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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors:

Mr. Mung Kin Keung (*Chairman*)

Mr. Ha Wing Ho, Peter

Mr. Leong Chi Wai

Mr. Leung King Yue, Alex

### Independent Non-executive Directors:

Mr. Chee Man Sang, Eric

Mr. Lo Tak Kin

Ms. Yu Tin Yan, Winnie

## COMPANY SECRETARY

Mr. Chan Wai Man

## INVESTMENT MANAGER

Hua Yu Investment Management Limited

## PRINCIPAL BANKER

Hang Seng Bank Limited

## AUDITORS

Grant Thornton

Certified Public Accountants

## LEGAL ADVISERS

Hong Kong Law

Mason Ching & Associates

Cayman Islands Law

Maples and Calder Asia

## PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Cayman) Limited

Butterfield House, 68 Fort Street

PO Box 705, George Town

Grand Cayman, Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

Secretaries Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

## REGISTERED OFFICE

Ugland House

PO Box 309

George Town, Grand Cayman

Cayman Islands

## PRINCIPAL PLACE OF BUSINESS

19/F Beverly House

93-107 Lockhart Road

Wanchai

Hong Kong

# CHAIRMAN STATEMENT

The Company is an investment company listed under Chapter 21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and is principally engaged in investment in listed and unlisted companies in Hong Kong and in the People's Republic of China (the "PRC"). There was no change in the nature of the Company's principal activity during the year.

The Board considered that it is appropriate for the Company to retain financial resources at present to enable it to seize new and attractive investment opportunities as and when they arise. Therefore, the Board has resolved not to recommend the payment of any dividends.

## FINANCIAL REVIEW

During the year, the Group recorded a loss of HK\$10,350,000 (2005: HK\$5,248,000) after deducting administrative expenses of HK\$4,028,000 (2005: HK\$3,538,000) and finance expenses of HK\$144,000 (2005: HK\$25,000). The increase in finance cost is mainly due to the acquisition of an investment property at the end of 2005.

The increase in loss is also due to a further provision of HK\$6,874,000 (2005: HK\$2,043,000) for impairment made in respect of the unlisted equity investment in the PRC. Please refer to the "Business Review and Outlook" paragraph for more details.

## LIQUIDITY AND CAPITAL RESOURCES

To strengthen its liquidity and capital base, the Company convened an Extraordinary General Meeting on 23rd June 2006 to consider and approve an open offer (the "Open Offer"), change of company name and other matters.

The Company raised net proceeds of approximately HK\$4,800,000 by way of Open Offer of issuing 80,000,000 shares at a price of HK\$0.07 per share on the basis of one share for every two shares held on 23rd June 2006. The net proceeds of approximately HK\$4,800,000 have been used as to (i) approximately HK\$2,300,000 for future investment purposes in accordance with the Company's investment policy of investing in listed and unlisted companies in Hong Kong and the PRC to achieve medium term capital appreciation and (ii) approximately HK\$2,500,000 for the Company's working capital.

## PLEDGE OF ASSETS

As at 31st December 2006, the Group has no property (2005: HK\$3,860,000) pledged to bank to secure mortgage loan granted to the Group.

## CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no material capital commitment and contingent liabilities.

## FOREIGN CURRENCY FLUCTUATION

Most of the underlying investments and business transactions of the Group are denominated in Hong Kong dollars. The Board believes the foreign exchange risk is minimal.

# CHAIRMAN STATEMENT

## BUSINESS REVIEW AND OUTLOOK

During the year, the Group entered into a sale and purchase agreement with an independent third party to dispose of its entire equity interest in Summit Asset Holdings Limited ("Summit Asset") and the entire loan to Summit Asset of approximately HK\$1,688,000 to the buyer at the considerations of approximately HK\$10 and HK\$1,688,000 respectively. The disposal of this subsidiary resulted in a gain of HK\$463,000.

Double Dragon Profits Limited and Good Place Investments Limited were de-registered on 22nd December 2006 and 10th March 2006 respectively.

The Company acquired all the issued capital of a company in 2000 whose sole asset is a 21% equity interest in a sino-foreign joint venture in the PRC ("Tianjin Standard"), which is principally engaged in the manufacturing and trading of building materials and the provision of related consultancy services. The Group has not been in a position to exercise any significant influence over the financial and operating policies of Tianjin Standard and the directors were unable to contact the management of Tianjin Standard to obtain any financial information relating to Tianjin Standard in 2006. For the sake of prudence, full impairment provision of HK\$6,874,000 has been made during the year.

The Board is optimistic with the improving global and domestic economic conditions and will continue to pursue other investment opportunities which can generate stable revenue and bring business prospect under the Group's investment philosophy and at an acceptable risk level.

## APPRECIATION

Finally, I would like to thank all my fellow directors and the Company's investment manager during the year 2006 and the transitional period. I look forward to their continued support in the years ahead.

On behalf of the Board

**Mung Kin Keung**

*Chairman*

Hong Kong, 26 April 2007

# BIOGRAPHICAL DETAILS OF DIRECTORS OF THE COMPANY AND THE INVESTMENT MANAGER

## EXECUTIVE DIRECTORS

**Mr. Mung Kin Keung** (“Mr. Mung”), aged 46, has been appointed as an executive director of the Company with effect from 9 March 2007. Mr. Mung holds a Master Degree in Business Administration from the Asia International Open University in Macau and has over 10 years’ experience in areas of business management, strategic planning and development. Since 1995, he has invested 30% in Banana Leaf (Asia Pacific) Catering Group Company Limited, a private company operating catering business, which has more than 30 restaurants in 12 major cities in China, Philippines and Indonesia. He is also the controlling shareholder and director of Hong Kong Airlines Limited (previously known as CR Airways Limited prior to 22 September 2006). The airline is designated to operate scheduled flights to cities in China, including Tianjin, Changsha, Guilin, Nanning, Kunming, Haikou and Sanya.

**Mr. Ha Wing Ho, Peter** (“Mr. Ha”), aged 44, has been appointed as an executive director of the Company with effect from 9 March 2007. Mr. Ha obtained LLB from the University of Wales in 1984 and PCLL from The University of Hong Kong in 1985. He is a partner of Messrs. Kok and Ha, Solicitors which was founded in 1989. He is also a director of Hong Kong Express Airways Limited.

**Mr. Leong Chi Wai** (“Mr. Leong”), aged 31, has been appointed as an executive director of the Company with effect from 9 March 2007. Mr. Leong holds a Bachelor Degree in Business Administration from the University of Hong Kong and has 10 years’ experience in managing listed and unlisted direct investments, property investments and corporate finance activities. He was a senior manager of Yu Ming Investment Management Company Limited, a licensed corporation permitted to engage in types 1, 4, 6, 9 regulated activities under the SFO. Mr. Leong is licensed under the SFO to carry out securities advisory, corporate finance advisory and asset management activities. Mr. Leong has agreed to invest in Hua Yu Investment Management Limited (“Hua Yu”) and will become a substantial shareholder of Hua Yu, the investment manager of the Company pursuant to an investment management agreement entered into between the Company and Hua Yu on 12th May 2005. The process is still in progress.

