redeem the outstanding shares, nor do the shareholders have the rights to sell back the shares to the Company.

The Convertible Preference Shares are convertible into the Company's ordinary shares at the conversion price, which is initially HK$0.03155 per ordinary share, subject to adjustment, of the Company at anytime immediately upon allotment and issue of the Convertible Preference Shares and until conversion of all the Convertible Preference Shares in full.

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29. SHARE CAPITAL (continued)

Convertible preference shares (continued)

On 26 September 2006 and 11 October 2006, the conversion rights attaching to the Convertible Preference Shares were exercised in full at the conversion price of HK$0.02372 per share, as adjusted for the rights issue (note 29(c)), resulting in the issue of 1,300,000,000 and 723,615,935 ordinary shares of HK$0.001 each, respectively.

Share options

Details of the Company's share option scheme are included in note 30 to the financial statements.

Warrants

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 23 December 2006, the Company issued unlisted warrants attaching the rights to subscribe for 150,000,000 ordinary shares. Further details of the issue of the unlisted warrants are set out in the Company's circular dated 6 December 2006.

The warrants entitle the holders thereof to subscribe for 150,000,000 ordinary shares of HK$0.004 each at a subscription price of HK$0.332 per share, payable in cash and subject to adjustment, from the date of issue until the third anniversary of the date thereof. The issue price of the warrants is HK$0.016 each and the total proceeds from the issue of warrants was HK$2,400,000.

At the balance sheet date, none of the warrants had been exercised. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 150,000,000 additional ordinary shares of HK$0.004 each.

30. SHARE OPTION SCHEME

On 11 June 2002, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

(a) A summary of the share option scheme of the Group is as follows:

	The Scheme
Purpose	Provide incentives and rewards to eligible participants.
Participants	Eligible participants include: (i) any employee(s) (whether full-time or part-time employee(s), including any executive director but not any non-executive director) of the Company and its subsidiaries; (ii) any non-executive director (including independent non-executive directors) of the Company and its subsidiaries; (iii) any supplier of goods or services to any member of the Group; (iv) any customer of the Group; (v) any person or entity that provides research, development or other technological support to the Group; and (vi) any shareholder of any member of the Group or any holder of any securities issued by any member of the Group.

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30. SHARE OPTION SCHEME (continued)

(a) A summary of the share option scheme of the Group is as follows (continued):

	The Scheme
Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at the date of the annual report	76,728,804 (2005: 61,502,417) ordinary shares, being 10% (2005: 10%) of the issued share capital.
Maximum entitlement of each participant	The maximum number of ordinary shares shall not exceed 1% of the issued ordinary share capital of the Company in issue in any 12-month period.
Period within which the securities must be taken up under an option	Subject to the discretion on issuance of board of directors.
Minimum period for which an option must be held before it can be exercised	Not applicable.
Amount payable on acceptance	HK$1.00
Period within which payments/calls/loans must be made/repaid	Not applicable.
Basis of determining the exercise price	Determined by the directors at their discretion and shall not be lower than the highest of: (i) the closing price of the ordinary shares on the Stock Exchange at the offer date, which must be a trading day; (ii) the average closing price of the ordinary shares on the Stock Exchange for the five business days immediately preceding the offer date; and (iii) the nominal value of an ordinary share.
The remaining life of the scheme	The scheme will be valid and effective until 7 July 2012, after which no further options will be granted but the provisions of the Scheme shall remain in full force and effect in all other respects. Options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to 7 July 2012 shall continue to be exercisable in accordance with their terms of grant within the option period for which such options are granted, notwithstanding the expiry of the Scheme.

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30. SHARE OPTION SCHEME (continued)

(b) The following share options were outstanding under the Scheme during the year:

Name or category of participant	At 1 January 2006	Granted during the year	Lapsed during the year	Cancelled during the year	At 31 December 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options* HK$ per share	Price of Company's shares at grant date of options** HK$ per share
Director									
Chan Hon Ming, Alan	3,000,000	-	-	(3,000,000)	-	8 July 2002	8 July 2002 to 7 July 2012	0.111	0.104
Other employees in aggregate	8,250,000	-	(4,050,000)	(4,200,000)	-	8 July 2002	8 July 2002 to 7 July 2012	0.111	0.104
	11,250,000	-	(4,050,000)	(7,200,000)	-				

* *The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.*

** *The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options.*

The share options do not confer rights on the holders to dividends or to vote at shareholders meetings.

At the balance sheet date, the Company had no options outstanding under the Scheme.

31. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in the equity on page 31 of the financial statements.

The Group's contributed surplus represents (i) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 30 October 1992, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the transfer of the credit arose from the cancellation of the paid-up capital in the reduction of the par value of each issued ordinary share on 19 June 2006.

