



INVESTMENTS

Annual Report 2006



PRIME INVESTMENTS HOLDINGS LIMITED

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

Stock Code : 721

	<i>Page</i>
Corporate Information	02
Chairman's Statement	03
Biographical Details of Directors	05
Report of Directors	07
Report of Corporate Governance	13
Report of Auditors	18
Consolidated Income Statement	19
Consolidated Balance Sheet	20
Consolidated Statement of Changes in Equity	21
Consolidated Cash Flow Statement	22
Balance Sheet	23
Notes of Financial Statements	24

BOARD OF DIRECTORS**Executive Directors**

Mr. Pong Po Lam, Paul
Ms. Wang Wenxia, Wendy

Non-Executive Directors

Mr. Lan Ning
Dr. Chan Po Fun, Peter
Mr. Ding Xiaobin

Independent Non-Executive Directors

Dr. Cheung Wai Bun, Charles
Mr. Zhang Yong
Mr. Gu Qiu Rong

COMPANY SECRETARY

Mr. Li Chi Chung

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton
HM11
Bermuda

**SHARE REGISTERED AND
TRANSFER OFFICE**

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

**TRADING CODE ON THE STOCK
EXCHANGE OF HONG KONG LIMITED**

0721

INVESTMENT MANAGER

Pegasus Fund Managers Limited
24/F, Siu On Centre
188 Lockhart Road
Wanchai
Hong Kong

LEGAL COUNCIL

Bermuda
Conyers Dill & Pearman
Barristers and Attorneys

AUDITORS

CCIF CPA Limited
1/F, Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

PRINCIPAL BANKER

The Hongkong and Shanghai Banking
Corporation Limited

**PRINCIPAL PLACE OF BUSINESS
IN HONG KONG**

Room 504, 5/F
34-37 Connaught Road Central
Central
Hong Kong

On behalf of the Board of Directors, I present to you the Group's annual report and audited financial statements, for the year ended 30 June 2006.

FINANCIAL RESULTS

The Group recorded a net loss attributable to shareholders of approximately HK\$6.5 million as compared to approximately HK\$2.5 million in the previous year.

DIVIDEND

The Board of Directors does not recommend the payment of any dividend for the year ended 30 June 2006.

OVERVIEW

During the period under review, the Group engages in two projects: (1) the interest in an unlisted equity investment which engaged in the development of a website providing online professional consultancy services in the PRC; (2) the production and distribution of window frames in the PRC.

The Group had not made any major investments during the same period due to lack of new capital for investment. Also, the Group's existing investments are all in unlisted equities which are long-term and illiquid in nature. For this reason, although the Hong Kong stock market marked a considerable recovery in year 2006, the Group did not benefit from the stock market rally.

On 2 November 2005, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash of HK\$8,000,000 for a total of 89,142,857 Subscription Shares which represented the subscription price of approximately HK\$0.0897 per Subscription Share.

The completion of the Subscription Agreement is conditional upon, the Listing Committee of the Stock Exchange granting approval of the listing and permission to deal in the New Shares in issue and consent in principle of the Stock Exchange to the resumption of trading of New Shares in issue on the Stock Exchange having been obtained.

With effect from 9 May 2006, the Company has been de-registered from the Cayman Islands and duly continued in Bermuda as an exempt company under the laws of Bermuda. The address of the registered office of the Company has been changed from Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies to Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

EMPLOYEES

As at 30 June 2006, the Group has employed 2 employees. The total remuneration paid to staff excluding the directors' remuneration was approximately HK\$426,000, during the period under review. The employees were remunerated based on their responsibilities and performance.

FUTURE PROSPECTS

The Group is consolidating its investments and tuning its financial position with an objective in minimizing losses which might arise from unsound investments, while strengthening investments with stable revenues.

During this year, the Group introduced management experts to join the management team to strengthen its leadership. Most of them have PRC background, and may inject profitable projects into the Group. We firmly believe that under the guidance of a capable management team, the Group will surely be able to record remarkable revenues in the coming year, leading our business back on track.

We believe Hong Kong has come through the worst. With the implementation of CEPA, the gradual deregulation of the mainland capital markets and the resulting increase in business activities and opportunities, we are optimistic that the economy and the stock market will recover at a hastened pace, and will benefit Hong Kong as a whole.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express my gratitude to all of our business partners, shareholders, directors, and staff for their hard work and contributions during the year.

On behalf of the Board

Lan Ning
Chairman

Wang Wenxia, Wendy, aged 45, holds a master degree in finance from Dongbei University of Finance and Economics. Ms. Wang currently holds senior management positions in various unlisted companies incorporated in the People's Republic of China with limited liability but did not hold any position in other listed companies in the last three years prior to her appointment. In particular, Ms. Wang has over 5 years' active experience at the management level in structured finance, investment and asset management services for third party investors in PRC joint venture projects. These projects relate to properties development and her duties in respect of these projects include deciding how to invest the fund for the properties development projects. Ms. Wang's duties include but not limited to decision making and financial data analysis. The then employer of Ms. Wang was a corporation carrying on business of mergers and acquisitions and real property development.

Mr. Pong Po Lam, aged 50, has been the Managing Director of Pegasus Fund Managers Limited since 1990. He has worked in the fund management industry for nearly twenty years. He is the Honorary Secretary of The Institute of Financial Planners of Hong Kong, Executive Committee member of The Hong Kong Institute of Financial Analysts and Professional Commentators Ltd, China Sub-committee member of the Hong Kong Investment Funds Association, Chairman of Investment and Fund Management Services of CEPA Business Opportunities Development Alliance, Lecturer of HKU SPACE programme and a regular guest speaker at senior management training courses for several banks and financial/insurance companies.

Mr. Pong has been the director of 3 ADI-Kallista Funds, namely "Kallista Arbitrage Strategies Fund", "Kallista Credit Arbitrage Fund" and "Kallista CB Arbitrage Fund" since 2000 (which has managed AUM Euro 184 million and USD81.6 million in total as at 31 May 2006). He is the senior advisor to the President of Comgest Group, which has managed AUM Euro 6.3 billion as at June 2006). Mr Pong also an advisor of asset allocation for Mass Mutual Asia Ltd (2005 onwards) and member of "Business Studies Advisory Board" of HKU SPACE. He is an advisor of Great Wall Fund Management Co Ltd (which is a domestic fund house in China, managed RMB8 billion as at September 2006). He was formerly a Director of Gartmore Fund Managers (Far East) Limited. During the past 15 years, he has been appointed as a director of AGRI-AM SITC, a Securities and Investment Trust Corporation set up in Taiwan as a joint venture with Credit Agricole Group, and received mandates as advisor or trustee for several funds. He set up a joint-venture company with Lipper, a Wall Street famous company, in 1992 to carry out the fund ratings for Asian funds. Mr. Pong was granted a "World Outstanding Chinese Award" by "World Outstanding Chinese Association" in 2006. He is a graduate of the Chinese University of Hong Kong with a B.Sc. and an EMBA degree. He is also a Certified Financial Planner and a fellow of The Hong Kong Institute of Directors.

Mr. Lan Ning, aged 43, graduated with a Beijing International Master of Business Administration degree from Peking University, is former senior director of China Poly Group Corporation, and founder and chairman of Guangzhou Poly Investment Ltd. Mr. Lan has extensive experience in various businesses including international trading, property development, investment, asset management, securities, corporate mergers and domestic and overseas strategic investment. Mr. Lan is also the Executive Director of Goldbond Group Holdings Limited, which is listed on the Main Board of the Hong Kong Stock Exchange.

