

# Willie International Holdings Limited

(Incorporated in Hong Kong with limited liability)

Listed Since 1972 Stock Code: 273

Willie

06

ANNUAL REPORT

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# Corporate Information

## DIRECTORS

### Executive Directors

Chuang Yueheng, Henry (*Chairman*)  
King Phillip (*Managing Director*)  
Lo Kan Sun (*Chief Operating Officer*)  
Wong Ying Seung, Asiong  
Wang Lin

### Independent Non-Executive Directors

Nakajima Toshiharu  
Lin Wai Yi  
Liu Jian  
Shum Ming Choy  
Yau Yan Ming, Raymond

### Alternate Director

Lee Kwan Ching  
(*Alternate Director to Lo Kan Sun*)

## AUDIT COMMITTEE

Shum Ming Choy (*Chairman*)  
Nakajima Toshiharu  
Lin Wai Yi  
Yau Yan Ming, Raymond

## REMUNERATION COMMITTEE

Wong Ying Seung, Asiong (*Chairman*)  
Nakajima Toshiharu  
Yau Yan Ming, Raymond

## QUALIFIED ACCOUNTANT

Lee Kwan Ching

## COMPANY SECRETARY

Lee Pui Shan

## AUDITORS

Moore Rowland Mazars  
Chartered Accountants  
Certified Public Accountants  
34/F, The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

## REGISTERED OFFICE

32/F, China United Centre  
28 Marble Road  
North Point  
Hong Kong

## PRINCIPAL BANKERS

Chong Hing Bank Limited  
The Bank of East Asia Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

## SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
*Transfer Office*  
Shops 1712-1716,  
17/F, Hopewell Centre  
183 Queen's Road East  
Hong Kong

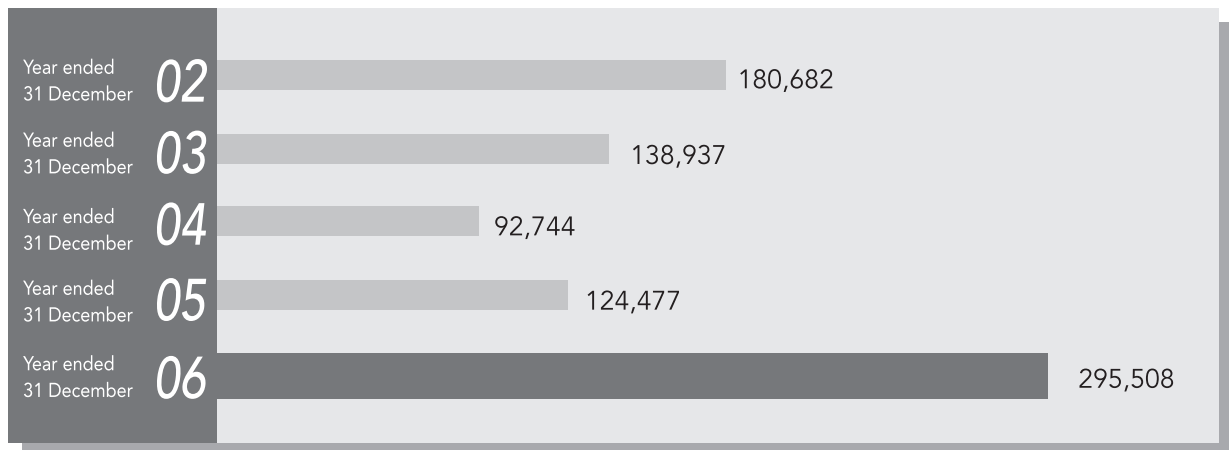
*Investor Communication Centre*  
Rooms 1806-1807,  
18/F, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## INTERNET ADDRESS

<http://www.willie273.com>  
<http://www.irasia.com/listco/hk/willie/index.htm>

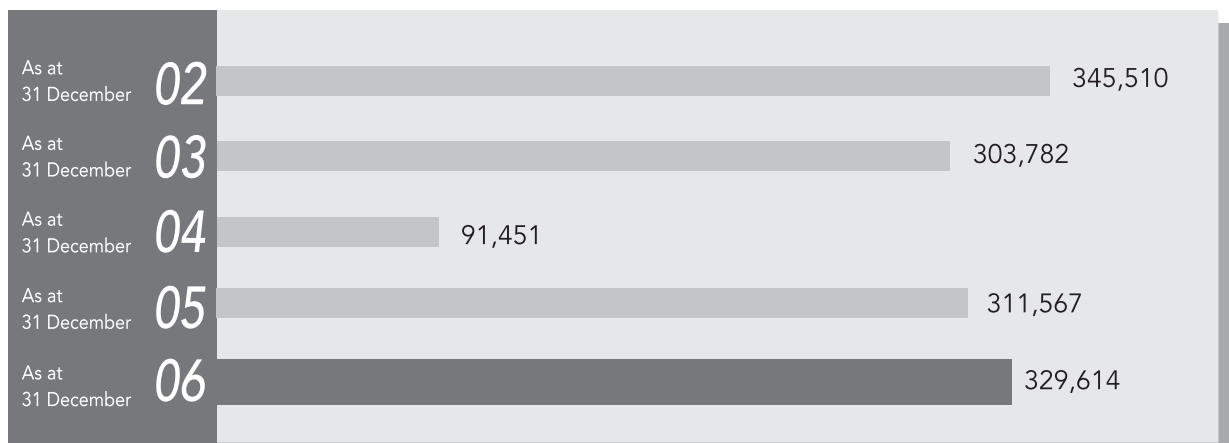
## TURNOVER SUMMARY

(In HK\$'000)



## NET WORTH SUMMARY

(In HK\$'000)



# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Willie International Holdings Limited (the "Company") will be held at 30/F, China United Centre, 28 Marble Road, North Point, Hong Kong on Wednesday, 30 May 2007 at 9:00 a.m. for the purpose of transacting following business:-

## ORDINARY RESOLUTIONS

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors of the Company for the year ended 31 December 2006.
2. To re-elect directors and to authorise the board of directors of the Company to fix their remuneration.
3. To re-appoint Moores Rowland Mazars as auditors of the Company and to authorise the board of directors of the Company to fix their remuneration.

