Notes to the Accounts

1. General Information

China Assets (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is principally engaged in the investment holding in Hong Kong and the Mainland China.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated accounts are presented in United States dollars. These consolidated accounts have been approved for issue by the Board of Directors on 20 April 2007.

2. Principal Accounting Policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to the two years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKAS"), issued by the Hong Kong Institute of Certified Public Accountants. The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

2. Principal Accounting Policies *(Continued)*

(a) Basis of preparation *(Continued)*

Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

HKFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 and the Amendment to HKAS 1 introduce new disclosures relating to financial instruments which include sensitivity analysis to market risk and capital disclosures. These standard and amendment do not have any significant impact on the classification and valuation of the Group's financial instruments.

HKFRS 8, Operating Segment (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 supersedes HKAS 14, Segment Reporting, under which segments were identified and reported on risk and return analysis. Items were reported on the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker. Items are reported based on the internal reporting. This standard does not have any significant impact on the Group's accounts.

HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any significant impact on the Group's accounts.

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any significant impact on the Group's accounts.

2. Principal Accounting Policies *(Continued)*

(b) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(f)). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

2. Principal Accounting Policies *(Continued)*

(b) Consolidation *(Continued)*

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2(e)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in 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 made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in associates are stated at cost less provision for impairment losses (Note 2(f)). The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2. Principal Accounting Policies *(Continued)*

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in United States dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit and loss account, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale are included in the investment revaluation reserve in equity.

2. Principal Accounting Policies *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired associate at the date of acquisition. Goodwill on acquisition of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. Principal Accounting Policies *(Continued)*

(e) Goodwill *(Continued)*

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates (Note 2(f)).

(f) Impairment of investments in subsidiaries and associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

2. Principal Accounting Policies *(Continued)*

(g) Financial assets *(Continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "loan receivables" and "other receivables, prepayments and deposits" in the balance sheet (Note 2(i)).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss account within "other (losses)/gains-net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit and loss account as part of "revenue" when the Group's right to receive payments is established.

2. Principal Accounting Policies *(Continued)*

(g) Financial assets *(Continued)*

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the profit and loss account as "gains and losses from investment securities".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account as part of "revenue". Dividends on available-for-sale equity instruments are recognised in the profit and loss account as part of "revenue" when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of loans and receivables is described in Note 2(i).

2. Principal Accounting Policies *(Continued)*

(h) Investments in financial derivatives

Investments in financial derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. Changes in fair value are recognised immediately in the profit and loss account.

(i) Loan receivables and other receivables

Loan receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loan receivables and other 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 receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the profit and loss account.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

(k) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. Principal Accounting Policies *(Continued)*

(l) Deferred income tax *(Continued)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Provisions

Provisions are recognised when the Group and the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(n) Employee benefit

(i) Pension obligations

The Group operates a defined contribution plan which is generally funded through payments to an insurance company. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2. Principal Accounting Policies *(Continued)*

(n) Employee benefit *(Continued)*

(i) Pension obligations (Continued)

For defined contribution plans, the Group pays contributions to privately administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2. Principal Accounting Policies *(Continued)*

(o) Revenue recognition

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3. Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the accountant under the guidance approved by the Board of Directors. The Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides guidance for overall risk management, covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, and investing excess liquidity.

(i) Market risk

(1) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(2) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

(3) Cash flow and fair value interest rate risk

Except for the loan receivables which carry floating interest rate, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

3. Financial Risk Management *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies to ensure that money lending transactions are made to borrowers with an appropriate credit history or with acceptable financial background. The Group performs credit review of borrowers on a regular basis.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping sufficient cash and marketable securities.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques, such as estimated discounted cash flows. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying values of the Group's cash and cash equivalents, loan receivables, short-term other receivables, deposits and accounts payables approximate their fair values due to their short maturities.

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.

4. Critical Accounting Estimates and Judgements *(Continued)*

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.

(a) Estimated fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques as detailed in note 3(b). The Group uses its judgement to select from a variety of methods and make assumptions that are mainly based on market conditions existing at balance sheet date. The Group uses discounted cash flow analysis for various available-for-sale financial assets that were not traded in an active markets.

(b) Estimated impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. Based on the Group's estimation, no impairment provision has been made on available-for-sale financial assets. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss account and carrying value of investment revaluation reserve in the period in which such determination is made.

(c) Estimated impairment of loan receivables and other receivables

Provision for impairment of loan receivables and other 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 receivables. In determining whether any of the receivables is impaired, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered. Based on the Group's estimation, no impairment provision has been made on receivables. Where the final outcome of these matters is different from the management's estimates and judgements, such differences will impact the profit and loss account and carrying value of receivables in the period in which such determination is made.

4. Critical Accounting Estimates and Judgements *(Continued)*

(d) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(f). The recoverable amount of cash-generating unit has been determined based on value-in-use calculations. These calculations require use of estimates (note 14).

