# PRIME INVESTMENTS HOLDINGS LIMITED

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)
Stock Code : 721

07 Annual Report

## BOARD OF DIRECTORS

### Executive Directors

Ms. Wang Wenxia, Wendy
Mr. Pong Po Lam, Paul
Mr. Wong Kwong Chi, Simon

### Non-Executive Directors

Mr. Lan Ning
Mr. Chan Yan Ting, Gordon
Dr. Chan Po Fun, Peter
Mr. Ding Xiaobin
Mr. Chan Wing Chung, Eric

### 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

Tricor 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
Suite 2901, One Exchange Square
Connaught Place
Central
Hong Kong

## AUDITORS

CCIF CPA Limited
20/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

Suite 6305, 63/F
Central Plaza
18 Harbour Road
Wanchai
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 2007.

## FINANCIAL RESULTS

The Group recorded a net loss attributable to the equity holders of approximately HK$3.5 million as compared to approximately HK$6.5 million in the previous year.

## DIVIDEND

The Board of Directors does not recommend the payment of any dividend for the year ended 30 June 2007.

## 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 People's Republic of China.

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 the year ended 30 June 2007, the Group recorded no turnover which is in the same position as that for the year ended 30 June 2006.

The Company raised net proceeds of approximately HK$64,700,000.00 by way of subscription and new subscriptions by issuing 347,151,037 new shares at a price of HK$0.0897 per share and HK$0.22 per share on 20 June 2007 and 21 June 2007 respectively.

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 3 employees. The total remuneration paid to staff excluding the directors' remuneration was approximately HK$483,000, 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.

With management experts joining the management team to strengthen its leadership and a strengthened financial situation and strong support from the investors through subscription and new subscriptions, we believe that the Company will grow very fast and bring a remarkable return to its shareholders.

## 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 46, 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. Ms. Wang has over 15 years' active experience at the management level in structured finance, investment, merger and acquisition, asset management services. Ms. Wang also has management experience spanning various industries including real estate, mining, mineral processing, import and export ect.

**Mr. Pong Po Lam, Pauls**, aged 51, 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. Wong Kwong Chi, Simon**, aged 55, is the General Partner of Asian Global Capital and also sits on the boards of several listed companies during the last three years, including non-executive director of Hang Fung Gold Technology Limited, independent non-executive director of Fountain Set (Holdings) Limited and independent non-executive director of Glory Mark Hi-Tech (Holdings) Ltd. He has extensive experience in the capital investment market. Mr. Simon Wong holds a Bachelor degree in Science and a Master degree in Business Administration from the Chinese University of Hong Kong. Mr. Simon Wong served as the Chairman of Hong Kong Venture Capital and Private Equity Association, the Vice Chairman of The Hong Kong Electronic Industries Association, and the Vice President of Hong Kong Auto Parts Industry Association. He is now a Member of Financial Services Advisory Committee and an Advisory Committee on the Promotion of Innovation & Technology through the Hong Kong Platform of Hong Kong Trade Development Council, Member of Hong Kong Young Industrialists Council, Committee Member of Federation of Hong Kong Machinery & Metal Industries and Vice President of Hong Kong Critical Components Manufacturers Association.

**Mr. Lan Ning**, aged 44, 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. Chan Yan Ting, Gordon**, aged 51, has extensive experience in automobile industry of the PRC, including the manufacture, sale and trading of automotive parts and components worldwide. Mr. Gordon Chan's businesses cover many regions of the PRC, and his business counterparts include well-known multinational and PRC automobile brands. Mr. Gordon Chan holds many public posts in Hong Kong and the PRC with respect to automobile industry, including but not limited to panel member of Hong Kong Automotive Parts and Components Research and Development Commission of HKSAR Innovation and Technology Commission (香港特區政府創新科技署"香港汽車零部件研究發展中心"委員會), panel member of the PRC Affairs Division of Hong Kong Trade Development Council (香港貿易發展局中國事務委員會), chairman of Automotive Parts and Components Division of Hong Kong Productivity Council (香港生產力促進局－香港汽車零部件工業協會), permanent honor chairman of International Automobile Engineers Institution – Hong Kong (國際汽車工程師學會－香港), deputy chairman of Foreign Investment Commission of Qingyuan, Guangdong Province (廣東省清遠市外商投資企業協會).

**Mr. Ding Xiaobin**, aged 38, graduated with a Master of Business administration degree from Huazhong University of Science and Technology, and 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 directly investment consultant for projects in lines of clothes sales, harbour operation, agricultural, chemical synthesis and so on, with close cooperative relationship with the commercial banks, Insurance Corporation and trusting corporation. 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 85, 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.

**Mr. Chan Wing Chung, Eric**, aged 24, graduated from the University of Edinburgh with a master degree of economics and accounting. Mr. Eric Chan currently works for a private company based in Hong Kong as a marketing executive and is responsible for liaison with clients, following up customers' orders and developing new clients. He is the son of Mr. Gordon Chan.