As special businesses, to consider and if thought fit, pass with or without modification the following resolutions as ordinary resolutions:

4. **"THAT:-**

- (A) subject to paragraph (C) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (B) the Directors be and are authorised during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers during or after the end of the Relevant Period;
- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraphs (A) and (B), otherwise than (i) a Rights Issue (as hereafter defined) or (ii) the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes or other securities issued by the Company which carry rights to subscribe for or are convertible into shares of the Company or (iii) an issues of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Company and/or any of its subsidiaries or any other eligible person(s) of shares or right to acquire shares of the Company or (iv) an issue of shares as scrip dividend pursuant to the Articles of Association, from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution and the said approval shall be limited accordingly; and

## Notice of Annual General Meeting

(D) for the purposes of this resolution:-

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of Hong Kong to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange).”

5. **“THAT:-**

- (A) subject to paragraph (C) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase securities in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to purchase such securities are subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its securities at a price determined by the Directors;
- (C) the aggregate nominal amount of securities in the capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph (A) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution and the said approval shall be limited accordingly; and

## Notice of Annual General Meeting

(D) for the purposes of this resolution:-

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:-

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of Hong Kong to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

6. **“THAT** conditional upon the passing of the ordinary resolution no. 4 and 5 above, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the said resolution no. 5 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the ordinary resolution no. 4 above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution.”

By Order of the Board

**Willie International Holdings Limited**

**Lee Pui Shan**

*Company Secretary*

Hong Kong, 27 April 2007

# Notice of Annual General Meeting

*Registered Office and Head Office:*

32/F, China United Centre  
28 Marble Road  
North Point  
Hong Kong

*As at the date of this notice, the Board comprises five executive Directors, namely, Mr. Chuang Yueheng, Henry, Mr. King Phillip, Mr. Lo Kan Sun, Mr. Wong Ying Seung, Asiong and Mr. Wang Lin and five independent non-executive Directors, namely, Mr. Nakajima Toshiharu, Ms. Lin Wai Yi, Mr. Liu Jian, Mr. Shum Ming Choy and Mr. Yau Yan Ming, Raymond.*

Notes:

1. A form of proxy to be used for the meeting is enclosed.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
3. To be valid, the instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's share registrar and transfer office, **Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen's Road East, Hong Kong** not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.



# Chairman's Statement

## THE YEAR IN REVIEW

This year's annual report looks and feels different from the past few years. And for good reason: your company is different. So it is only fair to ask what is different and what we are going to do with this new company.

Shareholders who have read my previous statements know that during the past two to three years, the Company had undergone major restructuring. We have made significant moves to restore the confidence of investors and to improve the competitiveness of the Company for the long term. Realising early on of the increasing importance or influence of China on the global market and specifically on the local Hong Kong economy, the Company has changed the business model and we are well positioned to capture and benefit from market opportunities in China.

As Chairman of the Company, my mission is to grow the Company and its subsidiaries (the "Group") and our business. We have gone through the transition period, I recognise that our shareholders have shared the pain as we struggled over the past few years and I appreciate your patience and support. The Company has entered the next phase. I am committed to guide the Company through this phase of growth and we are working hard to get things moving in the right direction.

In 2006, our focus and plan are clear and we have executed strongly on our business strategies. Throughout the year, the Board of Directors (the "Board") and I have spent a good deal of time working to expand our connections or networks. The Company have approached potential partners as well as received countless investment proposals. After careful evaluations, we have identified certain projects which offer sustainable value and growth that are worth pursuing.

In January 2006, the Group entered into an agreement with Mr. Wang Sing (former CEO and executive director of Tom Group) for the acquisition of 25% of Amerinvest Coal Industry Holding Company Limited ("Amerinvest") through a placement of shares and thus making Mr. Wang Sing a strategic investor of the Company. In March 2006, the Group further acquired an additional 25% of Amerinvest. Amerinvest is a company that invests in the West China Coking Project in the Yunnan Province in China.

The Board regards the natural resources and energy sectors as a major and critical development in China with potential for tremendous growth. The Board continues its strategies to explore opportunities in these areas. In February 2007, the Company announced of a potential joint venture with PRC oil conglomerate to engage in the exploration of oil located in a country with rich energy resources in the former Soviet Socialist Republic; and again in March 2007, the Company announced of a potential forestry investment in Simao City in the Yunnan Province. Both of these projects are currently being evaluated or in negotiation and shareholders and potential investors should note that no binding agreements have been signed and that the projects may or may not proceed. Moreover, the Board believes that the property market in Hong Kong will become stable with an upward trend, especially for luxury properties. In April 2007, the Company announced to incorporate a wholly-owned subsidiary as the holding company for the property investment and acquired a property of House 6, Somerset Path, The Royal Oaks, 8 Kam Tsin South Road, Sheung Shui.

As we evaluate potential projects and partners, so too were we being scrutinised by our counterparts. It is therefore important that we instill in our potential partners a sense of confidence. In that respect, we have concentrated our resources in cash and liquid asset by disposing minor property holdings, non-performing assets, and long term debt instruments. During the year, the Group disposed of its interests in Found Macau Investments International Limited and Hennabun Management International Limited 8% convertible note for HK\$75 million and \$100 million respectively. The Company raised an additional HK\$60.8 million through the exercise of share options. In January 2007, the Group disposed of its only property in Laguna City, Kowloon for HK\$2.7 million.

During the beginning of 2007, we have further strengthened our cash position by raising additional equity of approximately HK\$449 million with two share placements of 1,873 million new shares, the issuance of 2,200 million new shares arising from the conversion of convertible notes, and the issuance of 257 million new shares arising from the exercise of share options. We have taken the necessary measures to position the Company for growth.

### RESULTS

Turnover for the year ended 31 December 2006 (the "Year") amounted to HK\$295.5 million, an increase of 137.3% when compared with HK\$124.5 million for the last year. The increase in turnover was mainly attributable to the increase in the sale of listed investments during the year. Loss attributable to equity holders for the Year was HK\$114.8 million compared with a loss of HK\$131.7 million for the last year. Loss per share for the Year was HK\$0.034 compared with HK\$0.064 for the last year. The Audit Committee has reviewed the Group's audited financial statements for the Year, including the accounting principles and practices adopted by the Group.