5. Investment Management Fee

Pursuant to a management agreement ("Management Agreement") dated 28 March 1991 and subsequently amended on 8 April 1992, China Assets Investment Management Limited ("CAIML") (note 24(a)(i)) is entitled to receive from the Company a management fee calculated at the following rates:

(i) 2.75% per annum on the aggregate cost to the Company of the investments (less any provisions in respect thereof) held by it from time to time; and

(ii) 1% per annum on the value of uninvested net assets, representing net asset value of the Company less the aggregate cost of investments made by the Company.

Management fee paid to CAIML for the year ended 31 December 2006 amounted to US$1,548,302 (2005: US$1,264,301).

CAIML is also entitled to receive a performance bonus based on a specified formula as defined in the Management Agreement. No performance bonus had been paid for the year ended 31 December 2006 (2005: nil).

On 11 October 2004, the company entered into a supplemental agreement ("Supplemental Agreement") with CAIML to fix the terms of the Management Agreement so that the Management Agreement, together with the Supplemental Agreement will continue until 31 December 2006, and shall be renewed for further terms of 2 years provided that the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited are complied with before renewal.

6. Revenue and Segment Information

The principal activity of the Group is investment holding in Hong Kong and the Mainland China. Revenue, which also represents the Group's turnover, recognised during the year are as follows:

	2006	2005
	US$	*US$*
Revenue		
Bank interest income	**451,394**	318,883
Other interest income	**207,899**	150,438
Dividend income from listed investments	**4,140**	787
	663,433	470,108

Primary reporting format — business segments

The principal activity of the Group is investment holding carried out in Hong Kong and the Mainland China with its associates/investee companies operating in three main business segments during the year:

- Investments holding
- Manufacturing and distribution of pharmaceutical products
- Property holding

There are no sales or other transactions among the business segments.

Secondary reporting format — geographical segments

The Group's three business segments mainly operate in two main geographical areas:

- Hong Kong — investment holding
- Mainland China — manufacturing and distribution of pharmaceutical products and property holding

There are no sales between the geographical segments.

6. Revenue and Segment Information *(Continued)*

Primary reporting format — business segments

The segment results for the year ended 31 December 2006 and 2005 and the segment assets and liabilities as at 31 December 2006 and 2005 are:

	2006				
	Investment holding *US$*	Manufacturing and distribution of pharmaceutical products *US$*	Property holding *US$*	Others *US$*	Total *US$*
Segment revenue	663,433	—	—	—	663,433
Segment results	663,433	—	—	—	663,433
Unallocated income					597,009
Unallocated expenses					(2,186,733)
Gain on disposal of a subsidiary	231,942	—	—	—	231,942
Loss on disposal of partial interests in an associate	(341,700)	—	—	—	(341,700)
Loss on deemed disposal of partial interests in an associate	—	—	(1,607,865)	—	(1,607,865)
Net realised loss on disposal of financial assets at fair value through profit or loss	(434,697)	—	—	—	(434,697)
Net unrealised fair value loss on financial assets at fair value through profit or loss	(244,198)	—	—	—	(244,198)
Operating loss					(3,322,809)
Share of profits of associates	6,199,873	—	879,475	—	7,079,348
Income tax expenses	(170,441)	—	—	—	(170,441)
Profit attributable to equity holders of the Company					3,586,098
Segment assets	55,784,976	24,784,581	—	—	80,569,557
Investments in associates	41,883,457	—	17,875,101	(302,416)	59,456,142
Total assets					140,025,699
Segment liabilities	243,715	—	—	—	243,715
Unallocated liabilities					95,236
Total liabilities					338,951

6. Revenue and Segment Information *(Continued)*

Primary reporting format — business segments *(Continued)*

	2005				
	Investment holding US$	Manufacturing and distribution of pharmaceutical products US$	Property holding US$	Others US$	Total US$
Segment revenue	470,108	—	—	—	470,108
Segment results	470,108	—	—	—	470,108
Unallocated income					254,833
Unallocated expenses					(2,042,268)
Gain on disposal of interests in an associate	28,580	—	—	—	28,580
Net realised gain on disposal of financial assets at fair value through profit or loss	3,032,826	—	—	—	3,032,826
Net unrealised fair value gain of financial assets at fair value through profit or loss	6,410,446	—	—	—	6,410,446
Operating profit					8,154,525
Share of profits of associates	1,084,906	—	4,777,433	—	5,862,339
Income tax expenses	(144,293)	—	—	—	(144,293)
Profit attributable to equity holders of the Company					13,872,571
Segment assets	57,697,008	15,931,833	—	—	73,628,841
Investments in associates	30,747,464	—	18,673,250	(304,564)	49,116,150
Total assets					122,744,991
Segment liabilities	314,113	—	—	—	314,113
Unallocated liabilities					104,747
Total liabilities					418,860

