Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The address of its registered office is Century Yard, Cricket Squares, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, Bristish West Indies and its principal place of business is Suites 5303-4, 53rd floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to a special resolution passed on 10 March 2006 at an extraordinary general meeting, the Company's name was changed from Orient Industries Holdings Limited to Aurora Global Investment Holdings Limited.

The principal activity of the Company is investment holding. Details of principal activities of its principal subsidiaries (together with the Company referred to as the "Group") are set out in note 17(a) to the financial statements.

The financial statements on pages 31 to 86 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The financial statements for the year ended 31 December 2006 were approved for issue by the board of directors on 27 April 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

(a) New or amended HKFRSs effective on 1 January 2006

From 1 January 2006, the Group has adopted the new or amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in any significant changes in the Group's and the Company's accounting policies.

Notes to the Financial Statements

For the year ended 31 December 2006

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

(b) New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

Amendment to HKAS 1 "Presentation of Financial Statements" - Capital Disclosures [1]
HKFRS 7 "Financial Instruments: Disclosures" [1]
HKFRS 8 "Operating Segments" [8]
HK(IFRIC) Interpretation 7 "Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies" [2]
HK(IFRIC) Interpretation 8 "Scope of HKFRS 2" [3]
HK(IFRIC) Interpretation 9 "Reassessment of Embedded Derivatives" [4]
HK(IFRIC) Interpretation 10 "Interim Financial Reporting and Impairment" [5]
HK(IFRIC) Interpretation 11 "Group and Treasury Share Transactions" [6]
HK(IFRIC) Interpretation 12 "Service Concession Arrangements" [7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008
[8] Effective for annual periods beginning on or after 1 January 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost convention except for the revaluation of property, plant and equipment which are stated at fair values. The measurement bases are fully described in the accounting policies below.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The financial statements have been prepared on a going concern basis notwithstanding that the Group had net current liabilities of approximately HK$18,655,000 at 31 December 2006 and had made operating losses in each of the last 3 years. In order to turn around the Group's loss-making situation, improve its financial position and ensure it has sufficient funds to meet its current commitments, the directors intend to take and/or have carried out the following :

i) the directors will take action to tighten cost controls over the staff costs, overheads and various general and administrative expenses;

ii) on 5 March 2007, the Company entered into a placement agreement ("the Placement Agreement") with Enlighten Securities Limited (the "Placing Agent") pursuant to which an aggregate of 87,000,000 new ordinary shares (the "Placing Share") of HK$0.01 each were to be placed by the Placing Agent on behalf of the Company, on a fully underwritten basis, at the price of HK$0.308 per Placing Share with six independent investors. The gross proceeds from the placement of approximately HK$26,796,000 have been received on 16 March 2007;

iii) subsequent to 31 December 2006, the exercise of 19,820,000 share options of the Company resulted in an increase in cash of approximately HK$7,547,000. Details are set out in note 30 to the financial statements; and

iv) on 16 April 2007, the Group entered into a loan agreement with a registered money lender in Hong Kong for a loan of approximately HK$30,000,000 for the investment in a PRC company as set out in note 37(c). The loan will be repayable at the end of twelve months from the date of drawdown.

In the opinion of the directors, in light of the measures taken to-date, the Group will have sufficient working capital to meet its current and future requirements. Accordingly, the directors are satisfied that the Group will be able to continue as a going concern and that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's tight financial and cash position as at 31 December 2006.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 December each year.

(c) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the consolidated income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Group's presentation currency at the average rates over the reporting period. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity.

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

(e) 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:

(i) sale of goods are recognised upon transfer of the significant risks and rewards of ownership to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) interest income is recognised on a time proportion basis using the effective interest rate method; and

(iii) rental and sub-leasing rental income are recognised on a time proportion basis in accordance with the terms and conditions of the tenancy agreement.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Borrowing costs

All borrowing costs are expensed as incurred.

(g) Goodwill

Goodwill arising on acquisition of subsidiaries for which the acquisition date represents the excess of the cost of an acquisition over the Group's interest in the fair value of identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. The Group has discontinued amortisation from 1 January 2005 onwards and goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of subsidiaries include the carrying amount of goodwill relating to the subsidiaries sold.

(h) Property, plant and equipment

Property, plant and equipment are recognised at revalued amount, based on their fair value at the date of valuation less any subsequent accumulated depreciation and impairment losses. Fair value is determined based on directors' estimates and in appraisals by external professional valuers at least once every three years, unless market-based factors indicate a risk of impairment. Any accumulated depreciation at the date of revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset revaluation equals it revalued amount.

Any revaluation surplus arising on revaluation of property, plant and equipment is credited to the "assets revaluation reserve" in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3(i). To the extent that any decrease has previously been recognised in consolidated income statement, a revaluation increase is credited to consolidated income statement with the remaining part of the increase dealt with in the asset revaluation reserve. A decrease in net carrying amount of property, plant and equipment arising from revaluations or impairment testing is charged against any revaluation surplus in the asset revaluation reserve relating to the asset and any remaining decrease recognised in consolidated income statement.

Depreciation is calculated using the straight-line method to allocate the revalued amounts of the property, plant and equipment to their residual values over their estimated useful lives, as follows :

Buildings	The shorter of the lease terms and/or 50 years
Plant and machinery	15 years
Leasehold improvements, furniture, office equipment and motor vehicles	4 to 10 years

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated income statement. Any revaluation surplus remaining in equity is transferred to retained earnings on the disposal of revalued assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

(i) Impairment testing of assets

Goodwill, property, plant and equipment, prepaid lease payments, and interests in subsidiaries are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to Note 3(h) for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined from the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment testing of assets *(Continued)*

An impairment loss recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(a) Assets acquired under a finance lease

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets is included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreement corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges, which are expensed to finance costs.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leases *(Continued)*

(b) Operating leases charges as the lessee

(i) Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

(ii) Prepaid lease payments are up-front payments to acquire the land use rights/leasehold land. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

(c) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on the estimated selling prices in the ordinary course of business less any applicable selling expenses.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. 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.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Account and other receivables, and cash and cash equivalents are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment losses. 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 cost.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of expected cash flows, discounted at the original effective rate of interest. The amount of loss is recognised in profit or loss of the period in which the impairment occurs.

If, in 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 to the extent that it does not result in the carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Accounting for income taxes

Income tax comprises current tax and deferred tax

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the consolidated income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the consolidated income statement, or in equity if they relate to items that are charged or credited directly to equity.