Mr. Ding Xiaobin, aged 37, has been honored the academic title of economist. He is ever chronologically worked for business enterprises in fields of banking, futures, clothes, import & export and investments. Currently as the managing director of Guangdong Poly Investment Limited, he is mainly in charge of direct investment consultant for projects in lines of clothes sales, harbor operation, agricultural products processing, building materials manufacturing, chemical synthesis and so on, with close cooperative relationship with the domestic banks, not only the 4th biggest state-owned commercial banks, but also state policy banks and stocked banks. Mr. Ding has rich experience in management, merger and acquisition, restructuring.

Dr. Chan Po Fun, Peter, BBS, JP. M.B.E., DS. Ph.D., aged 84, a certified public accountant. He was the chairman of The Kowloon Stock Exchange Limited, a member of committee on Takeovers and Mergers of the former Securities Commission and the chairman of the former Hong Kong Federation of Stock Exchanges. He was a registered dealing director under the Securities Ordinance and was a member of the Urban Council for 14 years. Dr. Chan has served on the boards of many public companies in Hong Kong. He is a honorary fellow of the Society for Underwater Technology and is a member of a number of scientific institutions. Dr. Chan has been a member, and the treasurer, of the board of the Chinese Permanent Cemeteries since 1967 and the chairman of its finance committee up to 2005. He is trustee of the S.K. Yee Medical Foundation.

Dr. Cheung Wai Bun, Charles, JP, aged 70, is the group chief executive and executive deputy chairman of Mission Hills Group, Hong Kong. He holds an honorary doctor's degree, a master's degree and a bachelor of science degree in business administration. Dr. Cheung has over 30 years experience in the senior management of companies in various industries including over 22 years experience of banking business in senior management positions. He is an independent non-executive director and chairman of audit committees of K. Wah International Holdings Limited, Galaxy Entertainment Group Limited, Pioneer Global Group Limited and Shanghai Electric Group Limited (上海電氣集團股份有限公司) which are listed on the Main Board of the Stock Exchange. Dr. Cheung is also a Senior Advisor to the Board of the Metropolitan Bank & Trust Company, Philippines (菲律賓首都銀行). Dr. Cheung was a former director and adviser of the Tung Wah Group of Hospitals and he is a vice chairman of Guangdong Province Golf Association. He was awarded the Directors of the Year Awards 2002 of Listed Company Non-executive Director (2002上市公司傑出非執行董事). Dr. Cheung was re-appointed by the HKSAR Government as a member of the Estate Agents Authority (地產代理監管局) in November 2004.

Mr. Gu Qiu Rong, aged 40, the Chinese Certified Public Accountants and the Chinese Certified Tax Agent. Mr. Gu has extensive experience in accounting and corporate finance management. Over the last decade, Mr. Gu engaged in various fields, such as import and export trading, shipping, commercial wholesale, chain operations and investments consultancy and held numerous senior management positions with various corporations. Mr. Gu is currently vice general manager of Guangzhou Cofidelen Science & technology Development Co. Ltd.

Mr. Zhang Yong, aged 51, a PH.D, is a young professor and supervisor of PH.D. students. He has been honored the academic titles of National Expert of Great Contribution, Celebrated Expert of Embryo Engineering, founder of Animal Clone Base of China. Meanwhile he is the founder of the Academic Institute of Biological Engineering of Northwest Sci-Tech University of Agriculture and Forestry and Yangling Keyan Biological Engineering Ltd. As Chairman of Yang Ling Keyuan Clone Science & Technological Company Ltd, professor Zhang is also title as member of the Technology Committee belonging to National Agriculture Department, invited member of Government's Decision-making Consultation Committee of Shan Xi province, resident syndic of Academic Committee of Agriculture Biology Technology. Professor Zhang is professionally skilled with breeding, marketing and technology information for poultry industry. He is also good at, from microcosmic and macrocosmic point of view, mastering the developing and the stratagem and tactics for hi-tech poultry corporations.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding, while the Group is principally engaged in investing in listed and unlisted companies established and/or doing business in Hong Kong and other parts of the People's Republic of China (the "PRC"). Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's loss for the year ended 30 June 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 44.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the previous four financial year, as extracted from the audited financial statements, is set out below.

	Year ended 30 June 2006 HK\$	Year ended 30 June 2005 HK\$	Year ended 30 June 2004 HK\$	Year ended to 30 June 2003 HK\$
Turnover	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,503,172</u>
Net loss for the year/period attributable to shareholders	<u>(6,557,134)</u>	<u>(2,552,955)</u>	<u>(6,100,480)</u>	<u>(18,156,574)</u>
		As at 30 June		
	2006	2005	2004	2003
	HK\$	HK\$	HK\$	HK\$
TOTAL ASSETS	6,979,139	9,244,245	9,256,533	15,496,763
TOTAL LIABILITIES	(9,621,437)	(8,095,247)	(5,554,580)	(4,147,735)
	<u>(2,642,298)</u>	<u>1,148,998</u>	<u>3,701,953</u>	<u>11,349,028</u>

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 20 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASES, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 22 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Under the Companies Law (2000 Revision) of the Bermuda concerning the application of the share premium account, this amount is distributable to the shareholders of the Company provided that immediately following the date on which any dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 June 2006 and 30 June 2005, the Company did not have any reserves available for distribution.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. Pong Po Lam, Paul
Ms. Wang Wenxia, Wendy
Ms. Chiu Kam Hing, Kathy (resigned on 13 January 2006)
Ms. Ho Chiu King, Pansy (resigned on 13 January 2006)
Mr. Wu Shenbin (resigned on 13 January 2006)

Non-executive directors:

Mr. Lan Ning (*Chairman*)
Mr. Ding Xiao Bin
Dr. Chan Po Fun, Peter

Independent non-executive directors:

Mr. Zhang Yong
Dr. Cheung Wai Bun, Charles
Mr. Gu Qiu Rong

In accordance with article 88 of the Company's Bye-Laws, Mr. Lan Ning, Mr. Ding Xiaobin and Dr. Chan Po Fun, Peter will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The directors of the Company, including the independent non-executive directors but not including the chairman of the board of directors and/or the managing director of the Company, are subject to retirement by rotation and re-election in accordance with the provisions of the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 5 to 6 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the related party and connected transactions which are disclosed below and in note 24 to the financial statements, no director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the interests and short positions of the directors and chief executive in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Long position in ordinary shares of the Company:

Name of a former director	Number of shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust		
Mr. Lau Sze Shing, Edward (<i>note</i>)	–	–	8,500,000	–	8,500,000	17.71

Note:

Mr. Lau Sze Shing, Edward is a beneficial shareholder of approximately 28.75% of the issued share capital of Oceanwide Investments Limited, which indirectly holds 8,500,000 shares of the Company through its wholly-owned subsidiary, Advance Elite Holdings Limited.

Ms. Chan Sui Kuen is the spouse of Mr. Lau Sze Shing, Edward. She is a beneficial shareholder of approximately 12.08% of the issued share capital of Oceanwide Investments Limited, which indirectly holds 8,500,000 shares of the company through its wholly owned subsidiary, Advance Elite Holdings Limited.