6. Revenue and Segment Information *(Continued)*

Secondary reporting format — geographical segments

	2006		
	Segment revenue	Segment results	Total assets
	US$	*US$*	*US$*
Hong Kong	312,262	312,262	13,607,803
Mainland China	351,171	351,171	66,961,754
	663,433	663,433	80,569,557
Unallocated income		597,009	
Unallocated expenses		(2,186,733)	
Gain on disposal of a subsidiary		231,942	
Loss on disposal of partial interests in an associate		(341,700)	
Loss on deemed disposal of partial interests in an associate		(1,607,865)	
Net realised loss on disposal of financial assets at fair value through profit or loss		(434,697)	
Net unrealised fair value loss on financial assets at fair value through profit or loss		(244,198)	
Operating loss		(3,322,809)	
Share of profits of associates		7,079,348	
Income tax expenses		(170,441)	
Profit attributable to equity holders of the Company		3,586,098	
Investments in associates			59,456,142
Total assets			140,025,699

6. Revenue and Segment Information *(Continued)*

Secondary reporting format — geographical segments *(Continued)*

	2005		
	Segment revenue	Segment results	Total assets
	US$	*US$*	*US$*
Hong Kong	157,926	157,926	10,880,621
Mainland China	312,182	312,182	62,748,220
	470,108	470,108	73,628,841
Unallocated income		254,833	
Unallocated expenses		(2,042,268)	
Gain on disposal of interests in an associate		28,580	
Net realised gain on disposal of financial assets at fair value through profit or loss		3,032,826	
Net unrealised fair value gain on financial assets at fair value through profit or loss		6,410,446	
Operating profit		8,154,525	
Share of profits of associates		5,862,339	
Income tax expenses		(144,293)	
Profit attributable to equity holders of the Company		13,872,571	
Investments in associates			49,116,150
Total assets			122,744,991

7. Other (Losses)/Gains — Net

	2006	2005
	US$	US$
Gain on disposal of a subsidiary *(Note 22(b))*	**231,942**	—
Loss on disposal of partial interests in an associate	**(341,700)**	—
Gain on disposal of interests in an associate	**—**	28,580
Loss on deemed disposal of partial interests in an associate	**(1,607,865)**	—
Net realised (loss)/gain on disposal of financial assets at fair value through profit or loss	**(434,697)**	3,032,826
Net unrealised fair value (loss)/gain on financial assets at fair value through profit or loss	**(244,198)**	6,410,446
Net exchange gain	**582,904**	254,756
Others	**14,105**	77
	(1,799,509)	9,726,685

8. Administrative Expenses

Expenses included in administrative expenses are analysed as follows:

	2006	2005
	US$	US$
Investment management fee *(Note 5)*	**1,548,302**	1,264,301
Management fee paid to an associate	**—**	50,625
Employee benefit expenses (including directors' remuneration) *(Note 9)*	**139,536**	125,078
Auditors' remuneration	**107,163**	109,418
Other expenses	**391,732**	492,846
	2,186,733	2,042,268

9. Employee Benefit Expenses (Including Directors' Remuneration)

	2006	2005
	US$	*US$*
Wages and salaries	**138,359**	124,194
Pension costs — defined contribution plan	**1,177**	884
	139,536	125,078

(a) Directors' and senior management's emoluments

The remuneration of each Director for the year ended 31 December 2006 and 2005 is set out below:

	2006	2005
	HK$	*HK$*
Directors' fees:		
Executive directors		
Mr. Lao Yuan Yi	**60,000**	60,000
Mr. Xu Xiao Feng #	**60,000**	—
Mr. Wang Jun Yan ##	**60,000**	60,000
Mr. Lao Yuan Yuan	**60,000**	60,000
Non-executive directors		
Mr. Jiang Wei	**60,000**	60,000
Mr. Yeung Wai Kin	**101,000**	101,000
Mr. Zhao Yu Qiao	**60,000**	60,000
Independent non-executive directors		
Mr. Peter Duncan Neil Robertson	**147,000**	147,000
Mr. Fan Jia Yan	**147,000**	147,000
Mr. Wu Ming Yu	**121,000**	121,000
	876,000	816,000
Equivalent to United States dollars	**112,618**	105,221

\# Appointed on 28 June 2006

\## Resigned on 18 December 2006

9. Employee Benefit Expenses (Including Directors' Remuneration) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: one) individual during the year are as follows:

	2006	2005
	US$	*US$*
Basic salaries, housing allowances, share options, other allowances and benefits-in-kind	**25,741**	18,973
Pension costs — defined contribution plan	**1,177**	884
	26,918	19,857

The emoluments payable to the remaining one employee in 2006 and 2005 fell within the band of HK$nil to HK$1,000,000.

10. Income Tax Expenses

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Income tax expenses on overseas profits has been calculated on the estimated assessable profit for the year at the rates of income tax prevailing in the countries in which the Group operates.

