China Financial Industry Investment Fund Limited
中國金融產業投資基金有限公司
(Incorporated in the Cayman Islands with limited liability)

C.F.I.I.

Stock Code : 1227

Annual Report 2006

Contents

Corporate Information

DIRECTORS

Executive Directors

Mr. Tam Wai Keung, Billy *(Chairman)*
Mr. Wu Tse Wai, Frederick
Mr. Fong Chi Wah

Independent Non-executive Directors

Mr. Tang King Fai, Kelvin
Mr. Wong Che Man, Eddy
Mr. Lam Yuk Lau

COMPANY SECRETARY

Mr. Kwan Kei Chor

AUDIT COMMITTEE

Mr. Tang King Fai, Kelvin
Mr. Wong Che Man, Eddy
Mr. Lam Yuk Lau

AUDITORS

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

PRINCIPAL BANKER

Wing Hang Bank, Limited

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

Room 3201, 32nd Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

CUSTODIAN

Bank of Communications Trustee Limited
Room 301 Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

HKEX STOCK CODE

The Stock Exchange of Hong Kong Limited:
1227

BUSINESS REVIEW

The Company is an investment company and principally engaged in investments in a diversified portfolio of listed and unlisted companies mainly in the United Kingdom (the "UK"), Hong Kong and the People's Republic of China (the "PRC"). There was no change in the nature of the Company's principal activity during the year. As at 31 December 2006, investment portfolio of the Company consisted of listed security with total market value of HK$231,000 (2005: HK$652,000) and unlisted securities amounted to HK$1,350,000 (2005: HK$2,170,000).

The Board has resolved not to recommend a dividend.

For the year ended 31 December 2006, the Company recorded a net loss of HK$2,740,000 (2005: HK$4,726,000) and this was mainly attributable to the impairment loss on available-for-sale financial assets of HK$2,120,000 (2005: HK$430,000) and directors' remuneration of HK$525,000 (2005: HK$523,000).

The Company was holding a listed company security, Bolton Group (International) Limited. Apart from the above listed security, the Company had also made investments in unlisted companies, Harbin Dongfang (Hong Kong) Food Co, Ltd., Netters Land Management Limited and Netx Limited. The Company did not receive any dividend income (2005: HK$9,000) during the year ended 31 December 2006. The Board is optimistic to the future prospects of these companies in their respective lines of businesses and expects attractive return on investments and medium-term capital appreciation.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Company had retained cash of HK$51,000 (2005: HK$62,000). As all the retained cash was placed in Hong Kong Dollars account with the banks in Hong Kong, exposure to exchange fluctuation is considered minimal.

The Company had net current liabilities of HK$3,258,000 (2005: HK$1,338,000) and no borrowings or long term liabilities as at 31 December 2006. The gearing ratio, calculated on the basis of total liabilities over total shareholders' funds as at 31 December 2006, was undefined (2005: 2.567) due to that the Company had a net liabilities value of HK$1,908,000 as at 31 December 2006.

EMPLOYEES

As at 31 December 2006, the Company had 6 (2005: 6) employees, including executive and independent non-executive directors of the Company. Total staff costs for the year under review amounted to HK$525,000 (2005: HK$523,000). The Company's remuneration policies are in line with the prevailing market practice and are determined on the basis of the performance and experience of individual employees.

During the year under review, no option has been granted or agreed to be granted under the share option scheme.

CHARGES ON THE COMPANY'S ASSETS AND CONTINGENT LIABILITIES

There were no charges on the Company's assets or any significant contingent liabilities as at 31 December 2006 (2005: Nil).

PROSPECTS

In 2007, the Company will continue to identify and pursue investment opportunities in Hong Kong, the PRC and other areas in accordance with the Company's investment objectives and policies.

In view of the remarkable economic growth in the PRC and Hong Kong in the coming years, it is expected that direct foreign investments in the PRC and Hong Kong will also be strong and positive. The Board believes that Hong Kong can take advantage of the blooming economy of the PRC to give strong support to its domestic economy in the coming years. The Company will closely monitor its underlying investment portfolio and make further investments and/or divestments to capture the opportunities arisen in Hong Kong and/or the PRC. The Company will also work closely with its investment manager to identify suitable investment targets and to continue to make investments with potential in short to medium term in order to maximize returns to shareholders. We are of the opinion that any short-term turbulence in the capital markets may actually represent opportunities to acquire profitable investment.

APPRECIATION

On behalf of the Board, I would like to express my appreciation to the shareholders for their continued support and to the investment manager for their dedicated effort since the Company's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On behalf of the Board
Tam Wai Keung, Billy
Chairman

Hong Kong, 13 April 2007

The Board of Directors (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2006.

Good corporate governance has always been recognised as vital to the Company's success and to sustain development to the Company. We commit ourselves to a high standard of corporate governance as an essential component of quality and has introduced corporate governance practices appropriate to the conduct and growth of its business.

The Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") sets out the principles of good corporate governance (the "Principles") and two levels of corporate governance practices:

(a) code provisions (the "Code Provisions") which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

During the year ended 31 December 2006 under review, the Company has applied the Principles and the Code Provisions as set out in the Code and complied with most of the Code Provisions save for certain deviations from the Code Provisions in respect of Code Provisions A.4.1 and A.4.2, details of which will be explained below. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the Code, and acknowledges the important role of its Board in providing effective leadership and direction to Company's business, and ensuring transparency and accountability of Company's operations.

The key corporate governance principles and practices of the Company are summarised as follows:

THE BOARD

Responsibilities

The Board provides leadership, approves policies, strategies and plans, and oversees their implementation to ensure the healthy growth of the Company, in the interests of Company's shareholders.

