

Notes to the Financial Statements

Year ended 31 December 2006

1. GENERAL INFORMATION

Willie International Holdings Limited is a public company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the current year are consistent with those of the previous year except the Group has adopted HKAS 39 and HKFRS 4 (Amendments) "Financial Guarantee Contracts". The adoption of these amendments did not have significant effects on the financial statements of the Group and the Company.

At the date of authorisation of these financial statements, the Group has not early adopted the new/revised standards and interpretations issued by the HKICPA that are not yet effective for the current year. The Group has already commenced an assessment of impact of these new / revised standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and investments held for trading, which are measured at fair value as explained in the principal accounting policies set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year.

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

All inter-company transactions and balances within the Group are eliminated on consolidation.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Subsidiaries

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, less any impairment in the value of individual investments. When the Group's share of losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or guaranteed obligations in respect of the associate.

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill on acquisitions of subsidiaries is recognised as a separate asset. Goodwill on acquisitions of associates or jointly controlled entities is included in interests in associates or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in the consolidated income statement.

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Year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are land and/or building which are held by owner or lessee under finance lease to earn rental income and/or for capital appreciation and are stated at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the income statement for the period in which they arise.

A property interest held under operating lease is classified and accounted for as investment property when the Group holds it to earn rental income and/or capital appreciation and applies the fair value model as above.

The fair value of investment properties is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued, or based on market value, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion.

Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, 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 repairs and maintenance are charged to the income statement during the year in which they are incurred.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	4%
Leasehold improvements	10% - 20%
Furniture and fixtures	10% - 20%
Office equipment	33 $\frac{1}{3}$ %
Motor vehicles	25%

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instruments, and on a trade date basis.

Investments held for trading

Investments held for trading are measured at fair value at each reporting dates. Gains and losses arising from changes in fair value are included in the income statement for the period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

At each balance sheet date, the Group assesses whether there is objective evidence that loans and receivables are impaired. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

Convertible notes

On the issue of convertible notes, the proceeds are split into liability and equity components. The fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount, net of transaction costs, is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option and is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Payables and short-term borrowings

Payables and short-term borrowings are initially recognised at fair value, and are subsequently measured at amortised cost, using effective interest method.

Notes to the Financial Statements

Year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

Revenue recognition

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

Proceeds from sale of investments held for trading are recognised on the transaction date when the relevant sale and purchase contract is entered into.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Rental income under operating leases is recognised when the properties are let out and on the straight-line basis over the lease terms.

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment and investments in subsidiaries and associates have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Employee benefits

Defined contribution plans

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

Long service payment

The Group's net obligation in respect of long service payment under the Employment Ordinance is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and discounted to its present value and after deducting the fair value of any related assets, including those retirement scheme benefit.

Notes to the Financial Statements

Year ended 31 December 2006

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

No deferred tax is provided for temporary differences arising from goodwill, the initial recognition of assets or liabilities in a transaction other than a business combination and that affecting neither accounting nor taxable profits, and investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Foreign currencies

Transactions involving foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

Share-based payment

The Company issues equity-settled share-based payments to eligible employees including directors of the Company and its subsidiaries, any other persons including consultants, advisors, agents, customers, suppliers etc. to subscribe for shares in the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effort of non market-based vesting conditions.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Related parties

A party is related to the Group if

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) 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.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Segment reporting

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

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

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

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

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

Notes to the Financial Statements

Year ended 31 December 2006

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Fair value estimation

The Group uses the discounted cash flows valuation method together with impairment assessment, if required, to determine the carrying amount of loans receivable at the balance sheet date. This valuation requires the Group to make estimates about expected cash flows and discount rates, and hence they are subject to uncertainty.

Impairment of investments and receivables

The Group assesses annually if interests in subsidiaries, associates and loans receivable have suffered any impairment in accordance with HKAS 36 and follow the guidance of HKAS 39 in determining whether amounts due from those entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial instruments include debt and equity investments, other receivables and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The management monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

Financial risk factors

Interest rate risk

The Group's interest rates on its bank and other borrowings (included in current and non-current liabilities) are mainly the bank's prime rate plus certain percentage. The interest rates and terms of repayment have been disclosed in note 22.

Liquidity risk

The Group's liquidity risk is minimal in current year and is managed by matching the raising of loans or equity funding to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Notes to the Financial Statements

Year ended 31 December 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

Financial risk factors (Continued)

Price risk

The Group's investment held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Credit risk

The Group's credit risk is primarily attributable to its money lending business as the Group has not established a separate department or any strict criteria to evaluate the credit worthiness of its borrowers. However, the directors evaluate each loan on a case to case basis and take into account of the extent of acquaintance with borrowers of the Group, the social status or reputation of borrowers and the recommendations from business partners of the Group. The exposures to the credit risks in relation to loans are monitored on an ongoing basis.

