Annual Report 06

FORTUNA 廣益

國際集團有限公司

INTERNATIONAL HOLDINGS LIMITED

Stock Code : 530

Contents

Corporate Information

EXECUTIVE DIRECTORS

WONG Ching Ping, Alex *(Chairman)*
WONG Tak Chung, Andrew

INDEPENDENT NON-EXECUTIVE DIRECTORS

HUI Wai Man, Shirley
TANG Yiu Wing
TSO Hon Sai, Bosco

AUDIT COMMITTEE

TSO Hon Sai, Bosco *(Chairman)*
HUI Wai Man, Shirley
TANG Yiu Wing

REMUNERATION COMMITTEE

TANG Yiu Wing *(Chairman)*
HUI Wai Man, Shirley
TSO Hon Sai, Bosco

COMPANY SECRETARY

CHEUNG Ka Lok

QUALIFIED ACCOUNTANT

CHEUNG Ka Lok

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited
Wing Hang Bank Limited
Bank of China (Hong Kong) Limited
Nanyang Commercial Bank Limitd

AUDITORS

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

REGISTRAR IN BERMUDA

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

REGISTRAR IN HONG KONG

Secretaries Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Wanchai
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL PLACE OF BUSINESS

Room 1901, 19/F, Hutchison House
10 Harcourt Road
Central
Hong Kong

STOCK CODE

530

Management Discussion and Analysis

RESULTS

Turnover of Fortuna International Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006 was approximately HK$51.2 million (2005: HK$26.5 million) and net profit attributable to the shareholders was approximately HK$73.6 million (2005: net loss of HK$150.5 million). The results for the year is satisfactory, with turnover increased by almost 93% as compared with that of the last financial year, and the gross profit for the year was approximately HK$19.6 million (2005: HK$10.5 million), which is an increase of 86% as compared with that of the last financial year. The increase in turnover and gross profit was mainly attributable to the steady income stream from the Japanese restaurant operation (which was acquired by the Group in April 2005) and glass eel trading (which was set up by the Group in October 2005). The profit for the year was mainly due to the Group's realisation of its investment property at an attractive price. The disposal of the Right Emperor Commercial Building by the Group was completed on 28 December 2006, and the disposal had brought about a gain of approximately HK$40 million to the Group.

BUSINESS REVIEW

The refining of the Group's structure and business had always been the major consideration of the directors of the Company (the "Directors" or the "Board") for all these years. The business of the Group continued to undergo restructuring during the year. The Group had successfully trim down unsatisfactory operations, such as the trading of jewellery, artwork design and general trading. Resources were effectively utilized for the development of the Japanese restaurant operation and the glass eel trading. Despite the closing down of some of its operations (i.e. the trading of jewellery, artwork design and general trading), the Group was still able to maintain a steady income stream.

Restaurant operation

The Group has been engaging in the restaurant operation for almost 2 years. With the expertise of the staff and a good management team, the Group was able to maintain a steady income from this operation. It was acquired by the Group in April 2005 when the Directors at that time were confident that the Group's profit would be able to ride on the improving economic condition in Hong Kong. The results of the restaurant operation was proven to be satisfactory after one year from acquisition, and therefore the Group acquired a further 5% interests in the restaurant business in May 2006. The Group is now interested in 80% of the restaurant operation. In mid December 2006, the Group expanded its restaurant business by opening new outlet in Hong Kong. This segment contributes approximately HK$16.7 million revenue for the year and with a profit of HK$571,000 (2005: revenue HK$10.2 million, profit HK$478,000). Both revenue and profit of restaurant operation remained stable.

Glass eel trading business

The glass eel trading business provides a steady income base for the Group. The turnover and the profit from this segment were approximately HK$26.8 million and HK$205,000 for the year respectively (2005: for the 2 months period from setting up of the business in October 2005 to 31 December 2005, the turnover was HK$8.4 million and profit was HK$400,000). The glass eel trading business is subject to seasonal fluctuations. The peak and active months of trading are usually starting from October to April of next year in line with breeding months of glass eel. The Group so far has adopted conservative strategy in the glass eel trading business, instead of putting massive efforts in expansion or brand building.

Management Discussion and Analysis

Property investment

On 18 September 2006, the Company announced that Harbour Wealth Investment Company Limited, its wholly owned subsidiary, had entered into a provisional agreement with an independent third party to dispose of Right Emperor Commercial Building at a consideration of HK$159.8 million. The disposal of the Property was completed on 28 December 2006. Details of the disposal were stated in a circular of the Company dated 25 October 2006. The disposal was a responsive decision of the Directors to the robust economic condition of Hong Kong during the fourth quarter of 2006. The return on the investment was satisfactory and a gain of approximately HK$40 million was recorded from disposal. Other than the Right Emperor Commercial Building, the Group has 2 residential and 1 industrial premises for long term investment and for rental purpose. The disposal of Right Emperor Commercial Building and the rental from the other properties of the Group contributed a profit of approximately HK$43 million for the year (2005: HK$2.2 million). Despite that the gain from the disposal of the Right Emperor Commercial Building is a non-recurring income, the Directors consider that with the cash obtained from the disposal, the Group is able to invest into new business or property.