The amount of income tax expenses charged to the consolidated profit and loss account represents:

	2006	2005
	US$	*US$*
Current income tax:		
— Hong Kong profits tax	**16,764**	119,863
— Overseas income tax	**200,136**	32,670
	216,900	152,533
Prior year overprovision		
— Hong Kong profits tax	**(46,459)**	(8,240)
Income tax expenses	**170,441**	144,293

10. Income Tax Expenses *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the income tax rate of the home country of the Company as follows:

	2006	2005
	US$	*US$*
Profit before income tax	**3,756,539**	14,016,864
Less: share of profits of associates	**(7,079,348)**	(5,862,339)
	(3,322,809)	8,154,525
Calculated at an income tax rate of 17.5% (2005: 17.5%)	**(581,492)**	1,427,042
Effect of different income tax rates in other countries	**30,037**	5,446
Income not subject to income tax	**(898,547)**	(1,732,755)
Expenses not deductible	**1,666,902**	452,800
Over-provision in prior year	**(46,459)**	(8,240)
Income tax expenses	**170,441**	144,293

There was no material unprovided deferred income tax for the year (2005: nil).

11. Profit Attributable to Equity Holders

The profit attributable to equity holders is dealt with in the accounts of the Company to the extent of US$7,751,153 (2005: US$10,406,906).

12. Earnings per Share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of US$3,586,098 (2005: US$13,872,571) and the weighted average number of 74,868,092 (2005: 74,391,667) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company for the year of US$3,586,098 (2005: US$13,872,571). The weighted average number of 76,463,465 (2005: 75,735,546) ordinary shares used in the calculation is the sum of weighted average number of 74,868,092 (2005: 74,391,667) ordinary shares in issue during the year as used in the basic earnings per share calculation and the weighted average number of 1,595,373 (2005: 1,343,879) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

13. Investments in Subsidiaries

	Company	
	2006	2005
	US$	*US$*
Unlisted shares, at cost *(note (b))*	**140,161**	140,111
Amounts due from subsidiaries *(note (a))*	**45,914,771**	33,806,497
Less: provision for doubtful debts	**—**	(623,962)
	45,914,771	33,182,535
	46,054,932	33,322,646

(a) Except for an amount of US$12,708,945 (2005: US$9,194,793) due from a subsidiary which is denominated in Renminbi, the remaining amounts due from subsidiaries are denominated in United States dollars. All amounts due are unsecured, interest-free and have no fixed repayment terms.

(b) The following is a list of subsidiaries held directly by the Company at 31 December 2006:

Name	Place of incorporation	Principal Activities	Particulars of issued share capital	Interest held	
				2006	2005
Ablewell Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Balance Target Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Capital Structure Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Direct Investment Enterprises Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Essential Choice Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Giant East Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	—
Global Lead Technology Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Global Record Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	—
Pioneer Digital Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	—

13. Investments in Subsidiaries *(Continued)*

(b) *(Continued)*

Name	Place of incorporation	Principal Activities	Particulars of issued share capital	Interest held 2006	Interest held 2005
Promise Keep Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	—
Ruby Power Investments Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Runway Wish Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	—
Sino Manufacturing Limited	British Virgin Islands	Dormant	1 share of US$1	**100%**	100%
Winner Strength Investments Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Wonderful Effort Limited	British Virgin Islands	Dormant	10 shares of US$1 each	**100%**	100%
Scientific China Investments Limited	Hong Kong	Dormant	2 shares of HK$1 each	**100%**	100%
Shining Avenue Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	—
Truly Partner Limited	British Virgin Islands	Investment holding	10 shares of US$1 each	**100%**	100%
Zhong Guan Business Consultancy (Shanghai) Co. Ltd.	People's Republic of China	Dormant	Registered capital of US$140,000	**100%**	100%

Note: The subsidiaries operate principally in their places of incorporation.

14. Investments in Associates

	Group 2006 US$	Group 2005 US$	Company 2006 US$	Company 2005 US$
Share of net assets other than goodwill	**57,002,607**	49,420,714	**—**	—
Goodwill on acquisition	**2,755,951**	—	**—**	—
Shares listed in Hong Kong, at cost	**—**	—	**13,770,330**	13,802,288
Unlisted investments, at cost	**—**	—	**627**	627
Convertible loan stock	**—**	—	**735,000**	735,000
	59,758,558	49,420,714	**14,505,957**	14,537,915
Provision for impairment losses	**—**	—	**(735,627)**	(735,627)
	59,758,558	49,420,714	**13,770,330**	13,802,288
Amounts due from associates	**—**	508,338	**—**	508,338
Amounts due to associates	**(302,416)**	(304,564)	**(302,416)**	(304,564)
	(302,416)	203,774	**(302,416)**	203,774
Provision for doubtful debts	**—**	(508,338)	**—**	(508,338)
	(302,416)	(304,564)	**(302,416)**	(304,564)
	59,456,142	49,116,150	**13,467,914**	13,497,724
Investments at cost:				
Shares listed in Hong Kong	**13,770,330**	13,802,288		
Unlisted investments	**20,702,877**	16,702,877		
Convertible loan stock	**735,000**	735,000		
	35,208,207	31,240,165		
Provision for impairment losses	**(3,937,627)**	(3,937,627)		
	31,270,580	27,302,538		
Market value of listed shares in Hong Kong	**26,746,362**	17,926,217	**26,746,362**	17,926,217

Note: The amounts with associates are denominated in Renminbi, unsecured, interest-free and repayable on demand.