Save as disclosed above, none of the directors and chief executive had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Oceanwide Investments Limited	(a)	Through a controlled corporation	8,500,000	17.71
Advance Elite Holdings Limited	(a)	Directly beneficially owned	8,500,000	17.71
Ms. Chan Sui Kuen	(b)	Through a controlled corporation	8,500,000	17.71
Mr. Deng Chi Yuan		Directly beneficially owned	4,830,000	10.06

Notes:

- (a) The ordinary shares are held by Advance Elite Holdings Limited, which is wholly-owned by Oceanwide Investments Limited.
- (b) Ms. Chan Sui Kuen was deemed to have substantial interest in 8,500,000 shares of the Company by virtue of her 12.08% indirect interest in Advance Elite Holdings Limited, which holds 8,500,000 shares of the Company, and being the spouse of a director, Mr. Lau Sze Shing, Edward, who has 28.75% indirect interest in Advance Elite Holdings Limited, of which their combined interest in the Company exceeded 5%.

Save as disclosed above, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

RELATED PARTY AND CONNECTED TRANSACTIONS

Investment Management Agreement with Glory Investments Assets Limited

Pursuant to the Investment Management Agreement dated 24 May 2001 between the Company and Glory Investment Assets Limited ("Glory"), Glory agreed to provide the Company with investment management services and general administrative services after it became registered as an investment adviser under the Securities Ordinance. Glory was registered as an investment adviser under the Securities Ordinance on 19 June 2001 for a three-year period commencing on 5 July 2001, the date immediately after the expiration of the term of the Interim Investment Management Agreement. Under the Investment Management Agreement, Glory is entitled to a monthly management fee payable in advance at 2.5% per annum of the net asset value of the Group as at the end of the preceding month, calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. In addition, the Glory is also entitled to 15% of an increase in net asset value of the Group over a financial year or period.

Pursuant to a supplemental agreement to the Investment Management Agreement dated 25 June 2002 entered into between the Company and Glory (the "Supplemental Agreement"), the monthly management fee payable in advance was reduced from 2.5% per annum to 2.0% per annum of the net asset value of the Group as at the end of the preceding month, calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The Supplemental Agreement became effective on 2 August 2002.

On 24 May 2004, the above arrangement between the Company and Glory has been extended for a period of one year, with effect from 5 July 2004. The Agreement expired on 4 July 2005.

During the year, no investment management fee was paid to Glory for services rendered.

RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)***Investment Management Agreement with Glory Investments Assets Limited** *(Continued)*

Ms. Chiu Kam Hing, Kathy, a former executive director of the Company, has a 30% equity interest in Glory and is one of the directors of Glory. Accordingly, this arrangement constitutes a connected transaction under Chapter 14 of the Listing Rules and is also a related party transaction under the accounting standards issued by the Hong Kong Institute of Certified Public Accountants, as disclosed in note 24 to the financial statements.

Investment Management Agreement with Pegasus Fund Managers Limited

Pursuant to an investment management agreement dated 21 February 2006 between the Company and Pegasus Fund Managers Limited (“Pegasus”), which subsequently effective on 1 August 2006, whereby Pegasus has agreed to provide investment management services to the Company for a period of three years commencing from 1 August 2006. Pegasus is entitled to from the Company a management fee calculated at the following rates:

- (1) 2.5% per annum of the net asset value of the Group 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, subject to a monthly minimum fee of HK\$30,000.
- (2) 10% of the surplus in net asset value of the Group over a financial year or period, which the surplus in the net asset value should be greater than HK\$30,000,000.

Mr. Pong Po Lam, Paul, an executive director of the Company, has a 91.57% equity interest in Pegasus and is one of the directors of Pegasus. Accordingly, this arrangement constitutes a connected transaction under Chapter 14 of the Listing Rules and is also a related party transaction under the accounting standards issued by the Hong Kong Institute of Certified Public Accountants, as disclosed in note 25 to the financial statements.

In accordance with the requirements of the waiver granted by the Stock Exchange, the independent non-executive directors of the Company confirm that:

- (a) the above transactions have been entered into in the ordinary and usual course of the business of the Company and are conducted in accordance with the terms of the Investment Management Agreement;
- (b) the above transactions have been entered into on normal commercial terms and on an arm’s length basis; and
- (c) the above transactions have been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

Details of related party transactions of the Group are set out in note 24 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the “Code”), as set out in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange, throughout the accounting period covered by the annual report, except that the independent non-executive directors have not been appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s articles of association.

AUDIT COMMITTEE

The Company has an audit committee (the “Committee”) which was established with written terms of reference, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises the three independent non-executive directors. Two audit committee meetings were held during the year and prior to the date of this report.

AUDITORS

On 14 October 2005, Messrs. Ernst & Young resigned, who acted as auditors of the Company for the years ended 30 June 2004 and 2003. CCIF CPA Limited was appointed as the Company’s auditors to fill up casual vacancy.

A resolution for the re-appointment of CCIF CPA Limited as the auditors of the Company for the ensuring year will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lan Ning

Chairman

Hong Kong
23 October 2006

The Company recognises that good corporate governance standards maintained throughout the Group serve an effective risk management for the Company. The board of directors (the “Board”) of the Company is committed to lead the Group growing in an efficient manner followed by corporate missions in terms of business strategies and improved operational planning and procedures which are enforced under high corporate governance standard.

CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company and has adopted various measures to ensure that a high standard of corporate governance is maintained. With effect from 1 July 2005, the Company has applied the principles and adopted code provisions set out in the Code on Corporate Governance Practices (the “Code on CGP”) in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) as its own code on corporate governance practices. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

In the opinion of the Board, save as disclosed below, the Company has complied with the code provisions of the Code on CGP during the accounting year.

Code Provisions B.1.1 to B.1.4

During the year, the Company had not established a remuneration committee in view of the Company’s simple structure and low staff cost.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors (the “Model Code”). Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standards as set out in the Model Code during the year.

i. Board of Directors

The Board reviews and approves corporate matters such as business strategies and investments as well as the general administrative and management of the Group. The Board currently consists of 2 executive directors, 3 non-executive directors and 3 independent non-executive directors:

Executive directors:

Mr. Pong Po Lam, Paul
Ms. Wang Wenxia, Wendy

Non-executive directors:

Mr. Lan Ning (*Chairman*)
Mr. Ding Xiao Bin
Dr. Chan Po Fun, Peter

Independent non-executive directors:

Mr. Zhang Yong
Dr. Cheung Wai Bun, Charles
Mr. Gu Qiu Rong

(a) Chairman

The Chairman of the Board is responsible for the leadership and effective running of the Board.

The number of independent non-executive directors equals to one third of the Board membership. One of the independent non-executive directors, namely Me. Gu Qiu Rong, has the appropriate professional accounting experiences and expertises. The Board membership is covered by professionally qualified and widely experienced personnel so as to bringing in valuable contribution and different professional advices and consultancy for the development of the Company. There is no relationship (including financial, business, family or other material relevant relationship) among members of the Board.

DIRECTORS' SECURITIES TRANSACTIONS (Continued)**i. Board of Directors (Continued)****(b) Appointment and re-election of directors**

At each annual general meeting, one-third of the directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years.

All directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any director and member of Audit Committee of the Company may take independent professional advice if they so wish at the expense of the Company, as arranged by the Company Secretary.

Save for the board meetings held between the executive directors during the normal course of business of the Company, the Board has had regular board meetings in accordance with the Code on CGP. During the year, the Company held 12 board meetings.