The Board takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that the Board procedures and all applicable rules and regulations are followed. In general, each director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the General Manager/ Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers. The Board has the full support of the General Manager/Chief Executive Officer and the senior management to discharge its responsibilities.

COMPOSITION

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board currently comprises six members, consisting of three executive directors and three independent non-executive directors.

The Board of the Company comprises the following directors:

Executive directors:

Mr Tam Wai Keung, Billy *(Chairman)*
Mr Wu Tse Wai, Frederick
Mr Fong Chi Wah

Independent non-executive directors:

Mr Tang King Fai, Kelvin	
Mr Wong Che Man, Eddy	(Appointed on 20 February 2006)
Mr Lam Yuk Lau	(Appointed on 20 February 2006)
Mr Chow Wan Hoi, Paul	(Resigned on 20 February 2006)
Mr Hui Wing Sang, Wilson	(Resigned on 20 February 2006)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors" on page 11. During the year ended 31 December 2006, the Board at all times met the requirements of the Listing rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent in accordance with the independence guidelines set out in the Listing Rules.

The independent non-executive directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive directors make various contributions to the effective direction of the Company.

APPOINTMENT AND SUCCESSION PLANNING OF DIRECTORS

The Company has established formal, considered and transparent procedures for the appointment and succession planning of directors.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Code Provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

With respect to Code Provision A.4.1, the non-executive directors of the Company have not been appointed for any specific terms but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Memorandum and Articles of Association of the Company.

To enable the Company's Articles of Association (the "Articles") to be in line with Code Provision A.4.1 and A.4.2, a special resolution will be proposed at the next forthcoming annual general meeting of the Company to amend the Articles so that all directors will be subject to retirement by rotation once every three years.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

The Board reviewed its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

BOARD MEETINGS

Number of Meetings and Directors' Attendance

The individual attendance record of each director at the meetings of the Board and the Audit Committee during the year ended 31 December 2006 is set out below:

	Attendance/Number of Meetings	
Name of Directors	**Board**	**Audit Committee**
Tam Wai Keung, Billy	6	–
Wu Tse Wai, Frederick	6	–
Fong Chi Wah	5	–
Tang King Fai, Kelvin	5	1
Wong Che Man, Eddy	5	1
Lam Yuk Lau	5	1

PRACTICES AND CONDUCT OF MEETINGS

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance. Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors as soon as practicable before each Board meeting or committee meeting to allow the directors to read the papers and information, to keep them abreast of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Articles also contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

REMUNERATION COMMITTEE

The Company has not established a Remuneration Committee. The Board is responsible for determining the Company's policy on remuneration of directors and reviewing all remuneration packages of directors and senior management. The Company currently does not have any plan to set up a Remuneration Committee considering the small size of the Board.

The principle elements of the Company's remuneration policy for directors and senior management are:

(1) No individual should determine his or her own remuneration package.

(2) Remuneration packages should be on a par with companies with whom the Company competes for human resources.

(3) Remuneration packages should reflect the performance and responsibility of an individual, as well as the complexity of work.

(4) Remuneration packages should be structured in such a way that can provide incentives to directors and senior management to improve their individual performance.

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of an individual to act as a Director and approving and terminating the appointment of a Director. The Company has not established a Nomination Committee. The Company currently does not have any plans to set up a Nomination Committee considering the small size of the Board.

The Chairman is responsible for identifying suitable candidates for member of the Board when there is a vacancy or an additional director is considered necessary. The Chairman proposes the appointment of such candidates to each member of the Board for consideration. Each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Company on the basis of his or her qualifications, experiences and background.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' securities transactions (the "Code of Conduct") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as asset out in Appendix 10 to the Listing Rules. Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the requirements of the Code of Conduct and the Model Code throughout the year ended 31 December 2006. The Company has also established written guidelines on terms no less exacting than the Model Code (the "Written Guidelines") for securities transactions by the employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Written Guidelines by the employees was noted by the Company.

AUDITORS' REMUNERATION

The Audit Committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, the Company is required to pay any aggregate of approximately HK$180,000 to the external auditors. During the year, the auditors only perform the work of statutory audit and do not involved any non-audit assignment of the Company.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view. The auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

LOOKING FORWARD

The Company will keep on reviewing its corporate governance standards on a timely basis and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

EXECUTIVE DIRECTORS

Mr Tam Wai Keung, Billy, aged 43, is the chairman and an executive director of the Company. Mr Tam is a consultant for a nationwide digital TV project in the People's Republic of China and an executive director and vice president of Smart Rich Energy Finance (Holdings) Limited ("Smart Rich") which is listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). Mr Tam was elected as one of the "Ten Outstanding Young Digi Persons" in Hong Kong in 2001. Mr Tam was also the founder and chief executive officer of iLink Holdings Limited ("iLink"), which was listed on the Growth Enterprise Market of the Stock Exchange and was privatised in December, 2003. Mr Tam graduated with a bachelor degree in electrical engineering from Seattle University, the United States.

Mr Wu Tse Wai, Frederick, aged 65, is an executive director of the Company. Mr Wu was educated in Hong Kong and the United States and received his Master of Business Administration degree in Finance from Clark University. Mr Wu has over 41 years of experience in insurance, securities business and asset management. He started his career with Paul Revere Life Insurance Company as an assistant actuary. He later worked with Fidelity Management and Research of Boston as an analyst in the late 60s and then moved on to senior positions in research and fund management with various well-known institutions in the United States. In the early 80s, Mr Wu was a senior portfolio manager and investment adviser of Bank of America in Hong Kong. In the 90s, Mr Wu was elected a director and senior consultant of Lippo Securities Group Limited (the "Lippo Securities Group"). He was a member of Lippo Securities Group's investment committee and was responsible for supervising the fund management activities including futures related investments of Lippo Securities Group. Mr Wu is currently an investment adviser registered under the Securities Ordinance and Securities and Futures Ordinance respectively.