14. Investments in Associates *(Continued)*

Impairment test for goodwill

Goodwill acquired through business combination has been allocated to the lowest level within which the goodwill is monitored by internal management purpose for impairment testing.

The recoverable amount of the lowest level of cash-generating unit has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a period of ten years. The discount rate applied to cash flow projection is 8.75%.

(a) The following is a list of associates held directly/indirectly by the Company at 31 December 2006:

Name	Particulars of issued shares held/ capital committed	Place of incorporation	Principal activities	Interest held 2006	Interest held 2005
First Shanghai Investments Limited ("FSIL") *(see note (i) below)*	Oridinary shares of 247,674,500 of HK$0.2 each	Hong Kong	Investment holding	**20.75%**	21.15%
CITIC Capital China Property Investment Fund, L.P. *(see note (ii) below)*	US$15,000,000	Cayman Islands	Investment holding	**17.42%***	30%*
CITIC Capital China Property Partners Ltd. (see note (ii) below)	Ordinary shares of 250 of US$1 each	Cayman Islands	Provision for management services	**25%***	25%*
iMedia Holdings Limited ("iMedia") *(see note (iii) below)*	Series A Preferred shares of 2,200,000 of US$0.001 each	Cayman Islands	Investment holding	**31.03%***	—
Dezhou Zhenhua Glass Co., Ltd. *(see note (iv) below)*	US$3,202,000	People's Republic of China	Production and sale of glass products	**30%***	30%*
Hong Kong Strong Profit Limited *(See note (v) below)*	Ordinary shares of 4,900 of HK$1 each	Hong Kong	Dormant	**49%**	49%

* Held indirectly by the Company

14. Investments in Associates *(Continued)*

(a) *(Continued)*

Notes:

(i) FSIL is a company listed on The Stock Exchange of Hong Kong Limited with issued share capital of HK$238,773,330 (2005: HK$236,405,961).

(ii) The objective of the CITIC Capital China Property Investment Fund, L.P. (the "Fund") is to achieve long term capital appreciation by developing a portfolio primarily of investments in real estate and related investments in the People's Republic of China. On 17 February 2005, the Company entered into the subscription agreement with CITIC Capital China Property Partners Ltd. for and on behalf of the Fund, pursuant to which the Group agreed, to contribute up to US$13.5 million in the Fund as a limited partner.

(iii) iMedia is a company registered in the Cayman Islands. Total authorised share capital of iMedia is US$50,000 divided into 45,000,000 ordinary shares of a par value of US$0.001 each and 5,000,000 Series A Preferred Shares of a par value of US$0.001 each. According to the share subscription agreement dated 1 July 2006, the Group acquired 2,200,000 Series A Preferred Shares, representing 25% of iMedia at consideration of US$4,000,000. Since the financing procedure of other investors have not been completed, the shares held by the Group represented 31.03% interests in iMedia as at 31 December 2006.

(iv) Dezhou Zhenhua Glass Co., Ltd. is a joint venture between a Company's subsidiary and Shandong Dezhou Zhenhua Glass Factory. The joint venture is for a period of 30 years from May 1994. The registered and paid-up capital of the joint venture is US$10,673,300, of which the Group contributed US$3,202,000 for its 30% share. Full provision for impairment losses was made against this investment in prior years.

(v) Hong Kong Strong Profit Limited ("HKSP") is in the negotiation of a proposed liquidation. Full provision for impairment losses was made against the investment in HKSP in prior years.

All the above investments are regarded by the directors as associates as the Group can exercise significant influence over these investments.

(b) Additional information in respect of the Group's principal associates is given as follows:

	Assets *US$'000*	Liabilities *US$'000*	Revenue *US$'000*	Profit/(loss) before income tax *US$'000*
Year 2006				
FSIL	**268,960**	**50,965**	**169,607**	**31,678**
The Fund	**187,853**	**82,684**	**15,334**	**5,927**
iMedia	**3,580**	**526**	**33**	**(950)**
Year 2005				
FSIL	248,122	65,860	161,817	9,532
The Fund	115,897	53,121	5,717	16,468

15. Available-for-sale Financial Assets

	Group		Company	
	2006	2005	**2006**	2005
	US$	*US$*	***US$***	*US$*
As at 1 January	**19,549,968**	19,619,298	**15,931,833**	19,619,298
Additions	**1,710,000**	6,085,749	**—**	—
Net fair value gains/(losses) transfer to investment revaluation reserve *(Note 21)*	**10,944,583**	(6,155,079)	**8,852,748**	(3,687,465)
As at 31 December	**32,204,551**	19,549,968	**24,784,581**	15,931,833

Available-for-sale financial assets include the following:

	Group		Company	
	2006	2005	**2006**	2005
	US$	*US$*	***US$***	*US$*
Listed equity securities	**30,494,551**	3,618,135	**24,784,581**	—
Unlisted equity securities	**1,710,000**	15,931,833	**—**	15,931,833
	32,204,551	19,549,968	**24,784,581**	15,931,833
Market value of listed securities	**30,494,551**	3,618,135	**24,784,581**	—

At 31 December 2006, the carrying amount of interests in the following company exceeded 10% of total assets of the Company and the Group.