(n) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

(p) Financial liabilities

The Group's financial liabilities include trade and other payables, and accruals, amounts due to directors and minority shareholders, bank borrowings and finance lease payable. They are included in balance sheet line items as "amounts due to minority shareholders" under non-current liabilities or "trade payables", "other payables and accruals", "amounts due to directors" and "bank borrowings" under current liabilities or "finance lease payable" under current or non-current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the consolidated income statement.

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

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in the consolidated income statement.

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial liabilities

(b) Trade and other payables and accruals

Trade and other payables and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

(c) Convertible note

Convertible note issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible note and the fair value assigned to the liability component, representing the call option for conversion of the note into equity, is included in equity as convertible bond equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest rate method. The equity component will remain in equity until conversion or redemption of the note.

When the note is converted, the convertible note equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible note equity reserve is released directly to retained profits.

(d) Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see Note 3(j)).

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Provisions, contingent liabilities and contingent assets

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

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

(r) Retirement benefits costs and short term employee benefits

Retirement benefits to employees are provided through a defined contribution plans

(a) Defined contribution plans

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 in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated 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.

The employees of the Group’s subsidiaries which operate in the People’s Republic of China, excluding Hong Kong and Macau, (the “PRC”) are required to participate in the retirement benefits scheme (the “RB Scheme”) operated by the respective local municipal government in the PRC. These subsidiaries are required to contribute a certain percentage of their payroll costs to the RB Scheme to fund the benefits. The only obligation of the Group with respect to the RB Scheme is to pay the ongoing required contributions under the RB Scheme. Contributions under the RB Scheme are charged to the consolidated income statement as they become payable in accordance with the rules of the RB Scheme.

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Retirement benefits costs and short term employee benefits *(Continued)*

(b) Short-term employee benefits

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

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

(s) Share-based compensation

(i) The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

(ii) For other goods or services received by the Group in exchange for the grant of any share-based compensation, they are directly measured at the fair value of the goods or services received.

All share-based compensation is ultimately recognised as an expense in consolidated income statement/recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

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

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting

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

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 combination process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

Unallocated item mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(u) Related parties

Parties are considered to be related to the Group if:

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

- — controls, is controlled by, or is under common control with, the entity;
- — has an interest in the entity that gives it significant influence over the entity;
- — has joint control over the entity;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

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

(v) the party is a close member of the family or any individual referred to in (i) or (iv);

Notes to the Financial Statements

For the year ended 31 December 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related parties *(Continued)*

(vi) 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 (iv) or (v); or

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives of 4 to 50 years. The estimated useful lives reflect the directors' estimate of the period that the Group will derive future economic benefits from the use of the Group's property, plant and equipment.

(ii) Fair value of property, plant and equipment

Property, plant and equipment are stated at fair value based on director's estimates and valuations performed by independent professional valuers. In determining the fair value, the directors and the valuers have used a method of valuation which involves certain estimates. The directors have exercised their judgement as to the estimates used, the appropriateness of method of valuation used and that the assumptions used therein are reflective of current market conditions.

(iii) Impairment of receivables

The Group's management reviews receivables on a regular basis to determine if any provision for impairment is necessary. This estimate is based on the credit history of its customers, past settlement and industry practice and current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2006

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling goods of similar nature. It could change significantly as a result of changes in market conditions. Management reassesses the estimations at the balance sheet date.

5. REVENUE, OTHER REVENUE AND INCOME

Revenue, which is also the Group's turnover, represents total invoiced value of goods sold after allowances for returns and trade discounts.

An analysis of the Group's revenue, other revenue and income is as follows:

	2006 **HK$'000**	2005 HK$'000
Revenue		
Sale of goods	**26,523**	40,982
Other revenue and income		
Interest income	**85**	87
Rental and sub-leasing rental income	**1,312**	544
Sundry income	**1,079**	134
Write back of deposit received (note (a))	**5,000**	—
	7,476	765

Notes to the Financial Statements

For the year ended 31 December 2006

5. REVENUE, OTHER REVENUE AND INCOME *(Continued)*

Note:

(a) On 30 May 2006, the Company and GP Capital Limited entered into a subscription agreement ("Subscription Agreement") for the placing of the Company's convertible notes in an aggregate principal amount of HK$40 million ("Convertible Notes"). On 9 June 2006, the Company and GP Capital Limited entered into an agreement to extend the date of closing of the placing of Convertible Notes from 10 June 2006 to not later than 30 June 2006. In consideration of the Company agreeing to extend the closing date, GP Capital Limited agreed to place a non-refundable amount of HK$10,000,000 with the Company which upon completion of the placing of the Convertible Notes would be used as part of the subscription monies for the Convertible Notes. However, the Group only received an initial deposit of HK$5,000,000 prior to the expiry of the extended closing date.

On 30 June 2006, the Company was provided with two cheques by GP Capital Limited in the amount of HK$5,000,000 and HK$30,000,000 respectively (the "Cheques") for the purpose of settling the remaining subscription monies pursuant to the Subscription Agreement. However, the Cheques were not honoured by the GP Capital Limited's bank. In view of this, on 27 September 2006, the Company notified GP Capital Limited of the termination of the Subscription Agreement. A legal proceeding was brought by the Group and based on the court order issued on 12 February 2007, GP Capital Limited is required to honour the Cheques.

In the opinion of the directors, after consulting with their legal advisor, the Subscription Agreement has expired and the deposit received of HK$5,000,000 is non-refundable and, accordingly, this amount has been credited as income to the consolidated income statement for the year.

6. SEGMENT INFORMATION

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

(i) the manufacturing of carpets segment represents the manufacturing and sale of carpets; and

(ii) the trading of carpets segment represents the trading of carpets of other renowned brand names.

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

There was no intersegment sale and transfer during the year (2005: Nil).