Mr Fong Chi Wah, aged 44, holds a bachelor's degree majoring in management science (economics) from Lancaster University in the United Kingdom and holds three master's degree, including a master degree in business administration from Warwick University, United Kingdom, a master's degree in investment management from Hong Kong University of Science and Technology, and a master's degree in practicing accounting from Monash University, Australia. Mr. Fong is a Chartered Financial Analyst, a Certified Practising Accountant (Australia), a member of the Institute of Certified Management Accountants, Australia, the Hong Kong Institute of Directors. Mr. Fong was appointed as an executive director of the Company on 1 November 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Tang King Fai, Kelvin, aged 43, graduated with a Bachelor of Arts degree in Broadcast Journalism from University of Washington in the United States. Mr Tang was an executive director and the compliance officer of iLink. Mr Tang has over 18 years of media, research and marketing experience gained from senior positions at Asia Television Limited ("ATV") and at KTSF-TV, San Francisco, the United States. He was also the anchorman and principal reporter of ATV. He is at present an independent non-executive director of Smart Rich.

Mr Wong Che Man, Eddy, aged 47, was appointed as independent non-executive director on 20 February 2006. He is at present the sole proprietor of Eddy Wong & Co. CPA. Mr. Wong is a Certified Public Accountant and is a fellow member of The Association of Chartered Certified Accountants and a fellow member of Hong Kong Institute of Certified Public Accountants. He has over 20 years of experience in auditing, financial management and accounting. He is at present an independent non-executive director of Smart Rich and Sun Hing Vision Group Holdings Limited, both companies are listed on the Main Board of the Stock Exchange.

Mr. Lam Yuk Lau, aged 43, was appointed as independent non-executive director on 20 February 2006. He is currently the Qualified Accountant and the General Manager of the Finance Department of China Merchants Holdings (International) Company Limited which is listed on the Main Board of the Stock Exchange. He has over 19 years of experience in accounting, auditing, corporate affairs and project investment and worked for an international accounting firm, the Stock Exchange and companies listed on the Main Board and the GEM Board of the Stock Exchange. Mr. Lam holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong and a Master of Business Administration degree from University of Western Sydney, Nepean, Australia. He is an associate of Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants. Mr. Lam is also a certified public accountant (practicing) in Hong Kong.

The Board of Directors (the "Board") of China Financial Industry Investment Fund Limited (the "Company") is pleased to present to the shareholders the audited financial statements of the Company for the year ended 31 December 2006.

PRINCIPAL ACTIVITY

The Company was incorporated on 28 June 2002 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal activity of the Company is investment in listed and unlisted companies in Hong Kong, the United Kingdom (the "UK") and the People's Republic of China (the "PRC").

The Shares of the Company were listed on the Stock Exchange with effect from 27 September 2002.

Business or geographical analysis of the Company's assets and liabilities for the year is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The state of affairs of the Company at 31 December 2006 and the results of the Company for the year ended 31 December 2006 are set out in the financial statements on pages 20 to 21.

The Board has resolved not to recommend the payment of dividend for the year ended 31 December 2006 (2005: Nil).

RESERVES

Details of the movements in reserves of the Company during the year are set out in Note 10 to the financial statements.

As at 31 December 2006, the Company did not have available reserves for distribution to shareholders under the Companies Law of the Cayman Islands. (2005: available reserves of HK$232,000).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 9 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Memorandum and Articles of Association and there is no restriction against such rights under the laws of Cayman Islands.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2006, the Company has not purchased, sold nor redeemed any of its listed securities.

DIRECTORS

The directors during the financial year were:

Executive Directors

Mr Tam Wai Keung, Billy *(Chairman)*
Mr Wu Tse Wai, Frederick
Mr Fong Chi Wah

Independent Non-executive Directors

Mr Tang King Fai, Kelvin	
Mr Wong Che Man, Eddy	(Appointed on 20 February 2006)
Mr Lam Yuk Lau	(Appointed on 20 February 2006)
Mr Chow Wan Hoi, Paul	(Resigned on 20 February 2006)
Mr Hui Wing Sang, Wilson	(Resigned on 20 February 2006)

Pursuant to Articles 88 and 89 of the Company's Articles of Association, Mr Wu Tse Wai, Frederick and Mr Tang King Fai, Kelvin will retire by rotation and, being eligible, offer himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors, except Mr Tam Wai Keung, Billy, has entered into a service contract with the Company. Service contract with Mr Wu Tse Wai, Frederick was commenced on 6 January 2004, with initial fixed term of one year. On 1 November 2005, Mr Fong Chi Wah was appointed as the Company's executive director. His services contract was commenced on the same day. All director's service contracts will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the respective initial fixed terms. Each of these executive directors, except Mr Tam Wai Keung, Billy, is entitled to their respective basic salary (subject to an annual increment of not more than 5% of the annual salary at the time of the relevant review at discretion of the directors). In addition, in respect of each financial year of the Company, each of the executive directors is also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive directors in respect of any financial year of the Company may not exceed 15% of the audited net profit of the Company (after taxation but before extraordinary and exceptional items and payment of such bonuses) in respect of that financial year of the Company. An executive director is required to abstain from voting and is not counted in the quorum in respect of any resolutions of the directors regarding the amount of the monthly salary and the discretionary bonus payable to him.