Name	Place of incorporation	Principal activities	Particulars of issued share capital held	Interest held 2006	Interest held 2005
Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")	People's Republic of China	Manufacture and sale of pharmaceutical products	89,911,568 restricted floating shares #	**11.46%**	15.46%

During the year, Lukang issued 26,252,698 new shares to the Company as bonus issue in order to obtain the Company's approval of Lukang's equity reform scheme. Pursuant to an agreement entered into among the Company, Lukang and the major shareholder of Lukang's legal person shares, these new shares together with any respective dividend to be declared by Lukang are required to be returned to Lukang at the time when the original 63,658,870 restricted floating shares are being converted to floating shares. The Company does not recognise the 26,252,698 new shares as addition of financial assets because the Company considers that the right to receive the cash flows of the new shares is of no or insignificant value. Accordingly, only the original 63,658,870 restricted floating shares were measured at fair value as of the balance sheet date.

16. Loan Receivables

The maturities of the loan receivables of the Group and the Company are within one year. The carrying amounts of the loan receivables of the Group and the Company are denominated in Renminbi. The effective interest rates on the loan receivables of the Group and the Company were as follows:

	Group		Company	
	2006	2005	**2006**	2005
Loan receivables	**3.00%-8.75%**	5.22%-8.75%	**8.75%**	8.75%

The carrying values of loan receivables approximate their fair values due to their short maturities.

17. Other Receivables, Prepayments and Deposits

	Group		Company	
	2006	2005	**2006**	2005
	US$	*US$*	***US$***	*US$*
Other receivables	**3,272,490**	341,548	**23,618**	45,466
Prepayments	**25,123**	3,297,845	**25,123**	24,607
Deposits	**4,249,280**	55	**1,726**	55
	7,546,893	3,639,448	**50,467**	70,128
Less: non-current portion	**(1,921,057)**	—	**—**	—
Current portion	**5,625,836**	3,639,448	**50,467**	70,128

The current portion of other receivables and deposits are either repayable within one year or on demand.

The fair value of the Group's and the Company's other receivables and deposits are approximately the same as the carrying value. The effective interest rate on non-current other receivables is 2.79%.

18. Financial Assets at Fair Value Through Profit or Loss

	Group		Company	
	2006	2005	**2006**	2005
	US$	*US$*	***US$***	*US$*
Listed equity securities:				
— Hong Kong	**1,203,317**	192,962	**1,203,317**	192,962
— United States	**13,897,459**	27,748,600	**—**	—
Derivative financial instruments				
— Equity options	**3,797,240**	—	**—**	—
Market value of financial assets	**18,898,016**	27,941,562	**1,203,317**	192,962

The carrying amounts of the above financial assets are classified as follows:

	Group		Company	
	2006	2005	**2006**	2005
	US$	*US$*	***US$***	*US$*
Held for trading	**15,100,776**	27,941,562	**1,203,317**	192,962
Designated as fair value through profit or loss on initial recognition	**3,797,240**	—	**—**	—
Market value of financial assets	**18,898,016**	27,941,562	**1,203,317**	192,962

Changes in fair values of these financial assets are recorded in "Other (losses)/gains — net" in the consolidated profit and loss account *(Note 7)*.

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement *(Note 22(a))*.

Equity options are contractual agreements under which the writer grants to the holder the right, but not obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price ("notional amount"). The notional amount of the equity options held by the Group is approximately US$4.24 million (2005: Nil).

19. Cash and Cash Equivalents

	Group		Company	
	2006	2005	**2006**	2005
	US$	*US$*	***US$***	*US$*
Cash at bank and in hand	**8,714,693**	3,366,291	**682,242**	237,438
Short-term bank deposits	**8,021,746**	12,527,465	**3,626,983**	9,864,110
	16,736,439	15,893,756	**4,309,225**	10,101,548

The effective interest rates on short-term bank deposits of the Group and the Company were as follows:

	Group		Company	
	2006	2005	**2006**	2005
Short-term bank deposits	**0.25%-5.00%**	0.25%-4.15%	**3.35%-5.00%**	1.25%-4.15%

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2006	2005	**2006**	2005
	US$	*US$*	***US$***	*US$*
United States dollars	**4,090,514**	7,510,799	**3,656,236**	7,151,062
Hong Kong dollars	**652,989**	2,950,486	**652,989**	2,950,486
Renminbi	**11,992,936**	5,432,471	**—**	—
	16,736,439	15,893,756	**4,309,225**	10,101,548

Renminbi is not a freely convertible currency.

