Greater China Holdings Limited
大中華實業控股有限公司

(Incorporated in Bermuda with limited liability)

Stock code: 431

2006
Annual Report

Contents

Corporate Information

EXECUTIVE DIRECTORS

Ms. Ma Xiaoling *(Chairman)*
Mr. Chan Sze Hon

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Ching Men Ky, Carl
Mr. Lin Ruei Min
Mr. Shu Wa Tung, Laurence

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Sze Hon

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China
Dah Sing Bank
Industrial and Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISORS

Sit, Fung, Kwong & Shum
Michael Cheuk, Wong & Kee

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1301
1 Lyndhurst Tower
1 Lyndhurst Terrace
Central
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

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

STOCK CODE

431

WEBSITE

http://www.irasia.com/listco/hk/greaterchina/index.htm

Chairman's Statement

On behalf of the Board of Directors of Greater China Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I would like to present to the shareholders the 2006 annual report.

REVIEW OF OPERATIONS

Same as last year, we have concentrated our effort on increasing the return from our investment properties, and looking at any potential business opportunities either in Hong Kong or in the People's Republic of China (the "PRC").

The year 2006 has continuously been a commendable year for Hong Kong's property market. In particular, rental income has been mostly exhibiting a gradual uptrend. The Group's investment properties, 1 Lyndhurst Tower, have also benefited from the growth and enjoyed a growth of over 38% in their aggregate valuation, while over 80% of the total gross floor areas was leased out. At the same time, some tenancy agreements of the Group's investment properties were renewed with a double digit rise in the corresponding rental income.

On the other hand, the performance of the Group's investment in the production and sale of organic fertilizers remained worse. Due to keen competition, the operating results were not as good as what we expected, and the management is considering to concentrate on other future projects with good potential.

On 27 February 2006, the Group entered into a sale and purchase agreement with the independent third parties pursuant to which the Group agreed to acquire from one of the independent third parties (the "seller") 51% of the issued share capital of Keycharm Investments Limited ("Keycharm"), a company incorporated in the British Virgin Islands and the sole asset of which is a sino-foreign equity joint-venture incorporated in the PRC, the scope of business of which includes construction of port infrastructure and development of petrochemical industry projects (subject to granting of relevant operating permits) (the "Investment"), and a loan of RMB61,200,000 due from the Seller to the Keycharm at an aggregate cash consideration of RMB61,200,001. We are of the opinion that the Investment provides an opportunity for the Group to broaden its business scope and diversify into industrial property development with focus on port infrastructure. The transaction was completed during September 2006 and Keycharm became one of the members of the Group.

Chairman's Statement

PROSPECTS

As promised, we will continue to explore business opportunities that are valuable to the Group and to our shareholders concerned.

This year is a turning point of the Group. During December 2006, a provisional sale and purchase agreement to dispose of the Group's investment properties was signed with an independent third party (the "Purchaser"). On March 2007, the Purchaser exercised the option to acquire a wholly-owned subsidiary of the Group, which holds the investment properties (the "Disposal"). The selling price represented a premium of over 30% as compared to that of the valuation of the investment properties on June 2006. The Disposal was completed on March 2007, while it released the pressure of the high debt ratio of the Group.

After the completion of the Disposal, the Board considers that the Group is in a strong position to capture any valuable investment opportunity should it arise as the Group will have adequate cash resources on hand. The Board will continue to look for investments with reasonable return by investing on quality property projects in Hong Kong or the PRC, and the Board continues to commit to achieve this objective and is optimistic of its success.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all of our dedicate staff for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

Ma Xiaoling
Chairman

Hong Kong, 20 April 2007

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2006, turnover of the Group amounted to HK$13,576,000 (2005: HK$38,679,000). Net profit for the year attributable to the equity holders of the Company was HK$98,422,000 (2005: HK$43,341,000) and earnings per share was HK34.41 cents (2005: HK17.32 cents).

During the reporting period, revenue from production and sale of fertilizers amounted to HK$3,298,000 (2005: HK$5,796,000), representing approximately 24.3% of the Group's total revenue. Rental income from 1 Lyndhurst Tower amounted to HK$10,278,000 (2005: HK$9,557,000), representing approximately 75.7% of the Group's total revenue and over 80% of the total gross floor area was leased out.

Following the blossoming of the property market, the revaluation of the investment properties has contributed to a profit of HK$121,400,000, and the property investment business remains as the largest profit contributor to the Group.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2006, the Group has current ratio of approximately 1.89 compared to that of 0.70 as at 31 December 2005 and the gearing ratio was 0.83 compared to that of 0.68 as at 31 December 2005. The calculation of gearing ratio was based on the total borrowings of HK$246,946,000 (2005: HK$135,970,000), and the net assets of HK$298,988,000 as at 31 December 2006 (2005: HK$200,324,000).

There were no significant capital commitments as at 31 December 2006 which would require a substantial use of the Group's present cash resources or external funding.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars and Renminbi.

Charges on Assets

As at 31 December 2006, all the Group's investment properties and the issued shares of a wholly owned subsidiary of the Company are pledged and the rental income in respect of the investment properties under operating leases are assigned to banks against bank loans granted to the Group.

Property, plant and equipment of HK$7,005,000 (2005: HK$7,063,000) are pledged against a bank loan granted to the Group.

Management Discussion and Analysis

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2006.

Employees and Remuneration Policies

As at 31 December 2006, the Group has approximately 51 employees. Remuneration is determined by reference to their qualifications and experiences of the staff concerned and according to the prevailing industry practice. Besides salary payments, other staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme.

Ma Xiaoling
Chairman

Hong Kong, 20 April 2007

Biographical Details of Directors

EXECUTIVE DIRECTORS

Ms. Ma Xiaoling, aged 30, is the Chairman of the Company since July 2005. Ms. Ma graduated from Lanzhou Commercial College in the People's Republic of China (the "PRC") in 1998 majoring in International Trade and obtained a Bachelor Degree in Economics. Ms. Ma has years of experience in property development and investments in the PRC and Hong Kong. Ms. Ma is the sole director and beneficial owner of Keenlead Holdings Limited, which is the controlling shareholder of the Company.