Skin and health care business

The skin and health care business had been operating at loss for years. Therefore, the Group discontinued its skin and health care business at the end of May 2006. No turnover or profit has been recorded since the beginning of the year. The gain on disposal of this operation is approximately HK$11 million.

Trading of jewellery and other products and provision of artwork design services

No turnover has been recorded for the year from the trading of jewellery (2005: HK$3.7 million), the trading of other products (2005: HK$28,000) and the provision of artwork design (2005: HK$1.1 million). Most of these operations have been operating at loss for years and the Directors do not envisage any prospect in these businesses. Instead of allocating resources to revive the business, the Board resolved to trim down these businesses since last year. The Directors believe that it would be beneficial to the Group and the shareholders of the Company to dispose of these debt-laden and loss-making businesses. As such, the Directors decided to dispose of these operations and had been seeking for purchaser since mid December 2006. During the preparation of the annual audit of the Group for the year ended 31 December 2006, the management of the jewellery and other products trading segment refused to provide accounting records and documents for audit. Despite repeated demands for the accounts, there were still no sign of cooperation from the management of the subsidiaries. During the year, the Directors had reviewed the measures in controlling the management of the subsidiaries from time to time, however, such attempts to reinforce control over them were not successful. The financial statements of the Group for the year was prepared on the basis that the results of the trading of jewellery and other products segments were excluded from the consolidated financial statements of the Group with effect from 1 January 2006.

Trading of wine

The trading of wine segment was able to generate approximately HK$3.8 million of turnover for the year (2005: HK$2.3 million). Although the turnover increased by 65% this year, the business was still operating at loss. As such, the Directors considered that it did not worth the resources and effort to maintain the trading of wine segment in the long run.

PROSPECTS

To restructure the Group's business by disposing those poorly performed business and uncooperative subsidiaries has always been the Group's strategy and the Directors' major concern. Active steps have been taken by the Directors since 2004.

On 2 March 2007, the Group has entered into a conditional sale and purchase agreement to dispose the non-core business, including the trading of jewellery, trading of steel, trading of other products, trading of wine and the provision of artwork design to a director of its subsidiaries. The disposal was completed on 16 April 2007 and it was a strategic move of the Group to dispose all of its loss-making operations. The Directors believe that, after the disposal, the Group will be able to turn itself from a loss-making Group to a healthy one with stable income and profit.

With the improvement in the cash and gearing position as a result of the disposal of the Right Emperor Commercial Building and those loss-making companies, the Group can now concentrate on its remaining business, including the restaurant operation and the trading of glass eels. The Company can also concentrate on its resources in expanding the Group's business by acquiring or setting up new restaurants, or invest into new businesses. The Directors are open to all investment opportunities that are beneficial to the Group. The Directors will also use their best effort to improve the internal control over the Group's subsidiaries.

FINANCIAL INFORMATION

The Group financed its operations by cash generated from operations, proceeds from open offer of Company's shares and banking facilities granted by its principal bankers to its subsidiaries.

As at 31 December 2006, the Group's gearing ratio was 0.005 (2005: 0.51) (calculated on the basis of total bank and other borrowings over shareholders' fund).

The Group's total bank and other borrowings amounted to approximately HK$701,000 (2005: HK$18 million) as at 31 December 2006. As at 31 December 2006, the Group had no secured bank loans and overdrafts. At 31 December 2005, the Group's secured bank loan and overdrafts are mainly secured by investment properties, long term investment, and guarantees granted by directors of certain subsidiaries.

The Group's core operation was in Hong Kong and had limited exposure to the fluctuations in exchange rates, bank balances and borrowings were mainly denominated in Hong Kong dollars.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group has 86 employees (2005: 79). Total staff costs were approximately HK$9.7 million (2005: HK$12.6 million). Employee remuneration was determined in accordance with individual's responsibility, performance and experience. Staff benefits include contributions to Mandatory Provident Fund Scheme, share option scheme, medical allowances and other fringe benefits.

CONTINGENT LIABILITY

The Group did not have any significant contingent liability at the balance sheet date.