Attendance of individual directors at regular board meetings in 2006:

Number of Board meetings:	12	
	<i>Number of Attendance</i>	<i>%</i>
Executive directors:		
Mr. Pong Po Lam, Paul	4	33%
Ms. Wang Wenxia, Wendy	12	100%
Non-executive directors:		
Mr. Lan Ning	9	75%
Mr. Ding Xiao Bin	10	83%
Dr. Chan Po Fun, Peter	2	17%
Independent non-executive directors:		
Mr. Zhang Yong	1	8%
Dr. Cheung Wai Bun, Charles	1	8%
Mr. Gu Qiu Rong	1	8%
		27%

ii. Audit Committee

The Audit Committee comprises three independent non-executive directors of the Company, who possess recognised professional qualifications in accounting and have proven experience in finance, property and accounting.

The functions of the Audit Committee includes but not limited to the following:

- Considering and reviewing the appointment, resignation and removal of external auditors and their fees
- Reviewing the interim and annual results of the Group
- Discussing with the external auditors problems and issues of significance during the annual audit of the Group

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have been updated on terms no less exacting those set out in the Code on CGP. The said terms of reference is available at the registered office of the Company on request.

DIRECTORS' SECURITIES TRANSACTIONS (Continued)**ii. Audit Committee** (Continued)

The works of the Audit Committee during the year under review included:

- Reviewed the 2006 interim results and annual results of the Group
- Discussed with the management of the Company over the completeness, fairness and adequate accounting standards and policies of the Group in the preparation of the 2006 interim and annual financial statements
- Reviewed and discussed with the external auditors over the financial reporting of the Company
- Reviewed and recommended for approval by the Board the 2006 audit scope and fees
- Considered and reviewed the resignation and appointment of external auditors
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors
- Reviewed the connected transactions entered into by the Group during the year

The Audit Committee met two times in 2006. Each committee meeting was supplied with the necessary financial information of the Group for the members to consider, review and assess matters of significance arising from the work conducted.

Attendance of individual members of Audit Committee at audit committee meetings in 2006:

Number of Board meetings	2	
	<i>Number of Attendance</i>	<i>%</i>
Mr. Zhang Yong	2	100%
Dr. Cheung Wai Bun, Charles	2	100%
Mr. Gu Qiu Rong	2	100%
		100%

iii. Remuneration Committee

During the year, the Company had not established a remuneration committee in view of the Company's simple structure and low staff cost.

iv. Remuneration policy

The remuneration policy of the Company is to ensure that all employees, including directors, are sufficiently compensated for their efforts and time dedicated to the Company and remuneration offered is appropriate for their duties and in line with market practice.

AUDITORS' REMUNERATION

During the year under review, the remunerations paid to the Company's auditors, CCID CPA Limited is set out as follows:

Services rendered	Fees paid/payable HK\$
CCIF CPA Limited	
– Audit Services	130,000
– review cashflow	50,000
	<u>180,000</u>

CORPORATE COMMUNICATION

The Company channels corporate information of the Group to the shareholders in a timely and accurate manner. Printed copies of the Annual Report 2005 and Interim Report 2006 were sent to all shareholders.

The Company held an annual general meeting and two extraordinary general meeting in 2006. At the annual general meeting convened on 13 January 2006, separate resolutions were proposed for each issue. In addition to the ordinary business of the Company dealt with at the annual general meeting. The Chairman of the Board had attended the annual general meeting to answer questions at the annual general meeting. The Company had counted all proxy votes and indicated to the annual general meeting the level of proxies lodged on each resolution. All the votes cast at the annual general meeting were properly counted and recorded. At the extraordinary general meeting held on 18 November 2005, an ordinary resolution was passed in regard to the appointment of auditor. All the votes cast at the extraordinary general meeting were properly counted and recorded. Details of the appointment of auditor are disclosed in the circular dated 30 October 2005 of the Company. At the extraordinary general meeting held on 3 April 2006, special resolutions were passed in regard to (i) proposed change of domicile, (ii) reorganization of Share capital involving the Capital Reduction, the Capital Subdivision and the Cancellation of Share Premium Account, (iii) Adoption of the New Memorandum of Continuance and Bye-Laws; ordinary resolutions were passed in regard to (i) Proposed Subscription of New Shares by the Subscriber, (ii) Application for the Whitewash Waiver. The Chairman had explained at the commencement of the extraordinary general meeting the procedures for demanding a poll by shareholders of the Company and the procedures for conducting a poll. All the votes cast at the extraordinary general meeting were properly counted and recorded. Details of the transactions are disclosed in the circular dated 10 March 2006 of the Company.

CORPORATE CONTROL

The Board has overall responsibility in monitoring the process of corporate reporting and control system throughout the Group. The corporate reporting standards are delegated to the accounting department in terms of proper and regular reviews on the deployment of resources and financial reporting systems. The corporate governance practices and compliance with the Listing Rules, Securities and Futures Ordinance and other applicable regulations are delegated to the Company Secretary. The management of the Company reviews and briefs the reporting systems with the Audit Committee annually.

INTERNAL CONTROLS

The Board is responsible for overseeing the Group's system of internal controls. However, such a system is designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure, to achieve the business objectives of the Group. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group and this process includes updating the system of internal controls when there are changes to business environment or regulatory guidelines.

INTERNAL CONTROLS *(Continued)*

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders and employee, and the Group's assets.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

- The Audit Committee of the Company reviews internal control issues identified by external auditors, regulatory authorities and management, and evaluates the adequacy and effectiveness of the Group's risk management and internal control systems.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The Board 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 Report of the Auditors on page 18.

**CCIF****CCIF CPA LIMITED**1/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

To the members

Prime Investments Holdings Limited*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

We have audited the financial statements on pages 19 to 44 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. As further explained in Note 2 to the financial statements, which report net liabilities of HK\$2,642,298 of the Company and the Group, respectively, at 30 June 2006, have been prepared on the going concern basis, the validity of which is dependent upon the completion of the Subscription as disclosed in Note 25 (ii) to the financial statements and the Company will be able to obtain a shareholder's loan of HK\$5 million upon completion of the Subscription. The financial statements do not include any adjustments that would result from the failure to obtain the continued financial support from the shareholder of the Company. We consider that appropriate disclosures and estimates have been made in the financial statements and our opinion is not qualified in this respect.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited*Certified Public Accountants*

Hong Kong, 23 October 2006

Choi Man On

Practising Certificate Number P02410

CONSOLIDATED INCOME STATEMENT

19

Year ended 30 June 2006

	Notes	2006 HK\$	2005 HK\$
TURNOVER	7	-	-
Other revenue and gains	7	2,570	-
Administrative expenses		(3,945,029)	(2,381,825)
Other operating expenses		(2,500,000)	(21,351)
LOSS FROM OPERATING ACTIVITIES	8	(6,442,459)	(2,403,176)
Finance costs	9	(114,675)	(149,779)
LOSS BEFORE TAXATION		(6,557,134)	(2,552,955)
Taxation	11	-	-
NET LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS	12	(6,557,134)	(2,552,955)
LOSS PER SHARE	13		
Basic		13.7 cents	5.3 cents
Diluted		N/A	N/A