Mr. Chan Sze Hon, aged 33, was appointed as Executive Director since July 2005. He graduated from City University of Hong Kong with a Bachelor of Arts Degree in Accountancy and is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He has years of experience in accounting and financial management and had worked for an international accounting firm in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ching Men Ky, Carl, aged 62, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from Tak Ming College with a Bachelor Degree in Business and was awarded with an Honorable Doctorate Degree from Beijing International Business School) in the PRC. Mr. Ching has years of experience in business management. He has also been participating in various social activities and has been acting as the director of United World Chinese Association Limited and the director of Asian Professional Basketball Management and Development Company Limited.

Mr. Lin Ruei Min, aged 63, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from the Department of Politics of Fu Hsing Kang College in Taiwan. Mr. Lin is currently the Chief Consultant of an asset management consultant company in Taiwan. He is the founder of Taiwan branch of United World Chinese Association Limited.

Mr. Shu Wa Tung, Laurence, aged 33, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from Deakin University in Australia with a Bachelor Degree in Business majoring in Accounting. Mr. Shu is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a CPA member of CPA Australia. He has years of experience in audit, corporate finance and corporate advisory services. He is currently the chief financial officer and company secretary of a listed company in Hong Kong.

Corporate Governance Report

The Company is committed to maintain high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The Company has always recognized the importance of the shareholders' transparency and accountability. It is the belief of the Board that shareholders can maximize their benefits from good corporate governance.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Code on Corporate Governance") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, except for the following deviations:

– Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

  Ms. Ma Xiaoling is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Ms. Ma and believes that her appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

– Code A.4.1 stipulates that non-executive directors should be appointed for specific terms and subject to re-election.

  The independent non-executive directors of the Company were not appointed for any specific terms, as they are subject to retirement by rotation at the Company's annual general meeting in accordance with the Company's Bye-laws.

– Code E.1.2 stipulates that the chairman of the board should attend the annual general meeting.

  The Chairman, Ms. Ma Xiaoling, did not attend the 2005 annual general meeting which was held on 2 June 2006 due to her personal reason. Nevertheless, all other directors, including all independent non-executive directors, attended the meeting and the board has endeavoured to maintain an on-going dialogue with shareholders and to provide effective communication with shareholders.

Corporate Governance Report

THE BOARD

The Board comprises two Executive Directors, being Ms. Ma Xiaoling (Chairman) and Mr. Chan Sze Hon, and three Independent Non-Executive Directors, being Mr. Ching Men Ky Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung Laurence.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence across the Board and has met the recommended practice under the Code on Corporate Governance for the Board to have at least one-third in number of its members comprising Independent Non-Executive Directors.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence in accordance with Rule 3.13 of the Listing Rules.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances, but the day-to-day management is delegated to the two Executive Directors, Ms. Ma Xiaoling and Mr. Chan Sze Hon. Ms Ma as Chairman and Chief Executive Officer heads the Board and implements the strategies and polices approved by the Board whilst Mr. Chan is responsible for the operations of the Group, in particular the finance function.

BOARD MEETING

The Board held 10 meetings during the year. The individual attendance record is as follows:

Directors	**Number of attendance**
Executive directors:	
Ms. Ma Xiaoling	8/10
Mr. Chan Sze Hon	10/10
Independent non-executive directors:	
Mr. Ching Men Ky Carl	4/10
Mr. Lin Ruei Min	5/10
Mr. Shu Wa Tung Laurence	6/10

Corporate Governance Report

Directors have timely access to relevant information prior to each board meeting. Directors are given the opportunity to include matters in the agenda for regular board meetings while Directors are entitled to have access to board papers and related materials to allow them to make informed decisions on matters arising from board meetings.

Minutes of board meetings and meetings of other committees are kept by the Company Secretary and are open for inspection by directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all directors whether the directors have complied with the required standard set out in the Model Code regarding directors' securities transactions and all directors confirmed that they have complied with the Model Code.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The Group's financial statements for the year ended 31 December 2006 have been reviewed by the audit committee. The audit committee of the Company currently comprises three independent non-executive directors, including Mr. Ching Men Ky, Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung, Laurence.

The audit committee meets twice during the year. The individual attendance record is as follows:

Directors	**Number of attendance**
Mr. Ching Men Ky Carl	2/2
Mr. Lin Ruei Min	2/2
Mr. Shu Wa Tung Laurence	2/2

REMUNERATION COMMITTEE

The Board has established a remuneration committee. The remuneration committee, currently comprising executive directors, Ms. Ma Xiaoling and Mr. Chan Sze Hon, and independent non-executive directors, Mr. Ching Men Ky, Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung, Laurence, is responsible for advising the Board on the remuneration policy and framework of the Company's directors and senior management member(s), as well as reviewing and determining the remuneration of all executive directors and senior management member(s) with reference to the Company's objectives from time to time. The remuneration committee met once during the year with full attendance to review the remuneration policy and remuneration packages of the Executive Directors and members of the senior management.

Corporate Governance Report

NOMINATION OF DIRECTORS

The Board considers the determination of the appointment and removal of directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Code on Corporate Governance to set up a Nomination Committee. Instead, however, the Board will meet to discuss nomination of directors when circumstances required. Upon receipt of a nomination from the members of the Board, a board meeting will then be convened to consider and discuss the nominated candidates(s) for the directorship. Criteria adopted by the Board in considering the suitability of a candidate for directorship includes his/her qualifications, experience, expertise and knowledge as well as the requirements under the Listing Rules.

AUDITORS' REMUNERATION

During the year under review, the total remuneration in respect of audit services and review on interim financial results paid to the Company's auditors, Messrs. Deloitte Touche Tohmatsu, amounted to HK$2,775,000 and HK$143,000. No other non-audit service assignment was provided by them.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of its principal subsidiaries are set out in note 1 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 20.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTIES

The Group revalued its investment properties at the balance sheet date. The increase in fair value has been credited to consolidated income statement. Details of movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES

During the year under review, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover attributable to the Group's five largest customers was less than 30% of the total turnover for the year. The largest supplier and the five largest suppliers accounted for 19% and 48% of the Group's purchases respectively.

None of the directors, their associates, or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest suppliers.