CAPITAL STRUCTURE

(a) By a special resolution passed by the shareholders of the Company on 20 March 2006, the share capital of the Company reorganised as follows with effect from 20 March 2006:

(i) cancelled paid up capital to the extent of HK$0.0099 on each ordinary share of the Company so that the nominal value of each issued share was reduced from HK$0.01 to HK$0.0001 ("Capital Reduction");

(ii) subdivided each of the authorised but unissued share of HK$0.01 into 100 ordinary shares of nominal value of HK$0.0001 each;

(iii) subdivided each of the authorised but unissued convertible preference share of the Company of HK$1,000,000 each into 100 convertible preference shares of nominal value of HK$10,000 each;

(iv) cancelled the entire amount standing to the credit of the share premium account of the Company as at 20 March 2006 ("Share Premium Reduction"); and

(v) transferred the credit arising from the Share Premium Reduction and the Capital Reduction totalling HK$698,781,000 to the contributed surplus account of the Company and applied the amount therein to set off against the Company's accumulated losses of HK$688,054,000 in accordance with the applicable laws, including the laws of Bermuda and the bye-laws of the Company.

(b) By an ordinary resolution passed by the shareholders of the Company on 20 March 2006, every 10 of the ordinary shares of the Company (both issued and unissued) of HK$0.0001 each were consolidated into one new share of HK$0.001 each and every 10 of the convertible preference shares of the Company of HK$10,000 each were consolidated into one new convertible preference share of HK$100,000 each.

(c) On 25 April 2006, 2,720,363,644 ordinary shares ("Offer Shares") of HK$0.001 were issued at HK$0.01 per share through an open offer ("Open Offer") to the shareholders of the Company. The Offer Shares rank pari passu in all respects with the then existing shares of the Company. The premium arose from the issue of the Offer Shares of approximately HK$24,483,000, net of share issuing expenses of approximately HK$1,212,000 was credited to the share premium account. The Company used the net proceeds from the Open Offer of approximately HK$992,000 for the Group's general working capital and approximately HK$25,000,000 used for settling part of the consideration payable of the acquisition of State Empire Limited by the Group.

(d) By an ordinary resolution passed by the shareholders of the Company on 14 November 2006, every 20 of the ordinary shares of the Company (both issued and unissued) of HK$0.001 each were consolidated into one new share of HK$0.02 each.

CHARGE OF ASSETS

None of the Group's investment properties were pledged as security for banking facilities of the Group (2005: HK$22 million).

Biographies of Directors

Mr. Wong Ching Ping, Alex, *Chairman and Executive Director*
Mr. Wong, aged 52, graduated from University of Toronto, Canada, with a Master's Degree in Business Administration. Mr. Wong has extensive experience in the financial services sector and in the management of listed companies in Hong Kong. He joined the Company in August 2006.

Mr. Wong Tak Chung, Andrew, *Executive Director*
Mr. Wong, aged 46, is a Fellow of the Institute of Commercial Management in the United Kingdom. He holds a Bachelor's Degree in Science and a Master's Degree in Management. He has more than 17 years' experience in the investment services sector and has extensive experience in corporate restructuring, investment strategy and business development. Mr. Wong has been engaged as consultant for the business development of a number of listed companies in Hong Kong as well as advisory board member for companies abroad. Mr. Wong has been a visiting lecturer for various universities and distinguished speaker for government and industry conferences. He has also been admitted to the International Who's Who of Professional since 2001. He joined the Company in September 2005.

Mr. Tso Hon Sai, Bosco, *Independent Non-Executive Director*
Mr. Tso, aged 42, is a solicitor practising in Hong Kong since 1990. He is a partner of Tso Au Yim & Yeung, Solicitors. He graduated from King's College London in the United Kingdom in 1987. Mr. Tso is an executive director of Tiger Tech Holdings Limited which is a listed public company in Hong Kong. He joined the Company in July 2003.

Ms. Hui Wai Man, Shirley, *Independent Non-Executive Director*
Ms. Hui, aged 39, is a practising accountant in Hong Kong. She has over 20 years of professional experience in public accounting and corporate finance. She is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She is also an independent non-executive director of Eco-Tek Holdings Limited and Freeman Corporation Limited which are listed public companies in Hong Kong. She joined the Company in June 2006.

Mr. Tang Yiu Wing, *Independent Non-Executive Director*
Mr. Tang, aged 40, is a practising solicitor in Hong Kong. He holds a Bachelor's Degree in Law, a Postgraduate Certificate in Law from the University of Hong Kong and a Master's Degree in Law from the City University of Hong Kong. He is a member of the Law Society of Hong Kong and was admitted as a solicitor of the Supreme Court of England and Wales and a barrister and solicitor of the Supreme Court of Tasmania. Mr. Tang is an independent non-executive director of Foundation Group Limited which is a listed public company in Hong Kong. He joined the Company in September 2006.

Report of the Directors

The Directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in notes 18 and 19 to the financial statements, respectively.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 89.