### DIVIDEND

The Board does not recommend the payment of a final dividend for the Year. (2005: Nil)

### LIQUIDITY AND CAPITAL RESOURCES

During the Year, the Company has completed the issue of 224,408,635 new shares arising from the exercise of share options raising an additional equity of approximately of HK\$60.8 million. Furthermore, the Company has issued 250,000,000 new shares to satisfy the acquisition cost of HK\$66.25 million for the investment in the initial 25% shareholding in Amerinvest.

As at 31 December 2006, the Group's total equity amounted to HK\$329.6 million as compared with HK\$311.6 million as at 31 December 2005. As at 31 December 2006, the Group had net current assets of HK\$217.1 million including cash and cash equivalents of HK\$8.9 million as compared with net current assets of HK\$47.6 million including cash and cash equivalents of HK\$11.4 million as at 31 December 2005. The Group maintained a low debt/equity ratio of 7.1% (computed on the basis of total borrowings to total equity) and current ratio of 14.79 times as at 31 December 2006 as compared to 5.9% and 3.52 times respectively as at 31 December 2005.

## Chairman's Statement

As at 31 December 2006, the Group had bank and other borrowings of HK\$23.3 million (2005: bank borrowings of HK\$18.4 million). Of the Group's bank and other borrowings of HK\$23.3 million, 32.2 %, 11.7%, 32.5%, 23.6% are repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group's bank and other borrowings carrying interest rates were calculated with reference to prime rate and denominated in Hong Kong dollars. The Group did not have any financial instruments used for hedging purpose.

As most of the Group's transactions and bank balances were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

### PLEDGE OF ASSETS

As at 31 December 2006, certain assets of the Group with an aggregate carrying value of HK\$27.7 million (2005: HK\$30.8 million) have been pledged to banks to secure banking facilities granted to the Group.

### CONTINGENT LIABILITIES

As at the balance sheet date, the Company had contingent liabilities not provided for in the financial statements in respect of guarantees of HK\$20.4 million (2005: HK\$38 million) and HK\$30 million (2005: HK\$30 million) for banking facilities granted to subsidiaries and an associate respectively, which were utilised by subsidiaries and an associate to the extent of HK\$18.3 million (2005: HK\$18.4 million) and HK\$24.5 million (2005: HK\$21.4 million) respectively.

### EMPLOYEES

As at 31 December 2006, the Group employed a total of 25 employees (2005: 24). The Group remunerates its employees based on their performance, working experience and prevailing market standards. Employee benefits include a medical insurance coverage, provident fund and a share option scheme.

### APPRECIATION

We have big opportunities ahead of us. I want to thank my fellow Directors and our employees for their dedication and hard work. And we thank you, our owners, for your confidence and continued support as we enter into what I believe to be an exciting growth phase for the Company.

Also the Board would like to welcome Mr. Wang Lin, Mr. Liu Jian, Mr. Shum Ming Choy, and Mr. Yau Yan Ming, Raymond to our Board and would like to recognise the contributions of Mr. Lam Ping Cheung and Mr. Miu Frank H. for their services to the Board.

**Chuang Yueheng, Henry**

*Chairman*

Hong Kong, 18 April 2007

# Biographies of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Chuang Yueheng, Henry**, aged 51, was appointed Chairman of the Company in 2002. He holds Master's degrees in Petroleum Engineering and in Business Administration from the University of Southern California in the United States of America. He has over 14 years of experience in corporate finance and development.

**Mr. King Phillip**, aged 36, was appointed Managing Director of the Company in 2005. He holds a Master's degree in Business Administration from the University of San Francisco in the United States of America. He has over 17 years of experience in real estate investment, management and development. He is also an independent non-executive director of Glory Future Group Limited, a public listed company in Hong Kong.

**Mr. Lo Kan Sun**, aged 53, was appointed Director of the Company in 2002. He is the Chief Operating Officer of the Company. He holds a Master's degree in Business Administration from Indiana University in the United States of America. He has over 27 years of experience in finance, investment and banking.

**Mr. Wong Ying Seung, Asiong**, aged 56, was appointed Director of the Company in 2002. He holds a Bachelor's degree in Chemical Engineering from the University of London in the United Kingdom. He has over 27 years of experience in banking and investment.

**Mr. Wang Lin**, aged 52, was appointed Director of the Company in 2006. He studied Electronics from the Yunnan Radio and TV University. He is an Economist by profession with over 30 years of experience in accounting and finance.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Nakajima Toshiharu**, aged 70, was appointed Director of the Company in 2005. He holds a Bachelor's degree of Economics from Waseda University in Tokyo in Japan. He has over 43 years of experience in investment advisory and asset management. He is also an executive director of Radford Capital Investment Limited, a publicly listed company in Hong Kong.

**Ms. Lin Wai Yi**, aged 43, was appointed Director of the Company in 2005. She holds Bachelor's, Master's and Doctorate degrees all in Chinese Laws from the Beijing University in the People's Republic of China. She has been a practising solicitor in Hong Kong since 1994 and has been registered as a solicitor in England and Wales since 1996. She is the founder of Messrs. Deca Lin & Partners.

**Mr. Liu Jian**, aged 38, was appointed Director of the Company in 2006. He holds a Bachelor's degree in Electrical Engineering from the Fudan University, Shanghai in the People's Republic of China as well as a Master's degree in Chinese Law from the Jilin University in the People's Republic of China. He is a Senior Economist by profession and has over 14 years of experience in corporate finance and investment banking. Mr. Liu is the Vice President of the Century Securities Company Limited in Beijing.

## Biographies of Directors and Senior Management

**Mr. Shum Ming Choy**, aged 56, was appointed Director of the Company in 2006. He holds a Bachelor's degree in Laws (Hons.) from the University of Hong Kong. He is a solicitor of the High Court of Hong Kong SAR and Supreme Court of England & Wales. He was a non-executive director of Goldwiz Holdings Limited, a publicly listed company in Hong Kong, during the period from 18 May 2006 to 15 June 2006. He was re-designed as an independent non-executive director of Goldwiz Holdings Limited from 15 June 2006 to 14 February 2007.