DIRECTORS

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

Executive directors:
Ms. Ma Xiaoling *(Chairman)*
Mr. Chan Sze Hon

Independent non-executive directors:
Mr. Ching Men Ky, Carl
Mr. Lin Ruei Min
Mr. Shu Wa Tung, Laurence

In accordance with clauses 99(A) and 99(B) of the Company's Bye-Laws, Ms. Ma Xiaoling and Mr. Shu Wa Tung, Laurence will retire and, being eligible, offer themselves for re-election.

Independent non-executive directors are not appointed for a specific term. All directors (including independent non-executive directors) are subject to retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' SERVICE CONTRACTS

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

Directors' Report

DIRECTORS' INTEREST IN SHARES

As at 31 December 2006, the interests of the directors and chief executive of the Company in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which the director is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions

Name	**Nature of interest**	**Number of shares held**	**Percentage to issued share capital**
Ms. Ma Xiaoling	Corporate interests *(Note)*	120,212,256	42.03%

Note: Ms. Ma Xiaoling is the beneficial owner of the entire issued share capital of Keenlead Holdings Limited, which owned 120,212,256 shares in the Company as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, none of the directors and chief executive of the Company had an interest or short position in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which the director is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed in note 30 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 December 2006, the following shareholders had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company:

Name	*Note(s)*	**No. of shares held**	**Percentage to issued share capital**
Keenlead Holdings Limited	*1*	120,212,256	42.03%
Ms. Ma Xiaoling	*1*	120,212,256	42.03%
China Main Investment (H.K.) Company Limited	2	32,000,000	11.19%
Centre Mark Development Limited	*2*	32,000,000	11.19%
Sino Elite International Limited	*2*	32,000,000	11.19%
China Main Group Company Limited	*2*	32,000,000	11.19%
Mr. Chen Dacheng	*2*	32,000,000	11.19%
Shenzhen Venture Capital (BVI) Company Limited	*3*	32,000,000	11.19%
Mr. Mei Jian	*3*	32,000,000	11.19%
Mr. Zhang Minlong	*3*	32,000,000	11.19%

Directors' Report

Notes:

1. The entire issued share capital of Keenlead Holdings Limited is wholly and beneficially owned by Ms. Ma Xiaoling.

2. China Main Investment (H.K.) Company Limited ("China Main") is owned as to 60% by Centre Mark Development Limited and as to 40% by Sino Elite International Limited. Centre Mark Development Limited is owned as to 99.99% by Mr. Chen Dacheng and as to 0.01% by China Main Group Company Limited. Sino Elite International Limited is owned as to 99.99% by China Main Group Company Limited and as to 0.01% by Mr. Pai Chin Ming. China Main Group Company Limited is owned as to 99% by Mr. Chen Dacheng and as to 1% by Mr. Pai Chin Ming.

3. On 14 April 2003, Shenzhen Venture Capital (BVI) Company Limited ("Shenzhen Venture Capital") reported that it has a security interest in 32,000,000 shares. Shenzhen Venture Capital is owned as to 50% by Mr. Mei Jian and 50% by Mr. Zhang Minlong.

Save as disclosed above, the Company has not been notified of any other shareholders who had any interest or short position in the shares and underlying shares of the company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company as at 31 December 2006

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the directors and eligible employees, details of the scheme is set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

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

Directors' Report

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 37 to the financial statements.

AUDITORS

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Ma Xiaoling

Chairman

Hong Kong, 20 April 2007

Independent Auditor's Report

Deloitte.
德勤

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF GREATER CHINA HOLDINGS LIMITED
大中華實業控股有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Greater China Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 62, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED 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 Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the

Independent Auditor's Report

consolidated 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 consolidated financial statements.

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Revenue	6	**13,576**	38,679
Rental outgoings		**(2,055)**	(592)
Cost of sales		**(2,366)**	(23,117)
Gross profit		**9,155**	14,970
Other income	7	**2,610**	176
Gain on change in fair value of investment properties		**121,400**	52,600
Selling and distribution costs		**(1,020)**	(1,406)
Administrative expenses		**(16,543)**	(11,193)
Impairment loss on goodwill	20	**(7,783)**	–
Impairment loss on prepayments	19	**(8,054)**	–
Finance costs	8	**(8,971)**	(5,950)
Profit before taxation		**90,794**	49,197
Income tax (credit) charge	9	**(6,040)**	6,040
Profit for the year	10	**96,834**	43,157
Attributable to:			
Equity holders of the Company		**98,422**	43,341
Minority interests		**(1,588)**	(184)
		96,834	43,157
Earnings per share	13		
– Basic		**34.41 cents**	17.32 cents
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

At 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	14	**8,794**	5,447
Land lease prepayment	15	**30,460**	3,232
Investment properties	16	**–**	318,600
Available-for-sale investments	17	**3,000**	3,000
Deposit paid for acquisition of subsidiaries	18	**–**	11,590
Prepayments	19	**10,164**	–
Goodwill	20	**–**	–
		52,418	341,869
Current assets			
Inventories	21	**69**	533
Held-for-trading investment	22	**–**	48
Trade and other receivables	23	**22,525**	953
Land lease prepayment	15	**707**	72
Prepayments and deposits	24	**1,743**	1,142
Amount due from a minority shareholder of a subsidiary	36(a)	**40,687**	–
Bank balances and cash	24	**57,361**	24,192
		123,092	26,940
Assets classified as held for sale	25	**440,000**	–
		563,092	26,940
Current liabilities			
Trade and other payables	26	**11,200**	8,012
Amount due to minority shareholders of subsidiaries	36(b)	**65,475**	6,258
Rental deposits		**3,878**	3,107
Taxation		**14,687**	14,687
Bank loans	27	**181,471**	6,362
		276,711	38,426
Liability associated with assets classified as held for sale	25	**22,000**	–
		298,711	38,426

Consolidated Balance Sheet

At 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
Net current assets (liabilities)		**264,381**	(11,486)
Total assets less current liabilities		**316,799**	330,383
Non-current liabilities			
Bank loans	27	**–**	123,350
Deferred taxation	28	**696**	6,709
		696	130,059
Total assets and liabilities		**316,103**	200,324
Capital and reserves			
Share capital	29	**1,430**	1,430
Reserves		**297,558**	198,894
Equity attributable to equity holders of the Company		**298,988**	200,324
Minority interests		**17,115**	–
Total equity		**316,103**	200,324