**Dr. Cheung Wai Bun, Charles**, JP, aged 71, 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. Zhang Yong**, aged 52, 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.

**Mr. Gu Qiu Rong**, aged 41, 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.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2007.

## 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 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 17 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 2007 *HK$*** | Year ended 30 June 2006 *HK$* | Year ended 30 June 2005 *HK$* | Year ended 30 June 2004 *HK$* | Year ended to 30 June 2003 *HK$* |
|---|---|---|---|---|---|
| Turnover | **–** | – | – | – | 3,503,172 |
| Net loss for the year attributable to equity holders | **(3,528,391)** | (6,557,134) | (2,552,955) | (6,100,480) | (18,156,574) |

| | | | As at 30 June | | |
|---|---|---|---|---|---|
| | **2007 *HK$*** | 2006 *HK$* | 2005 *HK$* | 2004 *HK$* | 2003 *HK$* |
| TOTAL ASSETS | **66,479,854** | 6,979,139 | 9,244,245 | 9,256,533 | 15,496,763 |
| TOTAL LIABILITIES | **(7,888,743)** | (9,621,437) | (8,095,247) | (5,554,580) | (4,147,735) |
| | **58,591,111** | (2,642,298) | 1,148,998 | 3,701,953 | 11,349,028 |

## 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 15 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 23 and 24 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 25 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, the Company did not have any reserves available for distribution at 30 June 2006.

## DIRECTORS

The directors of the Company during the year were:

### Executive directors:

Ms. Wang Wenxia, Wendy
Mr. Pong Po Lam, Paul
Mr. Wong Kwong Chi, Simon (appointed on 29 June 2007)

### Non-executive directors:

Mr. Lan Ning *(Chairman)*
Mr. Chan Yan Ting, Gordon (appointed on 29 June 2007)
Dr. Chan Po Fun, Peter
Mr. Ding Xiaobin
Mr. Chan Wing Chung, Eric (appointed on 29 June 2007)

### Independent non-executive directors:

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

In accordance with article 88 of the Company's Bye-Laws, Dr. Cheung Wai Bun, Charles and Mr. Zhang Yong 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 4 to 5 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 28 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 2007, 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:**

| | Number of shares held, capacity and nature of interest | | | | | |
|---|---|---|---|---|---|---|
| Name of a director | Directly beneficially owned | Through spouse or minor children | Through controlled corporation | Beneficiary of a trust | Total | Percentage of the Company's issued share capital |
| Mr. Chan Yan Ting, Gordon *(note)* | – | – | 89,142,857 | – | 89,142,857 | 22.56 |

*Note:*

Mr. Chan Yan Ting, Gordon is a beneficial shareholder of the entired issued share capital of Poly Good Group Limited, which directly holds 89,142,857 shares of the Company.

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 2007, 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 | Capacity and nature of interest | Number of ordinary shares held | Percentage of the Company issued share capital |
|---|---|---|---|
| Poly Good Group Limited *(Note)* | Through controlled corporation | 89,142,857 | 22.56 |
| China Water Investments Limited | Independent third parties | 68,181,818 | 17.25 |
| Fung Cheuk Nang, Clement | Independent third parties | 31,818,182 | 8.05 |
| GEV Investments (Hong Kong) Limited | Independent third parties | 27,100,000 | 6.86 |
| Upkeep Properties Limited | Independent third parties | 25,000,000 | 6.33 |

*Note:*

The entire issued share capital of Poly Good Group Limited is beneficially owned by Mr. Chan Yan Ting, Gordon.

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 *(Continued)*

### 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 28 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 28 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. three audit committee meetings were held during the year and prior to the date of this report.

## AUDITORS

A resolution for the re-appointment of CCIF CPA Limited, Certified Public Accountants, 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
22 October 2007

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 "Mode 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 3 executive directors, 5 non-executive directors and 3 independent non-executive directors:

*Executive directors:*
Ms. Wang Wenxia, Wendy
Mr. Pong Po Lam, Paul
Mr. Wong Kwong Chi, Simon

*Non-executive directors:*
Mr. Lan Ning *(Chairman)*
Mr. Chan Yan Ting, Gordon
Dr. Chan Po Fun, Peter
Mr. Ding Xiaobin
Mr. Chan Wing Chung, Eric

*Independent non-executive directors:*
Dr. Cheung Wai Bun, Charles
Mr. Zhang Yong
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 Mr. 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 6 board meetings.