**Mr. Yau Yan Ming, Raymond**, aged 38, was appointed Director of the Company in 2006. He holds a Master's degree in Science majoring in Japanese business studies and Bachelor's degree in Business Administration majoring in accounting in the United States of America. He is a Certified Public Accountant both in Hong Kong and in the United States of America. He is also an associate member of Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He has over 10 years of working experience in areas of auditing, accounting, taxation, company secretarial, corporate finance and financial management.

### SENIOR MANAGEMENT

**Ms. Lee Kwan Ching**, aged 47, is the financial controller and the qualified accountant of the Company. She is also the alternate Director to Mr. Lo Kan Sun. She holds a Bachelor's degree in Commerce (Accounting) from the University of Birmingham in the United Kingdom. She is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. She has over 20 years of experience in finance and accounting.

The Board of Directors submits their annual report together with the audited financial statements for the year ended 31 December 2006.

### **PRINCIPAL ACTIVITIES**

The Group, through various subsidiaries and associated companies, is principally engaged in the business of property investment, investment in securities trading, investing in energy related businesses and acquiring, exploring and developing natural resources. Details of the principal activities and other particulars of the Company's subsidiaries and associated companies are set out in notes 17 and 18 to the financial statements respectively.

### **RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 26.

The Board of Directors does not recommend the payment of a final dividend.

### **DONATIONS**

During the year, the Group made charitable donations amounting to HK\$115,387.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

### **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 70 and 71.

## INVESTMENT PROPERTIES AND FIXED ASSETS

Details of significant changes in the investment properties and fixed assets of the Group during the year are set out in notes 15 and 16 respectively to the financial statements.

Particulars of the major properties of the Group as at 31 December 2006 are set out on page 72.

## BORROWINGS

Details of the bank and other borrowings of the Group and the Company are set out in note 22 to the financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23 to the financial statements.

## SHARE OPTIONS

Details of the share option scheme of the Company are set out in note 25 to the financial statements. During the year, 561,408,635 share options were granted, 224,408,635 share options were exercised and 80,000,000 share options were cancelled under the share option scheme of the Company. As at 31 December 2006, 257,000,000 share options were outstanding.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## OPTIONS OR SIMILAR RIGHTS

Save as set out in note 25 to the financial statements, the Company or any of its subsidiaries has no outstanding, options or similar rights as at 31 December 2006.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

### Executive Directors

Chuang Yueheng, Henry  
King Phillip  
Lo Kan Sun  
Wong Ying Seung, Asiong  
Wang Lin (appointed on 3 May 2006)

### Independent Non-executive Directors

Nakajima Toshiharu  
Lin Wai Yi  
Liu Jian  
Shum Ming Choy (appointed on 1 August 2006)  
Yau Yan Ming, Raymond (appointed on 16 October 2006)  
Lam Ping Cheung (resigned with effect from 26 June 2006)  
Miu Frank H. (resigned with effect from 27 March 2007)

### Alternate Director

Lee Kwan Ching (Alternate Director to Lo Kan Sun)

In accordance with Article 120 of the Articles of Association of the Company, Mr. Lo Kan Sun, Mr. Wong Ying Seung, Asiong and Mr. Nakajima Toshiharu retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 100 of the Articles of Association of the Company, Mr. Wang Lin, Mr. Shum Ming Choy and Mr. Yau Yan Ming, Raymond retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive Director is for a period of three years but subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the Articles of Association of the Company.

The Directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Company within one year without payment of compensation other than statutory compensation.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Directors of the Company who held office as at 31 December 2006 had the following interests in the shares of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' interests and short positions required to be kept under section 352 of the SFO:-

### Interests in the Company

Name of director	Number of ordinary shares of HK\$0.1 each held		Approximate percentage of shareholding
	Personal interests	Family interests	
Wong Ying Seung, Asiong	25,736,000	—	0.73%

Apart from the foregoing, none of the Directors of the Company or any of their spouses or children under eighteen years of age has any interest or short position in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as set out in note 25 to the financial statements regarding the Company's share option scheme, at no time during the year was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS

There was no other contract of significance to which the Company, its holding company or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in the Company's issued shares as at 31 December 2006 amounting to 5% or more of the ordinary shares, warrants and convertible notes in issue:

### Interests in the Company

	Number of ordinary shares of HK\$0.1 each held	Approximate percentage of shareholding
Heritage International Holdings Limited	550,808,000	15.71%
Radford Capital Investment Limited	180,259,363	5.14%
Freeman Corporation Limited	176,456,000	5.03%
Wang Sing (Note 1)	250,000,000	7.13%

Note 1: Mr. Wang Sing is the brother of a Director of the Company, Mr. Wang Lin.

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

## RETIREMENT SCHEME

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme (the "Scheme") in Hong Kong to all staff. Under the Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2006, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Company, or the laws of Hong Kong, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

## POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 33 to the financial statements.

## AUDITORS

A resolution will be submitted at the annual general meeting to re-appoint Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, as auditors of the Company.

On behalf of the Board

**Willie International Holdings Limited**

**Chuang Yueheng, Henry**

*Chairman*

Hong Kong, 18 April 2007

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company is committed to maintain high standards of corporate governance for the Company. The Company has complied with all Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the financial year ended 31 December 2006.

The current practices of the corporate governance of the Company will be reviewed and updated in a timely manner in order to comply with the requirements of the Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has complied with the requirements for directors' securities transactions stated in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") in Appendix 10 of the Listing Rules. All Directors of the Company have confirmed that they have complied with the requirements as set out in the Model Code for the year ended 31 December 2006.