6. TURNOVER

Turnover recognised from the principal activities of the Group during the year including investment holding, trading of listed investments, property investment and provision of financial services are as follows:

	2006	2005
	HK\$'000	HK\$'000
Proceeds from sale of investments held for trading	283,735	112,293
Interest income	10,950	12,028
Dividend income	801	—
Rental income	22	156
	295,508	124,477

Notes to the Financial Statements

Year ended 31 December 2006

7. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Write back of other payables	1,900	3,155
Write back of provision for bad and doubtful debts	—	5,050
Net unrealised holding gain on investments held for trading	10,017	—
Increase in fair value of investment properties	570	400
Others	207	—
	<u>12,694</u>	<u>8,605</u>

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segment is its primary reporting format and no geographical segment has been presented as the Group's operations and assets are located in Hong Kong for the years ended 31 December 2006 and 2005.

Business segments

Business segments of the Group comprise the following:

Trading of investments	:	Purchase and sale of securities
Provision of financial services	:	Provision of securities brokerage services, financial advisory services and loan financing
Property investment	:	Lease of properties for rentals
Investment holding	:	Holding investments for dividend income and capital appreciation

Notes to the Financial Statements

Year ended 31 December 2006

8. SEGMENT INFORMATION (Continued)

The following tables show segment information for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

Segment revenue	Trading of	Provision of	Property	Investment	Unallocated	Total
	investments	financial	investment	holding		
	HK\$'000	services	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	284,665	10,821	22	—	—	295,508
Other revenue	10,017	—	570	—	2,107	12,694
Total revenue	<u>294,682</u>	<u>10,821</u>	<u>592</u>	<u>—</u>	<u>2,107</u>	<u>308,202</u>
Segment results	1,359	10,655	(840)	(23,653)	1,822	(10,657)
Loss on disposal of interest in a subsidiary	—	—	—	—	—	(143)
Loss on disposal of convertible note issued by an associate	—	—	—	—	—	(31,000)
Profit on deemed disposal of interest in an associate	—	—	—	—	—	8,429
Share of loss of associates	656	(34,253)	—	(45,271)	(142)	(79,010)
Finance costs	—	—	—	—	—	(2,380)
Taxation	—	—	—	—	—	—
Loss for the year						<u>(114,761)</u>

Notes to the Financial Statements

Year ended 31 December 2006

8. SEGMENT INFORMATION (Continued)

Year ended 31 December 2005

	Trading of investments	Provision of financial services	Property investment	Investment holding	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Turnover	112,293	12,028	156	—	—	124,477
Other revenue	—	5,050	400	2,540	615	8,605
Total revenue	<u>112,293</u>	<u>17,078</u>	<u>556</u>	<u>2,540</u>	<u>615</u>	<u>133,082</u>
Segment results	(37,954)	9,070	89	(2,026)	(7,944)	(38,765)
Reversal of impairment loss on interest in an associate	—	—	—	—	—	75,036
Impairment loss on amount due from an associate	—	—	—	—	—	(75,000)
Profit on deemed disposal of interest in an associate	—	—	—	—	—	1,406
Profit on disposal of interests in subsidiaries	—	—	—	—	—	5,925
Profit on disposal of an unlisted investment	20,528	—	—	—	—	20,528
Loss on deemed acquisition of interest in an associate	—	—	—	—	—	(13,331)
Share of loss of an associate	147	(4,743)	—	(94,605)	(150)	(99,351)
Finance costs	—	—	—	—	—	(8,163)
Taxation	—	—	—	—	—	—
Loss for the year						<u>(131,715)</u>

Notes to the Financial Statements

Year ended 31 December 2006

8. SEGMENT INFORMATION (Continued)

Assets and liabilities as at 31 December 2006

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Total HK\$'000
Assets					
Segment assets	118,940	103,724	7,517	10,792	240,973
Interests in associates	—	—	—	98,118	98,118
Unallocated assets	—	—	—	—	22,060
Total assets					361,151
Liabilities					
Segment liabilities	6,071	—	270	11,062	17,403
Unallocated liabilities	—	—	—	—	14,134
Total liabilities					31,537

Assets and liabilities as at 31 December 2005

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Total HK\$'000
Assets					
Segment assets	13,626	40,280	9,964	20,587	84,457
Interests in associates	1,173	(23,896)	24,403	236,869	238,549
Unallocated assets	—	—	—	—	21,191
Total assets					344,197
Liabilities					
Segment liabilities	3,384	—	24	16,279	19,687
Unallocated liabilities	—	—	—	—	12,943
Total liabilities					32,630

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Year ended 31 December 2006

8. SEGMENT INFORMATION (Continued)

Other segment information for the year ended 31 December 2006

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital expenditure	—	—	124	512	1,389	2,025
Depreciation expense	—	—	26	356	773	1,155
Impairment loss on goodwill arising from acquisition of interest in an associate (included in share of loss of associates)	—	—	—	34,742	—	34,742
Increase in fair value of investment properties	—	—	(570)	—	—	(570)

Other segment information for the year ended 31 December 2005

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	Total HK\$'000
Capital expenditure	—	—	442	1,335	35	1,812
Depreciation expense	—	—	194	396	717	1,307
Reversal of impairment loss on interest in an associate	—	—	—	(75,036)	—	(75,036)
Impairment loss on goodwill arising from acquisition of additional interest in an associate (included in share of loss of an associate)	—	—	—	5,156	—	5,156
Impairment loss on the amount due from an an associate	—	—	—	75,000	—	75,000
Net unrealised holding loss on investments held for trading	16,694	—	—	—	—	16,694
Increase in fair value of investment properties	—	—	(400)	—	—	(400)