The financial statements on pages 20 to 62 were approved and authorised for issue by the Board of Directors on 20 April 2007 and are signed on its behalf by:

Ma Xiaoling
DIRECTOR

Chan Sze Hon
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company						
	Share capital	Share premium	Translation reserve	Deficit	Total	Minority interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	1,192	348,091	–	(215,774)	133,509	184	133,693
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	–	–	153	–	153	–	153
Profit (loss) for the year	–	–	–	43,341	43,341	(184)	43,157
Total recognised income and expense for the year	–	–	153	43,341	43,494	(184)	43,310
Issue of ordinary shares	238	23,083	–	–	23,321	–	23,321
At 31 December 2005 and 1 January 2006	1,430	371,174	153	(172,433)	200,324	–	200,324
Arising on acquisition of subsidiaries	–	–	–	–	–	18,336	18,336
Exchange differences arising on translation of operations outside Hong Kong recognised directly in equity	–	–	242	–	242	367	609
Profit (loss) for the year	–	–	–	98,422	98,422	(1,588)	96,834
Total recognised income and expense for the year	–	–	242	98,422	98,664	(1,221)	97,443
At 31 December 2006	1,430	371,174	395	(74,011)	298,988	17,115	316,103

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**90,794**	49,197
Adjustments for:			
Amortisation and depreciation		**866**	534
Loss on disposal of property, plant and equipment		**–**	11
Impairment loss on goodwill		**7,783**	–
Impairment loss on prepayments		**8,054**	–
Gain on change in fair value of investment properties		**(121,400)**	(52,600)
Interest income		**(390)**	(62)
Finance costs		**8,971**	5,950
Operating cash flows before movements in working capital		**(5,322)**	3,030
Decrease (increase) in inventories		**485**	(306)
Decrease in held-for-trading investment/investments in securities		**48**	19,166
Decrease in trade and other receivables		**510**	389
(Increase) decrease in prepayments and deposits		**(501)**	247
Increase (decrease) in trade and other payables		**3,030**	(1,986)
Increase (decrease) in rental deposits		**771**	(134)
Cash (used in) from operations		**(979)**	20,406
Interest paid		**(8,971)**	(5,950)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(9,950)**	14,456
INVESTING ACTIVITIES			
Net cash outflow arising from acquisition of subsidiaries	*31*	**(25,468)**	(4,000)
Purchase of property, plant and equipment		**(2,214)**	(831)
Prepayments for a warehouse project		**(164)**	–
Deposit paid for acquisition of subsidiaries	*18*	**–**	(11,590)
Repayment from a minority shareholder of a subsidiary		**18,139**	–
Interest received		**390**	62
NET CASH USED IN INVESTING ACTIVITIES		**(9,317)**	(16,359)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	NOTES	2006 HK$'000	2005 HK$'000
FINANCING ACTIVITIES			
Bank loans raised		**75,600**	131,963
Advance from minority shareholders of subsidiaries		**163**	2,675
Proceeds from issue of shares		**–**	23,321
Repayment to directors		**–**	(3,268)
Repayment of bank loans		**(23,841)**	(132,676)
NET CASH FROM FINANCING ACTIVITIES		**51,922**	22,015
NET INCREASE IN CASH AND CASH EQUIVALENTS		**32,655**	20,112
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**24,192**	4,080
Effect of foreign exchange rate changes		**514**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash		**57,361**	24,192

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The Company acts as an investment holding company. Particulars of the Company's principal subsidiaries at 31 December 2006, are as follows:

Name	Place of incorporation and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
China Faith Limited	Hong Kong	Ordinary HK$10,000	–	100%	Property investment
Delight Link Enterprises Limited	Hong Kong	Ordinary HK$2	100%	–	Provision of administrative services to group companies
珠海經濟特區瑞農植保技術有限公司 Zhuhai S.E.Z. Rui Nong Plant Protection Technology Co. Ltd.	PRC	Registered capital RMB8,000,324	–	51%	Production and sale of fertilizers and chemicals
Keycharm Investments Limited ("Keycharm") *	British Virgin Islands ("BVI")	Ordinary US$100	–	51%	Investment holding
太倉中化國際興業石化開發建設有限公司 Taicang Sinochem International Xingye Petrochemical Development Company Limited ("Taicang") *	PRC	Registered capital RMB140,000,000	–	44%	Industrial property development with focus on port infrastructure

* *These companies were acquired during the year ended 31 December 2006. Taicang is a subsidiary as it is indirectly held and controlled by the Company's subsidiary.*

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

1. GENERAL *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the balance sheet date.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet as an intangible asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill arising on acquisitions on or after 1 January 2005 (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Rental income is recognised on a straight-line basis over the relevant lease term.

Sales of goods are recognised when goods are delivered and title has passed.

Sale proceeds on trading of securities are recognised on a trade date basis when the sale and purchase agreement becomes unconditional.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment, other than factory building under construction, are stated at cost less depreciation and amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than factory building under construction, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	5%
Plant and machinery	10% – 20%
Furniture, fixtures and equipment	10% – 33%
Motor vehicles	20%

Factory buildings under construction are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasehold land held for owner-occupied purpose

The leasehold land component is classified as a land lease prepayment and is amortised on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in income statement for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Impairment of tangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of tangible assets excluding goodwill *(Continued)*

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method.

Leasing

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

As lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

As lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in income statement in the period in which the foreign operation is disposed of.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme") and state-managed retirement benefit scheme which are defined contribution scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are mainly classified into financial assets at held-for-trading investments, loans and receivables or available for sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each of the categories of the Group's financial assets are set out below:

– Held-for-trading investments

  At each balance sheet date subsequent to initial recognition, held-for-trading investments are measured at fair value, with changes in fair value recognised directly in income statement in the period in which they arise.

– Available-for-sale financial assets

  Available-for-sale financial assets include available-for-sale investments and are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale financial assets with fair value that cannot be measured reliably, such equity investments are measured at cost less impairment. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods through income statement.

– Loans and receivables

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, deposits, amount due from a minority shareholder of a subsidiary, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

– Financial liabilities

  Financial liabilities include trade and other payables, amounts due to minority shareholders of subsidiaries and bank borrowings are subsequently measured at amortised cost, using the effective interest rate method.

– Equity instruments

  Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of 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 and receivables is recognised in income statement.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in income statement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to carrying amount of the assets and liabilities within the next financial year, are discussed below.