Attendance of individual directors at regular board meetings in 2007:

Number of Board meetings: 6

| | *Number of Attendance* | % |
|---|---|---|
| Executive directors: | | |
| Ms. Wang Wenxia, Wendy | 6 | 100% |
| Mr. Pong Po Lam, Paul | 3 | 50% |
| Mr. Wong Kwong Chi, Simon *(appointed on 29 June 2007)* | – | – |
| Non-executive directors: | | |
| Mr. Lan Ning | 1 | 17% |
| Mr. Chan Yan Ting, Gordon *(appointed on 29 June 2007)* | – | – |
| Mr. Ding Xiaobin | 5 | 83% |
| Dr. Chan Po Fun, Peter | 3 | 50% |
| Mr. Chan Wing Chung, Eric *(appointed on 29 June 2007)* | – | – |
| Independent non-executive directors: | | |
| Dr. Cheung Wai Bun, Charles | – | – |
| Mr. Gu Qiu Rong | – | – |
| Mr. Zhang Yong | – | – |
| | | 50% |

### 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 2007 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 2007 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 2007 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 three times in 2007. 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 2007:

Number of Board meetings 3

| | *Number of Attendance* | % |
|---|---|---|
| Dr. Cheung Wai Bun, Charles | 3 | 100% |
| Mr. Zhang Yong | 3 | 100% |
| Mr. Gu Qiu Rong | 3 | 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, CCIF CPA Limited is set out as follows:

| **Services rendered** | **Fees paid/payable** |
|---|---|
| | *HK$* |
| CCIF CPA Limited | |
| – Audit Services | 150,000 |

## 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.

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 Independent Auditor's Report on page 16.

CCIF

**CCIF CPA LIMITED**

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

To the shareholders of
**Prime Investments Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Prime Investments Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 17 to 44, which comprise the consolidated and Company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong, 22 October 2007

**Leung Chun Wa**
Practising Certificate Number P04963

For the year ended 30 June 2007

| | Notes | **2007** *HK$* | 2006 *HK$* |
|---|---|---|---|
| TURNOVER | 7 | **–** | – |
| Other income | 7 | **76,000** | 2,570 |
| Administrative expenses | | **(3,456,740)** | (3,945,029) |
| Impairment of available-for-sale financial assets | | **–** | (2,500,000) |
| OPERATING LOSS | | **(3,380,740)** | (6,442,459) |
| Finance costs | 8 | **(147,651)** | (114,675) |
| LOSS BEFORE TAXATION | 9 | **(3,528,391)** | (6,557,134) |
| Taxation | 11 | **–** | – |
| LOSS ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY | 12 | **(3,528,391)** | (6,557,134) |
| Dividends | 13 | **–** | – |
| LOSS PER SHARE | 14 | | |
| Basic | | **(6.11 cents)** | (13.7 cents) |
| Diluted | | **N/A** | N/A |

The notes on pages 22 to 44 form an integral part of these financial statements.

# CONSOLIDATED BALANCE SHEET

As at 30 June 2007

| | Notes | 2007 HK$ | 2006 HK$ |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **45,465** | 75,837 |
| Available-for-sale financial assets | 17 | **6,500,000** | 6,500,000 |
| | | **6,545,465** | 6,575,837 |
| CURRENT ASSETS | | | |
| Amount due from a shareholder | 18 | **19,110** | – |
| Prepayments, deposits and other receivables | | **224,276** | 129,481 |
| Cash and bank balances | 19 | **59,691,003** | 273,821 |
| | | **59,934,389** | 403,302 |
| CURRENT LIABILITIES | | | |
| Other loans | 20 | **1,920,000** | 4,300,000 |
| Other payables and accruals | | **2,050,747** | 2,116,139 |
| Amounts due to directors | 21 | **3,587,996** | 3,205,298 |
| Amount due to a related company | 22 | **330,000** | – |
| | | **7,888,743** | 9,621,437 |
| NET CURRENT ASSETS/(LIABILITIES) | | **52,045,646** | (9,218,135) |
| NET ASSETS/(LIABILITIES) | | **58,591,111** | (2,642,298) |
| CAPITAL AND RESERVES | | | |
| Share capital | 23 | **3,951,510** | 480,000 |
| Reserves | 25 | **54,639,601** | (3,122,298) |
| | | **58,591,111** | (2,642,298) |
| NET ASSET/(LIABILITY) VALUE PER SHARE | 26 | **14.8 cents** | (5.5 cents) |

**Lan Ning**
*Director*

**Wang Wenxia, Wendy**
*Director*

The notes on pages 22 to 44 form an integral part of these financial statements.

# BALANCE SHEET

As at 30 June 2007

| | Notes | 2007 HK$ | 2006 HK$ |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 15 | **45,465** | 75,837 |
| Interests in subsidiaries | 16 | **6,540,832** | 6,500,000 |
| | | **6,586,297** | 6,575,837 |
| **CURRENT ASSETS** | | | |
| Amount due from a shareholder | 18 | **19,110** | – |
| Prepayments, deposits and other receivables | | **224,276** | 129,481 |
| Cash and bank balances | 19 | **59,691,003** | 273,821 |
| | | **59,934,389** | 403,302 |
| **CURRENT LIABILITIES** | | | |
| Other loans | 20 | **1,920,000** | 4,300,000 |
| Other payables and accruals | | **2,050,747** | 2,116,139 |
| Amounts due to directors | 21 | **3,587,996** | 3,205,298 |
| Amount due to a related company | 22 | **330,000** | – |
| | | **7,888,743** | 9,621,437 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **52,045,646** | (9,218,135) |
| **NET ASSETS/(LIABILITIES)** | | **58,631,943** | (2,642,298) |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 23 | **3,951,510** | 480,000 |
| Reserves | 25 | **54,680,433** | (3,122,298) |
| | | **58,631,943** | (2,642,298) |