**Mr. Leung King Yue, Alex** (“Mr. Leung”), aged 29, has been appointed as an executive director of the Company with effect from 9 March 2007. Mr. Leung holds a Bachelor Degree in Commerce specializing in Economics and Finance from the University of Melbourne in Australia and is a Chartered Financial Analyst of the United States of America. Mr. Leung started his career in investment banking with Yu Ming Investment Management Limited in 2000 focusing on private equity projects, corporate finance advisory, merger and acquisition transactions and listed equities. Mr. Leung then joined MYM Capital Limited, a then sister company of Yu Ming Investment Management Limited, in 2003 as a portfolio manager specializing in investments in global high yield fixed income securities and listed Chinese equities. He is licensed by the SFO to carry out securities advisory, corporate finance advisory and asset management activities. He is currently a Responsible Officer of both MYM Capital Limited and Asian Asset Management Limited.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chee Man Sang, Eric** (“Mr. Chee”), aged 45, has been appointed as an independent non-executive director of the Company with effect from 9 March 2007. Mr. Chee is a practising Certified Public Accountant in Hong Kong and a senior partner of Chan Chee Cheng & Co., a firm of certified public accountants. Mr. Chee holds a Bachelor Degree in Commerce (majoring in Accounting) from Birmingham University. He had worked in two international accounting firms in Canada and Hong Kong. Mr. Chee is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants of Ontario, Canada. Mr. Chee was appointed as an independent non-executive director of Hop Fung Group Holdings Limited, a listed company in Hong Kong, on 4th September, 2003.

# BIOGRAPHICAL DETAILS OF DIRECTORS OF THE COMPANY AND THE INVESTMENT MANAGER

**Mr. Lo Tak Kin** (“Mr. Lo”), aged 40, has been appointed as an independent non-executive director of the Company with effect from 9 March 2007. Mr. Lo is a practising Certified Public Accountant in Hong Kong and an associate member of the Hong Kong Institute of Certified Public Accountants and also a fellow member of the Association of Chartered Certified Accountants. Mr. Lo is currently a director of M Square CPA Limited, Certified Public Accountants and has extensive experience in auditing, tax planning and finance.

**Ms. Yu Tin Yan, Winnie** (“Ms. Yu”), aged 32, has been appointed as an independent non-executive director of the Company with effect from 9 March 2007. Ms. Yu was admitted as a Solicitor of the High Court of Hong Kong in 1999. Ms. Yu is currently an Associate of Messrs. Tony Kan & Co. Ms. Yu is also currently a Full Member and Director of the Association of Hong Kong Professionals Limited with which she serves as a Deputy General Secretary and Standing Committee Member.

## COMPANY SECRETARY

**Mr. Chan Wai Man** (“Mr. Chan”) has been appointed as the qualified accountant and company secretary of the Company with effect from 13th March 2007. Mr Chan is a member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

## INVESTMENT MANAGER

Hua Yu has been appointed as the investment manager of the Company commencing from 20 May 2005.

Hua Yu was incorporated in Hong Kong in 1998 and is Licensed Corporation under the SFO permitted to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities. Hua Yu is principally engaged in the business of investment management and provision of corporate advisory services.

Hua Yu is a subsidiary of Yu Ming Investment Management Limited (“Yu Ming”), and is owned as to approximately 91% by Yu Ming and as to approximately 9% by RHF Hong Kong Investment Company Limited. Yu Ming is a Licensed Corporation under the SFO permitted to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) of the regulated activities.

# DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2006.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. The Group principally invests in listed and unlisted companies in Hong Kong and in other parts of the PRC.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 19 to 53.

The directors do not recommend the payment of a dividend.

## CHANGE OF COMPANY NAME

Pursuant to a resolution passed in the Extraordinary General Meeting held on 23rd June 2006, the Company changed its name from Haywood Investments Limited to Apex Capital Limited. As requested by the Hong Kong Companies Registry, the Company adopted a trade name of Apex Ding Yang Capital Limited in Hong Kong to avoid duplication of the same name already registered by an existing company incorporated in Hong Kong.

## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 21 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in notes 23 and 24 to the financial statements respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company are set out in note 14 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on page 54.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

# DIRECTORS' REPORT

## DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

### **Executive Directors:**

Mr. Mung Kin Keung (Chairman) (appointed on 9 March 2007)

Mr. Ha Wing Ho, Peter (appointed on 9 March 2007)

Mr. Leong Chi Wai (appointed on 9 March 2007)

Mr. Leung King Yue, Alex (appointed on 9 March 2007)

Mr. Zhou Chao (resigned on 9 March 2007)

Ms. Huang Song (resigned on 9 March 2007)

Mr. Phang Yul Cher Yeow (resigned on 9 March 2007)

Mr. Chu Kin Wang, Peleus (resigned on 9 March 2007)

### **Non-Executive Directors:**

Mr. Fong Chi Hou (resigned on 9 March 2007)

Mr. Wang Yao Dong (resigned on 9 March 2007)

### **Independent Non-Executive Directors:**

Mr. Chee Man Sang, Eric (appointed on 9 March 2007)

Mr. Lo Tak Kin (appointed on 9 March 2007)

Ms. Yu Tin Yan, Winnie (appointed on 9 March 2007)

Ms. Lam Lin Chu (resigned on 9 March 2007)

Mr. Liu Wing Ting, Stephen (resigned on 9 March 2007)

Ms. Tse Po Chu (resigned on 9 March 2007)

In accordance with Article 157 of the Articles of Association, one third of the directors shall retire from office by rotation at the AGM. Mr. Leung King Yue, Alex, Mr. Lo Tak Kin and Ms. Yu Tin Yan, Winnie who were appointed by the Directors after the 2006 AGM of the Company will in accordance with Article 157 of the Articles of Association, retire by rotation at the AGM and being eligible, offer themselves for re-election at the AGM.

The term of office of each of the independent non-executive directors is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND INVESTMENT MANAGER

Brief biographical details of directors and investment manager are set out on pages 5 to 6.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not terminable within one year without payment of compensation, other than statutory compensation.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN CONTRACT

No contract of significance to which the Company and any of its 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.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2006 and up to the date of this report, the directors of the Company do not have interests in companies of which their businesses compete or are likely to compete, either directly or indirectly, with the businesses of the Company as required to be disclosed pursuant to Rule 8.10 of the Listing Rules.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of Part XV of the SFO were as follows:

Ordinary shares of HK\$0.025 each in the Company as at 31 December 2006:

	<b>Corporate interests</b>	<b>% of issued share capital of the Company</b>
Mr. Mung Kin Keung ( <i>Note 1</i> )	132,933,200	55.39%

Note:

- (1) 132,933,200 shares are held by 中國天地行物流控股集團有限公司 (for identification purpose China Tian Di Xing Logistics Holdings Limited), a Company in which Mr. Mung Kin Keung holds 99.99% equity interests.

## SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") on 23 May 2002. The purpose of the Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Participants include (a) any full-time employee, directors (including any non-executive director or independent non-executive director) and part time employee of the Company or of any of its subsidiaries; (b) any adviser or consultant (in the areas of financial or corporate managerial) to the Company or to any of its subsidiaries; and (c) any adviser, consultant, agent, business affiliates or any person or entity who provides research or other support directly or indirectly to the Group, and any employee, adviser or consultant to the investment management company for the Company.