Impairment loss on land lease prepayment and non-current prepayments

Determining whether land lease prepayment and non-current prepayments are impaired requires an estimation of the value in use of the cash-generating units to which the asset has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, bank balances and cash, deposits, trade and other payables, amount(s) due from/to minority shareholder(s) and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings (see note 27 for details of these borrowings). It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

6. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising on sales of fertilizers and chemicals, proceeds from securities trading and rental income. An analysis of the Group's revenue for the current and prior year is as follows:

	2006	2005
	HK$'000	HK$'000
Sales of goods	**3,298**	5,796
Proceeds from securities trading	**–**	23,326
Rental income	**10,278**	9,557
	13,576	38,679

Business segments

For management purposes, the Group is currently organised into fertilizers and chemicals, property investment, investment holding and industrial property development with focus on port infrastructure divisions, which are the basis on which the Group reports its primary segment information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

INCOME STATEMENT

For the year ended 31 December 2006

	Fertilizers and chemicals HK$'000	Property investment HK$'000	Investment holding HK$'000	Industrial property development HK$'000	Consolidated HK$'000
SEGMENT REVENUE	3,298	10,278	–	–	13,576
RESULTS					
Segment result	(1,186)	129,831	1,578	(11,281)	118,942
Unallocated corporate income					3
Unallocated corporate expenses					(19,245)
Unallocated finance costs					(8,906)
Profit before taxation					90,794
Income tax credit					(6,040)
Profit for the year					96,834

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

INCOME STATEMENT *(Continued)*

For the year ended 31 December 2005

	Fertilizers and chemicals HK$'000	Property investment HK$'000	Investment holding HK$'000	Consolidated HK$'000
SEGMENT REVENUE	5,796	9,557	23,326	38,679
RESULTS				
Segment result	(495)	61,381	2,661	63,547
Unallocated corporate income				32
Unallocated corporate expenses				(8,491)
Unallocated finance costs				(5,891)
Profit before taxation				49,197
Income tax charge				6,040
Profit for the year				43,157

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

BALANCE SHEET

At 31 December 2006

	Fertilizers and chemicals HK$'000	Industrial Property investment HK$'000	Investment holding HK$'000	property development HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	12,176	477,591	4,026	120,136	613,929
Unallocated corporate assets					1,581
Consolidated total assets					615,510
LIABILITIES					
Segment liabilities	10,108	30,701	–	59,295	100,104
Unallocated corporate liabilities					199,303
Consolidated total liabilities					299,407

At 31 December 2005

	Fertilizers and chemicals HK$'000	Property investment HK$'000	Investment holding HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	5,168	339,590	14,601	359,359
Unallocated corporate assets				9,450
Consolidated total assets				368,809
LIABILITIES				
Segment liabilities	1,742	7,658	–	9,400
Unallocated corporate liabilities				159,085
Consolidated total liabilities				168,485

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

OTHER INFORMATION

For the year ended 31 December 2006

	Fertilizers and chemicals HK$'000	Investment holding HK$'000	Property investment HK$'000	Industrial property development HK$'000	Others HK$'000	Total HK$'000
Capital additions						
Acquisition of subsidiaries	–	–	–	28,949	–	28,949
Other additions	2,187	–	–	–	27	2,214
Amortisation and depreciation	518	–	–	255	93	866
Impairment loss on goodwill	–	–	–	7,783	–	7,783
Impairment loss on prepayments	–	–	–	8,054	–	8,054

For the year ended 31 December 2005

	Fertilizers and chemicals HK$'000	Investment holding HK$'000	Property investment HK$'000	Others HK$'000	Total HK$'000
Capital additions	410	–	–	421	831
Amortisation and depreciation	491	–	–	43	534

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

6. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2006	2005
	HK$'000	HK$'000
Hong Kong	**10,278**	32,883
Other regions in the People's Republic of China (the "PRC")	**3,298**	5,796
	13,576	38,679

The following is an analysis of the carrying amount of total assets and additions to property, plant and equipment, land lease prepayment, and goodwill, analysed by geographical area in which the assets are located.

	Carrying amount of segment assets		**Additions to property, plant and equipment, land lease prepayment and goodwill**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**481,617**	354,191	**27**	421
Other regions in the PRC	**132,312**	5,168	**31,136**	410
	613,929	359,359	**31,163**	831

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

7. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Exchange gain	1,556	–
Bank interest income	390	62
Sundry income	282	19
Government grant	235	–
Scrap sales	147	95
	2,610	176

8. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest on borrowings wholly repayable within five years:		
Bank borrowings	8,685	5,721
Other advances	286	229
	8,971	5,950

9. INCOME TAX (CREDIT) CHARGE

The (credit) charge for the year is represented by changes in deferred tax (note 28).

No provision for taxation has been made in the financial statements as the subsidiaries operating in Hong Kong incurred tax loss for the both years.

Pursuant to the relevant laws and regulations in the PRC, subsidiaries in the PRC is entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation, followed by a 50% deduction for the next three years. No provision for PRC income tax has been made as the subsidiaries are not making profit in the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

9. INCOME TAX (CREDIT) CHARGE *(Continued)*

The income tax (credit) charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	2006	2005
	HK$'000	HK$'000
Profit before taxation	**90,794**	49,197
Tax charge at Hong Kong profits tax rate of 17.5%	**15,889**	8,609
Tax effect of expenses not deductible for tax purpose	**3,608**	1,268
Tax effect of income not taxable for tax purpose	**(21,590)**	(1,340)
Overprovision of deferred taxation in prior year	**(6,132)**	–
Tax effect of tax losses not recognised	**2,188**	1,144
Tax effect of utilisation of tax assets not previously recognised	**–**	(3,648)
Others	**(3)**	7
Income tax (credit) charge for the year	**(6,040)**	6,040

10. PROFIT FOR THE YEAR

	2006	2005
	HK$'000	HK$'000
Profit for the year has been arrived at after charging (crediting):		
Amortisation of land lease payments	**233**	72
Depreciation of property, plant and equipment	**633**	462
	866	534
Auditors' remuneration	**720**	550
Loss on disposal of property, plant and equipment	**–**	11
Rental income less outgoings of HK$2,055,000 (2005: HK$592,000)	**(8,223)**	(8,965)
Realised gain on sale of investments	**–**	(4,159)
Staff costs including directors' emoluments	**6,015**	5,669