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For the year ended 31 December 2006

6. SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format - business segments

	Manufacturing of carpets		Trading of carpets		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**8,825**	8,179	**17,698**	32,803	**26,523**	40,982
Segment results	**(17,618)**	(54,994)	**(5,506)**	(9,960)	**(23,124)**	(64,954)
Unallocated other operating income					**5,059**	55
Impairment of goodwill	**—**	(35,750)	**—**	—	**—**	(35,750)
Gain on disposal of subsidiaries	**—**	3,838	**—**	6,796	**—**	10,634
Gain on deemed disposal of a subsidiary	**—**	—	**—**	2,067	**—**	2,067
Other unallocated expense					**(27,943)**	(1,496)
Finance costs					**(149)**	(1,686)
Loss before income tax					**(46,157)**	(91,130)
Income tax					**—**	—
Loss for the year					**(46,157)**	(91,130)

Notes to the Financial Statements

For the year ended 31 December 2006

6. SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format - business segments *(Continued)*

	Manufacturing of carpets		Trading of carpets		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**79,535**	83,740	**7,098**	10,123	**86,633**	93,863
Unallocated assets	**—**	—	**—**	—	**13,884**	16,739
Total assets	**79,535**	83,740	**7,098**	10,123	**100,517**	110,602
Segment liabilities	**18,445**	8,211	**14,987**	12,247	**33,432**	20,458
Unallocated liabilities	**—**	—	**—**	—	**4,284**	4,252
Total liabilities	**18,445**	8,211	**14,987**	12,247	**37,716**	24,710
Amortisation of prepaid lease payments	**112**	107	**—**	—	**112**	107
Depreciation	**6,152**	5,952	**312**	323	**6,464**	6,275
Unallocated depreciation	**—**	—	**—**	—	**983**	105
	6,152	5,952	**312**	323	**7,447**	6,380
Capital expenditure — addition of property, plant and equipment	**56**	242	**17**	36	**73**	278
Unallocated capital expenditure	**—**	—	**—**	—	**3,945**	725
Addition of property, plant and equipment	**56**	242	**17**	36	**4,018**	1,003
Non cash expenses						
Bad debts written off	**—**	47,950	**65**	72	**65**	48,022
Provision for impairment of trade receivables	**—**	—	**314**	—	**314**	—
Impairment of goodwill	**—**	35,750	**—**	—	**—**	35,750

Notes to the Financial Statements

For the year ended 31 December 2006

6. SEGMENT INFORMATION *(Continued)*

(b) Secondary reporting format - geographic segments

	Hong Kong		Macau		PRC		Overseas		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue										
Sales to external customers	**12,471**	24,231	**866**	778	**9,386**	11,541	**3,800**	4,432	**26,523**	40,982
Segment assets	**20,982**	26,862	**—**	—	**79,535**	83,740	**—**	—	**100,517**	110,602
Capital expenditure										
Addition of property, plant and equipment	**3,962**	761	**—**	—	**56**	242	**—**	—	**4,018**	1,003

7. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest charged on:		
Bank loans and overdrafts wholly repayable within five years	**111**	275
Finance lease	**23**	6
Other loans	**15**	1,405
	149	1,686

Notes to the Financial Statements

For the year ended 31 December 2006

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging and crediting the following:

	2006 HK$'000	2005 HK$'000
Charging:		
Cost of inventories recognised as expense	19,878	25,824
Depreciation (note (a))		
— owned assets	7,371	6,374
— leased fixed assets	76	6
	7,447	6,380
Amortisation of prepaid lease payments	112	107
Operating lease charges on land and buildings	3,093	2,589
Auditors' remuneration	534	311
Loss on disposals of property, plant and equipment **	2	22
Impairment of goodwill **	—	35,750
Bad debts written off (note (b)) **	65	48,022
Fair value of options granted to a third party for consultancy services rendered (note 30(a))	1,020	—
Fair value of options granted to directors and employees included in staff cost (note 13)	9,757	—
Provision for impairment of trade receivables **	314	—
Outgoings in respect of leasing properties	1,096	60
Under-provision of value added tax and the corresponding penalty arising in previous years (note 23(a)) **	8,938	—
Exchange difference, net	—	239
Staff cost, including directors' emoluments (note 13)	24,243	10,262
Crediting:		
Exchange difference, net	4	—
Gain on disposal of subsidiaries **	—	10,634
Gain on deemed disposal of subsidiaries **	—	2,067
Write back of other payables **	—	2,230
Write back of provision for salary provision **	—	62

Notes:

** Included in "Other operating expenses" on the face of the consolidated income statement.

(a) Depreciation expenses of HK$5,538,000 (2005: HK$5,384,000) has been expensed in cost of inventories sold and HK$1,909,000 (2005: HK$996,000) in administrative expenses.

(b) Included in the bad debts written off was an amount of HK$47,950,000 due from a debtor which was overdue for over two years as at 31 December 2005.

Notes to the Financial Statements

For the year ended 31 December 2006

9. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Current tax		
— Hong Kong	—	—

No provision for Hong Kong profits tax is required since the Group did not have any assessable profit for the year (2005: Nil).

Reconciliation between income tax expense and the accounting loss at applicable tax rates:

	2006 HK$'000	2005 HK$'000
Loss before income tax	(46,157)	(91,130)
Tax at the applicable rates	(10,808)	(16,117)
Tax effect of non-taxable income	(1,406)	(1,495)
Tax effect of non-deductible expenses	6,922	15,326
Tax effect of unrecognised temporary differences	331	242
Tax effect of tax losses not recognised	4,961	2,044
Income tax expense	—	—

10. DIVIDENDS

No dividend has been paid or declared by the Company for the year ended 31 December 2006 (2005: Nil).

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to equity holders of the Company of HK$46,167,000 (2005: HK$91,136,000), a loss of HK$40,087,000 (2005: HK$54,155,000) has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the equity holders of the Company of approximately HK$46,167,000 (2005: HK$91,136,000) and on the weighted average of ordinary shares of 528,332,055 (2005: 303,888,493) in issue.

No diluted loss per share is presented for the year ended 31 December 2006 as the outstanding share options were anti-dilutive. No diluted loss per share for the year ended 31 December 2005 has been presented as there was no dilutive potential shares.

Notes to the Financial Statements

For the year ended 31 December 2006

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	HK$'000
Wages, salaries and allowances	**14,186**	10,035
Fair value of share options granted to directors and employees (note (a))	**9,757**	—
Pension costs - defined contribution plans	**300**	227
	24,243	10,262

Note:

(a) Fair value of share options granted to directors and employees of approximately HK$10,170,000 was charged to the income statement during the year at the date of grant (note 30(a)). An amount of approximately HK$413,000 was credited to the income statement on cancellation of share options when the corresponding staff left the Group (note 30 (b)).