# DIRECTORS' REPORT

The directors may, at their absolute discretion, make an offer to any participant to take up options. An offer is deemed to have been accepted by the grantee upon the duplicate of the offer letter comprising acceptance of the offer duly signed by the grantee and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Scheme shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date on which an option is granted, and (iii) the nominal value of a share of the Company on the date on which an option is granted.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 12,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be notified by the directors but may not be exercised after the expiry of 10 years after the date of grant of the option.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted or to be granted to each participant under the Scheme in any 12-month period must not exceed 1% of the total number of shares in issue of the Company. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 23 May 2002.

No options have been granted since the adoption of the Scheme.

## CONNECTED TRANSACTIONS

The following connected transactions occurred during the year.

### 1. Investment Management Agreements

The Company has appointed Hua Yu as its investment manager. As Hua Yu has extensive investment experience in the PRC and Hong Kong, the Company believes it will be beneficial to appoint Hua Yu as the investment manager in order to fully capture the investment opportunities in the PRC and Hong Kong.

Investment management fees to Hua Yu are calculated at 0.375% of the net asset value per quarter, subject to a minimum of HK\$150,000 per three months.

Hua Yu is regarded as a connected person of the Company for the purpose of the Listing Rules. Accordingly, the investment management agreement constitutes a continuing connected transaction of the Company.

The aggregate investment management fee paid/payable to Hua Yu for the year amounted to approximately HK\$600,000.

## 2. Custodian Agreement

The Company has appointed Bank of Communications Trustee Limited (the "Custodian") as its custodian. The custodian agreement has no fixed term and shall continue in force until terminated by either party giving to the other not less than 30 days' notice in writing. During the year, the Company has paid HK\$18,200 to the Custodian.

The Custodian is regarded as a connected person of the Company for the purpose of the Listing Rules. Accordingly, the custodian constitutes a continuing connected transaction of the Company.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal controls and risk evaluation. As at 31 December 2006, the committee members comprised Mr. Liu Wing Ting, Stephen (chairman of Audit Committee), Ms. Lam Lin Chu and Ms. Tse Po Chu. Two meetings were held by the committee during the year. On 9 March 2007, Mr. Liu Wing Ting, Stephen, Ms. Lam Lin Chu and Ms. Tse Po Chu resigned as Independent Non-Executive Directors. The Company appointed Mr. Chee Man Sang, Eric, Mr. Lo Tak Kin and Ms. Yu Tin Yan, Winnie as Independent Non-Executive Directors on the same date who became the committee members of the Audit Committee. The audited financial statements for the year ended 31 December 2006 have been reviewed by the Audit Committee.

## AUDITORS

The Company's auditors, Grant Thornton retire and, being eligible, offer themselves for reappointment.

There have been no changes of auditors in the past three years.

On behalf of the Board

**Mung Kin Keung**

*Chairman*

Hong Kong, 26 April 2007

# CORPORATE GOVERNANCE REPORT

The Group is dedicated to maintain a credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders.

On 1 January 2005, the Code of Best Practices was replaced by the Code on Corporate Governance Practices (“the Code”) contained in Appendix 14 of the Listing Rules. The Company adopted all the code provisions in the Code as its own code on corporate governance practices.

The Company has complied with code provisions as set out in the Code with the exception of code provision A.2.1 that an individual chief executive officer is not appointed during the year ended 31 December 2006. The Board considers that based on the existing size and structure of the Company, the appointment of an individual chief executive officer of the Company is not necessary. Furthermore, the Company has engaged Hua Yu as its investment manager.

## THE BOARD Composition

The Board consists of four executive directors and three independent non-executive directors (“INED(s)”). Two of the INEDs have the appropriate professional accounting experience and expertise. One INED has the appropriate professional legal experience and expertise. The names and biographical details of each director are disclosed on pages 5 to 6 of this Annual Report.

Each INED has, pursuant to the guidelines set out in rule 3.13 of the Listing Rules, confirmed he/she is independent of the Company and the Company also considers that they are independent. The term of office of each INED is not more than three years from date of appointment subject to the requirement that one-third of all the directors shall retire from office by rotation at each AGM pursuant to the Bye-Laws of the Company.

## Function

The Board is responsible both for how the Company is managed and the Company’s direction. Approval of the Board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of directors, remuneration policy and other major operational and financial matters.

# CORPORATE GOVERNANCE REPORT

The Board held twelve regular monthly Board meetings during the year 2006. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. Details of individual attendance of directors are set out in the table below:

## Attendance of individual directors at Board meetings in 2006

**Number of meetings** **20**

### Executive Directors:

Mr. Mung Kin Keung (Chairman) (appointed on 9 March 2007)	0/20
Mr. Ha Wing Ho, Peter (appointed on 9 March 2007)	0/20
Mr. Leong Chi Wai (appointed on 9 March 2007)	0/20
Mr. Leung King Yue, Alex (appointed on 9 March 2007)	0/20
Mr. Zhou Chao (resigned on 9 March 2007)	6/20
Ms. Huang Song (resigned on 9 March 2007)	20/20
Mr. Phang Yul Cher Yeow (resigned on 9 March 2007)	20/20
Mr. Chu Kin Wang, Peleus (resigned on 9 March 2007)	20/20

### Non-Executive Directors:

Mr. Fong Chi Hou (resigned on 9 March 2007)	3/20
Mr. Wang Yao Dong (resigned on 9 March 2007)	3/20

### Independent Non-Executive Directors:

Mr. Chee Man Sang, Eric (appointed on 9 March 2007)	0/20
Mr. Lo Tak Kin (appointed on 9 March 2007)	0/20
Ms. Yu Tin Yan, Winnie (appointed on 9 March 2007)	0/20
Ms. Lam Lin Chu (resigned on 9 March 2007)	7/20
Mr. Liu Wing Ting, Stephen (resigned on 9 March 2007)	6/20
Ms. Tse Po Chu (resigned on 9 March 2007)	6/20

The Board has established procedures to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense.

## BOARD COMMITTEES

To strengthen the functions of the Board and to enhance its expertise, there are three Board committees namely, the Audit Committee, Remuneration Committee and Nomination Committee formed under the Board, with each performing different functions.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

The Audit Committee comprises three INEDs.

The role and function of the Audit Committee include:

- to serve as a focal point for communication between other directors and the auditors in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the Board may determine from time to time.
- to review the appointment of auditors on an annual basis including the review of the audit scope and approval of the audit fees.
- to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.
- to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the audits.

Set out below is the summary of work done in year 2006:

- to review the financial statements for the year ended 31 December 2005 and for the six months ended 30 June 2006; and
- to review the effectiveness of the internal controls system.

The Audit Committee held two meetings during the year. Details of individual attendance of its members are set out in the table below:

### Attendance of individual members at Audit Committee meetings in 2006

<b>Number of meetings</b>	<b>2</b>
<b>INEDs</b>	
Liu Wing Ting, Stephen (Chairman of Audit Committee)	2/2
Lam Lin Chu	2/2
Tse Po Chu	2/2

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

The Board has established a Remuneration Committee, comprising three INEDs and the Chairman of the Company, which meets at least once a year. The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the directors.

Set out below is the summary of work of the Remuneration Committee done in year 2006:

- to review the remuneration policy for 2006/2007; and
- to review the remuneration of the executive directors and the INEDs.