30 June 2006

	Notes	2006 HK\$	2005 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	14	75,837	106,208
Investment securities	15	–	9,000,000
Available-for-sale financial assets	15	6,500,000	–
Rental deposit		–	54,314
		<u>6,575,837</u>	<u>9,160,522</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		129,481	72,500
Cash and bank balances		273,821	11,223
		<u>403,302</u>	<u>83,723</u>
CURRENT LIABILITIES			
Other loans	17	4,300,000	400,000
Other payables and accrued liabilities		2,116,139	1,446,846
Due to directors	18	3,205,298	2,685,596
		<u>9,621,437</u>	<u>4,532,442</u>
NET CURRENT LIABILITIES		<u>(9,218,135)</u>	<u>(4,448,719)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(2,642,298)</u>	<u>4,711,803</u>
NON-CURRENT LIABILITIES			
Due to a director	18	–	828,404
Due to a shareholder	19	–	2,734,401
		<u>–</u>	<u>3,562,805</u>
NET (LIABILITIES)/ASSETS		<u>(2,642,298)</u>	<u>1,148,998</u>
CAPITAL AND RESERVES			
Issued capital	20	480,000	4,800,000
Reserves	22(b)	(3,122,298)	(3,651,002)
		<u>(2,642,298)</u>	<u>1,148,998</u>

Lan Ning
Director

Wang Wenxia
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

21

Year ended 30 June 2006

	Issued capital HK\$	Share premium account HK\$	Capital reserve HK\$	Investment revaluation reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2004	4,800,000	32,098,292	–	(3,500,000)	(29,696,339)	3,701,953
Loss for the year	–	–	–	–	(2,552,955)	(2,552,955)
At 30 June 2005 and 1 July 2005	4,800,000	32,098,292*	–	(3,500,000)*	(32,249,294)*	1,148,998
Capital reduction (Note 20)	(4,320,000)	–	–	–	4,320,000	–
Waiver of amount due to a shareholder	–	–	2,765,838	–	–	2,765,838
Loss for the year	–	–	–	–	(6,557,134)	(6,557,134)
At 30 June 2006	480,000	32,098,292*	2,765,838*	(3,500,000)*	(34,486,428)*	(2,642,298)

* These reserve accounts comprise the consolidated debit reserve of HK\$3,122,298 (2005: a debit reserve of HK\$3,651,002) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2006

	2006 HK\$	2005 HK\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before taxation	(6,557,134)	(2,552,955)
Adjustments for:		
Finance costs	114,675	149,779
Interest income	(2,570)	–
Loss on disposal of property, plant and equipment	–	21,351
Depreciation	30,371	17,458
Impairment of available-for-sale financial assets	2,500,000	–
Operating loss before working capital changes	(3,914,658)	(2,364,367)
Increase in a rental deposit	–	(54,314)
Increase in prepayments, deposits and other receivables	(2,667)	–
Increase in other payables and accrued liabilities	115,096	371,529
Increase in amounts due to directors	1,189,000	486,002
Net cash outflow from operating activities	(2,613,229)	(1,561,150)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	2,570	–
Purchases of property, plant and equipment	–	(113,801)
Proceeds from disposal of investment securities	–	51,324
Net cash inflow/(outflow) from investing activities	2,570	(62,477)
CASH FLOWS FROM FINANCING ACTIVITIES		
New other loans	2,400,000	400,000
Advances from directors	475,000	1,000,000
Increase in amount due to a shareholder	–	133,357
Interest paid	(1,743)	–
Net cash inflow from financing activities	2,873,257	1,533,357
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	262,598	(90,270)
Cash and cash equivalents at beginning of year	11,223	101,493
CASH AND CASH EQUIVALENTS AT END OF YEAR	273,821	11,223
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	273,821	11,223

30 June 2006

	Notes	2006 HK\$	2005 HK\$
NON-CURRENT ASSETS			
Property, plant and equipment	14	75,837	106,208
Interests in subsidiaries	16	6,500,000	9,000,000
Rental deposit		–	54,314
		<u>6,575,837</u>	<u>9,160,522</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		129,481	72,500
Cash and bank balances		273,821	11,223
		<u>403,302</u>	<u>83,723</u>
CURRENT LIABILITIES			
Other loans	17	4,300,000	400,000
Other payables and accrued liabilities		2,116,139	1,446,846
Due to directors	18	3,205,298	2,685,596
		<u>9,621,437</u>	<u>4,532,442</u>
NET CURRENT LIABILITIES		<u>(9,218,135)</u>	<u>(4,448,719)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(2,642,298)</u>	<u>4,711,803</u>
NON-CURRENT LIABILITIES			
Due to directors	18	–	828,404
Due to a shareholder	19	–	2,734,401
		<u>–</u>	<u>3,562,805</u>
		<u>(2,642,298)</u>	<u>1,148,998</u>
CAPITAL AND RESERVES			
Issued capital	20	480,000	4,800,000
Reserves	22(b)	(3,122,298)	(3,651,002)
		<u>(2,642,298)</u>	<u>1,148,998</u>

Lan Ning
Director

Wang Wenxia
Director

30 June 2006

I. CORPORATE INFORMATION

Prime Investments Holdings Limited (the "Company") was incorporated on 12 July 2000 in the Cayman Islands under the Companies Law as an exempted company with limited liability. With effect from 9 May 2006, the Company has been de-registered from the Cayman Islands and duly continued in Bermuda as an exempt company under the laws of Bermuda. The address of the registered office of the Company has been changed from Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies to Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

The Company's principal place of business is located at Room 504, 5/F, Chinachem Tower, 34-37 Connaught Road Central, Central, Hong Kong.

The Company is an investment holding company while the Group is principally engaged in the investment of listed and unlisted companies established and/or doing business in Hong Kong and other parts of the PRC.

These consolidated financial statements are presented in HK dollars unless otherwise stated.

2. GOING CONCERN CONCEPT

The Group had a net loss attributable to shareholders of HK\$6,557,134 for the year ended 30 June 2006 (2005: loss of HK\$2,552,955). The Group and the Company had consolidated net current liabilities and net current liabilities of HK\$9,218,135 (2005: net current liabilities – Group – HK\$4,448,719 and Company HK\$4,448,719), consolidated net liabilities and net liabilities of HK\$2,642,298 and consolidated accumulated losses of HK\$34,486,428 (2005: HK\$32,249,294) and accumulated losses of HK\$37,986,428 (2005: HK\$35,749,294) at 30 June 2006. During the year, the net asset value of the Group further deteriorated, which was largely due to the impairment on available-for-sale financial assets.

The financial statements have been prepared on the basis that the Company and the Group will continue to operate as a going concern as the directors of the Company are of the opinion that the Company and the Group are able to continue as a going concern and to meet their obligations as and when they fall due having regard to the followings:

- (i) On 30 November 2005, a deed of waiver was entered into between the Company and Oceanwide Investments Limited ("Oceanwide"), a shareholder of the Company, pursuant to which, Oceanwide agreed to waive the debt with accrued interest of HK\$2,765,838 due by the Company as detailed in Note 19 to the financial statements and confirmed to provide the Company with continuous financial support to meet its liabilities as and when they fall due;
- (ii) On 2 November 2005, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash of HK\$8,000,000 for a total of 89,142,857 Subscription Shares which represented the subscription price of approximately HK\$0.0897 per Subscription Share; and the completion of the Subscription Agreement is conditional upon, the Listing Committee of the Stock Exchange granting approval of the listing and permission to deal in new shares in issue and consent in principle of the Stock Exchange to the resumption of trading if New Shares in issue having been obtained; and
- (iii) The Company will be able to obtain a shareholder's loan of HK\$5 million upon completion of the Subscription as mentioned in the above paragraph.