There is no service contract signed between the Company and each of Mr Chow Wan Hoi, Paul, Mr Hui Wing Sang, Wilson, Mr Tang King Fai, Kelvin, Mr Wong Che Man, Eddy and Mr Lam Yuk Lau. The directors of the Company, including independent non-executive directors are subject to retirement by rotation in accordance with the Company's Articles of Association.

Saved as disclosed above, no other director has entered into service agreement with the Company which is not determined by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

The directors' interests in contracts are set out in Note 22 to the financial statements. Apart from foregoing, no other contracts of significance in relation to the Company's business to which the Company was a party and in which a director of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company a party to any arrangements to enable the directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any associated corporations.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinances ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Name of directors	Nature of interest	Number of ordinary shares held	% of issued shares
Mr Tam Wai Keung, Billy	Personal	8,250,000	13.75%

Other than as disclosed above, none of the directors or chief executives of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company or any associated corporations.

SHARE OPTIONS

The Company has conditionally adopted the share option scheme pursuant to written resolutions of the sole shareholder adopted on 10 September 2002. The Board of Directors or a duly authorised committee thereof may, at any time following the date of adoption and before the tenth anniversary thereof, offer to grant to any directors (including independent non-executive directors) or full-time employees of the Company, an option to subscribe for shares of the Company. The subscription price will be determined by the Board (subject to adjustment), and will not be less than (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange daily quotation sheets for the five consecutive trading days immediately preceding the date of grant; or (iii) the nominal value of the shares of the Company, whichever is the highest. The maximum number of shares of the Company in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option may be exercised at any time before the expiration of ten years from the date of adoption of the relevant share option scheme.

As at 31 December 2006, no option has been granted or agreed to be granted under the share option scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the interests or short positions of persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

Name of shareholders	Number of ordinary shares held	% of issued shares
Mr Wong Kam Fu	12,372,000	20.62%
Mr Yim Sang	11,758,000	19.60%
First Asia International Holdings Limited	5,320,000	8.87%
Madam Cheung Siu Hung	3,480,000	5.80%

Other than as disclose above, the Company has not been notified or any other interests or short positions in shares and underlying shares of the Company representing 5% or more of the issued shares capital of the Company as at 31 December 2006.

MANAGEMENT CONTRACTS

There existed agreements for management services, in respect of which First Asia Finance Group Limited provides services to the Company and under which costs were reimbursed and fees are payable.

MAJOR CUSTOMERS AND SUPPLIERS

The Company's entire turnover is derived from the Company's investment in equity securities listed or unlisted in Hong Kong and the PRC and thus the disclosure of information regarding to customers and suppliers would not be meaningful.

CONNECTED TRANSACTIONS

Investment Management Agreements

The Company entered into the interim investment management agreement with Avanta Investment Management Limited ("Avanta") as its interim investment manager on 16 December 2004 for the provision of investment management services to the Company. Avanta agreed to provide the Company with investment management services for three months commencing on 16 December 2004. On 8 November 2006, the Company and Avanta have renewed the investment management agreement. Avanta agreed to provide the Company with investment management services for twelve months commencing on 16 November 2006. The Company may terminate the agreement without any cause and without compensation at any time during the term of the agreement by giving not less than a two-week notice in writing to Avanta before the expiry of the term of the Agreement. In addition, each of the Company and Avanta may terminate the investment management agreement with immediate effect upon the happening of certain events, including, (a) any of the parties going into liquidation or the appointment of a receiver over the assets or undertaking of any party; (b) any party commits a material breach of the investment management agreement. The Company may also terminate the investment management agreement with immediate effect at any time if (a) Avanta is negligent or guilty of wilful misconduct in respect of its obligations under the investment management agreement; or (b) Avanta ceases to be a registered investment adviser in Hong Kong. The fixed service fee in relation to the extension of Avanta's appointment is in the amount of HK$400,000 per annum payable in twelve equal monthly instalments in advance to Avanta.

Custodian Agreement

Pursuant to the custodian agreement dated 11 March 2005, the Company appointed Bank of Communications Trustee Limited as its custodian in succession Standard Chartered Bank for the provision of custody services. The Bank of Communication has agreed to provide the Company with securities services including the safe custody and physical settlement of the securities in the investment portfolio of the Company, and the collection of dividends and other entitlements in respect of such securities. The custodian agreement will continue in force until terminated by either the Company or the custodian by giving to the other not less than 90 days' notice in writing expiring at any time.

The board of directors, including the independent non-executive directors, is of the view that the above connected transaction has been entered into on normal commercial terms, on an arm's length basis and in the ordinary and usual course of business of the Company, and that the terms of the above connected transaction are fair and reasonable to the shareholders and the Company as a whole.

AUDIT COMMITTEE

The Audit Committee, comprising three independent non-executive directors, together with the management, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters for the year ended 31 December 2006.

SUBSEQUENT EVENTS

Details of the significant subsequent events are set out in Note 23 to the financial statements.