The Remuneration Committee held one meeting during 2006. Details of individual attendance of its members are set out in the table below:

### Attendance of individual members at Remuneration Committee meetings in 2006

<b>Number of meetings</b>	<b>1</b>
Liu Wing Ting, Stephen (Chairman of Remuneration Committee)	1/1
Lam Lin Chu	1/1
Tse Po Chu	1/1
Zhou Chao	1/1

## NOMINATION COMMITTEE

The Board has established a Nomination Committee, comprising three INEDs and the Chairman of the Company, which meets at least once a year. The role and function of the Nomination Committee include reviewing the structure, size and composition of the Board, to assess the independence of INEDs and recommend to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors.

Set out below is the summary of work of Nomination Committee done in year 2006:

- to review the nomination policy for 2006/2007; and
- to review the suitability and qualifications of the executive directors, non-executive directors and the INEDs.

# CORPORATE GOVERNANCE REPORT

The Nomination Committee held one meeting during 2006. Details of individual attendance of its members are set out in the table below:

## Attendance of individual members at Nomination Committee meetings on 2006

Number of meeting	1
Lam Lin Chu (Chairman of Nomination Committee)	1/1
Liu Wing Ting, Stephen	1/1
Tse Po Chu	1/1
Zhou Chao	1/1

## OTHER INFORMATION

Please refer to Directors' report in pages 7 to 11 for changes of directors during 2006. There was no removal of director during the year.

The Company had not established its own website. Full text of the terms of reference of Audit Committee, Remuneration Committee and Nomination Committee will be supplied upon request.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code). All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2006.

## AUDITORS' REMUNERATION

During the year, the fees paid to the Company's auditors amounted to HK\$200,000 in respect of audit services.

## SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include AGM, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the Chairman at the general meeting.

## DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibilities in preparing the Financial Statements. The statement of the auditors about their reporting responsibilities on the Financial Statements is set out in the Auditors' Report on pages 17 to 18.

# INDEPENDENT AUDITORS' REPORT

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

## To the members of Apex Capital Limited

*(incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Apex Capital Limited (the "Company") set out on pages 19 to 53, which comprise the consolidated and company balance sheets 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 of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial

# INDEPENDENT AUDITORS' REPORT

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.

## Basis of qualified opinion

As at 31 December 2005, the Group's balance sheet included an available-for-sale financial asset in an unlisted equity security ("Tianjin Standard") amounting to HK\$6,874,000. As further detailed in note 17(i), the directors have made full impairment provision of HK\$6,874,000 against this asset in the current year for the sake of prudence as they were unable to obtain any financial information relating to this entity in 2006. We have not been able to obtain the information we need from the Company, nor were there any satisfactory alternative procedures we could perform, in order to assess whether the amount of impairment provision and the carrying value of this asset at 31 December 2006 were fairly stated. Any adjustments to the carrying amount of this asset found to be necessary as at 31 December 2006 would have a consequential effect on the net assets of the Group at that date and the loss for the Group for the year then ended.

## Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the carrying amount of the available-for-sale financial asset, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the carrying value of an available-for-sale financial asset, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

### **Grant Thornton**

*Certified Public Accountants*  
13th Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

26 April 2007

# CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Revenue</b>	6	<b>38</b>	177
Other income		<b>195</b>	295
Administrative expenses		<b>(4,028)</b>	(3,538)
Other operating expenses		—	(114)
Impairment loss recognised in respect of available-for-sale financial assets	7	<b>(6,874)</b>	(2,043)
Finance costs	8	<b>(144)</b>	(25)
Gain on disposal of subsidiaries	28	<b>463</b>	—
<b>Loss before income tax</b>	9	<b>(10,350)</b>	(5,248)
Income tax expense	11	—	—
<b>Loss for the year attributable to equity holders of the Company</b>	12	<b>(10,350)</b>	(5,248)
<b>Loss per share</b>	13		
<b>Basic</b>		<b>(HK\$0.05)</b>	(HK\$0.04)
<b>Diluted</b>		<b>N/A</b>	N/A

# CONSOLIDATED BALANCE SHEET

as at 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14(a)	64	219
Investment property	15	—	3,860
Available-for-sale financial assets	17	—	6,874
		<b>64</b>	10,953
<b>Current assets</b>			
Prepayments, deposits paid and other receivables		306	209
Cash at banks		6,305	52
Financial assets at fair value through profit or loss	18	—	3,096
		<b>6,611</b>	3,357
<b>Current liabilities</b>			
Other payables		1,186	640
Bank borrowings, secured	19	—	121
Amounts due to directors	20	281	500
		<b>1,467</b>	1,261
<b>Net current assets</b>		<b>5,144</b>	2,096
<b>Total assets less current liabilities</b>		<b>5,208</b>	13,049
<b>Non-current liabilities</b>			
Bank borrowings, secured	19	—	2,565
<b>Net assets</b>		<b>5,208</b>	10,484
<b>EQUITY</b>			
<b>Share capital</b>	21	<b>6,000</b>	4,000
<b>Reserves</b>	23	<b>(792)</b>	6,484
<b>Total equity</b>		<b>5,208</b>	10,484
<b>Net asset value per share</b>	25	<b>HK\$0.02</b>	HK\$0.07
<b>Mung Kin Keung</b> Director		<b>Ha Wing Ho, Peter</b> Director	

# BALANCE SHEET

as at 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14(b)	64	219
Interests in subsidiaries	16	6,102	11,698
		<b>6,166</b>	11,917
<b>Current assets</b>			
Prepayments, deposits paid and other receivables		306	201
Cash at banks		101	34
Financial assets at fair value through profit or loss	18	—	496
		<b>407</b>	731
<b>Current liabilities</b>			
Other payables		1,174	560
Amounts due to directors	20	281	500
		<b>1,455</b>	1,060
<b>Net current liabilities</b>		<b>(1,048)</b>	(329)
<b>Net assets</b>		<b>5,118</b>	11,588
<b>EQUITY</b>			
<b>Share capital</b>	21	<b>6,000</b>	4,000
<b>Reserves</b>	24	<b>(882)</b>	7,588
<b>Total equity</b>		<b>5,118</b>	11,588

**Mung Kin Keung**  
Director

**Ha Wing Ho, Peter**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2006

	Share capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total equity HK\$'000
At 1 January 2005	2,000	106,426	47	(97,383)	11,090
Transfer to income statement on disposal of available-for-sale financial assets (net expense recognised directly in equity)	—	—	(47)	—	(47)
Loss for the year	—	—	—	(5,248)	(5,248)
Total recognised income and expenses for the year	—	—	(47)	(5,248)	(5,295)
Shares issue at premium (note 21(b))	2,000	3,200	—	—	5,200
Share issue expenses	—	(511)	—	—	(511)
At 31 December 2005 and 1 January 2006	4,000	109,115	—	(102,631)	10,484
Loss for the year (total recognised income and expense for the year)	—	—	—	(10,350)	(10,350)
Shares issued at premium (note 21(c))	2,000	3,600	—	—	5,600
Share issue expenses	—	(526)	—	—	(526)
<b>At 31 December 2006</b>	<b>6,000</b>	<b>112,189</b>	<b>—</b>	<b>(112,981)</b>	<b>5,208</b>