The directors believe the Group and the Company will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Group and the Company fail to continue as a going concern.

If the going concern basis were not be appropriate, adjustments would have to be made to restate the values of the Group's and the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historic cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are discussed in Note 5.

The adoption of new/revised HKFRS

In the current year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations, the 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39	Transition and Initial Recognition of Financial Assets and Financial Liabilities Amendment
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 7, 8, 10, 21, 24, 27, 33 and 36 did not result in substantial changes to the Group’s accounting policies. In summary:

- HKAS 1 has not affected other disclosures
- HKASs 7, 8, 10, 27, 33 and 36 had no material effect in the Group’s policies.
- HKAS 21 had no material effect on the Group’s policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets.

30 June 2006

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(a) Basis of preparation (Continued)***The adoption of new/revised HKFRS (Continued)*

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 “Accounting for investments in securities” to investments in securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 July 2005. At 1 July 2005, the Company reclassified its investment securities with a carrying amount of HK\$9,000,000 to available-for-sale financial assets. The adoption of HKAS 39 has had no impact on the Company’s results for the current or prior accounting periods.

Standards, interpretations and amendments that are not yet effective

The Group has not early adopted the following new standards, interpretations or amendments which have been issued but are not yet effective. The adoption of these new HKFRS is not expected to result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 5 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instrument: Disclosures
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environment Rehabilitation Funds
HKFRS (IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment
HKFRS (IFRIC)-Int 7	Financial Reporting in Hyperinflationary Economic

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2006. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

(c) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company’s income statement to the extent of dividends received and receivable. The Company’s interests in subsidiaries are stated at cost less any impairment losses.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Related parties

For the purpose of these financial statements, parties are considered to be related to the group have the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operation decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefits plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

(e) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expense immediately.

Where an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Furniture and fixtures	25%
Office equipment	33 ¹ / ₃ %

The gain or loss on disposal or retirement of an asset recognised in the income statement, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(g) Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

(h) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

30 June 2006

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(i) Investments**

From 1 July 2004 to 30 June 2005:

The Group classified its investments in securities, other than subsidiaries, as non-trading securities.

(i) Non-trading securities

Investments which were held for non-trading purpose are stated at fair value at the balance sheet date. Changes in fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or when the individual security was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

Where there was objective evidence that individual investments were impaired, the cumulative loss recorded in the investment revaluation reserve was taken to the income statement.

From 1 July 2005 onwards:

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

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(iv) Available-for-sale financial assets

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Investments (Continued)

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are substantially carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the income statement as gains or losses from investment securities.

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

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

(j) Deferred income tax

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

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

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

30 June 2006

3. PRINCIPAL ACCOUNTING POLICIES (Continued)**(k) Revenue recognition**

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

- (a) income from securities trading, when the transactions are completed; and
- (b) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(l) Employee benefits**(i) Paid leave carried forward**

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

(ii) Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(iii) Share based payments

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

(m) Foreign currency translation**(i) Functional and presentation currency**

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

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

(iii) Group companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

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

(n) Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(o) Provisions

Provisions are recognised when the Group of the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using the pre-tax rate that reflects current market assessments.

30 June 2006

4. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

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

(i) Market risk

(1) Foreign exchange risk

Most of the Group's investments are located in the PRC where the official currency is RMB. The Group currently does not have a foreign currency hedging policy. However, the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(2) Price risk

The Group is exposed to equity security price risk through its investments in equity securities designated as available-for-sale financial assets. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

(ii) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies that limit the amount of credit exposure to any financial institution.

(iii) Liquidity risk

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

(iv) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets. The Group's income and cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, non-floating shares in PRC investment) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for non-floating shares in PRC investment with reference to the shares compensation proposal of the investee's equity reform scheme.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Fair value of financial instruments

Fair value of financial instruments that are not traded in an active market is determined by using valuation techniques as detailed in Note 4 (b). The Group uses its judgement to select from a variety of methods and make assumptions that are mainly based on market conditions existing at balance sheet date.

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

The Group follows the guidance of HKAS 39 when determining whether a significant or prolonged decline in the fair value of an investment classified as available-for-sale financial assets is an indicator of impairment other than temporary. 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 this investment is less than its cost; and the expected time span the Group will hold this investment. In addition, the Group assesses the annual and semi-annual operating results of the investment. Based on the Group's estimation, impairment of HK\$2,500,000 has been made on available-for-sale financial assets.

6. SEGMENT INFORMATION

The Group is principally engaged in the investment in listed and unlisted companies. Accordingly, no analysis of segmental information by principal activity is presented. No geographical analysis is presented as none of the Group's turnover, results, assets and liabilities are attributable to markets outside the People's Republic of China (including Hong Kong).

7. TURNOVER, OTHER REVENUE AND GAINS

The Group is principally engaged in the investment in listed and unlisted companies. An analysis of turnover, other revenue and gains is as follows:

	2006 HK\$	2005 HK\$
Turnover		
Proceeds from sale of trading securities	—	—
Other revenue and gains		
Interest income	2,570	—

30 June 2006

8. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2006 HK\$	2005 HK\$
Depreciation	30,371	17,458
Lease payments under operating leases on land and buildings	243,772	34,544
Auditors' remuneration	130,000	130,000
Staff costs (excluding directors' remuneration, see note 10):		
Wages and salaries	426,000	329,399
Pension scheme contributions*	34,070	17,013
	460,070	346,412
Loss on disposal of property, plant and equipment	–	21,351
Impairment of available-for-sale financial assets**	2,500,000	–

* At 30 June 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: Nil).

** Included in "Other operating expenses" on the face of the consolidated income statement.

9. FINANCE COSTS

	2006 HK\$	2005 HK\$
Interest expense on:		
Other loans	57,495	19,703
Advances from directors	23,999	53,020
Advance from a shareholder	31,438	77,056
Other payables	1,743	–
	114,675	149,779

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

	2006 HK\$	2005 HK\$
Fees	61,250	75,000
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	1,200,000	900,000
Pension scheme contributions	12,300	10,000
	1,212,300	910,000
	1,273,550	985,000

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

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 30 June 2006 and 2005 is set out below:

	Directors' Fees HK\$	Salaries, allowances and benefits in kind HK\$	Discretionary bonuses HK\$	Share-based payments HK\$	Retirement scheme contributions HK\$	2006 Total HK\$
<i>Executive directors</i>						
Wang Wenxia, Wendy	-	1,200,000	-	-	-	1,200,000
Pong Po Lam, Pual	15,000	-	-	-	-	15,000
Lau Sze Shing, Edward	-	-	-	-	-	-
Chiu Kam Hing, Kathy	8,125	-	-	-	-	8,125
Ho Chiu King, Pansy	8,125	-	-	-	-	8,125
Wu Shenbin	-	-	-	-	-	-
<i>Non-executive directors</i>						
Lan Ning	-	-	-	-	-	-
Chan Po Fun, Peter	15,000	-	-	-	-	15,000
Ding Xiaobin	-	-	-	-	-	-
Chan Man Yee	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
Cheung Wai Bun, Charles	15,000	-	-	-	-	15,000
Zhang Yong	-	-	-	-	-	-
Gu Qiu Rong	-	-	-	-	-	-
	<u>61,250</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,261,250</u>
	Directors' Fees HK\$	Salaries, allowances and benefits in kind HK\$	Discretionary bonuses HK\$	Share-based payments HK\$	Retirement scheme contributions HK\$	2005 Total HK\$
<i>Executive directors</i>						
Wang Wenxia, Wendy	-	550,000	-	-	-	550,000
Pong Po Lam, Pual	15,000	-	-	-	-	15,000
Lau Sze Shing, Edward	-	350,000	-	-	-	350,000
Chiu Kam Hing, Kathy	15,000	-	-	-	-	15,000
Ho Chiu King, Pansy	15,000	-	-	-	-	15,000
Wu Shenbin	-	-	-	-	-	-
<i>Non-executive directors</i>						
Lan Ning	-	-	-	-	-	-
Chan Po Fun, Peter	15,000	-	-	-	-	15,000
Ding Xiaobin	-	-	-	-	-	-
Chan Man Yee	-	-	-	-	-	-
<i>Independent non-executive directors</i>						
Cheung Wai Bun, Charles	15,000	-	-	-	-	15,000
Zhang Yong	-	-	-	-	-	-
Gu Qiu Rong	-	-	-	-	-	-
	<u>75,000</u>	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>975,000</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