AUDITORS

HLB Hodgson Impey Cheng retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Tam Wai Keung, Billy
Chairman

Hong Kong, 13 April 2007

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
CHINA FINANCIAL INDUSTRY INVESTMENT FUND LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of China Financial Industry Investment Fund Limited (the "Company") set out on pages 20 to 45, which comprise the balance sheet as at 31 December 2006, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2006 and of the Company's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to Note 2(b) to the financial statements which indicates that the Company incurred a net loss of approximately HK$2,740,000 during the year ended 31 December 2006 and, as of that date, the Company's current liabilities exceeded its total assets by approximately HK$1,908,000. These conditions, along with other matters as set forth in Note 2(b), indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 13 April 2007

Balance Sheet

at 31 December 2006

	Notes	2006 **HK$'000**	2005 HK$'000
Non-current Assets			
Available-for-sale financial assets	6	**1,350**	2,170
Current Assets			
Financial assets at fair value through profit or loss	7	**231**	652
Prepayment, deposits and other receivables	8	**–**	83
Cash and bank balances		**51**	62
		282	797
Total Assets		**1,632**	2,967
Capital and reserves attributable to the Company's equity holders			
Share capital	9	**600**	600
Reserves	10	**(2,508)**	232
Total Equity		**(1,908)**	832
Current Liabilities			
Accrued charges and other payable		**1,083**	1,004
Amount due to a related company	11	**–**	131
Amounts due to directors	12	**2,457**	1,000
		3,540	2,135
Total Liabilities		**3,540**	2,135
Total Equity and Liabilities		**1,632**	2,967
Net Current Liabilities		**(3,258)**	(1,338)
Total Assets Less Current Liabilities		**(1,908)**	832

Approved by the Board of Directors on 13 April 2007 and signed on its behalf by:

Tam Wai Keung, Billy
Chairman

Wu Tse Wai, Frederick
Executive Director

The accompanying notes form an integral part of these financial statements.

for the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Turnover	13	**142**	4,033
Cost of sales		**(203)**	(4,904)
Gross loss		**(61)**	(871)
(Loss)/gain arising from change in fair value of financial assets at fair value through profit or loss		**(218)**	195
Reversal of impairment loss on investment deposits		**1,300**	–
Impairment loss on available-for-sale financial assets		**(2,120)**	(430)
Impairment loss on investment deposits		**–**	(1,300)
Other operating expenses	14	**(1,641)**	(2,320)
Loss before income tax		**(2,740)**	(4,726)
Income tax expenses	16	**–**	–
Loss for the year		**(2,740)**	(4,726)
Attributable to:			
Equity holders of the Company		**(2,740)**	(4,726)
Loss per share	19		
Basic, in HK cents		**(4.57)**	(8.18)
Diluted		**N/A**	N/A

All of the Company's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2006

	Share capital	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2005	500	21,091	(17,876)	3,715
Issue of new shares	100	1,780	–	1,880
Share issue expenses	–	(37)	–	(37)
Loss for the year	–	–	(4,726)	(4,726)
Balance at 31 December 2005 and 1 January 2006	600	22,834	(22,602)	832
Loss for the year	–	–	(2,740)	(2,740)
Balance at 31 December 2006	**600**	**22,834**	**(25,342)**	**(1,908)**

The accompanying notes form an integral part of these financial statements.

for the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
Cash flow from operating activities		
Bank interest income receipts	–	5
Proceeds from sale of financial assets at fair value through profit or loss	**145**	129
Cash receipts from other receivables	**29**	–
Cash payments to acquire available-for-sale financial assets	–	(500)
Cash payments to employees	**(256)**	(382)
Cash payments to investment manager	**(145)**	(225)
Cash payments to custodian	**(10)**	(36)
Cash payments to other suppliers	**(805)**	(788)
Net cash outflow from operating activities	**(1,042)**	(1,797)
Cash flow from investing activities		
Dividend received from financial assets at fair value through profit or loss	–	9
Net cash inflow from investing activities	–	9
Cash flow from financing activities		
Loan from directors	**1,031**	(105)
Proceeds from issuance of ordinary shares	–	1,880
Expenses incurred for issuance of ordinary shares	–	(37)
Net cash inflow from financing activities	**1,031**	1,738
Net decrease in cash and cash equivalents	**(11)**	(50)
Cash and cash equivalents at the beginning of the year	**62**	112
Cash and cash equivalents at the end of the year	**51**	62
Analysis of cash and cash equivalents		
Cash and bank balances	**51**	62

The accompanying notes form an integral part of these financial statements.

1. CORPORATE INFORMATION

The Company was incorporated on 28 June 2002 as an exempted company with limited liability in the Cayman Islands under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The principal activity of the Company is investment in listed and unlisted companies in Hong Kong, the United Kingdom (the "UK") and the People's Republic of China (the "PRC").

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of the principal place of business of the Company is Room 3201, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The shares of the Company were listed on the Stock Exchange with effect from 27 September 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

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

The Company has adopted the following new and revised HKFRSs that are mandatory for financial year beginning on and after 1 December 2005 or 1 January 2006. The new HKFRSs adopted by the Company in the financial statements are set out as follows:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

(a) Basis of Preparation

The measurement basis used in the preparation of the financial statements is historical cost as modified by the available-for-sale financial assets and financial assets at fair value through profit or loss.

(b) Fundamental Uncertainties

The financial statements have been prepared on a going concern basis. The Company had net loss of HK$2,740,000 (2005: HK$4,726,000) and accumulated losses of HK$25,342,000 (2005: HK$22,602,000) and its continuance in business as a going concern is dependent upon the Company having future profitable operations and continuing financial support from directors of the Company. The financial statements have been prepared on a going concern basis as a director of the Company has confirmed to provide continuing financial support to the Company in the form of interest-free advances to the extent of HK$5,000,000 to enable it to settle its liabilities as and when they fall due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Investment

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designated eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

(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 arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable. 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 included in trade and other receivables in the balance sheet.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Investment (Continued)

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. During the year, the Company did not hold any investments in this category.

(iv) 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.

Purchases and sales of investments are recognised on trade-date – the date on which the Company 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. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company 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 and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses or impairments from investment securities respectively.

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 Company 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 refined to reflect the issuer's specific circumstances.

The Company 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 financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether 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 the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(d) Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Turnover

Turnover represents sales of investments in securities, dividend income and interest income.