## BOARD OF DIRECTORS AND BOARD MEETING

The Board comprises ten members and their positions, as at the date of this report, are as follows:

### **Executive Directors**

Chuang Yueheng, Henry	(Chairman)
King Phillip	(Managing Director)
Lo Kan Sun	(Chief Operating Officer)
Wong Ying Seung, Asiong	
Wang Lin	

### **Independent Non-executive Directors**

Nakajima Toshiharu  
Lin Wai Yi  
Liu Jian  
Shum Ming Choy  
Yau Yan Ming, Raymond

### **Alternate Director**

Lee Kwan Ching (Alternate Director to Lo Kan Sun)

# Corporate Governance Report

Details of the backgrounds and qualifications of the Directors are set out in the section of "Biographies of Directors and Senior Management" on pages 11 and 12 of the annual report for year ended 31 December 2006 (the "Annual Report"). All Directors have provided grave concern, sufficient time and attention to all the significant issues and affairs of the Company and its subsidiaries (collectively the "Group"). Each Executive Director has accumulated sufficient and valuable experience to hold his position in order to ensure that his fiduciary duties have been carried out in an efficient and effective manner. None of the members of the Board have, in any respect, related to each other in any circumstances.

To improve the transparency and independency of the corporate governance of the Company, the fiduciary duties of the Chairman and the Managing Director of the Company are segregated and not executed by the same individual. The Chairman is responsible for the management of the Board and external corporate communication. The Managing Director is responsible for the day-to-day operation, including but not limited to, the implementation of the overall strategy of the Company.

In order to protect the interest of the shareholders of the Company (the "Shareholders"), the independent non-executive Directors were appointed with relevant and sufficient experience and qualification to perform their duties. All independent non-executive Directors are appointed with specific written terms by the Company.

The Company has received annual confirmation of independence from the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed and concluded that all the independent non-executive Directors are independent in view of the definition of the Listing Rules.

The Board held a full board meeting for seven times in 2006. Details of the attendance of the Board members are as follows:

<b>Executive Directors</b>	<b>Attendance</b>
Chuang Yueheng, Henry	6/7
King Phillip	7/7
Lo Kan Sun	7/7
Wong Ying Seung, Asiong	6/7
Wang Lin (appointed on 3 May 2006)	3/4
<b>Independent Non-executive Directors</b>	
Nakajima Toshiharu	7/7
Lin Wai Yi	6/7
Liu Jian (appointed on 24 January 2006)	6/7
Shum Ming Choy (appointed on 1 August 2006)	2/2
Yau Yan Ming, Raymond (appointed on 16 October 2006)	0/0
Lam Ping Cheung (resigned with effect from 26 June 2006)	2/3
Miu Frank H. (resigned with effect from 27 March 2007)	5/7

Save for the above regular board meetings held in 2006, the Board also held special meetings to discuss on any matters which would require a decision from them. Notice of each board meeting and details of its agenda were delivered in advance to the Board. Minutes of each board meeting were sent to the Directors within 7 days after the meeting.

## TRAINING FOR DIRECTORS

Each newly appointed Director receives comprehensive, formal induction to ensure that he/she has appropriate understanding of the business and his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established in June 2005. The primary duties of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and reviewing the special remuneration packages of all executive Directors by reference to corporate goals and objectives resolved by the Board from time to time. As at the date of this report, the Remuneration Committee comprises two independent non-executive Directors and one executive Director, which are as follows:

Wong Ying Seung, Asiong (Chairman)  
 Nakajima Toshiharu  
 Yau Yan Ming, Raymond

The adopted terms of reference of the Remuneration Committee is in compliance with the Code Provision B.1.3.

The Remuneration Committee held four meetings in 2006. Details of the attendance of the Remuneration Committee meeting were as follows:

<b>Committee members</b>	<b>Attendance</b>
Wong Ying Seung, Asiong	4/4
Nakajima Toshiharu	4/4
Yau Yan Ming, Raymond (appointed on 16 October 2006)	1/1
Miu Frank H. (resigned with effect from 27 March 2007)	3/3

During the year, the Remuneration Committee has reviewed and approved the remuneration package of all staff and newly appointed Directors.

## NOMINATION OF DIRECTORS

The Company does not have a nomination committee. The Board is empowered under the Company's Articles of Association to appoint any person as a Director either to fill a casual vacancy on or as an additional member of the Board. Candidates to be selected and recommended are those who are experienced and competence and able to fulfill the fiduciary duties and duties of skill, care and diligence to a standard required of for listed companies' Directors. A proposal for the appointment of a new Director together with detailed information on his/her educational and professional qualifications and the relevant working experience is submitted to the Board for decision in the appointment process. At every annual general meeting, one-third of the Directors are subject to retirement by rotation, provided that every Director shall be subject to retirement at least once every three years.

During the year, the Board held six meetings to approve the resignation and appointment of Directors.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established in January 2003. The primary duties of the Audit Committee are to communicate with the management of the Company from time to time, including but not limited to, review the accounting principles and practices adopted by the Company, the effectiveness of its internal control systems, the interim and annual results of the Company. At as the date of this report, all members of the Audit Committee are independent non-executive Directors, which are as follows:

Shum Ming Choy (Chairman)  
Nakajima Toshiharu  
Lin Wai Yi  
Yau Yan Ming, Raymond

The Audit Committee held four meetings in 2006. Details of the attendance of the Audit Committee meetings were as follows:

<b>Committee members</b>	<b>Attendance</b>
Nakajima Toshiharu	4/4
Lin Wai Yi	4/4
Shum Ming Choy (appointed on 1 August 2006)	2/2
Yau Yan Ming, Raymond (appointed on 16 October 2006)	0/0
Lam Ping Cheung (resigned with effect from 26 June 2006)	1/1
Miu Frank H. (resigned with effect from 27 March 2007)	4/4

The Company's unaudited interim results for the six months ended 30 June 2006 and audited annual results for the financial year ended 31 December 2006 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results have been complied with the applicable accounting standards.

## EXTERNAL AUDITORS

The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit services performed by the external auditors. During the year, the remuneration of HK\$1,135,000 and HK\$136,000 were paid to the Company's auditors, Moores Rowland Mazars for the provision of audit services and the purpose of reviewing the financial information stated in the circular relating to major transactions respectively.

## INTERNAL CONTROLS

Proper internal controls not only facilitate the effectiveness and efficiency of operations, ensuring compliance with laws and regulations, but most importantly, it helps to minimize risk exposure for the Company. The Company is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. The Board, through the Audit Committee, assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance control on annual basis.

## DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The responsibilities of the Directors and Auditors are set out on page 25 of this Annual Report. The Directors acknowledge their responsibility to prepare financial statements for each financial year, which gives a true and fair view of the state of affairs of the Company, and present the interim results, annual financial statements, and announcements to the Shareholders. The Directors aim to present a fair and reasonable assessment of the Company's position and prospects to the Shareholders and the relevant information required under the Listing Rules. As the Board is not aware of any material uncertainties relating to the events or conditions that may cause any significant doubt upon the going concern of the Company, the Board therefore continues to adopt the going concern approach in preparing the financial statements for the financial year of 2006.

## COMMUNICATIONS WITH SHAREHOLDERS

Individual resolution has been proposed by the Chairman in the general meetings in response to each substantial issue.

The Chairman of the Company, the chairman of the Audit Committee and the chairman of the Remuneration Committee, in the absence of the chairman of such committees, another member of the committees attended were available to answer questions in the annual general meeting and extraordinary general meetings.



## VOTING BY POLL

In order to ensure compliance with the requirements on the poll voting procedures, the Company informs the Shareholders in respect of the procedures for voting by poll and the rights of the Shareholders to demand a poll in accordance with the Article 81 of the Articles of Association of the Company.

On behalf of the Board

**Willie International Holdings Limited**

**King Phillip**

*Managing Director*

Hong Kong, 18 April 2007

## Moores Rowland Mazars

摩斯倫·馬賽會計師事務所

To the members of  
**Willie International Holdings Limited**  
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Willie International Holdings Limited set out on pages 26 to 69, which comprise the consolidated balance sheet and the Company's balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated 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 are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 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, in accordance with section 141 of the Hong Kong Companies Ordinance, 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 HKICPA. 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we 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 consolidated financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with HKFRS and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Moores Rowland Mazars**  
Chartered Accountants  
Certified Public Accountants

Hong Kong, 18 April 2007

# Consolidated Income Statement

Year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>Turnover</b>	6	<b>295,508</b>	124,477
Other income	7	<b>12,694</b>	8,605
Cost of investments held for trading sold		<b>(293,316)</b>	(133,475)
Depreciation expense		<b>(1,155)</b>	(1,307)
Employee benefits expense		<b>(9,155)</b>	(9,565)
Other operating expenses		<b>(15,233)</b>	(27,500)
Reversal of impairment loss on interest in an associate		—	75,036
Impairment loss on amount due from an associate		—	(75,000)
(Loss) profit on disposal of interests in subsidiaries		<b>(143)</b>	5,925
Loss on disposal of convertible note issued by an associate	18(c)	<b>(31,000)</b>	—
Profit on disposal of an unlisted investment		—	20,528
Profit on deemed disposal of interest in an associate	18(a)(i)	<b>8,429</b>	1,406
Loss on deemed acquisition of interest in an associate		—	(13,331)
Share of loss of associates	18(e)	<b>(79,010)</b>	(99,351)
Finance costs	10	<b>(2,380)</b>	(8,163)
<b>Loss before taxation</b>	9	<b>(114,761)</b>	(131,715)
Taxation	12	—	—
<b>Loss for the year</b>	13	<b>(114,761)</b>	(131,715)
<b>Loss attributable to equity holders</b>		<b>(114,761)</b>	(131,715)
<b>Loss per share – Basic</b>	14	<b>(3.4 cents)</b>	(6.4 cents)

# Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Opening balance – Total equity at 1 January	<b>311,567</b>	91,451
Issue of new shares, net of expenses	<b>66,150</b>	122,464
Issue of shares on exercise of warrants	—	1,867
Issue of shares on conversion of convertible notes	—	201,690
Issue of shares under share option scheme	<b>60,759</b>	25,810
Equity-settled share-based payment	<b>5,899</b>	—
Loss for the year	<b>(114,761)</b>	(131,715)
<b>Closing balance – Total equity at 31 December</b>	<b>329,614</b>	311,567

# Consolidated Balance Sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	15	7,200	9,650
Property, plant and equipment	16	22,977	22,391
Interests in associates	18	98,118	238,549
Other financial asset	19	—	7,143
		<b>128,295</b>	<b>277,733</b>
<b>Current assets</b>			
Investments held for trading	20	118,818	13,626
Loans receivable	21	103,529	40,280
Other receivables		1,631	1,138
Cash and cash equivalents		8,878	11,420
		<b>232,856</b>	<b>66,464</b>
<b>Current liabilities</b>			
Other payables		8,242	14,231
Current portion of interest-bearing borrowings	22	7,507	4,629
		<b>15,749</b>	<b>18,860</b>
<b>Net current assets</b>			
		<b>217,107</b>	<b>47,604</b>
<b>Total assets less current liabilities</b>			
		<b>345,402</b>	<b>325,337</b>
<b>Non-current liabilities</b>			
Long-term interest-bearing borrowings	22	15,788	13,770
<b>NET ASSETS</b>			
		<b>329,614</b>	<b>311,567</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	23	350,649	303,209
Reserves	24	(21,035)	8,358
<b>TOTAL EQUITY</b>			
		<b>329,614</b>	<b>311,567</b>

Approved and authorised for issue by the Board of Directors on 18 April 2007

**Chuang Yueheng, Henry**  
Director

**King Phillip**  
Director

# Balance Sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current asset</b>			
Interests in subsidiaries	17	<b>234,227</b>	425,719
<b>Current assets</b>			
Loans receivable	21	<b>19,330</b>	40,280
Other receivables		<b>579</b>	708
Cash and cash equivalents		<b>8,425</b>	10,375
		<b>28,334</b>	51,363
<b>Current liabilities</b>			
Other payables		<b>1,495</b>	1,490
Due to subsidiaries	17	<b>16,775</b>	125,764
Interest-bearing borrowings	22	<b>5,000</b>	—
		<b>23,270</b>	127,254
<b>Net current assets (liabilities)</b>		<b>5,064</b>	(75,891)
<b>NET ASSETS</b>		<b>239,291</b>	349,828
<b>CAPITAL AND RESERVES</b>			
Issued capital	23	<b>350,649</b>	303,209
Reserves	24	<b>(111,358)</b>	46,619
<b>TOTAL EQUITY</b>		<b>239,291</b>	349,828