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9. LOSS BEFORE TAXATION

This is stated after charging (crediting):

	2006 HK\$'000	2005 HK\$'000
Contributions to MPF Scheme	214	214
Impairment loss on goodwill arising from acquisition of interests in associates (included in share of loss of associates)	34,742	5,156
Auditors' remuneration	1,135	1,148
Operating lease charges:		
Equipment	72	59
Office premises	1,042	929
Loss on disposal of investment properties	490	237
Gain on disposal of property, plant and equipment	(291)	(119)
Equity-settled share-based payment	5,899	—

10. FINANCE COSTS

Interest on:

	2006 HK\$'000	2005 HK\$'000
Bank and other borrowings wholly repayable within five years	975	2,369
Bank and other borrowings wholly repayable over five years	1,405	1,226
Convertible notes	—	4,568
	2,380	8,163

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Year ended 31 December 2006

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The aggregate amount of emoluments received or receivable by the Company's directors are as follows:

2006	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Executive directors				
Chuang Yueheng, Henry	—	2,400	12	2,412
Lo Kan Sun	—	810	12	822
King Phillip	—	900	12	912
Wong Ying Seung, Asiong	—	336	12	348
Wang Lin	—	160	8	168
Non-executive directors				
Lau Da Yip	2	—	—	2
Independent non-executive directors				
Lam Ping Cheung	60	—	—	60
Lin Wai Yi	120	—	—	120
Liu Jian	110	—	—	110
Miu Frank H.	120	—	—	120
Nakajima, Toshiharu	24	—	—	24
Pang Shuen Wai, Nichols	—	—	—	—
Shum Ming Choy	50	—	—	50
Yau Yan Ming, Raymond	25	—	—	25
	<u>511</u>	<u>4,606</u>	<u>56</u>	<u>5,173</u>

Notes to the Financial Statements

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11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Directors' emoluments (Continued)

2005	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
Executive directors				
Chuang Yueheng, Henry	—	2,400	12	2,412
Chung Wilson (redesignated to non-executive director on 15 September 2005)	—	357	9	366
Lo Kan Sun	—	810	12	822
King Phillip	—	592	9	601
Wong Wai Man, Raymond	—	269	8	277
Wong Ying Seung, Asiong	—	336	12	348
Non-executive directors				
Lau Da Yip	24	—	—	24
Chung Wilson	30	—	—	30
Independent non-executive directors				
Lam Ping Cheung	120	—	—	120
Lin Wai Yi	110	—	—	110
Miu Frank H.	120	—	—	120
Nakajima, Toshiharu	24	—	—	24
Ong Peter	—	—	—	—
Pang Shuen Wai, Nichols	—	—	—	—
	<u>428</u>	<u>4,764</u>	<u>62</u>	<u>5,254</u>

Notes to the Financial Statements

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11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

Employees' emoluments

The five highest paid employees of the Group during the year included three (2005: four) directors, details of whose emoluments are set out above. The emoluments of the remaining two (2005: one) highest paid employees are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and benefits in kind	1,071	756
Retirement scheme contributions	21	12
	<u>1,092</u>	<u>768</u>
Nil to HK\$1,000,000	<u>2</u>	<u>1</u>

12. TAXATION

Hong Kong Profits Tax has not been provided as the companies of the Group either incurred a loss for taxation purposes or their estimated assessable profits for the year ended 31 December 2006 are wholly absorbed by unutilised tax losses brought forward from previous years (2005: Nil).

Details of unrecognised deferred taxation are set out in note 31 to the financial statements.

	2006 HK\$'000	2005 HK\$'000
Reconciliation of tax expense		
Loss before taxation	<u>(114,761)</u>	<u>(131,715)</u>
Income tax at applicable tax rate of 17.5% (2005: 17.5%)	(20,083)	(23,050)
Non-deductible expenses	7,022	19,264
Tax exempt revenue	(2,557)	(18,157)
Unrecognised tax losses	2,017	4,571
Unrecognised temporary differences	(226)	(14)
Effect on share of loss of associates	<u>13,827</u>	<u>17,386</u>
Tax expense for the year	<u>—</u>	<u>—</u>

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5% (2005: 17.5%).

Notes to the Financial Statements

Year ended 31 December 2006

13. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$114,761,000 (2005: HK\$131,715,000), a loss of HK\$243,345,000 (2005: HK\$67,715,000) has been dealt with in the financial statements of the Company.

14. LOSS PER SHARE

The calculation of the loss per share is based on the loss for the year of HK\$114,761,000 (2005: HK\$131,715,000) and on the weighted average number of 3,369,436,000 shares (2005: 2,071,246,000 shares) in issue during the year.

No diluted loss per share is presented for the year of 2006 as the potential ordinary shares under the share option scheme have antidilutive effect. No diluted loss per share was presented for the year of 2005 as there were no potential ordinary shares in issue.