30 June 2006

10. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION (Continued)**(b) Five highest paid individuals**

The five highest paid individuals during the year included two (2005: two) directors, details of whose remuneration are set out in Note 10 (a) above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid individuals for the year are as follows:

	2006	Group	2005
	HK\$		HK\$
Basic salaries, housing allowances, other allowances and benefits in kind	1,613,838		329,399
Pension scheme contributions	32,541		17,013
	<u>1,646,379</u>		<u>346,412</u>

Except for the remuneration of one director fell within the remuneration band of HK\$1,000,001 to HK\$1,500,000. The remuneration of the remaining four individuals fell within the remuneration band of Nil to HK\$1,000,000.

11. TAXATION

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2005: Nil).

A reconciliation of the tax expense applicable to loss before tax using the statutory rate to the tax at the effective tax rate is as follows:

Group

	2006		2005	
	HK\$	%	HK\$	%
Loss before taxation	<u>(6,557,134)</u>		<u>(2,552,955)</u>	
Tax at the statutory tax rate of 17.5% (2005: 17.5%)	(1,147,496)	17.5	(446,767)	17.5
Expenses not deductible for tax	542,713	(6.7)	–	–
Deferred tax liabilities not recognised	4,108	(0.1)	(1,866)	–
Tax losses not recognised	<u>600,675</u>	<u>(10.7)</u>	<u>448,633</u>	<u>(17.5)</u>
Tax at effective rate	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group has tax losses arising in Hong Kong of HK\$9,459,384 (2005: HK\$9,459,384) that are available indefinitely for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the Group has been loss-making for some time. There were no material unprovided deferred taxation for the year. (2005: nil).

12. NET LOSS FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

The net loss for the year attributable to shareholders for the year ended 30 June 2006 dealt with in the financial statements of the Company, was HK\$6,557,134 (2005: HK\$2,552,955).

13. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year attributable to shareholders of HK\$6,557,134 (2005: HK\$2,552,955) and the weighted average of 48,000,000 (2005: 48,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 30 June 2006 and 2005 have not been disclosed as no diluting events existed during these two years.

14. PROPERTY, PLANT AND EQUIPMENT

Group and Company	Furniture and fixtures HK\$	Office equipment HK\$	Total HK\$
Cost:			
At 1 July 2004	113,707	215,548	329,255
Additions	90,745	23,056	113,801
Disposals	(113,707)	(215,548)	(329,255)
	<u>90,745</u>	<u>23,056</u>	<u>113,801</u>
At 30 June 2005 and 30 June 2006	90,745	23,056	113,801
Accumulated depreciation:			
At 1 July 2004	62,211	184,504	246,715
Charge for the year	10,409	7,049	17,458
Disposals	(66,948)	(189,632)	(256,580)
	<u>5,672</u>	<u>1,921</u>	<u>7,593</u>
At 30 June 2005	5,672	1,921	7,593
Charge for the year	22,686	7,685	30,371
	<u>28,358</u>	<u>9,606</u>	<u>37,964</u>
At 30 June 2006	28,358	9,606	37,964
Net book value:			
At 30 June 2006	<u>62,387</u>	<u>13,450</u>	<u>75,837</u>
At 30 June 2005	<u>85,073</u>	<u>21,135</u>	<u>106,208</u>

30 June 2006

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	Available-for-sale financial assets	Investment securities
	2006	2005
	HK\$	HK\$
Unlisted equity securities, at cost	15,000,000	15,000,000
Provision for impairment loss	(8,500,000)	(6,000,000)
	6,500,000	9,000,000

As at 30 June 2006, the carrying amounts and further details of interests in the investments were as follows:

Name	Place of incorporation	Particulars of equity interests held	Investment value		Interest held
			Acquisition cost HK\$	At fair value HK\$	
China Link Investment Group Limited ("China Link") (note i)	British Virgin Islands ("BVI")	Ordinary shares of US\$1.00 each	5,000,000	4,000,000	22%
Zhongshan Chinese Standard Building Materials Company Limited (note ii)	The PRC	Registered capital of RMB525,000	5,000,000	2,500,000	1.97%
Sunkock Development Limited ("Sunkock") (note iii)	Hong Kong	Ordinary shares of HK\$1.00 each	5,000,000	–	20%

Notes:

- (i) China Link is principally engaged in the development of a website providing on-line professional consultancy services in the PRC. China Link is not accounted for as an associate as, in the opinion of the directors, the Group has no significant influence over its financial and operating decisions. In February 2004, the investee company of China Link became an overseas listed company through a reverse take-over exercise.
- (ii) Zhongshan Chinese Standard Building Materials Company Limited is principally engaged in the production and distribution of window frames in the PRC.
- (iii) Sunkock is principally engaged in the development of medical products in the PRC.

On 1 July 2005, investment securities classified as non-current assets were designated as available-for-sale financial assets upon adoption of HKAS 39. At 30 June 2005, the investment securities amounted to HK\$9,000,000.

During the year, the directors considered that there was an impairment in the investment in Sunkock as a result of substantial loss incurred by Sunkock and the provision of HK\$2,500,000 was based on the best estimate of the directors, taking into account of all available information.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$	2005 HK\$
Unlisted shares, at cost	32	32
Due from subsidiaries	18,499,968	18,499,968
	18,500,000	18,500,000
Provision for impairment loss	(12,000,000)	(9,500,000)
	6,500,000	9,000,000

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

At 30 June 2006, particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity directly attributable to the Company	Principal activities
Double Lucky Investment Co., Ltd.	BVI	1 ordinary share of US\$1.00	100	Investment holding
Sun Talent Investment Co., Ltd.	BVI	1 ordinary share of US\$1.00	100	Investment holding
Market Place Investment Co., Ltd.	BVI	1 ordinary share of US\$1.00	100	Investment holding
Glorison Limited	BVI	1 ordinary share of US\$1.00	100	Investment holding

30 June 2006

17. OTHER LOANS

Except for loans of HK\$1,000,000 and HK\$200,000 from two independent third parties and a loan of HK\$1,500,000 from a former director which bear interest at the rate of 4.5%, 10% and 3% per annum, respectively; other loans are unsecured, interest free and repayable within one year.

18. DUE TO DIRECTORS

Except for amount of HK\$1,000,000 (2005: HK\$1,000,000) due to a director which bears interest at the rate of 2.4% per annum, the amounts due to directors are unsecured, interest-free and repayable within one year.