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
<b>Cash flow from operating activities</b>			
Loss before income tax		(10,350)	(5,248)
Adjustments for:			
Depreciation		155	234
Finance costs		144	25
Loss on disposal of property, plant and equipment		—	62
Gain on disposal of subsidiaries		(463)	—
Impairment loss recognised in respect of available -for-sale financial assets		6,874	2,043
Operating loss before working capital changes		(3,640)	(2,884)
Decrease/(Increase) in financial assets at fair value through profit or loss		3,096	(3,096)
Decrease in prepayments, deposits paid and other receivables		14	1,977
Increase/(Decrease) in other payables		615	(2,093)
(Decrease)/Increase in amounts due to directors		(219)	295
<i>Cash used in operations</i>		(134)	(5,801)
Interest paid		(144)	(25)
<i>Net cash used in operating activities</i>		(278)	(5,826)
<b>Cash flow from investing activities</b>			
Acquisition of a subsidiary		—	3
Proceeds from sale of available-for-sale financial assets		—	500
Proceeds from disposal of subsidiaries, net of cash disposed	28(b)	(24)	—
Proceeds on assignment of a loan to a subsidiary	28(a)	1,570	—
Purchases of property, plant and equipment		—	(1,258)
Proceeds from disposal of property, plant and equipment		—	970
<i>Net cash generated from investing activities</i>		1,546	215
<b>Cash flow from financing activities</b>			
Net proceeds from issue of shares		5,074	4,689
Capital element of finance lease payments		—	(66)
Repayment of borrowings		(89)	—
Decrease in pledged deposit		—	1,000
<i>Net cash generated from financing activities</i>		4,985	5,623
<b>Net increase in cash and cash equivalents</b>		<b>6,253</b>	<b>12</b>
<b>Cash and cash equivalents at 1 January</b>		<b>52</b>	<b>40</b>
<b>Cash and cash equivalents at 31 December</b>		<b>6,305</b>	<b>52</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 1. GENERAL INFORMATION

Apex Capital Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the Company's registered office is Uglan House, PO Box 309, George Town, Grand Cayman, Cayman Islands. The principal place of business was Unit 2206, 22nd Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Hong Kong. On 9 March 2007, the principal place of business has been changed to 19th Floor, Beverly House, 93-107 Lockhart Road, Wanchai, Hong Kong.

At an extraordinary general meeting of shareholders of the Company held on 23 June 2006, a resolution was passed to change the name of the Company from Haywood Investments Limited to Apex Capital Limited.

The directors considered 中國天地行物流控股集團有限公司 to be the ultimate holding company.

The principal activity of the Company is to act as an investment holding company. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements. The Company and its subsidiaries (together referred to as the "Group") principally invest in listed and unlisted companies in Hong Kong and in other parts of the People's Republic of China, excluding Hong Kong (the "PRC").

The financial statements set out on pages 19 to 53 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The financial statements for the year ended 31 December 2006 were approved by the board of directors for issue on 26 April 2007.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 2. ADOPTION OF NEW OR AMENDED HKFRSs

- 2.1 From 1 January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant change in the Group's and the Company's accounting policies.
- 2.2 New or amended HKFRSs that have been issued but are not yet effective

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006

<sup>6</sup> Effective for annual periods beginning on or after 1 March 2007

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>8</sup> Effective for annual periods beginning on or after 1 January 2008

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

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

The financial statements have been prepared on the historical cost convention except for the revaluation of investment property and certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (b) Basis of consolidation

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

### (c) Subsidiaries

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

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

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

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

### (d) Property, plant and equipment

#### (i) Depreciation

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

Leasehold improvements	50%
Furniture, fixtures and equipment	20%
Motor vehicles	50%

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (d) Property, plant and equipment (Continued)

#### (ii) *Measurement bases*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred. When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

### (e) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by directors or external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Any gain or loss arising from either a change in the fair value or the sale of an investment property is immediately recognised in income statement.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (f) Leases

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

#### *Operating lease charges as the lessee*

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

### (g) Financial assets

The Group classifies its financial assets, other than investments in subsidiaries, into the following categories: loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the financial assets were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (g) Financial assets (Continued)

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

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near future. Financial assets may be classified at initial recognition as fair value through profit or loss if the following criteria met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or
- the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

#### (ii) *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (g) Financial assets (Continued)

#### (iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

#### *Impairment of financial assets*

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

#### (i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (g) Financial assets (Continued)

#### *Impairment of financial assets (Continued)*

#### (ii) Available-for-sale financial asset

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity.

An impairment loss for available-for-sale equity investments stated at cost less impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not reverse in subsequent periods.

#### (iii) Loans and receivables

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows.

### (h) Impairment of assets

Property, plant and equipment and investments in subsidiaries are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recovered.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (i) Accounting for income tax

Income tax comprises current tax and deferred tax.

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

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

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

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

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

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

### (j) Cash and cash equivalents

Cash and cash equivalents include cash at bank.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (k) Share capital

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

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

### (l) Retirement benefits costs and short term employee benefits

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

The contributions recognised in respect to defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

Short-term employee benefits are recognised for the number of paid leave days (usually holiday entitlement) remaining at the balance sheet date. They are included in other payables at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

### (m) Financial liabilities

The Group's financial liabilities include bank borrowings, other payables and amounts due to directors. They are included in balance sheet line items "Borrowings" as current or non-current liabilities, "Other payables" and "Amounts due to directors" as current liabilities.

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (m) Financial liabilities (Continued)

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

Other payables and amounts due to directors are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

### (n) Recognition of revenue

Interest income is accrued on a time basis by reference to the principal outstanding and the interest rates applicable.

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

### (o) Foreign currency translation

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

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

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

### (p) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, receivables, investment property, financial assets at fair value through profit and loss and available-for-sale investments, and mainly exclude cash at banks. Segment liabilities comprise operating liabilities and exclude items such as amount due to directors.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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

### (p) Segment reporting (Continued)

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### 4.1 Critical judgement in applying the entity's accounting policies

#### *Impairment of available-for-sale financial assets*

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 5. SEGMENT INFORMATION

The Group makes investments in Hong Kong and in other parts of the PRC. These geographical markets are the basis on which the Group reports its primary segment information.

Segment information about these geographical markets is presented below:

	Hong Kong		PRC		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
<b>Revenue — turnover</b>	<b>38</b>	177	—	—	<b>38</b>	177
<b>Segment results</b>	<b>(165)</b>	(352)	<b>(6,874)</b>	(2,043)	<b>(7,039)</b>	(2,395)
Unallocated corporate expenses					<b>(3,630)</b>	(2,828)
Finance costs					<b>(144)</b>	(25)
Gain on disposal of subsidiaries	<b>463</b>	—	—	—	<b>463</b>	—
<b>Loss before income tax</b>					<b>(10,350)</b>	(5,248)
Income tax expense					—	—
<b>Loss for the year</b>					<b>(10,350)</b>	(5,248)
<b>Assets</b>						
Segment assets	<b>370</b>	7,384	—	6,874	<b>370</b>	14,258
Unallocated corporate assets					<b>6,305</b>	52
<b>Total assets</b>					<b>6,675</b>	14,310
<b>Liabilities</b>						
Segment liabilities	<b>(1,186)</b>	(3,326)	—	—	<b>(1,186)</b>	(3,326)
Unallocated corporate liabilities					<b>(281)</b>	(500)
<b>Total liabilities</b>					<b>(1,467)</b>	(3,826)
<b>Other information</b>						
Capital expenditure	—	1,258	—	—	—	1,258
Depreciation	<b>155</b>	234	—	—	<b>155</b>	234
Impairment loss recognised in income statement	—	—	<b>6,874</b>	2,043	<b>6,874</b>	2,043