(f) Revenue Recognition

Provided it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably, revenue is recognised in the income statement as follows:

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

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

(iii) Sales of investments in securities are recognised on a trade date basis.

(g) Translation of Foreign Currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in HK 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 income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

(j) Provision

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligations.

(k) 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 Company. 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.

Contingent liability is not recognised but is disclosed in the notes to financial statements. 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 Company.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Employee Benefits

(i) Employee Leave Entitlements

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

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

(ii) Profit Sharing and Bonus Plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plan are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Retirement Benefits Scheme Contributions

The Company has participated in the Mandatory Provident Fund Scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance. The assets of the Scheme are held separately from those of the Company in an independently administered fund. The Scheme is generally funded by payments from employees and by the Company. The Company's contributions to the Scheme are expensed as incurred in accordance with the rules of the Scheme and are not reduced by contributions forfeited by those employees who leave the Scheme prior to vesting fully in the contributions.

(m) Related Party Transactions

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

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Company mainly operates in Hong Kong with most of the transactions denominated and settled in Hong Kong dollars. Most of the Company's monetary assets and liabilities are also denominated in Hong Kong dollars. Therefore, the Company considers it has no significant foreign exchange risk.

(ii) Price risk

The Company is exposed to equity securities price risk because investments held by the Company are classified on the balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Company is not exposed to commodity price risk.

(b) Credit risk

The Company has no significant concentrations of credit risk. The carrying amount of cash and bank balances and other receivables represent the Company's maximum exposure to credit risk in relation to financial assets. The Company has policies that limit the amount of credit exposure to any financial institutions. The Company also has credit policies in place and exposures to credit risks regards other receivables are mentioned on an ongoing basis.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and bank balances, the availability of funding through an adequate amount of committed credit facilities.

(d) Interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

3.2 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of receivables and payables are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Company 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) Impairment of available-for-sale financial assets

The Company follows the guidance of HKAS 39 when determining whether an investment in available-for-sale financial assets is other than temporarily impaired. This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the expected time span the Company will hold on to this investment.

(b) The Company is subject to income taxes. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. SEGMENT INFORMATION

During the year ended 31 December 2006, the Company's entire turnover was derived from sale of financial assets at fair value through profit or loss in Hong Kong, no business and geographical segmental information on turnover are presented.

During the year ended 31 December 2005, more than 90% of the Company's turnover was derived from sale of available-for-sale financial assets in Hong Kong, no business and geographical segmental information on turnover are presented.

The Company's segment assets and liabilities for the year, analysed by geographical market, are as follows:

	Hong Kong		The UK		The PRC		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**1,251**	2,452	**231**	515	**150**	–	**1,632**	2,967
Segment liabilities	**3,540**	2,135	**–**	–	**–**	–	**3,540**	2,135

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006	2005
	HK$'000	*HK$'000*
Unlisted, at cost	**3,900**	2,600
Less: Impairment loss	**(2,550)**	(430)
	1,350	2,170

Impairment loss for available-for-sale financial assets

The available-for-sale financial assets were valued individually as separate cash generating units ("CGU") at 31 December 2006 by independent valuers, BMI Appraisals Limited. Each CGU was valued to its recoverable amounts, which was its fair value less costs to sell determined by reference to the market. Difference between its costs and its recoverable amounts were recognised as impairment losses.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

Unlisted financial assets in Hong Kong and the PRC:

Name of equity securities	Place of incorporation and kind of legal entity	Number of shares held/ registered capital	Interest held	Net assets attributable to the Company	Cost of investment	Fair value	Impairment loss
			(%)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
(i) Netx Limited	Hong Kong limited liability company	1,725 ordinary shares	15.00	131	1,300	750	(550)
(ii) Netters Land Management Limited	Hong Kong limited liability company	1,725 ordinary shares	15.00	27	1,300	450	(850)
(iii) Harbin Dongfang (Hong Kong) Food Co. Ltd	The PRC limited liability company	Registered captial US$118,100	6.00	158	1,300	150	(1,150)

Notes:

(i) Netx Limited is principally engaged in on-line advertising in various website.

The unaudited net profit attributable to shareholders of Netx Limited for the nine months ended 31 December 2006 was HK$31,000 (2005: unaudited net profit of HK$644,000).

(ii) Netters Land Management Limited is principally engaged in internet consultancy on IT system, infrastructure and solutions.

The unaudited net loss attributable to shareholders of Netters Land Management Limited for the nine months ended 31 December 2006 was HK$86,000 (2005: unaudited net loss of HK$138,000).

(iii) Harbin Dongfang (Hong Kong) Food Co. Ltd is principally engaged in production and sale of potato fries and potato chips.

The audited net loss attributable to shareholders of Harbin Dongfang (Hong Kong) Food Co. Ltd for the twelve months ended 31 December 2006 was RMB20,000 (2005: audited net loss of RMB2,679,000).

Harbin Dongfang (Hong Kong) Food Co. Ltd was audited by Heilongjiang Lijiexin Certified Public Accountants Co., Ltd.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006	2005
	HK$'000	*HK$'000*
Held-for-trading:		
Equity securities, at fair value		
– listed in Hong Kong	**–**	137
– listed outside Hong Kong	**231**	515
	231	652

The following is a list of the trading securities as at 31 December 2006:

Equity securities listed outside Hong Kong:

Name of equity securities	**Place of incorporation and kind of legal entity**	**Number of shares held**	**Interest held**	**Net liability attributable to the Company**	**Cost of investment**	**Fair value**	**Change in fair value**
			(%)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bolton Group (International) Limited	Bermuda, limited liability company	3,000,000 ordinary shares	3.48	7,561	1,291	231	(1,060)

A brief description of the business and financial information of the above listed equity security, based on its latest unaudited financial statements, is as follows:

Bolton Group (International) Limited is principally engaged in the real estate holding and development.