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 5 (2005: 11) directors were as follows:

	Ma Xiaoling HK$'000	Chan Sze Hon HK$'000	Carl, Ching Men Ky HK$'000	Lin Ruei Min HK$'000	Laurence Shu Wa Tung HK$'000	2006 HK$'000
Fees	–	–	240	240	240	720
Other emoluments						
Salaries and other benefits	1,826	770	–	–	–	2,596
Contribution to retirement benefits schemes	–	12	–	–	–	12
Total emoluments	1,826	782	240	240	240	3,328

	Xu Ying HK$'000	Liu Ming Hui HK$'000	Ma Xiaoling HK$'000	Chan Sze Hon HK$'000	Zhang Shuang HK$'000	Wang Xianjun HK$'000	Terence, Wan Tze Fan HK$'000	Liu Fengliang HK$'000	Carl, Ching Men Ky HK$'000	Lin Ruei Min HK$'000	Laurence Shu Wa Tung HK$'000	2005 HK$'000
Fees	–	–	–	–	10	72	72	73	100	100	100	527
Other emoluments												
Salaries and other benefits	1,074	1,074	662	273	–	–	–	–	–	–	–	3,083
Contribution to retirement benefits schemes	–	–	–	6	–	–	–	–	–	–	–	6
Total emoluments	1,074	1,074	662	279	10	72	72	73	100	100	100	3,616

No director waived any emoluments in the years ended 31 December 2006 and 2005.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2005: three) are directors of the Company whose emoluments are included in note 11 above. The aggregate emoluments of the remaining individual (2005: two) are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**403**	885
Retirement benefit scheme contributions	**5**	9
	408	894

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of HK$98,422,000 (2005: HK$43,341,000) and 285,989,000 shares (2005: weighted average of 250,300,000 shares) in issue during the year.

No diluted earnings per share has been presented because the Company has no potential ordinary shares issued in both years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Factory building under construction	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2005	4,771	924	129	114	–	5,938
Exchange difference	343	53	9	13	–	418
Additions	–	210	456	–	165	831
Disposals	–	–	(28)	–	–	(28)
At 31 December 2005						
and 1 January 2006	5,114	1,187	566	127	165	7,159
Exchange difference	205	47	8	32	6	298
Acquisition of subsidiaries	–	–	187	1,346	–	1,533
Additions	–	–	91	–	2,123	2,214
At 31 December 2006	5,319	1,234	852	1,505	2,294	11,204
DEPRECIATION AND IMPAIRMENT						
At 1 January 2005	1,029	60	36	17	–	1,142
Exchange difference	70	36	7	12	–	125
Provided for the year	256	120	63	23	–	462
Eliminated on disposals	–	–	(17)	–	–	(17)
At 31 December 2005						
and 1 January 2006	1,355	216	89	52	–	1,712
Exchange difference	54	9	1	1	–	65
Provided for the year	266	123	135	109	–	633
At 31 December 2006	1,675	348	225	162	–	2,410
NET BOOK VALUES						
At 31 December 2006	3,644	886	627	1,343	2,294	8,794
At 31 December 2005	3,759	971	477	75	165	5,447

The buildings are situated on a piece of land in the PRC held under a medium-term land use right.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

15. LAND LEASE PREPAYMENT

The Group's land lease prepayment represents payment for medium-term land use rights in the PRC and is charged to the income statement on a straight-line basis for the usage of land.

	2006	2005
	HK$'000	HK$'000
Analysed as:		
Current assets	**707**	72
Non-current assets	**30,460**	3,232
	31,167	3,304

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2005	266,000
Increase in fair value	52,600
At 31 December 2005 and 1 January 2006	318,600
Increase in fair value	121,400
Transfer to assets classified as held for sale *(note 25)*	(440,000)
At 31 December 2006	–

The fair value of the Company's investment property at 31 December 2006 has been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited (2005: LCH (Asia – Pacific) Surveyors Limited), a firm of qualified professional valuers. The director of DTZ Debenham Tie Leung Limited who carries out the valuation is a registered professional surveyor, and a valuer on the "List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in connection with Takeovers and Mergers" published by Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of similar properties in Hong Kong. The valuation, which conforms to HKIS Valuation Standards, was arrived at by reference to market evidence of recent transaction prices for similar properties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

16. INVESTMENT PROPERTIES *(Continued)*

The Group's investment properties are situated in Hong Kong and are held under a long lease. They are rented out under operating leases to earn rentals or for capital appreciation purpose.

17. AVAILABLE-FOR-SALE INVESTMENTS

At 31 December 2006, the Group had unlisted equity interest in the following company:

Name of company	Country of incorporation/ operation	Class of capital held	Proportion of registered capital held in directly by the Company	Nature of business
Hunan Zhongrong Real Estate Development Company Limited 湖南中榮房地產開發有限公司	PRC	Registered capital	18%	Property development

The above investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably. The directors of the Company have performed impairment review on these unlisted equity securities and no impairment loss is considered necessary.

18. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

At 31 December 2005, the amount represented a payment for the acquisition of a 51% interest in Keycharm Investments Limited.

19. PREPAYMENTS

The amount represents prepayment paid to various developers in connection with potential port infrastructure and warehouse projects. At 31 December 2006, the management of Company reassessed the status of the port infrastructure project and an impairment loss of HK$8,054,000 in respect to the prepayment for port infrastructure was recognised at 31 December 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

20. GOODWILL

	HK$'000
At 1 January 2006	–
Arising on acquisition of subsidiaries *(note 31)*	7,783
Impairment loss	(7,783)
At 31 December 2006	–

During the year ended 31 December 2006, the Group recognised an impairment loss of HK$7,783,000 in relation to the goodwill arising on acquisition of subsidiaries (note 31).

Upon entering into a conditional agreement to acquire the subsidiaries in February 2006, the management of Company anticipated that the underlying projects would be profitable and agreed to acquire the subsidiaries at a consideration of approximately HK$60,000,000. Goodwill of HK$7,783,000 arising from such acquisition was attributable to potential port infrastructure project. At 31 December 2006, the management of Company reassessed the status of the relevant projects and, except for an industrial depot project the land use right of which has been granted to the Group, was uncertain whether future cash inflows would arise from the potential port infrastructure projects. An impairment loss of HK$7,783,000 has been recognised in the income statement accordingly.