**Lan Ning**
*Director*

**Wang Wenxia, Wendy**
*Director*

The notes on pages 22 to 44 form an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

| | Share capital *HK$* | Share premium account *HK$* | Capital reserve *HK$* | Investment revaluation reserve *HK$* | Accumulated losses *HK$* | Total *HK$* |
|---|---|---|---|---|---|---|
| At 1 July 2005 | 4,800,000 | 32,098,292 | – | (3,500,000) | (32,249,294) | 1,148,998 |
| Capital reduction *(note 23(a))* | (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 and 1 July 2006 | 480,000 | 32,098,292 | 2,765,838 | (3,500,000) | (34,486,428) | (2,642,298) |
| Issuance of ordinary shares *(note 23(b))* | 3,471,510 | 61,290,290 | – | – | – | 64,761,800 |
| Loss for the year | – | – | – | – | (3,528,391) | (3,528,391) |
| At 30 June 2007 | 3,951,510 | 93,388,582 | 2,765,838 | (3,500,000) | (38,014,819) | 58,591,111 |

The notes on pages 22 to 44 form an integral part of these financial statements.

For the year ended 30 June 2007

| | 2007 HK$ | 2006 HK$ |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Loss before taxation | **(3,528,391)** | (6,557,134) |
| Adjustments for: | | |
| Finance costs | **147,651** | 114,675 |
| Interest income | **–** | (2,570) |
| Depreciation | **30,372** | 30,371 |
| Impairment of available-for-sale financial assets | **–** | 2,500,000 |
| OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL | **(3,350,368)** | (3,914,658) |
| Increase in prepayments, deposits and other receivables | **(94,795)** | (2,667) |
| Increase in amount due from a shareholder | **(19,110)** | – |
| (Decrease)/increase in other payables and accruals | **(65,392)** | 115,096 |
| Increase in amounts due to directors | **382,698** | 1,189,000 |
| Increase in amount due to a related company | **330,000** | – |
| Cash used in operations | **(2,816,967)** | (2,613,229) |
| Interest received | **–** | 2,570 |
| NET CASH USED IN OPERATING ACTIVITIES | **(2,816,967)** | (2,610,659) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issuance of ordinary shares | **64,761,800** | – |
| (Repayment of)/new other loans | **(2,380,000)** | 475,000 |
| Advance from directors | – | 2,400,000 |
| Interest paid | **(147,651)** | (1,743) |
| NET CASH GENERATED FROM FINANCING ACTIVITIES | **62,234,149** | 2,873,257 |
| INCREASE IN CASH AND CASH EQUIVALENTS | **59,417,182** | 262,598 |
| Cash and cash equivalents at beginning of the year | **273,821** | 11,223 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | **59,691,003** | 273,821 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | **59,691,003** | 273,821 |

The notes on pages 22 to 44 form an integral part of these financial statements.

## 1. GENERAL 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 Suite 6305, 63/F., Central Plaza, 18 Harbour Road, Wanchai, 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 the People's Republic of China (the "PRC").

These consolidated financial statements are presented in Hong Kong dollars ("HK$") unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on 22 October 2007.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

### (a) Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also included Hong Kong Accounting Standards ("HKAS") and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

*Adoption of new/revised HKFRSs*

In the current year, the Group has applied, for the first time a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the HKICPA that are effective for the Group's financial year beginning on 1 July 2006. The adoption of the new HKFRSs had no material effect on the Group's results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior year adjustment has been required.

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 disclosed in note 4.

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

### (a) Basis of preparation *(Continued)*

The Group has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Group anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements – Capital Disclosures[1] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK (IFRIC) – Int 10 | Interim Financial Reporting and Impairment[3] |
| HK (IFRIC) – Int 11 | HKFRS 2- Group and Treasury Share Transactions[4] |
| HK (IFRIC) – Int 12 | Service Concession Arrangements[5] |
| HK (IFRIC) – Int 13 | Customer Loyalty Programmes[6] |
| HK (IFRIC) – Int 14 | HKAS 19- The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[5] |

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 November 2006
[4] Effective for annual periods beginning on or after 1 March 2007
[5] Effective for annual periods beginning on or after 1 January 2008
[6] Effective for annual periods beginning on or after 1 July 2008

### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June.

### (c) Subsidiaries

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

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

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

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

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

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

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

All property, plant and equipment are stated at historical 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 an item of assets and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of assets to its residual value over its estimated useful life. The annual rates used for depreciation are as follows:

| | |
|---|---|
| Furniture and fixtures | 25% |
| Office equipment | $33^{1}/_{3}$% |

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

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset was greater than its estimated recoverable amount.