The unaudited net loss attributable to shareholders of Bolton Group (International) Limited for the six months ended 30 October 2006 was £125,000 (2005: unaudited net profit of £20,000).

8. PREPAYMENT, DEPOSITS AND OTHER RECEIVABLES

On 18 April 2005, the Company entered into a sale and purchase agreement (the "Sinowich Agreement") with an independent third party in which the Company acquired 6% interest in Harbin Dongfang (Hong Kong) Food Co. Ltd, a foreign enterprise incorporated in the PRC. According to the Sinowich Agreement, the total consideration of HK$1,300,000 had to be settled by a transfer of 712,000 fully paid up shares of Hong Xiang Petroleum International Holdings Limited (the "Cash in Kind for Sinowich"), the investment securities owned by the Company. The registration was completed on 24 July 2006.

Reversal of impairment loss on investment deposits

In the opinion of the directors, the failure to complete the registration of the Company's interest in Harbin Dongfang (Hong Kong) Food Co., Ltd. was an indication of impairment and a condition existed during the year ended 31 December 2005. As a result, an impairment loss of HK$1,300,000 on investment deposit was provided during the year ended 31 December 2005. On 24 July 2006, the registration was completed and the impairment loss on investment deposit of HK$1,300,000 was reversed accordingly.

9. SHARE CAPITAL

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
200,000,000 ordinary shares of HK$0.01 each		
(2005: 200,000,000 ordinary shares of HK$0.01 each)	**2,000**	2,000
Issued and fully paid:		
60,000,000 ordinary shares of HK$0.01 each		
(2005: 60,000,000 ordinary shares of HK$0.01 each)	**600**	600

9. SHARE CAPITAL (Continued)

During the year ended 31 December 2005 and 2006, the following movements in the Company's shares capital were recorded:

	Number of Ordinary Shares of HK$0.01 each	Amount
	'000	*HK$'000*
Authorised:		
As at 1 January 2006 and 31 December 2006	200,000	2,000
Issued and fully paid:		
As at 1 January 2005	50,000	500
Issue of shares	10,000	100
As at 31 December 2005 and 31 December 2006	**60,000**	**600**

On 21 March 2005, 10,000,000 ordinary shares of HK$0.01 each were issued at a price of HK$0.188 per share. A share premium of HK$1,743,000, net of share issue expenses, has been credited to share premium account. Details of these transactions were set out in the Company's announcement dated 23 March 2005.

10. RESERVES

	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*
Balance at 1 January 2005	21,091	(17,876)	3,215
Issue of new shares	1,780	–	1,780
Share issue expenses	(37)	–	(37)
Loss for the year	–	(4,726)	(4,726)
Balance at 31 December 2005 and 1 January 2006	22,834	(22,602)	232
Loss for the year	–	(2,740)	(2,740)
Balance at 31 December 2006	**22,834**	**(25,342)**	**(2,508)**

As at 31 December 2006, the Company did not have available reserves for distribution to shareholders under the Company law of the Cayman Islands (2005: HK$232,000).

11. AMOUNT DUE TO A RELATED COMPANY

The amount due to a related company was unsecured, interest-free and fully repaid during the year.

12. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and had no fixed term of repayment.

13. TURNOVER

Turnover represents sale of listed and unlisted financial assets during the year. The amount of each significant category of revenue recognised during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Turnover:		
Sale of financial assets at fair value through profit or loss	**142**	129
Sale of available-for-sale financial assets	**–**	3,890
Dividend received	**–**	9
Bank interest income	**–**	5
	142	4,033

14. EXPENSES BY NATURE

Administrative expenses are analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Auditors' remuneration	**180**	200
Employee benefit expenses *(note 15)*	**525**	523
Legal and professional fee	**188**	573

15. EMPLOYEE BENEFIT EXPENSES

	2006	2005
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**504**	504
Retirement benefits scheme contributions	**21**	19
	525	523

(a) Directors' and Senior Management's Emolument

The remuneration of every director for the year ended 31 December 2006 is set out below:

	Fee	**Salary**	**Other benefits**	**Employer's contribution to pension scheme**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Mr. Tam Wai Keung, Billy	**–**	**–**	**–**	**–**	**–**
Mr. Wu Tse Wai, Frederick	**–**	**300**	**–**	**11**	**311**
Mr. Fong Chi Wah *(note 1)*	**–**	**204**	**–**	**10**	**214**
Mr. Chow Wan Hoi, Paul *(note 2)*	**–**	**–**	**–**	**–**	**–**
Mr. Hui Wing Sang, Wilson *(note 3)*	**–**	**–**	**–**	**–**	**–**
Mr. Tang King Fai, Kelvin	**–**	**–**	**–**	**–**	**–**
Mr. Wong Che Man, Eddy *(note 4)*	**–**	**–**	**–**	**–**	**–**
Mr. Lam Yuk Lau *(note 5)*	**–**	**–**	**–**	**–**	**–**
	–	**504**	**–**	**21**	**525**

15. EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Directors' and Senior Management's Emolument (Continued)

The remuneration of every director for the year ended 31 December 2005 is set out below:

	Fee	Salary	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Tam Wai Keung, Billy	–	–	–	–	–
Mr. Li Sze Tang, Albert *(note 6)*	–	320	10	–	330
Mr. Wu Tse Wai, Frederick	–	150	7	–	157
Mr. Fong Chi Wah *(note 1)*	–	34	2	–	36
Mr. Chow Wan Hoi, Paul *(note 2)*	–	–	–	–	–
Mr. Hui Wing Sang, Wilson *(note 3)*	–	–	–	–	–
Mr. Tang King Fai, Kelvin	–	–	–	–	–
Mr. Kwok Ming Wa *(note 7)*	–	–	–	–	–
Mr. Chiu Siu Keung *(note 7)*	–	–	–	–	–
Mr. Wang Tianye *(note 7)*	–	–	–	–	–
	–	504	19	–	523

Notes:

1. Appointed on 1 November 2005.
2. Resigned on 20 February 2006.
3. Resigned on 20 February 2006.
4. Appointed on 20 February 2006.
5. Appointed on 20 February 2006.
6. Resigned on 1 November 2005.
7. Resigned on 19 July 2004.