15. INVESTMENT PROPERTIES

	2006 HK\$'000	2005 HK\$'000
Fair value of investment properties		
At beginning of year	9,650	11,930
Disposals	(3,020)	(2,680)
Increase in fair value during the year	570	400
At balance sheet date	7,200	9,650

The carrying value of investment properties held by the Group at the balance sheet date comprised:

	2006 HK\$'000	2005 HK\$'000
Land in Hong Kong:		
Long lease	4,500	6,850
Medium-term lease	2,700	2,800
	7,200	9,650

The Group's investment properties as at the balance sheet date have been revalued by Centaline Surveyors Limited, Chartered Surveyors, independent qualified professional valuers, on the market value basis, except that an investment property subsequently sold after the balance sheet date is carried at the sale proceed, which approximates its fair value at the balance sheet date.

Notes to the Financial Statements

Year ended 31 December 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Reconciliation of carrying amount – year ended 31 December 2005						
At beginning of year	38,725	88	276	88	—	39,177
Additions	—	849	211	310	442	1,812
Disposals	(16,897)	—	(147)	(6)	(241)	(17,291)
Depreciation	(638)	(182)	(114)	(172)	(201)	(1,307)
At balance sheet date	21,190	755	226	220	—	22,391
Reconciliation of carrying amount – year ended 31 December 2006						
At beginning of year	21,190	755	226	220	—	22,391
Additions	—	1,005	831	189	—	2,025
Disposals	—	(247)	—	(37)	—	(284)
Depreciation	(659)	(199)	(163)	(134)	—	(1,155)
At balance sheet date	20,531	1,314	894	238	—	22,977
At 1 January 2006						
Cost	25,758	5,861	902	1,932	—	34,453
Accumulated depreciation and impairment losses	(4,568)	(5,106)	(676)	(1,712)	—	(12,062)
	21,190	755	226	220	—	22,391
At 31 December 2006						
Cost	25,758	6,577	1,733	2,084	—	36,152
Accumulated depreciation and impairment losses	(5,227)	(5,263)	(839)	(1,846)	—	(13,175)
	20,531	1,314	894	238	—	22,977

The leasehold land and buildings with a net book value of HK\$20,531,000 at the balance sheet date (2005: 21,190,000) are held by the Group under medium-term lease in Hong Kong.

Notes to the Financial Statements

Year ended 31 December 2006

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	51,055	952,534
Impairment loss	(51,054)	(921,415)
	1	31,119
Due from subsidiaries	438,929	492,700
Provision for doubtful debts	(204,703)	(98,100)
	234,226	394,600
	234,227	425,719

The amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

In the opinion of the directors, a complete list of the particulars of all subsidiaries will be of excessive length and therefore the table below lists the principal subsidiaries at the balance sheet date which materially affect the result or assets of the Group.

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Cuve Asset Management Limited	British Virgin Islands	26,000 shares of US\$1	—	100	Investment holding
China United International Administrative Services Limited	Hong Kong	53,000 shares of HK\$100 each	100	—	Provision of administrative service
Embrace Assets Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Grand Wishes Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding

Notes to the Financial Statements

Year ended 31 December 2006

17. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Golden Clip Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding
High Morale Investments Limited	British Virgin Islands	1 share of US\$1	100	—	Investment holding
International Stamps & Coins Exchange Gallery Limited	Hong Kong	20,200 shares of HK\$1 each	—	100	Property investment
Pearl Decade Limited	British Virgin Islands	1 share of US\$1	100	—	Trading of investments
Smart Way Resources Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding
Radford Portfolio Management Limited	Hong Kong	10,000 shares of HK\$1 each	—	100	Property holding
Wellhand Limited	Hong Kong	2 shares of HK\$1 each	—	100	Property investment
Willie Financing Limited	Hong Kong	1 share of HK\$1	100	—	Money lending
Winport Limited	British Virgin Islands	1 share of US\$1	—	100	Investment holding

All of the above subsidiaries operate principally in Hong Kong.

Note: No loan capital has been issued by any of the subsidiaries.

Notes to the Financial Statements

Year ended 31 December 2006

18. INTERESTS IN ASSOCIATES

	Note	2006 HK\$'000	2005 HK\$'000
Share of net assets	(a)	14,904	32,549
Goodwill	(b)	83,214	—
		98,118	32,549
Due from an associate – HMIL	(c)	—	131,000
Due from an associate – Found Macau Loan	(d)	—	75,000
		98,118	238,549

Notes:

(a) Details of the unlisted associates as at 31 December 2006 are as follows:

Name of associate	Place of incorporation	Particulars of issued ordinary and paid up capital held by the Group	Interest held	Principal activities
Hennabun Management International Limited ("HMIL")	British Virgin Islands	309,633,334 shares of US\$0.01 each	35.55%	(note i) Investment holding
Amerinvest Coal Industry Holding Company Limited ("Amerinvest")	British Virgin Islands	10,000 shares of US\$1 each	50%	(note ii) Investment holding

- (i) During the year, the Group's interest in HMIL was reduced from 49.87% to 35.55% because of HMIL's issue of shares to third parties. As a result of the above change in shareholding in HMIL, profit on deemed disposal of HK\$8.4 million was recognised in the income statement.
- (ii) On 12 January 2006, the Group entered into an agreement with a third party to acquire 25% interest in Amerinvest at a consideration of HK\$66.25 million which had been satisfied by the issue and allotment of 250,000,000 ordinary shares of HK\$0.1 each of the Company at a price of HK\$0.265 per share.

On 20 March 2006, the Company entered into an agreement with another third party to acquire a further 25% interest in Amerinvest at a consideration of HK\$69.9 million. On completion of the acquisitions in March 2006, Amerinvest was accounted for as an associate of the Group.