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

### (e) Impairment of interests in subsidiaries and non-financial assets

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

### (f) Financial assets

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

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

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

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

### (f) Financial assets *(Continued)*

*(ii) Loans and receivables*

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

*(iii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative that are either designated or not classified financial assets at fair value through profit or loss, loans and held-to-maturity investments. At each balance sheet date subsequent to the initial recognition, available-for-sale financial assets are measured at fair value. Change in fair value are recognised in equity, until the financial asset is disposed of or determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have quoted market price in an active market and whose fair value cannot be reliably measured, they are stated at cost less any identified impairment losses at each balance sheet date subsequent to the initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent years.

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

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

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

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

### (f) Financial assets *(Continued)*

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 and losses from investment securities".

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

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

### (g) Financial liabilities

The Group's financial liabilities (including other loans, other payables and accruals, amounts due to directors and amount due to a related company) are subsequently measured at amortised cost, using the effective interest method.

### (h) Derecognition

Financial assets are derecognised when the rights to receive cash flow from the asset expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of the ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received or any new asset obtained and the cumulative gain or loss that had been recognised directly in equity is recognised in income statement.

Financial liabilities are decognised when the obligations specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid including other liabilities assumed is recognised in income statement.

### (i) Deferred income tax

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

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

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

### (i) Deferred income tax *(Continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries 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.

### (j) Provisions

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

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

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

### (k) 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 compensation*

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

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

### (l) Contingent liabilities and contingent assets

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

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

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

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

### (m) Operating leases

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

### (n) Cash and cash equivalents

Cash and cash equivalents include cash and other short-term highly liquid investments in hand with original maturities of three months or less.

### (o) 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 Hong Kong dollars, which is the Company's functional and presentation currency.

*(ii) Transactions and balances*

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

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

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

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

### (o) Foreign currency translation *(Continued)*

*(iii) Group companies*

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

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

– 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 transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

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

### (p) Revenue recognition

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

Interest income is recognised on a time-proportion basis using the effective interest method.

### (q) Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

– controls, is controlled by, or is under common control with, the Group;

– has an interest in the Group that gives it significant influence over the Group; or

– has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

## 3. FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

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

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

*(i) Market risk*

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

– Price risk
The Group is exposed to equity securities 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.

– Cash flow and fair value interest rate risk
The Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

*(ii) Credit risk*

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

*(iii) Liquidity risk*

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

## 3. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Fair value estimation

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

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

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

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on 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) Estimated fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques as detailed in note 3(b). The Group uses its judgement to select from a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

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

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

## 5. INVESTMENT MANAGEMENT FEE

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 receive a management fee calculated at the following rates:

(a) 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.

(b) 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.

Management fee paid to Pegasus for the year ended 30 June 2007 amounted to HK$330,000 (2006: HK$Nil).

## 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 PRC (including Hong Kong).

## 7. TURNOVER AND OTHER INCOME

The Group is principally engaged in the investment in listed and unlisted companies.

| | **2007** | 2006 |
|---|---|---|
| | ***HK$*** | *HK$* |
| Turnover | **–** | – |
| Other income | | |
| Interest income | **–** | 2,570 |
| Sundry income | **76,000** | – |
| | **76,000** | 2,570 |

## 8. FINANCE COSTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$*** | *HK$* |
| Interest expense on borrowings wholly repayable within five years: | | |
| Other loans | **74,382** | 57,495 |
| Advances from directors | **73,269** | 23,999 |
| Advance from a shareholder | **–** | 31,438 |
| Other payables | **–** | 1,743 |
| | **147,651** | 114,675 |

## 9. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

| | 2007<br>HK$ | 2006<br>HK$ |
|---|---|---|
| Auditors' remuneration | **150,000** | 130,000 |
| Custodian fee *(note)* | **5,205** | – |
| Depreciation | **30,372** | 30,371 |
| Investment management fee *(note 5)* | **330,000** | – |
| Operating leases charges for premises | **220,380** | 243,772 |
| Staff costs (including directors' remuneration) *(note 10)* | | |
| Salaries and allowances | **1,728,489** | 1,687,871 |
| Contributions to retirement benefits schemes | **33,125** | 34,890 |
| | **1,761,614** | 1,722,761 |

*Note:*

On 12 June 2007, the Company entered into a custodian agreement with Bank of Communications Trustee Limited. The Company paid custodian fee of HK$5,205 during the year.