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emolument

	Fees	**Salaries, allowances and benefits in kind***	**Quarter expenses**	**Contribution to retirement benefit scheme**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006					
Executive directors					
Mr. Pang Man Kin, Nixon	—	2,325	600	12	2,937
Mr. Tsao Ke Wen, Calvin	—	1,177	605	12	1,794
Mr. Lam Shu Chung	—	1,465	—	12	1,477
Mr. Law Fei Shing	—	1,605	—	12	1,617
Mr. So Chi Keung	—	1,090	—	11	1,101
Non-executive director					
Dr. Ma Chung Wo Cameron	—	86	—	—	86
Independent non-executive directors					
Mr. Poon Chiu #	60	86	—	—	146
Mr. Lum Pak Sum	60	86	—	—	146
Mr. Li Chak Hung #	66	86	—	—	152
	186	8,006	1,205	59	9,456

* This includes the fair value of share options granted during the year attributable to the directors.

Resigned on 4 April 2007.

Notes to the Financial Statements

For the year ended 31 December 2006

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

(a) Directors' emolument *(Continued)*

	Notes	Fees HK$'000	Salaries and allowances HK$'000	Quarter expenses HK$'000	Contribution to retirement benefit scheme HK$'000	Total HK$'000
2005						
Executive directors						
Mr. Pang Man Kin, Nixon	(i)	—	201	325	5	531
Mr. Tsao Ke Wen, Calvin	(i)	—	183	329	5	517
Mr. Lam Shu Chung		—	600	—	12	612
Mr. Law Fei Shing		—	480	—	12	492
Mr. So Chi Keung	(ii)	—	181	—	4	185
Non-executive director						
Dr. Ma Chung Wo Cameron	(iii)	—	—	—	—	—
Independent non-executive directors						
Mr. Poon Chiu	(iii)	30	—	—	—	30
Mr. Lum Pak Sum	(iv)	18	—	—	—	18
Mr. Li Chak Hung	(iv)	19	—	—	—	19
Mr. Yu Tak Shing, Eric	(v)	50	—	—	—	50
Mr. Lee Siu Leung	(vi)	52	—	—	—	52
Mr. Ha Chun, Michael	(vii)	30	—	—	—	30
		199	1,645	654	38	2,536

Notes:

(i) appointed on 16 August 2005

(ii) appointed on 31 March 2005

(iii) appointed on 30 June 2005

(iv) appointed on 16 September 2005

(v) appointed on 31 March and resigned on 16 September 2005

(vi) resigned on 6 June 2005

(vii) resigned on 31 March 2005

During the year, 22,500,000 share options were granted to the directors of the Company to subscribe for ordinary shares of the Company (2005: Nil).

During the year, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

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

Notes to the Financial Statements

For the year ended 31 December 2006

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

(b) Five highest paid individuals

The five highest paid individuals during the year included five directors (2005: three), details of whose remuneration are set out in note 14(a) above. Details of the emoluments of the remaining two individuals in the year ended 31 December 2005, which fell within the salary band of Nil - HK$1,000,000, are as follows:

	2005 **HK$'000**
Basic salaries, housing benefits, other allowances and benefits in kind	1,080
Retirement benefits scheme contributions	24
	1,104

Notes to the Financial Statements

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000	Total HK$'000
At 1 January 2005				
Valuation	21,497	61,167	4,127	86,791
Accumulated depreciation	(457)	(7,067)	(1,409)	(8,933)
Net book amount	21,040	54,100	2,718	77,858
Year ended 31 December 2005				
Opening net book amount	21,040	54,100	2,718	77,858
Additions	—	—	1,003	1,003
Disposals	—	—	(175)	(175)
Exchange differences	607	1,561	23	2,191
Depreciation	(471)	(5,482)	(427)	(6,380)
Closing net book amount	21,176	50,179	3,142	74,497
At 31 December 2005				
Valuation	22,118	62,931	4,976	90,025
Accumulated depreciation	(942)	(12,752)	(1,834)	(15,528)
Net book amount	21,176	50,179	3,142	74,497
Year ended 31 December 2006				
Opening net book amount	21,176	50,179	3,142	74,497
Additions	—	—	4,018	4,018
Disposals	—	—	(16)	(16)
Exchange differences	847	2,035	18	2,900
Depreciation	(490)	(5,538)	(1,419)	(7,447)
Closing net book amount	**21,533**	**46,676**	**5,743**	**73,952**
At 31 December 2006				
Valuation	23,002	65,141	9,073	97,216
Accumulated depreciation	(1,469)	(18,465)	(3,330)	(23,264)
Net book amount	**21,533**	**46,676**	**5,743**	**73,952**

Notes to the Financial Statements

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(a) Group *(Continued)*

The Group's property, plant and equipment were carried at fair value and were revalued at 31 December 2006. Valuations were made on the basis of the depreciated replacement cost method determined by B.I. Appraisals Limited, an independent firm of chartered surveyors.

Property, plant and equipment for the Group includes an amount of HK$380,000 in respect of assets held under a finance lease (2005: HK$380,000) and the related accumulated depreciation amounts is approximately HK$82,000 (2005: HK$6,000).

The Group paid a deposit of HK$3,075,000 for additions of leasehold improvements, furniture and office equipment during the year ended 31 December 2005 which was classified as 'deposits paid'. During the year, the consideration was fully paid by the Group and the deposit paid in last year was transferred to property, plant and equipment.

(b) Company

	Leasehold improvements, furniture, office equipment and motor vehicles HK$'000
At 1 January 2005	
Valuation	447
Accumulated depreciation	(18)
Net book amount	429
Year ended 31 December 2005	
Opening net book amount	429
Additions	9
Disposals	(12)
Depreciation	(87)
Closing net book amount	339
At 31 December 2005	
Valuation	444
Accumulated depreciation	(105)
Net book amount	339
Year ended 31 December 2006	
Opening net book amount	339
Additions	3
Disposals	(8)
Depreciation	(73)
Closing net book amount	**261**
At 31 December 2006	
Valuation	438
Accumulated depreciation	(177)
Net book amount	**261**

Notes to the Financial Statements

For the year ended 31 December 2006

16. PREPAID LEASE PAYMENTS - GROUP

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net carrying value are analysed as follows:

	2006 HK$'000	2005 HK$'000
Outside Hong Kong, held on leases of between 10 to 50 years	**4,912**	4,831
Opening net carrying amount	**4,831**	4,798
Exchange differences	**193**	140
Annual charges of prepaid operating lease payment	**(112)**	(107)
Closing net carrying amount	**4,912**	4,831