All of the Group's turnover and contribution to operating results are attributable to its investment activities.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 6. REVENUE

	2006 HK\$'000	2005 HK\$'000
Interest income	21	127
Dividend income	17	50
	<b>38</b>	177

## 7. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006 HK\$'000	2005 HK\$'000
Unlisted equity security: Tianjin Standard International Building Materials Industry Co., Ltd天津標準國際 建材工業有限公司 ("Tianjin Standard") (note 17(ii))	<b>6,874</b>	2,043

## 8. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Finance charges on finance leases	—	25
Interest charges on bank loan not wholly repayable within five years	144	—
	<b>144</b>	25

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 9. LOSS BEFORE INCOME TAX

	2006 HK\$'000	2005 HK\$'000
Loss before income tax is arrived at after charging/(crediting):		
Auditors' remuneration		
— current year	244	123
— overprovision in prior year	—	(76)
Depreciation	155	234
Investment management fees	600	369
Net fair value (gain)/loss on financial assets at fair value through profit or loss	(194)	89
Loss on disposal of property, plant and equipment	—	62
Operating lease charges on office premises	219	226
Retirement benefits scheme contributions	36	22
Staff costs (including directors' remuneration (note 10(a)) but excluding retirement benefits scheme contributions)	1,630	1,155
Write off of other payables	—	(240)

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

### (a) Remuneration of the directors

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>2006</b>				
<b>Executive directors</b>				
Mr. Phang Yul Cher Yeow	240	—	—	240
Mr. Chu Kin Wang, Peleus	360	—	12	372
Ms. Huang Song	120	—	12	132
Mr. Zhou Chao	480	—	12	492
<b>Non executive directors</b>				
Mr. Fong Chi Hou	70	—	—	70
Mr. Wang Yao Dong	60	—	—	60
<b>Independent non-executive directors</b>				
Ms. Lam Lin Chu	60	—	—	60
Mr. Liu Wing Ting, Stephen	120	—	—	120
Ms. Tse Po Chu	120	—	—	120
	1,630	—	36	1,666

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

### (a) Remuneration of the directors (Continued)

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<b>2005</b>				
<b>Executive directors</b>				
Mr. Tham Ming Yong	50	—	—	50
Mr. Phang Yul Cher Yeow	312	—	8	320
Mr. Zhou Chao	280	—	—	280
Ms. Huang Song	60	—	—	60
Mr. Chu Kin Wang, Peleus	113	7	4	124
<b>Non executive directors</b>				
Mr. Wang Yao Dong	10	—	—	10
<b>Independent non-executive directors</b>				
Ms. Lam Lin Chu	45	—	—	45
Mr. Liu Wing Ting, Stephen	60	—	—	60
Ms. Tse Po Chu	35	—	—	35
Mr. Wong Wing Hang, Henry	30	—	—	30
	995	7	12	1,014

No directors waived or agreed to waive any emoluments in respect of the year (2005: Nil).

No emoluments were paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2005: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included five (2005: four) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one individual, within the band ranging from Nil to HK\$1,000,000, during the year ended 31 December 2005 is as follows:

	HK\$'000
Salaries, allowances and benefits in kind	71
Retirement benefits scheme contributions	—
	71

No emoluments were paid to the highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31 December 2005.

## 11. INCOME TAX EXPENSE

No Hong Kong Profits Tax has been provided in the financial statements as the Group did not have any assessable profits during the year (2005: Nil).

Reconciliation between accounting loss and tax expense at applicable tax rates is as follows:

	2006 HK\$'000	2005 HK\$'000
Loss before income tax	<b>(10,350)</b>	(5,248)
Tax at applicable rate of 17.5% (2005: 17.5%)	<b>(1,811)</b>	(918)
Tax effect of non-deductible expenses	<b>1,713</b>	468
Tax losses not recognised as deferred tax asset	<b>98</b>	450
Income tax expense	—	—

At 31 December 2006, a deferred tax asset of approximately HK\$2,784,000 (2005: HK\$2,686,000) in respect of tax losses available to offset future profits was not recognised in the financial statements as it is not certain that the Group will generate future taxable profits to enable it to utilise such tax losses. This tax loss has no expiry date.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 12. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year of HK\$10,350,000 (2005: HK\$5,248,000), a loss of HK\$11,544,000 (2005: HK\$4,171,000) has been dealt with in the financial statements of the Company.

## 13. LOSS PER SHARE

The calculation of the basic loss per share is based on the consolidated loss for the year attributable to the equity holders of the Company of HK\$10,350,000 (2005: HK\$5,248,000) and on the weighted average number of 195,068,493 (2005: 136,547,945) ordinary shares in issue during the year.

Diluted loss per share amounts have not been presented because there were no dilutive potential shares.

## 14. PROPERTY, PLANT AND EQUIPMENT

### (a) Group

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>At 1 January 2005</b>				
Cost	29	231	—	260
Accumulated depreciation	(7)	(26)	—	(33)
Net book amount	22	205	—	227
<b>Year ended 31 December 2005</b>				
At 1 January 2005	22	205	—	227
Additions	321	97	840	1,258
Disposals	(34)	(262)	(736)	(1,032)
Depreciation	(107)	(23)	(104)	(234)
At 31 December 2005	202	17	—	219
<b>At 31 December 2005</b>				
Cost	302	20	—	322
Accumulated depreciation	(100)	(3)	—	(103)
Net book amount	202	17	—	219
<b>Year ended 31 December 2006</b>				
At 1 January 2006	202	17	—	219
Depreciation	(151)	(4)	—	(155)
At 31 December 2006	51	13	—	64
<b>At 31 December 2006</b>				
Cost	302	20	—	322
Accumulated depreciation	(251)	(7)	—	(258)
Net book amount	51	13	—	64

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 14. PROPERTY, PLANT AND EQUIPMENT (Continued)

### (b) Company (Continued)

	<b>Leasehold improvements</b>	<b>Furniture, fixtures and equipment</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2005</b>			
Cost	29	231	260
Accumulated depreciation	(7)	(26)	(33)
Net book amount	22	205	227
<b>Year ended 31 December 2005</b>			
At 1 January 2005	22	205	227
Additions	302	20	322
Disposals	(22)	(205)	(227)
Depreciation	(100)	(3)	(103)
At 31 December 2005	202	17	219
<b>At 31 December 2005</b>			
Cost	302	20	322
Accumulated depreciation	(100)	(3)	(103)
Net book amount	202	17	219
<b>Year ended 31 December 2006</b>			
At 1 January 2006	202	17	219
Depreciation	(151)	(4)	(155)
<b>At 31 December 2006</b>	<b>51</b>	<b>13</b>	<b>64</b>
<b>At 31 December 2006</b>			
Cost	302	20	322
Accumulated depreciation	(251)	(7)	(258)
<b>Net book amount</b>	<b>51</b>	<b>13</b>	<b>64</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 15. INVESTMENT PROPERTY — GROUP

	2006 HK\$'000	2005 HK\$'000
Carrying amount as at 1 January	3,860	—
Additions	—	3,860
Disposal of a subsidiary (note 28)	(3,860)	—
Carrying amount as at 31 December	—	3,860

Investment property is located in Hong Kong and held under a medium term lease.

As at 31 December 2005, the investment property was pledged as security for certain bank borrowings as set out in note 19.