## 10. DIRECTORS' AND EMPLOYEES' REMUNERATION

Details of emoluments paid or payable by the Group to the directors during the year are as follows:

| | 2007<br>HK$ | 2006<br>HK$ |
|---|---|---|
| Fees | **45,000** | 61,250 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,200,000** | 1,200,000 |
| Retirement scheme contributions | **12,000** | 12,300 |
| | **1,212,000** | 1,212,300 |
| | **1,257,000** | 1,273,550 |

## 10. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

### (a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 30 June 2007 and 2006 is set out below:

| | **Fees** | **Salaries and benefits in kind** | **Retirement scheme contributions** | **2007** |
|---|---|---|---|---|
| | ***HK$*** | ***HK$*** | ***HK$*** | ***HK$*** |
| *Executive directors* | | | | |
| Wang Wenxia, Wendy | **–** | **1,200,000** | **12,000** | **1,212,000** |
| Pong Po Lam, Paul | **15,000** | **–** | **–** | **15,000** |
| Wong Kwong Chi, Simon | **–** | **–** | **–** | **–** |
| *Non-executive directors* | | | | |
| Lan Ning | **–** | **–** | **–** | **–** |
| Chan Po Fun, Peter | **15,000** | **–** | **–** | **15,000** |
| Ding Xiaobin | **–** | **–** | **–** | **–** |
| Chan Yan Ting, Gordon | **–** | **–** | **–** | **–** |
| Chan Wing Chung, Eric | **–** | **–** | **–** | **–** |
| *Independent non-executive directors* | | | | |
| Cheung Wai Bun, Charles | **15,000** | **–** | **–** | **15,000** |
| Zhang Yong | **–** | **–** | **–** | **–** |
| Gu Qiu Rong | **–** | **–** | **–** | **–** |
| | **45,000** | **1,200,000** | **12,000** | **1,257,000** |

| | Fees | Salaries and benefits in kind | Retirement scheme contributions | 2006 |
|---|---|---|---|---|
| | *HK$* | *HK$* | *HK$* | *HK$* |
| *Executive directors* | | | | |
| Wang Wenxia, Wendy | – | 1,200,000 | 12,300 | 1,212,300 |
| Pong Po Lam, Paul | 15,000 | – | – | 15,000 |
| *Non-executive directors* | | | | |
| Lan Ning | – | – | – | – |
| Chan Po Fun, Peter | 15,000 | – | – | 15,000 |
| Ding Xiaobin | – | – | – | – |
| Chiu Kam Hing, Kathy | 8,125 | – | – | 8,125 |
| Ho Chiu King, Pansy | 8,125 | – | – | 8,125 |
| *Independent non-executive directors* | | | | |
| Cheung Wai Bun, Charles | 15,000 | – | – | 15,000 |
| Zhang Yong | – | – | – | – |
| Gu Qiu Rong | – | – | – | – |
| | 61,250 | 1,200,000 | 12,300 | 1,273,550 |

No directors of the Company waived any emoluments in both years.

## 10. DIRECTORS' AND EMPLOYEES' REMUNERATION *(Continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2006: two) directors whose emolument are reflected in the analysis presented above. The emoluments payable to the remaining three (2006: three) individuals during the year are as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$*** | *HK$* |
| Basic salaries, allowances and benefits in kind | **483,489** | 398,838 |
| Retirement scheme contributions | **21,125** | 20,242 |
| | **504,614** | 419,080 |

The emoluments of the three individuals in 2007 and 2006 fell within the band of HK$Nil to HK$1,000,000.

There were no emoluments paid by the Group to any of the five highest paid employees as an inducement to join, or upon joining of the Group, or as compensation for loss in office in both years.

## 11. TAXATION

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Group incurred tax losses for both years.

The taxation charge for the year can be reconciled to the loss before taxation in the consolidated income statement as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$*** | *HK$* |
| Loss before taxation | **(3,528,391)** | (6,557,134) |
| Calculated at an income tax rate of 17.5% (2006: 17.5%) | **(617,468)** | (1,147,499) |
| Tax effect of non-deductible expenses | **–** | 542,716 |
| Tax effect of temporary differences not recognised | **4,264** | 4,108 |
| Tax effect of tax losses not recognised | **613,204** | 600,675 |
| Taxation for the year | **–** | – |

There was no material unprovided deferred taxation for both years.

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

The loss attributable to equity holders is dealt with in the financial statements of the Company to the extent of HK$3,528,391 (2006: HK$6,557,134).

## 13. DIVIDENDS

No dividend was paid or declared by the Company for both years.

## 14. LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to equity holders of the Company of HK$3,528,391 (2006: loss of HK$6,557,134) and the weighted average number of 57,755,214 (2006: 48,000,000) ordinary shares in issue during the year.

Diluted loss per share for the years ended 30 June 2007 and 2006 were not presented as there were no potential dilutive ordinary shares for both years.

## 15. PROPERTY, PLANT AND EQUIPMENT

| **Group and Company** | **Furniture and fixtures** *HK$* | **Office equipment** *HK$* | **Total** *HK$* |
|---|---|---|---|
| Cost: | | | |
| At 1 July 2005, 30 June 2006 and 30 June 2007 | 90,745 | 23,056 | 113,801 |
| Accumulated depreciation: | | | |
| At 1 July 2005 | 5,672 | 1,921 | 7,593 |
| Charge for the year | 22,686 | 7,685 | 30,371 |
| At 30 June 2006 | 28,358 | 9,606 | 37,964 |
| Charge for the year | 22,686 | 7,686 | 30,372 |
| At 30 June 2007 | 51,044 | 17,292 | 68,336 |
| Net book value: | | | |
| At 30 June 2007 | 39,701 | 5,764 | 45,465 |
| At 30 June 2006 | 62,387 | 13,450 | 75,837 |