19. DUE TO A SHAREHOLDER

On 30 November 2005, a deed of waiver was entered into between the Company and Oceanwide Investments Limited ("Oceanwide"), a shareholder of the Company, pursuant to which, Oceanwide agreed to waive the debt with accrued interest amounted to HK\$2,765,838 due by the Company.

20. ISSUED CAPITAL

	Number of shares	2005 HK\$
Authorised:		
Ordinary shares of HK\$0.10 each	200,000,000	20,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	48,000,000	4,800,000

	Number of shares	2006 HK\$
Authorised:		
Ordinary shares of HK\$0.10 each	200,000,000	20,000,000
Subdivided each unissued share capital into 10 shares of HK\$0.01 each (a)	1,800,000,000	–
	<u>2,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	48,000,000	4,800,000
Capital reduction (a)	–	(4,320,000)
Ordinary share of HK\$0.01 each	<u>48,000,000</u>	<u>480,000</u>

(a) Capital reduction

By a resolution passed at the extraordinary general meeting of the Company held on 6 April 2006, it was resolved that with effect from 9 May 2006:

- (i) the nominal value of each of the issued share of HK\$0.1 each was reduced from HK\$0.1 each to New Share of HK\$0.01 each by canceling the issued share capital to the extent of HK\$0.09 on each of the issued share.
- (ii) each of the authorised but unissued share capital of the Company was sub-divided into 10 New Shares of HK\$0.01 each; and
- (iii) utilize the entire credit arising from the capital reduction of HK\$4,320,000 to eliminate part of the accumulated losses of the Company.

21. SHARE OPTION SCHEME

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations.

On 24 May 2001, the Company approved the Scheme under which the directors may, at their discretion, grant to full-time employees and executive directors of the Group, the right to take up options to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company’s shares on the Stock Exchange on 8 June 2001 and unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Subsequent to the adoption of the Scheme on 24 May 2001, the Stock Exchange introduced a number of changes to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) on share option schemes. These new rules came into effect on 1 September 2001. No share options have been granted under the Scheme since the adoption of these new rules on 1 September 2001. However, any option to be granted under the Scheme shall be subject to the new changes which include, inter alia, the following:

- (a) the maximum number of shares issuable under share options to each eligible participant within any 12-month period is limited to 1% of the shares in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting;
- (b) share options granted to a director, chief executive or substantial shareholder, or to any of their associates, are subject to approval in advance by independent non-executive directors; and
- (c) the exercise price of share options is determined by directors, but may not be less than the higher of: (i) the Stock Exchange closing price of the shares on the date of grant of the share options; and (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the grant.

Under the existing Scheme, the maximum number of shares over which options may be granted may not exceed 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person. The subscription price of the options is to be subject to a minimum which is the higher of the nominal value of a share and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1. The options granted can be exercised at any time during a period specified by the directors, which commences on the grant date and expires on the last day of such period, and in any event such period must not be less than 3 years and not more than 10 years from the grant date of the options.

The Company amended the terms of the Scheme to comply with the requirements of the amended Listing Rules on share option schemes.

30 June 2006

22. RESERVES**(a) Group**

The movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

(b) Company

	Share premium account HK\$	Capital reserve HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2004	32,098,292	–	(33,196,339)	(1,098,047)
Loss for the year	–	–	(2,552,955)	(2,552,955)
At 30 June 2005 and 1 July 2005	32,098,292	–	(35,749,294)	(3,651,002)
Capital reduction (Note 20)	–	–	4,320,000	4,320,000
Waiver of amount due to a shareholder	–	2,765,838	–	2,765,838
Loss for the year	–	–	(6,557,134)	(6,557,134)
At 30 June 2006	32,098,292	2,765,838	(37,986,428)	(3,122,298)

Since the accumulated losses of the Company exceeded the amount standing to the credit of its share premium account as at 30 June 2006. At 30 June 2006 and 2005, the Company did not have any reserves available for distribution.

23. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years.

	Group and Company	
	2006	2005
	HK\$	HK\$
Within one year	107,991	170,352
In the second to fifth years, inclusive	–	107,991
	107,991	278,343

24. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in Notes 18 and 19 to the financial statements, significant related party transactions, which were carried out in the normal course of the Group's business, are summarised as follows:

	Notes	2006 HK\$	2005 HK\$
Investment management fee paid/payable to Glory Investment Assets Limited	(i)	–	100,189
Interest expense paid/payable to a director	(ii)	23,999	8,022
Interest expense paid/payable to a shareholder	(iii)	31,348	77,056
Interest expense paid/payable to a former director	(iv)	44,998	44,998

- (i) Pursuant to the Investment Management Agreement dated 24 May 2001 entered into between the Company and Glory Investment Assets Limited (the "Investment Manager"), the Investment Manager provides investment management services and general administrative services to the Group. Under this arrangement, the Investment Manager is entitled to a monthly management fee payable in advance, calculated at 2.5% per annum of the net asset value of the Group as at the end of the preceding month on the basis of the actual number of days in the relevant calendar month over a year of 365 days. In addition, the Investment Manager is also entitled to 15% of the surplus in net asset value of the Group over a financial year or period.

Pursuant to a supplemental agreement to the Investment Management Agreement dated 25 June 2002 entered into between the Company and the Investment Manager (the "Supplemental Agreement"), the monthly management fee payable in advance was reduced from 2.5% per annum to 2.0% per annum of the net asset value of the Group as at the end of the preceding month, calculated on the basis of the actual number of days in the relevant calendar month over a year of 365 days. The Supplemental Agreement became effective on 2 August 2002.

Ms. Chiu Kam Hing, Kathy, an ex-executive director of the Company, has a 30% equity interest in the Investment Manager.

The Investment Management Agreement expired on 4 July 2005, no management fee was paid/payable during the year.

- (ii) The interest expense paid to a director of the Company relates to an advance granted, further details of which are included in Note 18 to the financial statements.
- (iii) The interest expense paid to a shareholder of the Company related to an advance granted, the advance together with accrued interest amounted to HK\$2,765,838 was waived by the shareholder, further details of which are included in Note 19 to the financial statements.
- (iv) The interest expense paid to a former director of the Company relates to an advance granted, further details of which are included in Note 17 to the financial statements.

30 June 2006

25. POST BALANCE SHEET EVENTS

- (i) Pursuant to an investment management agreement dated 21 February 2006 and subsequently amended on 1 August 2006, Pegasus Fund Managers Limited ("Pegasus"), whereby Pegasus has agreed to provide investment management services to the Company for a period of three years effective from 1 August 2006. Pegasus is entitled to from the Company a management fee calculated at the following rates:
- (1) 2.5% per annum of the net asset value of the Group 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, subject to a monthly minimum fee of HK\$30,000.
 - (2) 10% of the surplus in net asset value of the Group over a financial year or period, which the surplus in the net asset value should be greater than HK\$30,000,000.
- (ii) On 2 November 2005, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash of HK\$8,000,000 for a total of 89,142,857 Subscription Shares which represented the subscription price of approximately HK\$0.0897 per Subscription Share.

The completion of the Subscription Agreement is conditional upon, the Listing Committee of the Stock Exchange granting approval of the listing and permission to deal in the New Shares in issue and consent in principle of the Stock Exchange to the resumption of trading of New Shares in issue on the Stock Exchange having been obtained.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 October 2006.