21. INVENTORIES

	2006 **HK$'000**	2005 HK$'000
Raw materials, at cost	**69**	174
Finished goods, at cost	**–**	359
	69	533

22. HELD-FOR-TRADING INVESTMENT

Held-for-trading investment as at 31 December 2005 represented unlisted unit trust outside Hong Kong. The fair value of the held-for-trading investment is determined based on the quoted market prices available from the financial institution.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

23. TRADE AND OTHER RECEIVABLES

	2006	2005
	HK$'000	HK$'000
Trade receivables	**424**	953
Other receivables	**101**	–
Deposit receivable on disposal of investment properties	**22,000**	–
	22,525	953

Rentals receivable from tenants are payable on presentation of invoices. The Group allows an average credit period of 30 days to other trade customers.

The following is an aged analysis of trade receivables of the Group at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
0 – 60 days	**343**	298
61 – 90 days	**81**	647
Over 90 days	**–**	8
	424	953

The fair values of the Group's trade and other receivables at 31 December 2006 approximate to the corresponding carrying amounts.

24. PREPAYMENTS AND DEPOSITS/BANK BALANCES AND CASH

All bank saving deposit balances are interest bearing at commercial interest rates, and the effective interest rates of the Group's bank balances ranged from 0.72% to 2.75% for both year.

The fair values of the Group's deposits, bank balances and cash at 31 December 2006 approximate to the corresponding carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

25. ASSETS CLASSIFIED AS HELD FOR SALE/(LIABILITY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE)

	HK$'000
Investment properties	440,000
Deposit on disposal of investment properties	(22,000)
	418,000

Pursuant to an agreement dated 15 December 2006 (the "Provisional Agreement") and a supplemental agreement dated 22 January 2007 (the "Supplemental Agreement") entered into between China Faith Limited (the "Vendor") and GC Acquisitions III Limited (the "Purchaser"), a company incorporated in BVI with limited liability, the Vendor would dispose of the investment properties to the Purchaser. In addition, Sharp Star Investment Corporation, the immediate holding company of the Vendor, granted an option to the Purchaser to purchase the entire issued share capital of the Vendor. Details of those are set out in the Company's circular dated 31 January 2007. At 31 December 2006, it was uncertain whether the Purchaser would exercise the option as certain conditions precedent to the Provisional Agreement had not been satisfied. The Purchaser has paid an initial deposit of HK$22,000,000 at 31 December 2006.

The Provisional Agreement and Supplemental Agreement were approved by the shareholders of the Company on 22 February 2007 and the Purchaser exercised the option on 26 February 2007 to acquire the entire issued share capital of the Vendor. Details of those are set out in the Company's announcement dated 26 February 2007.

On 2 March 2007, Sharp Star Investment Corporation entered into a share agreement as amended by a supplemental share agreement with the Purchaser to purchase the entire share capital of China Faith Limited. Details of this are set out in the Company's announcement dated 6 March 2007. Disposal of the Vendor was completed on 20 March 2007 as disclosed in note 37.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

26. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables of the Group at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
Trade payables aged within 60 days	**–**	59
Other payables	**11,200**	7,953
	11,200	8,012

The fair value of the Group's trade and other payables at 31 December 2006 approximated to the corresponding carrying amount.

27. BANK LOANS

	2006	2005
	HK$'000	HK$'000
The maturity of the bank loans is as follows:		
Repayable		
– on demand or within one year	**29,167**	6,362
– between one and two years	**8,761**	123,350
– between two and five years	**123,929**	–
– over five years	**19,614**	–
	181,471	129,712
Less: Amount due within one year shown under current liabilities *(Note)*	**(181,471)**	(6,362)
	–	123,350

Note: In the opinion of directors, the bank loans secured by investment properties will be repaid when the investment properties are disposed. All bank loans will be repaid within 12-month.

The range of effective interest rates on the Group's variable-rate bank loans are 4.74% to 6.73% (2005: 4% to 4.9%) per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

27. BANK LOANS *(Continued)*

The bank loans are secured by:

(a) Building and plant and land lease prepayment with an aggregate carrying amount of HK$7,005,000 (2005: HK$7,063,000),

(b) the Group's investment properties and the Company's investment in shares of China Faith Limited, a subsidiary for the year end 31 December 2006, and

(c) the assignment of rental income in respect of the investment properties under operating leases for the year.

28. DEFERRED TAXATION

The major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years are as follows:

	Property, plant and equipment HK$'000	Investment properties HK$'000	Unrealised holding gain on other investments HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2005	662	–	1,373	(1,378)	657
Exchange difference	12	–	–	–	12
Charge (credit) to income statement	11	6,132	(1,373)	1,270	6,040
At 31 December 2005 and 1 January 2006	685	6,132	–	(108)	6,709
Exchange difference	27	–	–	–	27
(Credit) charge to income statement	(8)	(6,132)	–	100	(6,040)
At 31 December 2006	704	–	–	(8)	696

At the balance sheet date, the Group has unused tax losses of HK$101,858,000 (2005: HK$89,922,000), available for offset against future profits. A deferred tax asset has been recognised in respect of HK$46,000 (2005: HK$611,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$101,812,000 (2005: HK$89,311,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Notes to the Consolidated Financial Statements

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29. SHARE CAPITAL

	Number of shares '000	Nominal amount HK$'000
Authorised:		
Ordinary shares of HK$0.005 each at 1 January 2005, 31 December 2005 and 2006	421,978,000	2,109,890
Preference shares of HK$0.005 each at 1 January 2005, 31 December 2005 and 2006	22,000	110
Issued and fully paid:		
Ordinary shares of HK$0.005 each		
At 1 January 2005	238,389	1,192
Issue of shares	47,600	238
At 31 December 2005 and 31 December 2006	285,989	1,430

30. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at a special general meeting of shareholders held on 22 April 2002, the Company adopted a share option scheme (the "Scheme") which enables the directors of the Company to grant options to employees (including directors) of the Group in recognition of their contribution to the Group. The Scheme will expire on 21 April 2012.