## 16. INTERESTS IN SUBSIDIARIES

| | Company 2007 HK$ | 2006 HK$ |
|---|---|---|
| Unlisted shares, at cost | **32** | 32 |
| Amounts due from subsidiaries | **18,540,800** | 18,499,968 |
| Less: provision for impairment loss | **(12,000,000)** | (12,000,000) |
| | **6,540,832** | 6,500,000 |

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

The following is a list of subsidiaries held directly by the Company at 30 June 2007:

| Name | Place of incorporation | Issued share capital | Interest held | Principal activities |
|---|---|---|---|---|
| Double Lucky Investment Co., Ltd. | British Virgin Islands ("BVI") | 1 ordinary share at US$1.00 each | 100% | Investment holding |
| Sun Talent Investment Co., Ltd. | BVI | 1 ordinary share at US$1.00 each | 100% | Investment holding |
| Market Place Investment Co., Ltd. | BVI | 1 ordinary share at US$1.00 each | 100% | Investment holding |
| Glorison Limited | BVI | 1 ordinary share at US$1.00 each | 100% | Investment holding |

## 17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$*** | *HK$* |
| Unlisted investment cost | **15,000,000** | 15,000,000 |
| Fair value losses dealt with in investment revaluation reserve | **(3,500,000)** | (3,500,000) |
| Impairment loss recognised | **(5,000,000)** | (5,000,000) |
| | **6,500,000** | 6,500,000 |

As at 30 June 2007, the carrying amounts and further details of investments in unlisted securities were as follows:

| Name | Place of incorporation | Particulars of equity interests held | Investment value Acquisition cost *HK$* | Investment value At fair value *HK$* | Interest held |
|---|---|---|---|---|---|
| China Link Investment Group Limited ("China Link") *(note a)* | BVI | Ordinary shares of US$1.00 each | 5,000,000 | 4,000,000 | 22% |
| Zhongshan Chinese Standard Building Materials Company Limited ("Zhongshan Chinese Standard") *(note b)* | PRC | Registered capital of RMB525,000 | 5,000,000 | 2,500,000 | 1.97% |
| Sunkock Development Limited ("Sunkock") *(note c)* | Hong Kong | Ordinary shares of HK$1.00 each | 5,000,000 | N/A | 20% |

*Notes:*

(a) China Link is principally engaged in the development of a website of providing on-line professional consultancy services in the PRC. In February 2004, the investee company of China Link, China Expert Technology Inc. became an overseas listed company through a reverse take-over exercise.

(b) Zhongshan Chinese Standard is principally engaged in the production and distribution of window frames in the PRC.

(c) Sunkock is principally engaged in the development of medical products in the PRC. The investment is stated at cost less impairment recognised at each balance sheet date. The directors of the Company considered that there would be no prospect of a material recoverability of this investment after their evaluation of the current status in the research and development of certain new medical products undertaken by Sunkock which has ceased its operations The directors are of the opinion that its fair value cannot be measured reliably and therefore full provision for impairment on investment cost was made.

In the opinion of the directors, the Company does not exert any significant influence in China Link and Sunkock, as it does not participate in the financial and operating policy decisions of China Link and Sunkock. Therefore, investments in these companies are classified as available-for-sale financial assets in the financial statements.

## 18. AMOUNT DUE FROM A SHAREHOLDER

The amount due from a shareholder is unsecured, interest free and payable on demand.

## 19. CASH AND CASH EQUIVALENTS

| | Group and Company | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$*** | *HK$* |
| Cash at bank and in hand | **1,691,003** | 273,821 |
| Short-term bank deposits | **58,000,000** | – |
| | **59,691,003** | 273,821 |

The short-term bank deposits were denominated in Hong Kong dollars with an average maturity of 3 months. The effective interest rate on short-term bank deposits was 2.6% per annum as at 30 June 2007.

## 20. OTHER LOANS

Other loans were unsecured, interest free and repayable on demand, except for a loan of HK$1,500,000 due to a former director bearing interest at the rate ranging from of 3% to 8% per annum. All other loans were subsequently repaid in August 2007.

## 21. AMOUNTS DUE TO DIRECTORS

The amounts due are unsecured, interest-free and repayment on demand, except for amount of HK$1,000,000 (2006: HK$1,000,000) due to a director bearing interest at the rate of 2.4% per annum. The whole balances were subsequently repaid in August 2007.

## 22. AMOUNT DUE TO A RELATED COMPANY

The amount due is unsecured, interest free and repayable on demand.