During the year, no salaries were paid to independent non-executive directors (2005: HK$Nil).

During the year, there were no arrangements under which a director waived or agreed to waive any remuneration during the year (2005: HK$Nil).

15. EMPLOYEE BENEFIT EXPENSES (Continued)

(a) Directors' and Senior Management's Emolument (Continued)

The number of the directors fell within the following bands:

	Number of directors	
	2006	2005
Nil to HK$1,000,000	**2**	3

(b) Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Company for the year include two executive directors (2005: three) whose emoluments are reflected in the analysis presented in note 15(a) above. During the year ended 31 December 2006 and 2005, there were no emoluments payable to other employees.

16. INCOME TAX EXPENSES

Current Taxation

No provision for Hong Kong profits tax has been made as the Company incurred a taxation loss for the year (2005: HK$Nil).

No provision for deferred taxation has been made as the Company had no material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements (2005: HK$Nil).

16. INCOME TAX EXPENSES (Continued)

Current Taxation (Continued)

The income tax expenses for the year can be reconciled to the loss per the income statement as follows:

	2006		2005	
	HK$'000	***%***	*HK$'000*	*%*
Loss before tax	**(2,740)**		(4,726)	
Tax at Hong Kong profit tax rate of 17.5% (2005: 17.5%)	**(480)**	**(17.5)**	(827)	(17.5)
Estimated tax effect on income that are not taxable in determining taxable profit	**–**	**–**	(2)	(0.1)
Estimated tax effect on expenses that are not deductible in determining taxable profit	**371**	**13.5**	–	–
Tax effect of unrecognised tax losses	**109**	**4.0**	829	17.6
Income tax expenses and effective tax rate for the year	**–**	**–**	–	–

17. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of the loss of HK$2,740,000 (2005: HK$4,726,000).

18. DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2006 (2005: Nil).

19. LOSS PER SHARE

The calculation of basic loss per share is based on the Company's net loss attributable to the shareholders of HK$2,740,000 (2005: HK$4,726,000) and the 60,000,000 (2005: 57,808,000) weighted average ordinary shares in issue during the year.

There were no dilutive potential shares during the years ended 31 December 2005 and 2006, therefore, no diluted loss per share has been presented.

20. DEFERRED TAXATION

As at the balance sheet date, the Company has estimated tax losses of approximately HK$9,499,000 (2005: HK$20,887,000) and deductible temporary differences of approximately HK$1,060,000 (2005: HK$5,165,000) that are available indefinitely for offsetting against future taxable profits of the Company. Deferred tax assets have not been provided for due to the unpredictability of the future profit streams.

21. NET LIABILITIES VALUE PER SHARE

The calculation of net liabilities value per share is based on the net liabilities of HK$1,908,000 (2005: net assets value of HK$832,000) and the 60,000,000 (2005: 60,000,000) ordinary shares in issue as at 31 December 2006 and 31 December 2005.

22. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005 and 2006, the Company had entered into transactions with related parties which, in the opinion of the directors, were carried out on normal commercial terms and in the ordinary course of the Company's business.

Nature of related party relationship	Nature of transactions	2006 HK$'000	2005 HK$'000
Company with common director:			
First Asia Finance Group Limited *(Note (a))*	Administration fee – paid	–	175

Note (a): Mr Li Sze Tang who resigned on 1 November 2005 had beneficial interest in the related company.

Key management compensation

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	504	504
Employer contribution to pension scheme	21	19
	525	523

Amount due to a director

	2006 HK$'000	2005 HK$'000
Mr Tam Wai Keung, Billy – Cash advanced to the Company	1,031	1,000

23. SUBSEQUENT EVENTS

The Company had no significant event took place subsequent to the balance sheet date.

24. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 13 April 2007.

	Year ended 31 December 2006 HK$'000	Year ended 31 December 2005 HK$'000	Year ended 31 December 2004 HK$'000	Year ended 31 December 2003 HK$'000	Year ended 31 December 2002 HK$'000
RESULTS					
Turnover	**142**	4,033	2,950	100	131
(Loss)/profit before income tax	**(2,740)**	(4,726)	(7,442)	(12,580)	2,146
Income tax expenses	**–**	–	–	484	(484)
(Loss)/profit attributable to shareholders	**(2,740)**	(4,726)	(7,442)	(12,096)	1,662

	As at 31 December 2006 HK$'000	As at 31 December 2005 HK$'000	As at 31 December 2004 HK$'000	As at 31 December 2003 HK$'000	As at 31 December 2002 HK$'000
ASSETS AND LIABILITIES					
Total assets	**1,632**	2,967	5,333	11,858	23,835
Total liabilities	**(3,540)**	(2,135)	(1,618)	(701)	(582)
Shareholders' (deficits)/funds	**(1,908)**	832	3,715	11,157	23,253

Note: The Company was incorporated in the Cayman Islands on 28 June 2002.