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31. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$	Contributed surplus HK$	Other reserve HK$	Accumulated losses HK$	Total HK$
At 1 January 2005		168,315,330	95,165,446	-	(390,209,496)	(126,728,720)
Loss for the year		-	-	-	(6,009,873)	(6,009,873)
At 31 December 2005 and 1 January 2006		168,315,330	95,165,446	-	(396,219,369)	(132,738,593)
Capital reduction	29(a)(ii)	-	60,887,394	-	-	60,887,394
Rights issue	29(c)	9,394,494	-	-	-	9,394,494
Conversion of convertible preference shares	29(d)	45,976,554	-	-	-	45,976,554
Issue of shares	29(e)	6,125,400	-	-	-	6,125,400
Share issue expenses	29	(1,225,429)	-	-	-	(1,225,429)
Issue of warrants	29	-	-	2,400,000	-	2,400,000
Loss for the year		-	-	-	(25,951,617)	(25,951,617)
At 31 December 2006		228,586,349	156,052,840	2,400,000	(422,170,986)	(35,131,797)

The Company's contributed surplus represents (i) the excess of the fair values of the shares of the subsidiaries acquired pursuant to the reorganisation on 30 November 1992, over the nominal value of the Company's shares issued in exchange therefor; and (ii) the transfer of the credit arising from the cancellation of the paid-up capital in the reduction of the par value of each issued ordinary share, referred to in note 31(a). Under the Companies Act 1981 of Bermuda (as amended), the Company may make distributions to its members out of the contributed surplus under certain circumstances, but is not presently qualified to do so.

Notes to Financial Statements

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32. DISPOSAL OF SUBSIDIARIES

On 20 June 2006, the Group disposed of its entire 100% equity interest in Lismore Properties Limited and its subsidiaries (collectively the "Lismore Group") to Magnum (Guernsey) Limited ("MGL"), who ceased to be the Group's immediate holding company on the same date, for a consideration of HK$56,366,892, resulting in a gain on disposal of HK$12,408,167. The Lismore Group was engaged in property investment immediately before the disposal.

The carrying amounts of the assets and liabilities of the Lismore Group immediately before the disposal were as follows:

	Notes	HK$
Net liabilities disposed of:		
Property, plant and equipment	13	197,905
Investment properties	14	43,920,000
Prepayments, deposits and other receivables		444,169
Cash and bank balances		692,643
Other payables and accruals		(884,485)
Deferred tax liabilities	28	(411,507)
Amounts due to the Group		(56,366,891)
		(12,408,166)
Gain on disposal of subsidiaries	5	12,408,167
Amounts due to the Group disposed of		56,366,891
Sale consideration		56,366,892

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

	HK$
Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(692,643)

Notes to Financial Statements

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33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transaction

During the year, the Group entered into a deed of settlement with Dragon Hill Development Limited ("DHDL"), MGL, Magnum Enterprise Sdn Bhd ("MESB"), a former intermediate holding company of the Group, and Magnum Investment Limited ("MIL"), a former fellow subsidiary of the Group, to settle the outstanding advances and related interest payables of HK$73,919,147 and HK$50,521,617, respectively, due by the Group to MGL, MESB and MIL at 20 June 2006 by HK$104,367,062. The payable of HK$104,367,062 was fully settled on 20 June 2006 by (i) the sale consideration of the Lismore Group of HK$56,366,892 (note 32); and (ii) the subscription proceeds of HK$48,000,170 (note 29) from the issue of convertible preference shares, resulting in a gain on the waiver of loan advances and related interest of HK$20,073,702 (note 5).

MIL ceased to be the fellow subsidiary of the Group after the change of the controlling shareholder of the Group on 20 June 2006.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years. The terms of the leases generally also require the tenants to pay security deposits.

At 31 December 2006, the Group had total future minimum lease receivable under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2006	2005
	HK$	HK$
Within one year	221,375	1,734,850
In the second to fifth years, inclusive	-	282,500
	221,375	2,017,350

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34. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its warehouse and residential properties under operating lease arrangements. Leases for warehouse and properties are negotiated for terms ranging from 1 to 2 years.

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

	Group		Company	
	2006	2005	2006	2005
	HK$	HK$	HK$	HK$
Within one year	266,800	1,859,190	-	1,619,085
In the second to fifth years, inclusive	37,500	-	-	-
	304,300	1,859,190	-	1,619,085

35. COMMITMENT

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following capital commitment at the balance sheet date:

	Group	
	2006	2005
	HK$	HK$
Contracted, but not provided for:		
Leasehold land and building	1,494,000	-

At the balance sheet date, the Company did not have any significant commitments.