20. Share Capital and Share Premium

	Group and Company	
	2006	2005
	US$	*US$*
Authorised:		
160,000,000 shares of US$0.10 each	**16,000,000**	16,000,000

	Number of shares of US$0.10 each	Ordinary shares	Share premium	Total
		US$	*US$*	*US$*
			(Note 21)	
Issued and fully paid:				
As at 1 January 2005	74,383,160	7,438,316	68,445,344	75,883,660
Shares issued under employee share option scheme	15,000	1,500	3,615	5,115
As at 31 December 2005 and 1 January 2006	74,398,160	7,439,816	68,448,959	75,888,775
Shares issued under employee share option scheme	1,315,000	131,500	316,981	448,481
As at 31 December 2006	75,713,160	7,571,316	68,765,940	76,337,256

Share options

Share options were granted to certain directors of the Company and employees of CAIML as incentives and rewards for their contribution to the Group. Each share option entitles the holder to subscribe for one share in the capital of the Company at an exercise price of HK$2.65 per share, which was higher than the market price of the shares on the date of the grant. The options are exercisable at any time from 25 May 2004 to 23 May 2014.

20. Share Capital and Share Premium *(Continued)*

Share options *(Continued)*

During the year, 1,315,000 (2005: 15,000) share options were exercised to subscribe for 1,315,000 (2005: 15,000) shares in the Company at a consideration of HK$2.65 per share, of which US$0.10 per share was credited to share capital and the balance was credited to the share premium account. The related weighted average share price at the time of exercise was HK$5.51 per share. At the balance sheet date, the Company has outstanding options with an aggregate subscription value of approximately HK$6,546,000 (2005: HK$10,030,000). If the options are exercised in full, under the present capital structure of the Company, 2,470,000 (2005: 3,785,000) additional shares will be issued.

	2006		2005	
	Average exercise price in HK$ per share	**Options *(thousands)***	Average exercise price in HK$ per share	Options *(thousands)*
As at 1 January	**2.65**	**3,785**	2.65	3,800
Exercised	**2.65**	**(1,315)**	2.65	(15)
As at 31 December	2.65	2,470	2.65	3,785

On 26 March 2007, 200,000 share options were exercised to subscribe for 200,000 shares in the Company at a consideration of HK$2.65 per share, of which US$0.10 per share was credited to share capital and the balance was credited to the share premium account.

21. Reserves

Group

	Share premium US$	Capital reserve US$ (note a)	Investment revaluation reserve US$	Retained earnings US$	Total US$
As at 1 January 2005	68,445,344	(9,329)	—	37,390,375	105,826,390
Shares issued under employee share option scheme	3,615	—	—	—	3,615
Profit attributable to equity holders of the Company	—	—	—	13,872,571	13,872,571
Net fair value losses of available-for-sale financial assets	—	—	(6,155,079)	—	(6,155,079)
Share of post-acquisition reserves of associates	—	891,197	—	—	891,197
Release of exchange differences upon disposal of interests in an associate to consolidated profit and loss account	—	355,725	—	—	355,725
Exchange difference arising on translation of associates	—	84,365	—	—	84,365
Exchange difference arising on translation of a subsidiary	—	7,531	—	—	7,531
As at 31 December 2005	68,448,959	1,329,489	(6,155,079)	51,262,946	114,886,315
Company and subsidiaries	68,448,959	(657,560)	(6,155,079)	18,929,096	80,565,416
Associates	—	1,987,049	—	32,333,850	34,320,899
	68,448,959	1,329,489	(6,155,079)	51,262,946	114,886,315
As at 1 January 2006	68,448,959	1,329,489	(6,155,079)	51,262,946	114,886,315
Shares issued under employee share option scheme	316,981	—	—	—	316,981
Profit attributable to equity holders of the Company	—	—	—	3,586,098	3,586,098
Net fair value gains of available-for-sale financial assets	—	—	10,944,583	—	10,944,583
Share of post-acquisition reserves of associates	—	2,442,705	—	—	2,442,705
Exchange difference arising on translation of associates	—	(85,656)	—	—	(85,656)
Exchange difference arising on translation of a subsidiary	—	24,406	—	—	24,406
As at 31 December 2006	68,765,940	3,710,944	4,789,504	54,849,044	132,115,432
Company and subsidiaries	68,765,940	(718,810)	4,789,504	15,435,846	88,272,480
Associates	—	4,429,754	—	39,413,198	43,842,952
	68,765,940	3,710,944	4,789,504	54,849,044	132,115,432

(a) Capital reserve includes exchange differences on translation of the accounts of associates and share of post acquisition reserves of associates.