17. INTERESTS IN SUBSIDIARIES - COMPANY

	Notes	2006 HK$'000	2005 HK$'000
Investments			
— Unlisted shares, at cost	(a)	**76,432**	76,432
— Arising from share-based compensation	(b)	**5,754**	—
		82,186	76,432
Due from subsidiaries	(c)	**149,183**	139,059
		231,369	215,491
Provision for impairment losses		**(170,183)**	(139,059)
		61,186	76,432

Notes to the Financial Statements

For the year ended 31 December 2006

17. INTERESTS IN SUBSIDIARIES - COMPANY *(Continued)*

Notes:

(a) Particulars of the principal subsidiaries as at 31 December 2006 are as follows :

Name	Place of incorporation/ establishment	Paid-up share/registered capital	Percentage of equity attributable to the Company	Principal activities and place of operation
Directly held				
Jackley China Limited	British Virgin Islands	Ordinary US$100	100%	Investment holding Hong Kong
Aurora International Enterprises Limited	British Virgin Islands	Ordinary US$1	100%	Investment holding Hong Kong
Indirectly held				
Hui Zhou Orient Carpet Manufacturing Co., Ltd. (“HZOCM”) #	PRC	US$4,940,000	100%	Manufacture and sale of carpets PRC
Orient Finance (Hong Kong) Limited *	Hong Kong	Ordinary HK$10,000	100%	Provision of finance Hong Kong
Orient Carpet Manufacturing (Hong Kong) Limited *	Hong Kong	Ordinary HK$10,000	100%	Investment holding and trading of carpets Hong Kong
International Carpet Co. Limited (“ICC”) *	Hong Kong	Ordinary HK$2,000,000	51%	Trading of carpets Hong Kong
Aurora Logistic Capital Assurance Limited	Hong Kong	Ordinary HK$1	100%	Investment holding Hong Kong
Aurora Logistic Software Management Limited	Hong Kong	Ordinary HK$1	100%	Logistic Hong Kong
Wise Mount Management Limited	Hong Kong	Ordinary HK$1	100%	Investment holding Hong Kong
Wellspark Holdings Limited	Hong Kong	Ordinary HK$1	100%	Investment holding Hong Kong

* Subsidiaries audited by Grant Thornton Hong Kong

\# Wholly foreign owned enterprise

Notes to the Financial Statements

For the year ended 31 December 2006

17. INTERESTS IN SUBSIDIARIES - COMPANY *(Continued)*

Notes: *(Continued)*

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.

(b) The amount represents share-based compensation expenses arising from grant of share options of the Company to employees of subsidiaries in exchange for their services offered to these subsidiaries.

(c) The amounts due are unsecured, interest-free and not repayable in the next twelve months from the balance sheet date.

18. GOODWILL - GROUP

The net carrying amount of goodwill is analysed as follows :

	2006 **HK$'000**	2005 HK$'000
At 1 January		
Gross carrying amount	**71,500**	71,500
Accumulated impairment	**(71,500)**	(35,750)
Net carrying amount	**—**	35,750
Net carrying amount at 1 January	**—**	35,750
Impairment losses	**—**	(35,750)
Net carrying amount at 31 December	**—**	—
At 31 December		
Gross carrying amount	**71,500**	71,500
Accumulated impairment	**(71,500)**	(71,500)
Net carrying amount	**—**	—

The balance of the Group's goodwill carried forward to 2005 of HK$35,750,000 was wholly attributable to HZOCM, which carries out all of the Group's carpet manufacturing operations.

Based on the comparison of the fair value less costs to sell (being the recoverable amount) and the carrying value of the cash-generating units, the directors concluded the goodwill relating to the HZOCM carpet manufacturing operations had been fully impaired in the year ended 31 December 2005. Accordingly, an impairment charge of HK$35,750,000 was charged to the consolidated income statement in 2005.

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For the year ended 31 December 2006

19. INVENTORIES - GROUP

	2006 HK$'000	2005 HK$'000
Raw materials	**1,773**	2,170
Work in progress	**—**	61
Finished goods	**2,260**	3,452
	4,033	5,683

20. TRADE AND BILLS RECEIVABLES - GROUP

The Group normally allows credit terms ranging from 30 to 120 days to established customers. An aging analysis of the trade and bills receivables, net of provision, as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	2006 HK$'000	2005 HK$'000
1-90 days	**3,567**	3,340
91-120 days	**153**	80
121-365 days	**471**	2,292
Over 1 year	**2,050**	1,423
	6,241	7,135
Less : Provision for impairment of trade receivables	**(1,737)**	(1,423)
Trade receivables - net	**4,504**	5,712

Notes to the Financial Statements

For the year ended 31 December 2006

21. CASH AND CASH EQUIVALENTS

(a) Group

Cash and cash equivalents include the following components :

	2006 HK$'000	2005 HK$'000
Cash at banks and in hand	**776**	7,069
Bank overdrafts (note 26)	**(5)**	(138)
Cash and cash equivalents	**771**	6,931

Included in cash at banks and in hand of the Group is HK$344,000 (2005: HK$201,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency.

(b) Company

	2006 HK$'000	2005 HK$'000
Cash at banks and in hand	**9**	6,313

22. TRADE PAYABLES - GROUP

An aging analysis of the trade payables as at the balance sheet date, based on the receipt of goods purchased, is as follows:

	2006 HK$'000	2005 HK$'000
1-90 days	**5,926**	5,977
91-120 days	**2,603**	986
121-365 days	**967**	500
Over 1 year	**227**	1,569
	9,723	9,032

Notes to the Financial Statements

For the year ended 31 December 2006

23. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Deposits received		**5,429**	2,263	**—**	—
Other payables and accruals	(a)	**20,182**	8,284	**2,167**	1,288
		25,611	10,547	**2,167**	1,288

Note:

(a) Included in the balance was installation cost and interest payable to 深圳華興建設有限公司(「華興」) in relation to a litigation case of a wholly-owned subsidiary of the Company namely HZOCM who had been made a defendant of a proceeding in the PRC. The proceedings were brought by華興against HZOCM at the Peoples Court of the Hui Yang District, Hui Zhou City, Guangdong Province in respect of installation cost due and interest payable. The amount claimed under this set of proceedings was HK$1,520,000 and interest payable of HK$1,288,000. The amount and the corresponding interest was fully provided in the Group's financial statements as at 31 December 2006.

The balance also included value added tax and the corresponding penalty payable estimated and billed by the local tax authority during the year of approximately HK$8,938,000 (note 8).