Amerinvest, through holding of 25% of the registered capital of West China Coking & Gas Company Limited ("West China Coking"), is an investment holding vehicle set up for the purpose of exploring and investing in coking and chemical projects in the mainland China.

Notes to the Financial Statements

Year ended 31 December 2006

18. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

(b) Details of fair value of Amerinvest acquired are as follows:

	HK\$'000
Purchase consideration:	
Cash paid	69,900
Issue of new shares	66,250
	<hr/>
Fair value of Amerinvest acquired	136,150
	<hr/>
Goodwill on acquisition	117,956
Less: subsequent decrease in value	(34,742)
	<hr/>
Recoverable amount of goodwill	83,214
	<hr/>

Goodwill on acquisition is attributable to Amerinvest's investment in West China Coking.

The entire carrying amount of the interest in the associate together with the goodwill is tested for impairment by comparing the Group's share of the present value of the estimated future cash flows expected to be generated by the associate, with its corresponding carrying amount. The recoverable amount is determined by independent professional valuers, RHL Appraisal Limited, Certified Financial Analysts.

Details of the financial position of Amerinvest at the effective date of acquisition are as follows:

	Carrying value HK\$'000
Investment in West China Coking	34,411
Other receivables	1,947
Bank balances	2,068
Other payables	(2,038)
	<hr/>
Net assets	36,388
	<hr/>
Net assets acquired by the Group	18,194
Goodwill acquired	117,956
	<hr/>
Fair value of Amerinvest acquired	136,150
	<hr/>

(c) On 21 April 2006, the Group entered into an agreement with a third party to dispose of HMIL's convertible note at the cash consideration of HK\$100 million. Accordingly, a loss of HK\$31 million on disposal of was recognised in the income statement.

(d) On 13 January 2006, the Group entered into an agreement with a third party to dispose of the Group's 29.7% equity investment in Found Macau Investments International Limited together with a shareholder loan of HK\$150 million to Found Macau ("Found Macau Loan") at the cash consideration of HK\$75 million.

Notes to the Financial Statements

Year ended 31 December 2006

18. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

- (e) Details of the consolidated operating results and financial positions of the associates, after adjusting for the fair value of assets acquired at the date of acquisition, are as follows:

	2006 HK\$'000	2005 HK\$'000
Operating results for the year ended 31 December 2006		
Turnover	42,822	33,606
Loss for the year	(104,990)	(222,457)
Loss for the year attributable to the Group	(44,268)	(94,195)
Impairment loss on goodwill arising from acquisition of interest in an associate	(34,742)	(5,156)
Share of loss of associates	(79,010)	(99,351)
Financial position at the balance sheet date		
Total non-current assets	130,852	94,909
Total current assets	372,445	348,266
Total current liabilities	(329,453)	(246,908)
Total non-current liabilities	(131,000)	(131,000)
Total equity	42,844	65,267
Amount attributable to the Group	14,904	32,549

19. OTHER FINANCIAL ASSET

	2006 HK\$'000	2005 HK\$'000
Option fee paid	—	7,143

During the year, a subsidiary holding the option was disposed of at a cash consideration of HK\$7 million leading to a loss on disposal of HK\$143,000 in the income statement.

Notes to the Financial Statements

Year ended 31 December 2006

20. INVESTMENTS HELD FOR TRADING

	Note	2006 HK\$'000	2005 HK\$'000
Investments in Hong Kong			
Listed equity securities	(a)	110,118	13,626
Convertible note	(b)	8,700	—
		<u>118,818</u>	<u>13,626</u>

Notes:

- (a) The fair value of listed equity securities is based on quoted market prices in an active market at the balance sheet date.
- (b) The carrying amount of convertible note approximates its fair value at the balance sheet date.

21. LOANS RECEIVABLE

Loans granted to borrowers are repayable according to set repayment schedules. The balance comprises loans receivable from:

The Group				The Company			
		2006 HK\$'000	2005 HK\$'000			2006 HK\$'000	2005 HK\$'000
Third parties		89,470	40,280	Third parties		19,330	40,280
A related company		14,059	—	A related company		—	—
Balances due within one year included in current assets		<u>103,529</u>	<u>40,280</u>	Balances due within one year included in current assets		<u>19,330</u>	<u>40,280</u>

The Group				The Company			
	Note	2006 HK\$'000	2005 HK\$'000		Note	2006 HK\$'000	2005 HK\$'000
Short term loans	(a)	19,330	40,280	Short term loans	(a)	19,330	40,280
Instalment loans	(b)	84,199	—	Instalment loans	(b)	—	—
		<u>103,529</u>	<u>40,280</u>			<u>19,330</u>	<u>40,280</u>

Notes:

- (a) Short term loans as at the balance sheet date are repayable within their maturity dates.
- (b) Instalment loans as at the balance sheet date are repayable in monthly instalments within one year.

All loans receivable carry effective interest rate ranging from prime rate to prime rate plus 2%.