## 16. INTERESTS IN SUBSIDIARIES — COMPANY

	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	10	10
Amounts due from subsidiaries	55,010	53,774
Less: Impairment loss	(48,918)	(42,086)
	6,102	11,698

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 16. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Particulars of subsidiaries at 31 December 2006 are as follows:

Name	Place of incorporation/ operations	Particulars of issued capital	Percentage of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Gold Canal International Limited	British Virgin Islands ("BVI")	10 ordinary shares of US\$1 each	—	100%	Investment holding
Mega Way	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	—	Investment in Hong Kong listed shares
New Portfolio Limited	BVI	1 ordinary share of US\$1	100%	—	Investment holding
Speedy Zone Limited	BVI	1 ordinary share of US\$1	100%	—	Inactive

## 17. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2006 HK\$'000	2005 HK\$'000
Unlisted equity securities	—	6,874

Particulars of available-for-sale financial assets at 31 December 2006 are as follows:

Name of investee company	Note	Place of incorporation	Percentage interest held	Cost		Accumulated impairment losses		Carrying value	
				2006	2005	2006	2005	2006	2005
				HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tianjin Standard Koffman Asset Holdings Limited	(i)	PRC	21%	17,461	17,461	(17,461)	(10,587)	—	6,874
("Koffman Asset")	(ii)	BVI	9.1%	3,064	3,064	(3,064)	(3,064)	—	—
				<b>20,525</b>	20,525	<b>(20,525)</b>	(13,651)	—	6,874

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 17. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP (Continued)

- (i) Tianjin Standard is principally engaged in the manufacture and trading of building materials and the provision of related consultancy services. In the opinion of the directors, the Group has not been in a position to exercise any significant influence over the financial and operating policies of Tianjin Standard as the Group has no representative in the board of directors of Tianjin Standard. Accordingly, Tianjin Standard is accounted for as an available-for-sale financial asset.

In March 2007, there was a substantial change in the composition of the management and board of directors of the Company as a result of the changes in the major shareholders of the Company. In respect of the Tianjin Standard investment, the current board of directors (the "New Directors") have very little background information and knowledge, and have not met nor have they been able to contact the management of Tianjin Standard. The New Directors, despite their best efforts, were unable to obtain any financial information, including unaudited management accounts of Tianjin Standard for 2006. In view of the above, and for the sake of prudence, the New Directors have made full impairment provision against the carrying value of this asset at 31 December 2006 amounting to HK\$6,874,000.

- (ii) Koffman Asset is a company principally involved in an insurance brokerage business which operated in Hong Kong. Koffman Asset was in financial difficulties and ceased operations in 2004, and accordingly an impairment charge was made against the full investment cost in 2004.

## 18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Notes	Group		Company	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Securities listed in Hong Kong	(a)	—	2,710	—	110
Unlisted security	(b)	—	386	—	386
		—	3,096	—	496

- (a) All securities listed in Hong Kong were disposed of during the year.

- (b) Unlisted security

	Notes	Group and Company	
		2006 HK\$'000	2005 HK\$'000
Designated as fair value through profit or loss on initial recognition			
Investment in Rise Profits Holdings Limited ("Rise Profits")	(i)	—	—
Loan to Rise Profits	(ii)	—	386
		—	386

Note:

- (i) The Group subscribed for 3 ordinary shares of Rise Profits of HK\$1 per ordinary share on 21 July 2005 which represents 30% equity interest in that company. Rise Profits is principally involved in the investment holding of a taxi and its licence in Hong Kong. The Group acquired its interest in Rise Profits with a short-term outlook and with view to a trade sale of the taxi and the taxi licence once an acceptable price had been offered. The taxi and its licence were sold during the year.

- (ii) The amount due was unsecured, interest free and had no fixed terms of repayment.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 19. BANK BORROWINGS, SECURED — GROUP

At 31 December 2006, the Group's bank borrowings were repayable as follows:

	2006 HK\$'000	2005 HK\$'000
<b>Current</b>		
Within one year	—	121
<b>Non-current</b>		
In the second year	—	128
In the third to fifth year	—	446
After the fifth year	—	1,991
	—	2,565
	—	2,686

Bank borrowings were denominated in Hong Kong Dollar, secured by the investment property of the Group (Note 15) and jointly and severally guaranteed by Mr. Zhou Chao and Ms. Huang Song, directors of the Company, which is at nil consideration, and bear interest at variable interest rate, which was 5.25% per annum at 31 December 2005.

As the subsidiary borrowing this loan was disposed of during the year, there was no outstanding loan as at 31 December 2006.

## 20. AMOUNTS DUE TO DIRECTORS

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

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 21. SHARE CAPITAL

	Notes	Number of shares	HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each at 1 January 2005		200,000,000	2,000
Increase in ordinary shares of HK\$0.01 each on 17 March 2005	(a)	800,000,000	8,000
Consolidation of five ordinary shares of HK\$0.01 each to two ordinary shares of HK\$0.025 each on 17 March 2005	(a)	(600,000,000)	—
<b>Ordinary shares of HK\$0.025 each at 31 December 2005 and 2006</b>		<b>400,000,000</b>	<b>10,000</b>
Issued and fully paid:			
Ordinary shares of HK\$0.01 each at 1 January 2005		200,000,000	2,000
Consolidation of five ordinary shares of HK\$0.01 each to two ordinary shares of HK\$0.025 each on 17 March 2005	(a)	(120,000,000)	—
Issue of ordinary shares of HK\$0.025 each on 18 April 2005	(b)	80,000,000	2,000
<b>Ordinary shares of HK\$0.025 each at 31 December 2005 and 1 January 2006</b>		<b>160,000,000</b>	<b>4,000</b>
Issue of ordinary shares of HK\$0.025 each on 19 July 2006	(c)	80,000,000	2,000
<b>Ordinary shares of HK\$0.025 each at 31 December 2006</b>		<b>240,000,000</b>	<b>6,000</b>

### Notes:

- (a) Pursuant to the shareholders' approval at the extraordinary general meeting held on 17 March 2005, the authorised share capital of the Company was increased from HK\$2,000,000 divided into 200,000,000 shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 shares of HK\$0.01 each by creation of an additional 800,000,000 unissued shares of HK\$0.01 each. On the same date, a share consolidation of every five existing ordinary shares of HK\$0.01 par value each into two new ordinary shares of HK\$0.025 par value each ("New Shares") was approved. The New Shares rank pari passu in all respects with the then issued share capital of the Company.
- (b) On 28 January 2005, the Company entered into an underwriting agreement for the open offer of 80,000,000 new shares at HK\$0.065 per share ("2005 Offer Share") on the basis of one offer share for every New Share held on record date ("2005 Open Offer"). An ordinary resolution in respect of the 2005 Open Offer was passed at the extraordinary general meeting held on 17 March 2005. The 2005 Offer Shares rank pari passu in all respects with the existing share capital of the Company. The 2005 Open Offer was completed on 18 April 2005.
- (c) On 12 May 2006, the Company entered into an underwriting agreement for the open offer of 80,000,000 new shares at HK\$0.07 per share ("2006 Offer Share") on the basis of one offer share for every 2 shares held on record date ("2006 Open Offer"). An ordinary resolution in respect of the 2006 Open Offer was passed at the extraordinary general meeting held on 26 June 2006. The 2006 Offer Shares rank pari passu in all respects with the existing share capital of the Company. The 2006 Open Offer was completed on 19 July 2006.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 22. SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") on 23 May 2002. The directors may, at their absolute discretion, make an offer to any participant to take up options. An offer is deemed to have been accepted by the grantee upon the duplicate of the offer letter comprising acceptance of the offer being duly signed by the grantee and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Scheme shall be no less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date on which an option is granted, (ii) the average closing prices of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date on which an option is granted, and (iii) the nominal value of a share of the Company on the date on which an option is granted.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 12,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme. An option may be exercised during a period to be notified by the directors but may not be exercised after the expiry of 10 years after the date of grant of the option.