At 31 December 2005, an amount due to a former-director of the Company of HK$58,000 was included in other payables and accruals of the Group and the Company. The amount due was fully settled during the year ended 31 December 2006.

24. AMOUNTS DUE TO DIRECTORS

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

Notes to the Financial Statements

For the year ended 31 December 2006

25. FINANCE LEASE PAYABLE - GROUP

The analysis of the total future minimum lease payments under a finance lease and their present values are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**101**	101	**76**	76
In the second year	**101**	101	**76**	76
In the third to fifth years, inclusive	**208**	301	**158**	228
Total minimum finance lease payments	**410**	503	**310**	380
Future finance charges on finance lease payments	**(100)**	(123)		
Total net finance lease payable	**310**	380		
Less : Portion classified as current liabilities	**(76)**	(76)		
Non-current portion included under non-current liabilities	**234**	304		

The Group entered into a finance lease for a motor vehicle with a lease period of 5 years. The lease does not have an option to renew or any contingent rental provisions. Under the lease term, the legal title of the leased asset will be transferred to the Group at nil consideration on expiry of the lease period.

26. BANK BORROWINGS — GROUP

An analysis of bank borrowings which were repayable within one year was as follows :

	2006	2005
	HK$'000	HK$'000
Bank overdrafts, unsecured (note 21(a))	**5**	138
Trust receipt loans, secured (note (a)	**—**	2,257
	5	2,395

(a) At 31 December 2005, these borrowings bore interest at variable rate of 7.405% per annum and were secured by the followings:

(i) Pledge of time deposits of HK$2,031,000; and

(ii) Personal guarantees executed by a related party and by the minority shareholders of ICC.

27. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts due are unsecured, interest free and would not be repayable within the next twelve months from the balance sheet date.

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For the year ended 31 December 2006

28. SHARE CAPITAL

		2006		2005	
	Notes	**Number of shares '000**	**HK$'000**	Number of shares '000	HK$'000
Authorised :					
At 1 January, ordinary shares of HK$0.01 each (2005: HK$0.1 each)		**20,000,000**	**200,000**	2,000,000	200,000
Capital reorganisation	(b)	**—**	**—**	18,000,000	—
At 31 December ordinary shares of HK$0.01 each (2005: HK$0.01 each)		**20,000,000**	**200,000**	20,000,000	200,000
Issued and fully paid :					
At 1 January, ordinary shares of HK$0.01 each (2005: HK$0.1 each)		**525,200**	**5,252**	1,340,000	134,000
Shares issued on 18 January 2005	(a)	**—**	**—**	50,000	5,000
Capital reorganisation	(b)	**—**	**—**	(1,251,000)	(137,610)
Ordinary shares of HK$0.01 each after the capital reorganisation		**525,200**	**5,252**	139,000	1,390
Shares issued on 14 April 2005	(c)	**—**	**—**	69,500	695
Shares issued on 10 August 2005	(d)	**—**	**—**	275,000	2,750
Shares issued on 3 November 2005	(e)	**—**	**—**	41,700	417
Exercise of share options and issue of shares	(f)	**26,700**	**267**	—	—
At 31 December ordinary shares of HK$0.01 each (2005: HK$0.01 each)		**551,900**	**5,519**	525,200	5,252

Notes:

(a) On 18 January 2005, the Company issued 50,000,000 new ordinary shares at HK$0.30 per share to Shenzhen Hao Sheng He Industrial Company Limited to complete the balance of the consideration of the conditional share acquisition agreement (to acquire 49% additional equity interest in a subsidiary of the Company, HZOCM) entered into on 15 September 2003. These issued shares rank pari passu with other shares in issue in all respects.

Notes to the Financial Statements

For the year ended 31 December 2006

28. SHARE CAPITAL *(Continued)*

(b) Pursuant to a special resolution passed on 31 December 2004, the capital reorganisation was approved in the following manner (i) the nominal value of the issued shares was reduced from HK$0.10 each to HK$0.001 each by the cancellation of HK$0.099 paid up on each issued share; (ii) every authorised but unissued share was subdivided into 100 reduced shares; and (iii) every 10 reduced shares was consolidated into one new shares ("New Share"). As a result, an amount of approximately HK$137,610,000 standing to the credit of the issued share capital of the Company was cancelled and credited to capital reserve account of the Company, from which distribution shall be at the discretion of the Directors. The capital reorganisation was completed on 10 March 2005.

(c) On 22 February 2005, the Company proposed to raise approximately HK$13,900,000 before expenses, by issuing 69,500,000 offer shares at the price of HK$0.2 per offer share by way of an open offer, payable in full on application, on the basis of one offer share for every two New Shares. The open offer was fully allotted by the shareholders and the underwriter in April 2005. These issued New Shares rank pari passu with other shares in issue in all respects.

(d) In June 2005, the Company completed a subscription agreement for the issue of convertible note in an aggregate principal of HK$33,000,000 to the subscriber. The subscriber has the right to convert the whole integral multiple of HK$1,000,000 of the principal amount of the convertible note into New Shares at any times before the maturity date falling on the second anniversary of the date of issue of the convertible note at the initial conversion price of HK$0.12 per share.

On 9 August 2005, the Company received a conversion notice from L & L Holdings Limited ("L & L") in respect of the convertible note in an aggregate principal amount of HK$33,000,000, pursuant to which L & L exercised the conversion rights in full attaching to the convertible note at the conversion price of HK$0.12 per share, resulting in the issue of 275,000,000 New Shares by the Company to L & L. These issued New Shares rank pari passu with other shares in issue in all respects.

(e) In October 2005, Prime Orient International Limited ("POIL") entered into the placing and subscription agreement pursuant to which a placing agent agreed with POIL to place up to 41,700,000 shares at the placing price of HK$0.79 per placing share on behalf of POIL to not less than six individual investors who were third parties independent of the Company and its connected persons on a best effort basis. Immediately after the completion of the aforesaid placing, the Company issued 41,700,000 New Shares at HK$0.79 per share to POIL on 3 November 2005. These issued New Shares rank pari passu with other shares in issue in all respects.

(f) During the year, subscription rights attached to the 26,700,000 share options of the Company (note 30(c)) were exercised at subscription prices of HK$0.365 and HK$0.35 per share. As a result of the subscription, the Company allotted, issued and fully paid 26,700,000 New Shares of HK$0.01 each. These issued New Shares rank pari passu with other shares in issue in all respects. A share premium of approximately HK$9,198,000 was arose from the issue and allotment of shares. In addition an amount of approximately HK$4,867,000 was transferred from share option reserve to share premium.