Approved and authorised for issue by the Board of Directors on 18 April 2007

**Chuang Yueheng, Henry**  
Director

**King Phillip**  
Director

# Consolidated Cash Flow Statement

Year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Loss before taxation		(114,761)	(131,715)
Depreciation expense		1,155	1,307
Reversal of impairment loss on interest in an associate		—	(75,036)
Impairment loss on the amount due from an associate		—	75,000
Increase in fair value of investment properties	15	(570)	(400)
Interest expenses on bank and other borrowings		2,380	3,595
Interest expenses on convertible notes		—	4,568
Interest income on convertible note issued by an associate		(4,680)	(7,124)
Dividend income from investments held for trading		(801)	—
Gain on disposal of property, plant and equipment		(291)	(119)
Loss on disposal of investment properties		490	237
Write back of provision for bad and doubtful debts		—	(5,050)
Profit on disposal of an unlisted investment		—	(20,528)
Profit on deemed disposal of interest in an associate		(8,429)	(1,406)
Loss on deemed acquisition of interest in an associate		—	13,331
Loss (profit) on disposal of interests in subsidiaries		143	(5,925)
Loss on disposal of convertible note issued by an associate		31,000	—
Equity-settled share-based payment		5,899	—
Share of loss of associates		79,010	99,351
Changes in working capital:			
Loans receivable		(63,249)	(57,844)
Other receivables		(493)	2,399
Investments held for trading		(105,192)	(10,724)
Other payables		(6,163)	1,517
Cash used in operations		(184,552)	(114,566)
Interest income received on convertible note issued by an associate		4,680	2,958
<b>Net cash used in operating activities</b>		<b>(179,872)</b>	<b>(111,608)</b>

# Consolidated Cash Flow Statement

Year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Dividend received from investments held for trading		801	—
Purchase of interest in an associate		(69,900)	(50,000)
Purchase of property, plant and equipment		(2,025)	(1,812)
Proceeds from disposal of property, plant and equipment		575	273
Proceeds from disposal of investment properties		2,530	2,443
Proceeds from disposal of subsidiaries	26	7,000	24,720
Proceeds from disposal of other securities		—	38,000
Proceeds from disposal of convertible note issued by an associate		100,000	—
Proceeds from disposal of interest in an associate		75,000	—
Redemption of convertible note issued by an associate		—	25,300
<b>Net cash from investing activities</b>		<b>113,981</b>	<b>38,924</b>
<b>FINANCING ACTIVITIES</b>			
Issue cost of shares for acquisition of interest in an associate		(100)	—
Issue of shares for cash		—	122,464
Issue of shares under share option scheme		60,759	25,810
Issue of shares on exercise of warrants		—	1,867
New bank loans raised		5,600	—
New other loans raised	22	45,000	77,000
Issue of convertible notes		—	98,000
Repayment of bank loans		(5,704)	(13,655)
Repayment of other loans	22	(40,000)	(173,080)
Redemption of convertible notes		—	(53,000)
Interest paid on bank and other borrowings		(2,206)	(11,087)
Interest paid on convertible notes		—	(878)
<b>Net cash from financing activities</b>		<b>63,349</b>	<b>73,441</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(2,542)</b>	<b>757</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>11,420</b>	<b>10,663</b>
<b>Cash and cash equivalents at end of year</b>		<b>8,878</b>	<b>11,420</b>



# Notes to the Financial Statements

Year ended 31 December 2006

## 1. GENERAL INFORMATION

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

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

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES

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

### Basis of preparation

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

### Basis of consolidation

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

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Subsidiaries**

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

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

### **Associates**

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

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

### **Goodwill**

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Investment properties

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

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

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

### Property, plant and equipment

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

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

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

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

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

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### Financial instruments

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

#### *Investments held for trading*

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

#### *Loans and receivables*

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

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

#### *Convertible notes*

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

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

### Payables and short-term borrowings

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Financial guarantee contracts**

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

### **Revenue recognition**

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

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

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

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

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

### **Leasing**

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

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

### 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### **Impairment**

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

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

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

#### **Employee benefits**

##### *Defined contribution plans*

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

##### *Long service payment*

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Taxation**

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

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

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

### **Foreign currencies**

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

### **Share-based payment**

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

### 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### **Related parties**

A party is related to the Group if

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

#### **Cash equivalents**

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

#### **Segment reporting**

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

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

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

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

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



# Notes to the Financial Statements

Year ended 31 December 2006

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### **Fair value estimation**

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

### **Impairment of investments and receivables**

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

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

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

### **Financial risk factors**

#### *Interest rate risk*

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

#### *Liquidity risk*

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

### Financial risk factors (Continued)

#### Price risk

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

#### Credit risk

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

## 6. TURNOVER

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Proceeds from sale of investments held for trading	<b>283,735</b>	112,293
Interest income	<b>10,950</b>	12,028
Dividend income	<b>801</b>	—
Rental income	<b>22</b>	156
	<hr/>	<hr/>
	<b>295,508</b>	124,477
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# Notes to the Financial Statements

Year ended 31 December 2006

## 7. OTHER INCOME

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

## 8. SEGMENT INFORMATION

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

### Business segments

Business segments of the Group comprise the following:

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 8. SEGMENT INFORMATION (Continued)

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

### Year ended 31 December 2006

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 8. SEGMENT INFORMATION (Continued)

Year ended 31 December 2005

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 8. SEGMENT INFORMATION (Continued)

### Assets and liabilities as at 31 December 2006

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

### Assets and liabilities as at 31 December 2005

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 8. SEGMENT INFORMATION (Continued)

### Other segment information for the year ended 31 December 2006

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

### Other segment information for the year ended 31 December 2005

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 9. LOSS BEFORE TAXATION

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

## 10. FINANCE COSTS

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



# Notes to the Financial Statements

Year ended 31 December 2006

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### Directors' emoluments (Continued)

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### Employees' emoluments

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

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

## 12. TAXATION

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

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

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 13. LOSS FOR THE YEAR

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

## 14. LOSS PER SHARE

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

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

## 15. INVESTMENT PROPERTIES

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

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

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 16. PROPERTY, PLANT AND EQUIPMENT

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 17. INTERESTS IN SUBSIDIARIES

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

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

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 17. INTERESTS IN SUBSIDIARIES (Continued)

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

All of the above subsidiaries operate principally in Hong Kong.