The maximum entitlement for any one participant is that the total number of shares issued and to be issued upon exercise of the options granted or to be granted to each participant under the Scheme in any 12-month period must not exceed 1% of the total number of shares in issue of the Company. Any further grant of options in excess of the 1% limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 23 May 2002.

No options have been granted since the adoption of the Scheme.

## 23. RESERVES — GROUP

	2006 HK\$'000	2005 HK\$'000
Share premium	112,189	109,115
Investment revaluation reserve	—	—
Accumulated losses	(112,981)	(102,631)
	(792)	6,484

Movements in the Group's reserves during the year are set out in the consolidated statement of changes in equity to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 23. RESERVES — GROUP (Continued)

Under the Companies Law (Revised) of the Cayman Islands, the share premium of the Company is available for distribution or paying dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

The investment revaluation reserve represents the net unrealised gain on revaluation of available-for-sale financial assets at the balance sheet date.

## 24. RESERVES — COMPANY

	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2005	106,426	47	(97,356)	9,117
Transfer to income statement on disposal of available-for-sale financial assets (net expense recognised directly in equity)	—	(47)	—	(47)
Loss for the year	—	—	(4,171)	(4,171)
Total recognised income and expense for the year	—	(47)	(4,171)	(4,218)
Shares issued at premium (note 21(b))	3,200	—	—	3,200
Share issue expenses	(511)	—	—	(511)
At 31 December 2005 and 1 January 2006	109,115	—	(101,527)	7,588
Loss for the year (total recognised income and expense for the year)	—	—	(11,544)	(11,544)
Shares issued at premium (note 21(c))	3,600	—	—	3,600
Share issue expenses	(526)	—	—	(526)
<b>At 31 December 2006</b>	<b>112,189</b>	<b>—</b>	<b>(113,071)</b>	<b>(882)</b>

Details of the share premium account and investment revaluation reserve of the Company are set out in note 23 above.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 25. NET ASSET VALUE PER SHARE

The calculation of the net asset value per share is based on the net assets of the Group as at 31 December 2006 of HK\$5,208,000 (2005: HK\$10,484,000) and 240,000,000 (2005: 160,000,000) ordinary shares in issue as at that date.

## 26. OPERATING LEASE COMMITMENTS

The total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable by the Group and the Company as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	125	476	125	368
In the second to fifth years	—	130	—	125
	<b>125</b>	<b>606</b>	<b>125</b>	<b>493</b>

The Group leases a property under an operating lease. The leases run for an initial period of two years, without an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the landlord. The lease does not include contingent rentals.

## 27. RELATED PARTY TRANSACTIONS

During the year, the Company had the following related party transactions:

	2006 HK\$'000	2005 HK\$'000
Management fee expenses to Hua Yu Investment Management Limited ("Hua Yu")	600	369

- (a) The Group entered into an agreement with Altus Capital Limited ("Altus") on 4 March 2004, whereby Altus had agreed to provide investment management services to the Company for a period from the effective date of its appointment until 30 December 2005.

The investment management fee was calculated at the higher of 1.5% per annum of the net asset value as at the immediately preceding valuation date on the basis of the actual number of days in the relevant calendar month over a year of 365 days or an amount of not less than HK\$30,000 per month.

The Group entered into an agreement with Altus on 20 May 2005, whereby both parties had conditionally agreed to terminate the above mentioned agreement. No management fee had been charged by Altus for the year ended 31 December 2005.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 27. RELATED PARTY TRANSACTIONS (Continued)

- (b) On 12 May 2005, the Company entered into an investment management agreement with Hua Yu with effect from 20 May 2005 to replace Altus.

Investment management fees to Hua Yu are calculated at 0.375% of the net asset value per quarter, subject to a minimum of HK\$150,000 per three months.

- (c) Key management personnel compensation

Details of key management compensation are set out in note 10 to the financial statements.

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### Disposal of subsidiaries

- (a) During the year, the Group entered into a sale and purchase agreement with an independent third party, pursuant to which the Group disposed of its entire equity interest in Summit Asset Holdings Limited ("Summit Asset") and the entire loan to Summit Asset of approximately HK\$1,688,000 to the buyer at the considerations of approximately HK\$10 and HK\$1,688,000, of which HK\$118,000 had not been settled as at 31 December 2006, respectively.
- (b) Double Dragon Profits Limited and Good Place Investments Limited were de-registered on 22 December 2006 and 10 March 2006 respectively.

(c)

	<b>2006</b>
	HK\$'000
<b>Net liabilities disposed of:</b>	
Investment property	3,860
Prepayments, deposits and other receivables	7
Cash at bank	24
Amount due to a shareholder	(1,688)
Other payables	(69)
Bank borrowings	(2,597)
	(463)
Gain on disposal of subsidiaries	463
<b>Total consideration</b>	<b>—</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### Disposal of subsidiaries (Continued)

(c) (Continued)

An analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2006 HK\$'000
Satisfied by cash	—
Cash and bank balance disposed	(24)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(24)

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns.

The most significant financial risks to which the Group is exposed to are described below.

### (a) Foreign currency risk

The Group's exposure to risk resulting from changes in foreign currency exchange rates is minimal.

### (b) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's other receivables are actively monitored to avoid significant concentrations of credit risk.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (c) Cash flow and fair value interest rate risks

The Group has no significant interest-bearing assets and liabilities as at 31 December 2006.

### (d) Fair value

The fair value of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of long-term borrowings is not disclosed because the carrying value is not materially different from the fair value.

# SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial years, is as follows:

	Year ended 31 December				
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
<b>Results</b>					
Turnover	876	4	49	177	<b>38</b>
<b>Loss from operations</b>	(27,075)	(11,799)	(7,100)	(5,223)	<b>(10,206)</b>
Finance costs	(148)	(61)	(7)	(25)	<b>(144)</b>
<b>Loss before taxation</b>	(27,223)	(11,860)	(7,107)	(5,248)	<b>(10,350)</b>
Taxation	—	52	—	—	—
<b>Loss for the year</b>	(27,223)	(11,808)	(7,107)	(5,248)	<b>(10,350)</b>
<b>As at 31 December</b>					
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
<b>Assets and liabilities</b>					
Property, plant and equipment	69	—	227	219	<b>64</b>
Investment property	—	—	—	3,860	—
Available-for-sale financial assets	—	—	—	6,874	—
Investments in securities	23,323	9,714	9,464	—	—
Current assets	2,240	3,282	2,996	3,357	<b>6,611</b>
Current liabilities	(2,801)	(652)	(1,545)	(1,261)	<b>(1,467)</b>
Non-current liabilities	—	—	(52)	(2,565)	—
<b>Net Assets</b>	22,831	12,344	11,090	10,484	<b>5,208</b>
<b>Equity</b>	22,831	12,344	11,090	10,484	<b>5,208</b>