Notes to the Financial Statements

For the year ended 31 December 2006

29. RESERVE

(a) Group

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

The share premium account of the Company includes

i) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group reorganisation in 2001, over the nominal value of the share capital of the Company issued in exchange therefore;

ii) the premium arising from the capitalisation issue in the previous year (note 28(b));

iii) issue of shares of the Company at a premium net of the transaction costs associated with the issue of shares; and

iv) amount transferred from other equity reserves upon exercise of share option and conversion of convertible note.

The capital reserves of the Group arose from the capital reorganisation as set out in note 28(b) above.

Notes to the Financial Statements

For the year ended 31 December 2006

29. RESERVE *(Continued)*

(b) Company

	Share premium HK$'000	Capital reserves HK$'000	Convertible note equity reserve HK$'000	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005	—	3,057	—	—	(94,913)	(91,856)
Premium on shares issued during the year	55,731	—	—	—	—	55,731
Issue of convertible note (note 28(d))	—	—	4,708	—	—	4,708
Conversion of convertible note (note 28(d))	30,250	—	(4,708)	—	—	(25,542)
Capital reorganisation	—	137,610	—	—	—	137,610
Net loss for the year	—	—	—	—	(54,155)	(54,155)
At 31 December 2005 and 1 January 2006	85,981	140,667	—	—	(149,068)	77,580
Share options granted (note 30(a))	—	—	—	11,190	—	11,190
Share options cancelled (noted 30(b))	—	—	—	(413)	—	(413)
Exercise of share options and issue of shares (note 28(f))	14,065	—	—	(4,867)	—	9,198
Net loss for the year	—	—	—	—	(40,087)	(40,087)
At 31 December 2006	100,046	140,667	—	5,910	(189,155)	57,468

Details of the share premium account and capital reserves of the Company are set out in note 29(a) above.

Notes to the Financial Statements

For the year ended 31 December 2006

30. SHARE-BASED COMPENSATION

The Company operates 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. Eligible participants of the Scheme include the Company's directors, independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, any person or entity that provides research, development or other technological support to the Group and any minority shareholder in the Company's subsidiaries. The Scheme was adopted on 6 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time.

Pursuant to the extraordinary general meeting passed on 10 March 2006, the general scheme limit of the Company's share option scheme has been reset to 52,520,000 shares, representing 10% of the Company's issued share capital on the date of meeting, with the passing of ordinary resolution, which allowing the Company to grant further options carrying the rights to subscribe for a maximum of 52,520,000 shares.

The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1%, of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors , in addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

Notes to the Financial Statements

For the year ended 31 December 2006

30. SHARE-BASED COMPENSATION *(Continued)*

The exercise price of the share options is determinable by the directors, but may not be less than the higher of :

i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options;

ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and

iii) the nominal value of the shares.

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

The movement of the share options granted by the Company under the Scheme are as follows:

	2006 Number	2005 Number
At 1 January	**—**	—
Granted (note (a)		
— on 7 March 2006	**32,000,000**	—
— on 2 May 2006	**14,200,000**	—
— on 27 November 2007	**8,720,000**	—
	54,920,000	—
Cancelled (note (b))	**(2,400,000)**	—
Exercised (note (c))	**(26,700,000)**	—
At 31 December	**25,820,000**	—

Notes to the Financial Statements

For the year ended 31 December 2006

30. SHARE-BASED COMPENSATION *(Continued)*

Notes:

(a) Share options granted vest immediately. The fair value of the 54,920,000 share options at the date of grant was approximately HK$11,190,000 in aggregate which has been recognised as to HK$10,170,000 as employee benefits expenses and other administrative expenses of HK$1,020,000 in the consolidated income statement for the year ended 31 December 2006. The corresponding amount of HK$11,190,000 has been credited to share option reserve. No liabilities were recognised due to these equity settled share-based payment transactions.

The fair values of share options granted to employees of HK$10,170,000 during the year were determined by an independent valuer using the Black-Scholes Model (the "Model"). Details of the inputs to the Model are as follows:

	Share options granted on 7 March 2006 at exercise price of HK$0.35	**Share options granted on 2 May 2006 at exercise price of HK$0.365**	**Share options granted on 27 November 2006 at exercise price of HK$0.54**
Expected volatility (%)	79%	94%	108%
Risk-free interest rate (%)	4.207%	4.216%	3.657%
Dividend yield (%)	0.00%	0.00%	0.00%

Expected volatility at the date of grant was generated from Bloomberg based on the Company's 90 days historical share prices before the respective date of valuation.

The fair value of share options granted to a third party of HK$1,020,000 for consultancy services rendered during the year was determined based on the invoiced amount of service provided.

(b) During the year, 2,400,000 share options were cancelled when the employees left the Group and the corresponding amount of approximately HK$413,000 was credited to the income statement and debited to the share option reserve.

(c) In respect of the share options exercised in the current financial year, the weighted average share price of the Company at the dates of exercise ranged from HK$0.50 to HK$0.61 per share. The share options exercised during the year resulted in the issue of 26,700,000 ordinary shares of the Company (note 28(f)).

Notes to the Financial Statements

For the year ended 31 December 2006

30. SHARE-BASED COMPENSATION *(Continued)*

At the balance sheet date, the Group has the following outstanding share options and exercise prices:

	2006		2005	
	Number	**Weighted average exercise price per share HK$**	Number	Weighted average exercise price per share HK$
Exercise period:				
10 March 2006 to 9 March 2011	**10,900,000**	**0.350**	—	N/A
2 May 2006 to 9 March 2011	**6,200,000**	**0.365**	—	N/A
27 November 2006 to 9 March 2011	**8,720,000**	**0.540**	—	N/A
At 31 December 2006	**25,820,000**	**0.418**	—	N/A

The exercise in full of these remaining share options would under the present capital structure of the Company result in the issue of 25,820,000 additional ordinary shares of the Company including share capital of approximately HK$258,000 and share premium of approximately HK$10,529,000. Subsequent to the balance sheet date, 19,820,000 share options were exercised resulting in a gross proceeds of HK$7,547,000.

Subsequent to the balance sheet date and up to the date of these financial statements, no share option had been granted.