21. Reserves *(Continued)*

Company

	Share premium US$	Investment revaluation reserve US$	Retained earnings/ (accumulated losses) US$	Total US$
As at 1 January 2005	68,445,344	10,025,095	(17,426,432)	61,044,007
Shares issued under employee share option scheme	3,615	—	—	3,615
Profit attributable to equity holders of the Company	—	—	10,406,906	10,406,906
Net fair value losses of available-for-sale financial assets	—	(3,687,465)	—	(3,687,465)
As at 31 December 2005	68,448,959	6,337,630	(7,019,526)	67,767,063
As at 1 January 2006	68,448,959	6,337,630	(7,019,526)	67,767,063
Shares issued under employee share option scheme	316,981	—	—	316,981
Profit attributable to equity holders of the Company	—	—	7,751,153	7,751,153
Net fair value gains of available-for-sale financial assets	—	8,852,748	—	8,852,748
As at 31 December 2006	68,765,940	15,190,378	731,627	84,687,945

22. Note to Cash Flow Statement

(a) Reconciliation of operating (loss)/profit to cash generated from operations

	2006	2005
	US$	*US$*
Operating (loss)/profit	**(3,322,809)**	8,154,525
Bank interest income	**(451,394)**	(318,883)
Other interest income	**(207,899)**	(150,438)
Dividend income from listed investments	**(4,140)**	(787)
Gain on disposal of a subsidiary	**(231,942)**	—
Loss on disposal of partial interests in an associate	**341,700**	—
Gain on disposal of interests in an associate	**—**	(28,580)
Loss on deemed disposal of partial interests in an associate	**1,607,865**	—
Net realised loss/(gain) on disposal of financial assets at fair value through profit or loss	**434,697**	(3,032,826)
Net unrealised fair value loss/(gain) on financial assets at fair value through profit or loss	**244,198**	(6,410,446)
Operating losses before working capital changes	**(1,589,724)**	(1,787,435)
Decrease/(increase) in loan receivables	**1,479,541**	(6,603,481)
Increase in other receivables, prepayments and deposits	**(4,705,435)**	(3,058,412)
Decrease in financial assets at fair value through profit or loss	**8,364,651**	12,040,356
Increase in net amount due from a related company	**(2,699)**	(699)
Decrease in amount due to associates	**(2,148)**	(335)
(Decrease)/increase in accounts payables	**(29,127)**	58,595
(Decrease)/increase in accrued expenses	**(9,511)**	10,108
Cash generated from operations	**3,505,548**	658,697

22. Note to Cash Flow Statement *(Continued)*

(b) Disposal of a subsidiary

	As at date of disposal
	US$
Prepayment	797,990
Net asset	797,990
Gain on disposal of a subsidiary *(Note 7)*	231,942
Sale consideration satisfied by cash	1,029,932

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	As at date of disposal
	US$
Cash consideration	1,029,932

23. Capital Commitments

Capital expenditure at the balance sheet date of the Group but not yet incurred is as follows:

	2006	2005
	US$	*US$*
Available-for-sale financial assets		
— contracted but not provided for	**1,035,000**	5,575,172

The Group's share of capital commitments of associates not included in the above are as follows:

	2006	2005
	US$	*US$*
Contracted but not provided for	**1,249,850**	315,635
Authorised but not contracted	**8,543,974**	4,675,302

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

24. Related Party Transactions

(a) Transactions with related parties

	Note	2006 US$	2005 US$
Management fee paid/payable to:			
CAIML	*(i)*	**1,548,302**	1,264,301
CITIC Capital China Property Partners Ltd.	*(ii)*	**—**	50,625

Notes:

(i) CAIML is an associate of FSIL, an associate of the Company. Mr. Lao Yuan Yi, the Chairman and an executive director of the Company, Mr. Xu Xiao Feng, an executive director of the Company, and Mr. Yeung Wai Kin, a non-executive director of the Company, are also the directors of CAIML. Mr. Yeung is also the shareholder of CAIML. Both Mr. Lao and Mr. Yeung are the directors of FSIL.

(ii) CITIC Capital China Property Partners Ltd. is an associate of the Company.

(b) Key management compensation

	2006 US$	2005 US$
Salaries and other short-term employee benefits	**138,359**	124,194
Pension costs — defined contribution plan	**1,177**	884
	139,536	125,078

(c) As at 31 December 2006, management fee paid to CAIML in advance amounted to US$3,325 (2005: US$626). The balance was denominated in United States dollars, unsecured and interest-free.

25. Events After the Balance Sheet Date

(a) In January 2007, the Group paid consideration of US$1.04 million for 1.11% equity interest in NetDragon Websoft Inc., which is a company incorporated in British Virgin Islands mainly engaged in provision of on-line games in the Mainland China.

(b) In January 2007, the Company acquired shares of value of HK$10,000,000 (approximately US$1.3 million) in China Alpha Fund ("Alpha Fund") which is an exempted company incorporated in the Cayman Islands. Alpha Fund is an open-ended investment company investing principally in securities, derivative products and related instruments issued by companies with businesses operating in the Mainland China and Hong Kong.

(c) In February 2007, the Group acquired units of value of RMB50,000,000 (approximately US$6.5 million) in PingAn Defeng Collective Fund Trust Plan ("PingAn Trust") which is set up by Ping An Trust & Investment Co. Ltd. in accordance with the relevant rules and regulations in the Mainland China. PingAn Trust is mainly engaged in investing in shares listed on the China's stock markets.