Notes to the Financial Statements

Year ended 31 December 2006

22. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Secured bank loans (Note b)	18,295	18,399	—	—
Unsecured other loans (Note a & b)	5,000	—	5,000	—
	<u>23,295</u>	<u>18,399</u>	<u>5,000</u>	<u>—</u>

Maturities of the above borrowings are as follows:

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	7,507	4,629	5,000	—
In the second year	2,727	2,201	—	—
In the third year	2,966	2,388	—	—
In the fourth year	3,226	2,590	—	—
In the fifth year	1,374	2,809	—	—
Over five years	5,495	3,782	—	—
	<u>23,295</u>	<u>18,399</u>	<u>5,000</u>	<u>—</u>

Notes:

(a) Movements in other loans are as follows:

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
At beginning of year	—	96,080	—	96,080
Addition	45,000	77,000	45,000	77,000
Repayment	(40,000)	(173,080)	(40,000)	(173,080)
At balance sheet date	<u>5,000</u>	<u>—</u>	<u>5,000</u>	<u>—</u>

(b) Bank loans are variable rate borrowings which carried interest ranging from prime rate plus 0.5% to prime rate plus 1% for the year of 2006 and from prime rate to prime rate plus 1% for the year of 2005. Other loans carried interest ranging from prime rate to prime rate plus 1% for the year of 2006 and from prime rate to prime rate plus 2% and 2% per month for the year of 2005.

Notes to the Financial Statements

Year ended 31 December 2006

23. ISSUED CAPITAL

	2006 HK\$	2005 HK\$
Authorised:		
Ordinary shares of HK\$0.1 each	<u>2,000,000,000</u>	<u>2,000,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.1 each	<u>350,649,499</u>	<u>303,208,635</u>
	Number of ordinary shares	Nominal value HK\$
2005		
Issued and fully paid:		
At beginning of year	1,369,389,054	136,938,906
Exercise of warrants	13,338,925	1,333,892
Conversion of convertible notes	800,000,000	80,000,000
Issuance of shares under share option scheme	137,358,374	13,735,837
Issuance of shares	712,000,000	71,200,000
At balance sheet date	<u>3,032,086,353</u>	<u>303,208,635</u>
	Number of ordinary shares	Nominal value HK\$
2006		
Issued and fully paid:		
At beginning of year	3,032,086,353	303,208,635
Issuance of shares (a)	250,000,000	25,000,000
Issuance of shares under share option scheme (b)	224,408,635	22,440,864
At balance sheet date	<u>3,506,494,988</u>	<u>350,649,499</u>

Notes:

- Pursuant to the sale and purchase agreement dated 12 January 2006, 250,000,000 ordinary shares of HK\$0.1 each of the Company were issued to acquire 25% equity interests in Amerinvest as set out in note 18(a)(ii).
- Pursuant to the ordinary resolutions passed during the year, an aggregate of 224,408,635 new shares of HK\$0.1 each of the Company were issued to certain individuals under the share option scheme at the exercise price ranged from HK\$0.103 to HK\$0.431 each.

All the shares issued during the year rank pari passu in all respects with the then existing shares.

Notes to the Financial Statements

Year ended 31 December 2006

24. RESERVES

Group	Share premium HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Convertible notes – equity portion HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	24,485	18,273	—	—	(88,246)	(45,488)
Equity portion of convertible notes issued	—	—	—	55,725	—	55,725
Exercise of warrants	533	—	—	—	—	533
Share issued under share option scheme	12,074	—	—	—	—	12,074
Shares issued at premium, net of issuing expenses	51,264	—	—	—	—	51,264
Conversion of convertible notes	121,690	—	—	(55,725)	—	65,965
Loss for the year	—	—	—	—	(131,715)	(131,715)
At 31 December 2005	<u>210,046</u>	<u>18,273</u>	<u>—</u>	<u>—</u>	<u>(219,961)</u>	<u>8,358</u>

Group	Share premium HK\$'000	Capital reserve HK\$'000	Share option reserve HK\$'000	Convertible notes – equity portion HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2006	210,046	18,273	—	—	(219,961)	8,358
Equity-settled share-based payment	—	—	5,899	—	—	5,899
Share issued under share option scheme	40,071	—	(1,752)	—	—	38,319
Shares issued at premium, net of issuing expenses	41,150	—	—	—	—	41,150
Surrender of share option	—	—	(832)	—	832	—
Loss for the year	—	—	—	—	(114,761)	(114,761)
At 31 December 2006	<u>291,267</u>	<u>18,273</u>	<u>3,315</u>	<u>—</u>	<u>(333,890)</u>	<u>(21,035)</u>

Included in the reserves of the Group as at 31 December 2006 were accumulated losses of associate attributable to the Group amounting to HK\$698,540,000 (2005: HK\$627,959,000).