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36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	Group 2006 HK$	2005 HK$
Interest expense charged by the immediate holding company	(i)	1,412,584	3,008,689
Interest expense charged by an intermediate holding company	(i)	1,832,032	3,485,587
Waiver of loan advances and related interest by the holding companies and a fellow subsidiary	33	20,073,702	-
Management fee income charged to a fellow subsidiary	(ii)	22,950	48,600

Notes:

(i) The interest expenses were charged by MGL, the former immediate holding company of the Group, and MESB, a former intermediate holding company of the Group, during the year which arose from their respective advances to the Group. The advances were unsecured, bore interest at annual effective rates ranging from 6.5% to 8% and were fully repaid during the year.

MGL and MESB ceased to be the holding companies of the Group after the change of the controlling shareholder of the Group on 20 June 2006.

(ii) Management fee income was related to the administrative services provided to a former fellow subsidiary of the Group. The fee was charged at a monthly rate of HK$4,050 before the change of the controlling shareholder of the Group on 20 June 2006.

(b) Outstanding balances with related parties:

	Notes	Group 2006 HK$	2005 HK$
Due to the immediate holding company	(i)	-	65,418,436
Due to an intermediate holding company	(ii)	-	55,531,255
Due to a fellow subsidiary	(iii)	-	246,457

Notes:

(i) This represented interest and loan payable to the immediate holding company, details of the terms thereof are included in notes 24 and 26, respectively. The amount was fully settled during the year.

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36. RELATED PARTY TRANSACTIONS (continued)

(b) Outstanding balances with related parties (continued):

(ii) This represented interest and loan payable to an intermediate holding company, details of the terms thereof are included in notes 24 and 27, respectively. The amount was fully settled during the year.

(iii) This represented interest payable to a fellow subsidiary, details of the terms thereof are included in note 24 to the financial statements. The amount was fully settled during the year.

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

Details of the compensation of the Group's key management personnel are disclosed in note 8 to the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial resources comprise bank borrowings, and cash and bank balances. The main purpose of maintaining the financial resources is to finance the Group's operations. The Group has various other financial assets and liabilities such as loans receivable, accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial resources are interest rate risk, credit risk, capital management risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group is exposed to interest rate risk due to changes in interest rates of interest-bearing financial assets and liabilities. Interest-bearing financial assets are primarily deposits with banks which are mostly short term in nature and loans receivable from margin clients and consumer finance customers which are arising from security dealing business and consumer finance business, respectively. The Group's interest-bearing financial liabilities are primarily bank borrowings with annual effective interest rate at Hong Kong dollar prime rate minus 2.6%.

Credit risk

Credit risk is the risk that a customer or counterparty in a transaction may default. The Group has properly put credit management policies in place which cover the examination of the approval of clients' trading and credit limits, regular reviews of facilities granted, monitoring of credit exposures and the follow up of credit risks associated with overdue debts. The credit policy is regularly revised, taking into account factors such as prevailing business and economic conditions, regulatory requirements and the Group's capital resources. The Group's margin clients receivable arising from the ordinary course of business of dealing in securities are secured by the underlying pledged securities while the consumer finance loan is secured by properties collateral. At the balance sheet date, the Group's 5 largest debtors accounted for 99.6% of its loans receivable. In respect of the Group's accounts receivable, they relate to a large number of diversified customers, there is no significant concentration of credit risk.

All the Group's bank balances are deposited with a number of major financial institutions.

The Group's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at the balance sheet date, in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet.

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37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management risk

The Group is regulated by the Securities and Futures Commission (the "SFC") and is required to comply with certain minimum capital requirements according to the rules of the SFC.

Liquidity risk

For the management of the Group's liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

Fair value

At the balance sheet date, the fair values of the Group's financial assets and liabilities were not materially different from their carrying amounts.

38. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 2 March 2007, the Company, Liuzhou Wuling Motors Company Limited ("Wuling") and DHDL entered into a framework agreement (the "Framework Agreement") in relation to the proposed investment by the Company in Liuzhou Wuling Motor Industrial Company Limited ("Wuling Industrial").

Wuling Industrial is a state-owned limited company established in the People's Republic of China ("PRC") and is currently a wholly-owned subsidiary of Wuling. Wuling Industrial and its subsidiaries, is principally engaged in the manufacturing of motor vehicle engines, parts and special mini vehicles. Pursuant to the Framework Agreement, the Company will subscribe for a 51% of the enlarged registered capital of Wuling Industrial for a consideration of approximately RMB391 million (approximately HK$395 million). The Framework Agreement is subject to the formal execution of the agreements by the Company, Wuling and DHDL and approval from relevant government authorities in Guangxi, PRC, Stock Exchange and shareholders of the Company. The Framework Agreement will be terminated and cease to have any effect if the Company, Wuling and DHDL fail to enter into the agreements within three months from the date of the Framework Agreement (or a later date to be determined by the Company, Wuling and DHDL).

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2007.