31. DEFERRED TAX

At the balance sheet date, unrecognised deferred tax assets are follows:

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax losses	**36,880**	29,554	**—**	—

Deferred tax asset has not been recongnised in respect of the above tax losses carried forward because it is not probable that future taxable profits will be available against which the Group and the Company can utilise the benefits.

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For the year ended 31 December 2006

31. DEFERRED TAX *(Continued)*

The unrecognised tax losses may be carried forward indefinitely except for the losses of HK$31,735,000 (2005 : HK$20,051,000) which will expire as follows :

	2006 HK$'000	2005 HK$'000
2006	—	664
2007	2,397	2,397
2008	1,206	1,206
2009	9,667	9,667
2010	6,117	6,117
2011	12,348	—
	31,735	20,051

32. OPERATING LEASE COMMITMENTS

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

	2006 HK$'000	2005 HK$'000
Within one year	3,474	4,044
In the second to fifth years, inclusive	521	2,468
	3,995	6,512

The Group leases certain leasehold land and buildings under operating leases. The leases run for an initial period of two to three years, with an option to renew the lease and renegotiate the terms at expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

The Company did not have any significant lease commitments at 31 December 2006 (2005: Nil).

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33. OPERATING SUB–LEASE ARRANGEMENTS

At 31 December 2006, the Group had total future minimum lease receipts under non-cancellable operating sub-lease falling due as follows:

	2006 HK$'000	2005 HK$'000
Within one year	**822**	364
In the second to fifth years, inclusive	**—**	152
	822	516

The Group sub-leases its property under operating lease arrangements which run for an initial period of one to two years, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the respective tenants. The terms of the leases generally also require the tenants to pay security deposits.

The Company did not have any significant lease arrangements at 31 December 2006 (2005: Nil).

34. COMMITMENTS

(a) On 3 December 2005, the Group entered into an acquisition agreement with China National Materials Storage and Transportation Guangzhou Corp (the "vendor") to purchase the Logistic and Financial Management System at a total consideration RMB6,000,000 (equivalent to approximately HK$5,769,000) which was satisfied (i) as to RMB3,500,000 (approximately HK$3,365,000) by issuing of 10,516,827 shares of the Company, and (ii) as to RMB2,500,000 (approximately HK$2,404,000) for cash. On 24 November 2006, the Group and the vendor have entered into a revised acquisition agreement which amended the consideration from HK$6,000,000 to HK$3,000,000. The consideration would be settled in cash based on the revised terms. A refundable deposit of HK$1,000,000 was paid by the Group in 2005 and an additional deposit of HK$1,000,000 was paid by the Group during the year. The amounts paid were included in balance sheet as "deposits" under non-current assets as at 31 December 2006. As at 31 December 2006, capital commitment arising from this acquisition was approximately HK$1,000,000 in cash.

(b) On 8 December 2006, the Group entered into an acquisition agreement to acquire 70% equity interests in Win Alliance Development Limited, which carries out the businesses of manufacturing and trading of carpets and trading of commodities such as seamless steel pipes and steel, at a total consideration HK$14,000,000. The consideration shall be satisfied (i) as to HK$ 9,000,000 by issuing of 18,000,000 ordinary shares of the Company, and (ii) as to HK$ 5,000,000 for cash. A refundable deposit of HK$1,750,000 was paid by the Group on 13 December 2006 and which was included in the consolidated balance sheet as "deposits" under non-current assets. As at 31 December 2006, capital commitment arising from this acquisition was HK$3,250,000 in cash and issue of 18,000,000 consideration shares of the Company. The transaction was completed on 2 March 2007.

Notes to the Financial Statements

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35. RELATED PARTY TRANSACTIONS

Apart from the balances and transactions with related parties disclosed elsewhere in the financial statements, the Group had the following transactions with its related parties during the year:

(a) A wholly-owned subsidiary entered into a sub-letting agreement with Orient Securities Limited, a company in which a director of the Company had beneficial interest, to sublet part of office at 8/F Luk Kwok Centre, 69 Gloucester Road, Wanchai, Hong Kong at monthly rental HK$30,338, totalling to HK$364,056 for the year (2005: HK$364,056).

(b) Compensation of key management personnel

Included in staff costs are key management personnel compensation (including directors' emoluments) and comprises the following categories:

	2006 **HK$'000**	2005 HK$'000
Short term employee benefits	**5,520**	2,498
Contribution to retirement benefit scheme	**59**	38
Share-based payment	**5,129**	—
	10,708	2,536

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36. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group introduces conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

(a) Credit risk

All the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

The carrying amounts of trade and bills receivables and other receivables represent the Group's maximum exposure to credit risk in relation to its financial assets. These financial assets are actively monitored to avoid significant concentrations of credit risk. No other financial assets carry a significant exposure to credit risk.

(b) Foreign currency risk

The sales and purchases of the Group are predominantly in United States Dollar, RMB and Hong Kong Dollar. The Group does not hedge its foreign currency risks, as the management does not expect any significant movements in the exchange rate between United States Dollar, RMB and Hong Kong Dollar.

(c) Interest rate risk

The Group has no significant interest bearing assets. The Group's interest rate risk arises from long term borrowings. The interest rates and terms of repayment are disclosed in notes 25 and 26.

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value.

Notes to the Financial Statements

For the year ended 31 December 2006

37. POST BALANCE SHEET EVENTS

The Group had the following significant post balance sheet events:

(a) On 30 January 2007, the Company entered into a non-legally binding memorandum of understanding ("MOU"), pursuant to which the Company has agreed, subject to the entering into of a formal subscription agreement, which is expected to be within two months from the date of signing of the MOU, to issue to the investor the convertible notes, which are proposed to be in maximum aggregate principal amount of US$10,000,000. No formal contract has been signed up to the date of these financial statements.

(b) On 5 March 2007, the Company entered into a placement agreement as set out in note 3(a)(ii) to the financial statements.

(c) On 27 March 2007, the Group entered into an agreement regarding an investment into a Chinese-Foreign Equity Joint Venture Company, Hebei Da Sheng Warranty Company Limited ("Da Sheng"), where the Group would inject US$6,375,000 (equivalent to approximately HK$ 51,000,000) as capital. The contribution by the Group to the registered capital shall be made in the following manner:

    (i) US$3,125,000 (equivalent to approximately HK$25,000,000) within three mounts after the date of signing the agreement that is 26 June 2007; and

    (ii) US$ 3,250,000 (equivalent to approximately HK$26,000,000) by the end of two years from the date of issuance of business license of Da Sheng.that is 25 September 2008.