No option has been granted under the Scheme since its adoption.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

31. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2006

In September 2006, the Group acquired a 51% interest in Keycharm, which holds a 85.71% interest in the registered capital of Taicang (collectively the "Keycharm Group"), for a total consideration of RMB61,200,001 (approximately HK$60,000,000). The consideration of RMB61,200,001 represents the acquisition of 51% interest in Keycharm for RMB1 and the settlement of shareholders loans advanced to the Keycharm Group of RMB61,200,000. This transaction has been accounted for using the purchase method of accounting.

	Carrying amount and fair value HK$'000
Net assets acquired	
Property, plant and equipment	1,533
Land lease prepayment	27,416
Prepayments	17,700
Prepayments and deposits	100
Amount due from a minority shareholder	58,826
Bank balances and cash	22,942
Other payables	(190)
Amounts due to shareholders	(57,774)
	70,553
Minority interests	(18,336)
Goodwill arising on acquisition	7,783
Consideration, satisfied by settlement of the shareholders' loans of HK$60,000,000	60,000
Net cash outflow arising on acquisition	
Cash consideration paid for shares	–
Settlement of shareholders' loan to the Keycharm Group, amount paid in 2006 (HK$11,590,000 was paid in 2005)	(48,410)
Bank balances and cash acquired	22,942
	(25,468)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

31. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2006 *(Continued)*

The subsidiaries acquired in September 2006 contributed nil revenue and a loss of HK$9,535,000 to the Group in the year ended 31 December 2006.

If the acquisition had been completed on 1 January 2006, total Group's revenue for year would have been HK$13,576,000, and profit for the year would have been HK$64,993,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

For the year ended 31 December 2005

In 2005, HK$4,000,000 was paid to the vendor as the deferred consideration for the acquisition of a 51% interest in Lucky Green Limited in 2004.

32. MAJOR NON-CASH TRANSACTIONS

Upon signing the Provisional Agreement (note 25), the Purchaser paid an initial deposit of HK$22,000,000 to the Vendor. The amount was held by a lawyer on behalf of the Vendor as at 31 December 2006.

33. OPERATING LEASE ARRANGEMENTS

As lessor

At the balance sheet date, investment properties were leased out for periods ranging from 1 to 3 years and some of the leases have renewal options given to the lessees. The future minimum lease payments receivable by the Group under non-cancellable operating leases are as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**10,428**	7,846
In second to fifth year inclusive	**4,591**	5,015
Total	**15,019**	12,861

Notes to the Consolidated Financial Statements

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33. OPERATING LEASE ARRANGEMENTS *(Continued)*

As lessee

	2006	2005
	HK$'000	HK$'000
Minimum lease payments under operating leases in respect of office properties and motor vehicles	**403**	190

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**155**	538
In second to fifth year inclusive	**24**	184
	179	722

Operating lease payments represent rentals payable by the Group for certain of its office properties and motor vehicles. Leases are negotiated for an average term of two years.

34. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	HK$'000
Commitments in respect of the acquisition of property, plant and equipment contracted for but not provided	**8,553**	1,544

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

35. RETIREMENT BENEFITS SCHEMES

The Group is required to participate in the MPF Scheme in respect of its employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Both the Group and its employees contribute 5% of the relevant payroll costs to the MPF Scheme.

The employees of the Company's subsidiaries established in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

Contributions to the retirement benefit schemes for the year amounted to HK$76,000 (2005: HK$71,000).

36. RELATED PARTY TRANSACTIONS AND BALANCES

(a) The amount due from a minority shareholder of a subsidiary is unsecured, non-interest bearing and repayable on demand. The fair value of the balance at 31 December 2006 approximates to its fair value.

(b) Including in the amount due to minority shareholders of subsidiaries of HK$5,039,000 (2005: HK$4,238,000) is unsecured, interest-bearing at 6% per annum and is repayable on demand. The amount of interest paid during the year is approximately HK$286,000 (2005: HK$149,000). The remaining balance is unsecured, non-interest bearing and repayable on demand. The fair values of the balances at 31 December 2006 approximate to their corresponding carrying amounts.

(c) At the balance sheet date, a minority shareholder of a subsidiary provided a guarantee, at no charge to the Group, to a bank for a bank loan of HK$1,600,000 (2005: HK$962,000) granted to a subsidiary.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is HK$3,736,000 (2005: HK$4,510,000) disclosed in notes 11 and 12.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

37. POST BALANCE SHEET EVENTS

The disposal of China Faith Limited was completed on 20 March 2007 and the related assets and liabilities to be disposed at 31 December 2006 are as follow:

	HK$'000
Assets	
Investment properties	440,000
Rental and other receivables	22,424
Utility deposits	861
Bank balances and cash	14,306
	477,591
Liabilities	
Other payables	26,823
Rental deposits	3,878
Amount due to immediate holding company	84,317
Bank loans	179,871
	294,889
Net assets	182,702

Financial Summary

	Year ended 31.12.2006 HK$'000	Year ended 31.12.2005 HK$'000	Year ended 31.12.2004 HK$'000	Year ended 31.12.2003 HK$'000	Year ended 31.12.2002 HK$'000
RESULTS					
Revenue	**13,576**	38,679	15,207	25,287	43,126
Profit (loss) for the year	**96,834**	43,157	12,061	(107,791)	(83,349)
Attributable to:					
Equity holders of the Company	**98,422**	43,341	12,709	(107,791)	(83,349)
Minority interests	**(1,588)**	(184)	(648)	–	–
	96,834	43,157	12,061	(107,791)	(83,349)

	31.12.2006 HK$'000	31.12.2005 HK$'000	31.12.2004 HK$'000	31.12.2003 HK$'000	31.12.2002 HK$'000
ASSETS AND LIABILITIES					
Total assets	**615,510**	368,809	303,558	271,938	416,875
Total liabilities	**(299,407)**	(168,485)	(169,865)	(170,290)	(213,535)
Minority interests	**(17,115)**	–	(184)	–	–
Equity attributable to equity holders of the Company	**298,988**	200,324	133,509	101,648	203,340

Particulars of Properties Held for Investment

At 31 December 2006

Location	Type	Lease term
Various retail shops and office units of 1 Lyndhurst Tower 1 Lyndhurst Terrance 78 Wellington Street Central Hong Kong	Commercial	Long lease