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 18. INTERESTS IN ASSOCIATES

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

Notes:

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

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

(i) During the year, the Group's interest in HMIL was reduced from 49.87% to 35.55% because of HMIL's issue of shares to third parties. As a result of the above change in shareholding in HMIL, profit on deemed disposal of HK\$8.4 million was recognised in the income statement.

(ii) On 12 January 2006, the Group entered into an agreement with a third party to acquire 25% interest in Amerinvest at a consideration of HK\$66.25 million which had been satisfied by the issue and allotment of 250,000,000 ordinary shares of HK\$0.1 each of the Company at a price of HK\$0.265 per share.

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

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



# Notes to the Financial Statements

Year ended 31 December 2006

## 18. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

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

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

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

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

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

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

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 18. INTERESTS IN ASSOCIATES (Continued)

Notes: (Continued)

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

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

## 19. OTHER FINANCIAL ASSET

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
Option fee paid	<u>—</u>	<u>7,143</u>

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 20. INVESTMENTS HELD FOR TRADING

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

Notes:

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

## 21. LOANS RECEIVABLE

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

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

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

Notes:

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 22. INTEREST-BEARING BORROWINGS

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

Maturities of the above borrowings are as follows:

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

Notes:

(a) Movements in other loans are as follows:

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 23. ISSUED CAPITAL

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

Notes:

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 24. RESERVES

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

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 24. RESERVES (Continued)

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

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

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

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

## 25. SHARE OPTION SCHEME

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

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

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



# Notes to the Financial Statements

Year ended 31 December 2006

## 25. SHARE OPTION SCHEME (Continued)

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

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

Notes:

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 25. SHARE OPTION SCHEME (Continued)

### (b) Fair value of share options and assumptions

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

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

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

## 26. DISPOSAL OF A SUBSIDIARY

	<b>2006</b>
	<b>HK\$'000</b>
Other financial asset	<b>7,143</b>
Loss on disposal	<b>(143)</b>
	<hr/>
Total consideration	<b>7,000</b>
	<hr/> <hr/>

## 27. MAJOR NON-CASH TRANSACTIONS

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

## 28. COMMITMENTS UNDER OPERATING LEASES

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>1,434</b>	846
In the second to fifth year inclusive	<b>476</b>	947
	<hr/>	<hr/>
	<b>1,910</b>	1,793
	<hr/> <hr/>	<hr/> <hr/>

# Notes to the Financial Statements

Year ended 31 December 2006

## 29. FINANCIAL GUARANTEE CONTRACT

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

## 30. PLEDGE OF ASSETS

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

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

## 31. DEFERRED TAXATION

### Unrecognised deferred tax assets

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 32. RELATED PARTY TRANSACTIONS

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

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

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

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

# Notes to the Financial Statements

Year ended 31 December 2006

## 32. RELATED PARTY TRANSACTIONS (Continued)

### (c) Compensation of key management personnel

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

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

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

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

## 33. POST BALANCE SHEET EVENTS

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

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

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

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

## 33. POST BALANCE SHEET EVENTS (Continued)

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

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

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

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

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

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

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

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

## 34. COMPARATIVE FIGURES

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

## Summary of Financial Information

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

### RESULTS

	<b>2006</b> <b>HK\$'000</b>	<b>Year ended 31 December</b>			
		2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	<b>295,508</b>	124,477	92,744	138,937	180,682
Loss before taxation	<b>(114,761)</b>	(131,715)	(336,868)	(116,844)	(177,450)
Taxation	—	—	—	5,800	(10,011)
Loss after taxation	<b>(114,761)</b>	(131,715)	(336,868)	(111,044)	(187,461)
Minority interests	—	—	—	77,305	(11,908)
Loss for the year	<b>(114,761)</b>	(131,715)	(336,868)	(33,739)	(199,369)

## Summary of Financial Information

### ASSETS AND LIABILITIES

	<b>2006</b>	2005	2004	2003	2002
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment properties	<b>7,200</b>	9,650	11,930	20,530	157,470
Property, plant and equipment	<b>22,977</b>	22,391	39,177	30,716	129,670
Intangible assets	—	—	—	—	(20,783)
Interests in associates	<b>98,118</b>	238,549	181,113	320,624	1,485
Other financial asset	—	7,143	—	—	—
Investments in securities	—	—	—	—	58,739
Other long term assets	—	—	—	—	2,053
Loans and other loan receivable	—	—	—	—	1,369
Current assets	<b>232,856</b>	66,464	53,715	133,304	698,608
Current liabilities	<b>(15,749)</b>	(18,860)	(171,033)	(171,220)	(482,605)
	<b>345,402</b>	325,337	114,902	333,954	546,006
Equity holders' funds	<b>329,614</b>	311,567	91,451	303,782	345,510
Minority interests	—	—	—	—	24,266
Deferred taxation	—	—	—	—	10,000
Obligations under finance leases	—	—	—	—	47
Long term interest-bearing borrowings	<b>15,788</b>	13,770	23,451	30,172	102,343
Convertible notes	—	—	—	—	63,840
	<b>345,402</b>	325,337	114,902	333,954	546,006



## Particulars of Properties Held by the Group

### (A) INVESTMENT PROPERTIES

Description	Use	Lease term
Flat C8, 26th Floor, Block C, Elizabeth House, Nos. 250-254 Gloucester Road, Hong Kong	Residential	Long term
Flat C on 13th Floor of Block 12, No. 17 Laguna Street, Laguna City, Kowloon (Note)	Residential	Medium term

*Note : property disposed of subsequent to balance sheet date*

### (B) LEASEHOLD LAND AND BUILDINGS

Description	Use	Lease term
Duplex Flat A, 21st and 22nd Floor together with a portion of roof thereabove and Car Parking Space No. 33, Royalton, 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong	Residential	Medium term