Notes to the Financial Statements

Year ended 31 December 2006

24. RESERVES (Continued)

Company	Share premium HK\$'000	Share option reserve HK\$'000	Convertible notes – equity portion HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	24,485	—	—	(95,712)	(71,227)
Exercise of warrants	533	—	—	—	533
Equity portion of convertible notes issued	—	—	55,725	—	55,725
Share issued under share option scheme	12,074	—	—	—	12,074
Shares issued at premium, net of issuing expenses	51,264	—	—	—	51,264
Conversion of convertible notes	121,690	—	(55,725)	—	65,965
Loss for the year	—	—	—	(67,715)	(67,715)
At 31 December 2005	<u>210,046</u>	<u>—</u>	<u>—</u>	<u>(163,427)</u>	<u>46,619</u>

Company	Share premium HK\$'000	Share option reserve HK\$'000	Convertible notes – equity portion HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2006	210,046	—	—	(163,427)	46,619
Equity-settled share-based payment	—	5,899	—	—	5,899
Share issued under share option scheme	40,071	(1,752)	—	—	38,319
Shares issued at premium, net of issuing expenses	41,150	—	—	—	41,150
Surrender of share option	—	(832)	—	832	—
Loss for the year	—	—	—	(243,345)	(243,345)
At 31 December 2006	<u>291,267</u>	<u>3,315</u>	<u>—</u>	<u>(405,940)</u>	<u>(111,358)</u>

The application of the Company's share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

At the balance sheet date, the Company has no reserves available for distribution to the shareholders.

25. SHARE OPTION SCHEME

Pursuant to the Group Reorganisation during 2002, a share option scheme ("New Scheme") of the Company was approved on 20 November 2002 by the shareholders of the Company and became effective on 3 January 2003. The New Scheme is valid and effective for a period of ten years. The board of directors of the Company may grant options to eligible employees including directors of the Company and its subsidiaries and any other persons including consultants, advisors, agents, customers, suppliers, etc. to subscribe for shares in the Company. The purpose of the New Scheme is to provide incentives to award the participants who have made contributions to the Group.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12 months period is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. Options granted to any director, chief executive or substantial shareholder of the Company or any of their respective associates in excess of 0.1% of the Company's share capital in issue and having an aggregate value in excess of HK\$5 million must be subject to prior approval by the Company's shareholders.

An amount of HK\$1 is payable on the grant of an option. Options may be exercised no later than ten years from the date of grant of the share option or the expiry date of the New Scheme, if earlier. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares on the date of grant.

Notes to the Financial Statements

Year ended 31 December 2006

25. SHARE OPTION SCHEME (Continued)

(a) Movement in share option scheme during the year ended 31 December 2006:

Name of category of participant	Date of grant	As at 1 January 2006	Granted during the year	Exercised during the year	Cancelled during the year	As at 31 December 2006	Exercise price HK\$	Share price at the date of grant (note i) HK\$	Share price at the date of exercise (note ii) HK\$
Employees in aggregate	20 January 2006	—	69,408,635	69,408,635	—	—	0.330	0.335	0.335
	22 February 2006	—	25,000,000	25,000,000	—	—	0.360	0.350	0.385
	10 March 2006	—	65,000,000	—	65,000,000	—	0.431	0.435	N/A
	29 November 2006	—	209,000,000	40,000,000	—	169,000,000	0.103	0.100	0.101
Other in aggregate	10 March 2006	—	60,000,000	45,000,000	15,000,000	—	0.431	0.435	0.435
	9 August 2006	—	15,000,000	15,000,000	—	—	0.150	0.150	0.148
	29 November 2006	—	118,000,000	30,000,000	—	88,000,000	0.103	0.100	0.101

Notes:

- (i) The share price at the date of grant is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.
- (ii) The share price at the date of exercise is the weighted average closing price of the shares immediately before the dates on which the options were exercised.
- (iii) On 13 February 2007, 257,000,000 share options outstanding as at the balance sheet date which represented approximately 7.33% of the issued share capital of the Company, were exercised to subscribe for 257,000,000 ordinary shares in the Company at HK\$26,471,000.

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Year ended 31 December 2006

25. SHARE OPTION SCHEME (Continued)

(b) Fair value of share options and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes pricing mode. The inputs into the model were as follows:

Average share price	HK\$0.103 – HK\$0.431
Weighted average exercise price	HK\$0.103 – HK\$0.431
Expected volatility	45.02% – 78.47%
Expected life	1 – 76 days
Risk free rate	2.5% – 2.75 %

The expected volatility is based on the historic volatility of share prices of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate.

26. DISPOSAL OF A SUBSIDIARY

Other financial asset
Loss on disposal
Total consideration

2006
HK\$'000
7,143
(143)
7,000

27. MAJOR NON-CASH TRANSACTIONS

Major non-cash transactions during the years of 2006 and 2005 have been disclosed in note 18 and 23 respectively.

28. COMMITMENTS UNDER OPERATING LEASES

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment, which are payable as follows:

Within one year
In the second to fifth year inclusive

2006	2005
HK\$'000	HK\$'000
1,434	846
476	947
1,910	1,793

Notes to the Financial Statements

Year ended 31 December 2006

29. FINANCIAL GUARANTEE CONTRACT

At the balance sheet date, the Company had corporate guarantees of HK\$20,400,000 (2005: HK\$38,000,000) and HK\$30,000,000 (2005: HK\$30,000,000) for banking facilities granted to its subsidiaries and an associate respectively, which were utilised by its subsidiaries and an associate to the extent of HK\$18,300,000 (2005: HK\$18,399,000) and HK\$24,500,000 (2005: HK\$21,425,000) respectively. The directors assessed the overall exposure of the corporate guarantees granted by the Company and considered that the fair value of such corporate guarantees is immaterial in the financial statements of the Group and the Company.

30. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to secure general banking facilities granted to the Group:

	2006 HK\$'000	2005 HK\$'000
Leasehold land and buildings	20,531	21,190
Investment properties	7,200	9,650
	27,731	30,840

31. DEFERRED TAXATION

Unrecognised deferred tax assets

	2006 HK\$'000	2005 HK\$'000
Deductible temporary differences	8,438	1,692
Tax losses	194,730	178,895
At balance sheet date	203,168	180,587

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation. Deferred tax assets of HK\$35,554,000 (2005: HK\$31,603,000) have not been recognised in respect of these items due to uncertainty of their recoverability.

Notes to the Financial Statements

Year ended 31 December 2006

32. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, there are other related party transactions entered into by the Group during the year, details of which are set out below: -

- (a) A property of the Group with net book value of HK\$20,531,000 (2005: HK\$21,190,000) is occupied by a brother of a director of the Company free of rental. The director's brother is a director of certain companies within the HMIL Group.
- (b) Details of the securities margin loans granted by the HMIL Group to the executive directors of the Company are as follows:

Name of director	Granted by	Balance at 31 December 2006 HK\$'000	Balance at 1 January 2006 HK\$'000	Maximum amount outstanding during the year HK\$'000	Maturity	Interest rate per annum
King, Phillip -margin loan	HMIL Group	2,365	264	2,365	N/A	8%-10%
Wong Ying Seung, Asiong -margin loan	HMIL Group	8,127	6,011	18,428	N/A	5%-10%
		<u>10,492</u>	<u>6,275</u>			

There was neither any interest due but unpaid nor any provision made against these loans at 31 December 2006.

Notes to the Financial Statements

Year ended 31 December 2006

32. RELATED PARTY TRANSACTIONS (Continued)

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2006	2005
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	5,117	5,606
Contributions to MPF Scheme	56	78
	5,173	5,684

The remuneration of directors and key executives is reviewed by the Remuneration Committee having regard to the performance of individuals and markets trends.

- (d) During the year, the Group granted an unsecured short term loan of HK\$15 million (2005: Nil) to a subsidiary of HMIL. The Group subsequently received settlement of HK\$1 million and changed the contract term of the outstanding balance of HK\$14 million to an unsecured instalment loan.

33. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in the financial statements, the following post balance sheet events were conducted:

- (a) Pursuant to the Placing Agreement dated 5 December 2006, the Company agreed to conditionally issue two years new convertible notes up to principal amounts of HK\$150,000,000 to third parties. The new convertible notes are non-interest bearing and can be converted into the HK\$0.1 per share in whole or any part (in an amount or integral multiples of HK\$1,000,000) at any time following the date of issue until 7 days prior to (and excluding) the maturing date of the new convertible notes.

On 21 and 22 February 2007, the new convertible notes with principal amount of \$150,000,000 were converted into 1,500,000,000 ordinary share of HK\$0.1 each of the Company.

- (b) On 6 February 2007, the Group's shareholding of HMIL was diluted from 35.55% to 16.18% after a shareholder of HMIL had the conversion notes converted into 873,333,000 ordinary shares of HMIL.

33. POST BALANCE SHEET EVENTS *(Continued)*

- (c) Pursuant to the Placing Agreement dated 26 February 2007, the Company agreed to conditionally place 684,000,000 ordinary shares of HK\$0.10 each of the Company on a fully underwritten basis to independent investors at a price of HK\$0.12 per share.

On 6 March 2007, an aggregate of 684,000,000 new ordinary shares of HK\$0.1 each of the Company were issued to third parties at cash subscription price of HK\$0.12 per share.

- (d) Pursuant to the Placing Agreement dated 12 March 2007, the Company agreed to conditionally issue two years new convertible notes with principal amounts of HK\$200,000,000 to third parties. The new convertible notes are non-interest bearing and can be converted into the ordinary shares of the Company at a conversion price of HK\$0.1 per share in whole or any part (in an amount or integral multiples of HK\$1,000,000) at any time following the date of issue until 7 days prior to (and excluding) the maturing date of the new convertible notes.

On 18 April 2007, the new convertible notes with principal amount of HK\$70,000,000 were converted into 700,000,000 ordinary shares of HK\$0.1 each of the Company.

- (e) Pursuant to the Placing Agreement dated 27 March 2007, the Company agreed to conditionally place 1,189,000,000 ordinary shares of HK\$0.10 each of the Company on a fully underwritten basis to independent investors at a price of HK\$0.11 per share.

On 4 April 2007, an aggregate of 1,189,000,000 new ordinary shares of HK\$0.1 each of the Company were issued to third parties at cash subscription price of HK\$0.11 per share.

- (f) Pursuant to the agreement dated 11 April 2007, the Group agreed to dispose of 150,000,000 shares of HMIL to a third party at a consideration of HK\$5 million. After this disposal transaction, the Company's shareholding of HMIL was further decreased to 8.34%.

- (g) On 12 April 2007, the Company through its wholly-owned subsidiary, Trade Well Investments Limited, entered into an agreement with a third party to acquire a property at House 6, Somerset Path, The Royal Oaks, 8 Kam Tsin South Road, Sheung Shui at a consideration of HK\$57.8 million.

34. COMPARATIVE FIGURES

Certain comparative figures regarding segment information and reconciliation of tax expenses have been restated to conform with the current year's presentation.