## 23. SHARE CAPITAL

| | | Group and Company | | | |
|---|---|---|---|---|---|
| | | **2007** | | 2006 | |
| | Notes | ***Number of shares*** | ***HK$*** | *Number of shares* | *HK$* |
| Authorised: | | | | | |
| As at 1 July | | | | | |
| Ordinary shares of HK$0.01 (2006: HK$0.10) each | (a) (i) | **2,000,000,000** | **20,000,000** | 200,000,000 | 20,000,000 |
| Subdivided each unissued share into share of HK$0.01 each | (a) (ii) | **–** | **–** | 1,800,000,000 | – |
| As at 30 June | | | | | |
| Ordinary shares of HK$0.01 each | | **2,000,000,000** | **20,000,000** | 2,000,000,000 | 20,000,000 |
| Issued and fully paid: | | | | | |
| As at 1 July | | | | | |
| Ordinary shares of HK$0.01 each (2006: HK$0.10) | | **48,000,000** | **480,000** | 48,000,000 | 4,800,000 |
| Capital reduction | (a) (iii) | **–** | **–** | – | (4,320,000) |
| Issuance of ordinary shares | (b) | **347,151,037** | **3,471,510** | – | – |
| As at 30 June | | | | | |
| Ordinary shares of HK$0.01 each | | **395,151,037** | **3,951,510** | 48,000,000 | 480,000 |

### (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) the entire credit arising from the capital reduction of HK$4,320,000 was ultilised to eliminate part of the accumulated losses of the Company.

### (b) Subscriptions of new shares

(i) On 20 June 2007, the Company issued 89,142,857 ordinary shares of HK$0.01 each at a price of HK$0.0897 per share to the shareholder, Poly Good Group Limited.

(ii) On 21 June 2007, the Company issued 258,008,180 ordinary shares of HK$0.01 each at a price of HK$0.22 per share to 18 independent investors.

All the new ordinary shares issued during the year ranked pari passu in all respects with the then existing ordinary shares of the Company.

## 24. 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.

## 25. RESERVES

### Group

The movements in the Group's reserve for the current and prior years are presented in the consolidated statement of changes in equity on page 20 of the financial statements.

### Company

| | Share premium account HK$ | Capital reserve HK$ | Accumulated losses HK$ | Total HK$ |
|---|---|---|---|---|
| As at 1 July 2005 | 32,098,292 | – | (35,749,294) | (3,651,002) |
| Capital reduction *(note 23(a))* | – | – | 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) |
| As at 30 June 2006 and 1 July 2006 | 32,098,292 | 2,765,838 | (37,986,428) | (3,122,298) |
| Issuance of ordinary shares | 61,290,290 | – | – | 61,290,290 |
| Loss for the year | – | – | (3,487,559) | (3,487,559) |
| **As at 30 June 2007** | **93,388,582** | **2,765,838** | **(41,473,987)** | **54,680,433** |

## 26. NET ASSET/(LIABILITY) VALUE PER SHARE

The calculation of net asset/(liability) value per share is based on the net assets attributable to the equity holders of the company of HK$58,591,111 (2006: net liabilities HK$2,642,298) and 395,151,037 (2006: 48,000,000) ordinary shares in issue as at 30 June 2007.

## 27. OPERATING LEASES COMMITMENTS

At the balance sheet date, the Group had total future outstanding minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | Group and Company | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$*** | *HK$* |
| Within one year | **50,322** | 107,991 |
| In the second to fifth years, inclusive | **–** | – |
| | **50,322** | 107,991 |

## 28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in notes 18, 21 and 22 to the financial statements, the Group entered into the following material related party transactions:

| | *Notes* | **2007** **HK$** | 2006 HK$ |
|---|---|---|---|
| Investment management fee paid/payable to Pegasus Funds Managers Limited | (a) | **330,000** | – |
| Interest expenses paid/payable to directors | (b) | **73,269** | 23,999 |

*Notes:*

(a) 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 a management fee from the Company calculated at the following rates:

(i) 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; and

(ii) 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, an executive director of the Company, has 92% equity interest in Pegasus.

(b) The interest expenses paid to two directors of the Company related to advances granted, further details of which are set out in note 21 to the financial statements.

## 29. POST BALANCE SHEET EVENTS

### (a) Proposed increase in authorised share capital

Subsequent to the balance sheet date, the Company proposed to seek the approval by way of ordinary resolution at the special general meeting by shareholders to increase in its authorised share capital from HK$20,000,000 to HK$300,000,000 by the creation of an additional 28,000,000,000 ordinary shares of HK$0.01 each.

### (b) Proposed open offer

On 29 August 2007, the Company and China Water Investments Limited, a wholly-owned subsidiary of China Water Affairs Group Limited, a public limited company with its shares listed on The Stock Exchange of Hong Kong Limited, entered into an underwriting agreement in relation to the proposed open offer by the Company. Pursuant to the proposed open offer, China Water Investments Limited agreed to subscribe undertaken offer shares in the proportion of five offer shares for every one share held on the record date, up to its commitment of 1,975,755,185 offer shares at a subscription price of HK$0.101 per offer share. On the same date, the Company executed an undertaking with China Water Investments Limited that China Water Investments Limited would take up its entitlement of 1,634,846,095 offer shares under the proposed open offer in full.

Details of the transactions are set out in the Company's announcement dated 5 September 2007.