The Directors did not recommend the payment of any dividend in respect of the year.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate and after adjustment for the effect of the prior year adjustment in 2006 is set out below.

	Year ended 31 December				
	2006	2005	2004	2003	2002
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER					
Continuing operations	**51,177**	26,481	141,619	–	–
Discontinued operations	**–**	258	2,475	195,456	152,916
	51,177	26,739	144,094	195,456	152,916
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**73,426**	(150,640)	(50,682)	(36,693)	(27,953)

	As at 31 December				
ASSETS, LIABILITIES AND MINORITY INTERESTS	**2006**	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**154,471**	95,255	307,422	566,697	475,855
Total liabilities	**(19,616)**	(59,846)	(126,966)	(298,189)	(219,527)
Minority interests	**(207)**	(179)	(1,078)	(107,453)	(96,451)
	134,648	35,230	179,378	161,055	159,877

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Company and the Group are set out in notes 15 and 16 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company for the year ended 31 December 2006, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

The Company did not have any reserves available for cash distribution or distribution in specie at 31 December 2006 as computed in accordance with the Companies Act 1981 of Bermuda (as amended). The Company's share premium account as at 31 December 2006 is HK$23,271,000. On 20 March 2006, an amount of HK$564,123,000 standing to the credit of share premium account and the credit arising from the Capital Reduction were transferred to the contributed surplus account and an amount of HK$688,054,000 standing to the contributed surplus account was applied to set off against the accumulated losses of the Company.

DIRECTORS

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

Executive Directors	
Kwok Ying Chuen	(resigned on 1 June 2006)
Yu Won Kong, Dennis	(resigned on 1 June 2006)
Wong Tak Chung, Andrew	
Wong Ching Ping, Alex *(Chairman)*	(appointed on 9 August 2006)
Independent Non-executive Directors	
Tso Hon Sai, Bosco	
Kwok Chi Sun, Vincent	(resigned on 19 June 2006)
Cheng Wing Keung, Raymond	(resigned on 20 September 2006)
Hui Wai Man, Shirley	(appointed on 19 June 2006)
Tang Yiu Wing	(appointed on 20 September 2006)

In accordance with Bye-laws 91 and 99(B) of the Company's Bye-laws, Mr. Wong Ching Ping, Alex, Ms. Hui Wai Man, Shirley, Mr. Tang Yiu Wing and Mr. Tso Hon Sai, Bosco, will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office of each independent non-executive Director, is the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance of the Laws of Hong Kong (the "SFO")) which were required, pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), to be notified to the Company and the Stock Exchange, were as follows:

Long position in ordinary shares of HK$0.02 each of the Company:

Name of Director	Nature of interest	Number of ordinary shares held	Percentage holdings
Wong Ching Ping, Alex	Through controlled corporation	36,324,994	17.8%

Save as disclosed above, as at 31 December 2006, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which 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 interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Long Position in underlying shares

Under the share option scheme of the Company, share options may be granted to Directors, employees and other eligible participants to subscribe for shares. No share options was granted to any Director during the year and as at 1 January 2006 and 31 December 2006, no Director has any outstanding interest in any share options. No share options was exercised, cancelled or lapsed during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Subsequent to the financial year ended 31 December 2006, Ms. Yiu Kwan Fung, a director of a subsidiary of the Company, entered into a conditional sale and purchase agreement dated 2 March 2007 to acquire the entire issued share capital of Firstone Enterprises Limited (an indirect wholly-owned subsidiary of the Company) and shareholder's loan at a nominal consideration of HK$50,000 through Profit Leap International Limited, a company which is wholly-owned by Ms. Yiu.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year was the Company, or any of its subsidiaries a party to any arrangement whose objects were to enable a Director or his respective spouse or minor children to acquire benefits by means of acquisition of shares of the Company or any other body corporate, or were any such rights exercised by them.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS IN SECURITIES

As at 31 December 2006, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company or had any option in respect of such capital:

Name	Nature of Interest	Number of shares interested or deemed to be interested (long position)	Percentage to the issued share capital of the Company
			%
Mega Earn Management Limited	Beneficial	34,219,319 *(Note 1)*	16.8
Expert Rich Investments Limited	Through controlled corporation	36,324,994 *(Note 2)*	17.8
Mr. Wong Ching Ping, Alex ("Mr. Wong")	Through controlled corporation	36,324,994 *(Note 3)*	17.8
Ms. Gomes Maria Da Silva Rubi Angela	Family	36,324,994 *(Note 3)*	17.8

Notes:

1. Mega Earn Management Limited is a company wholly-owned by Byford Group Limited. The entire issued share capital of Byford Group Limited is held by Expert Rich Investments Limited which in turn was wholly owned by Mr. Wong.

2. Expert Rich Investments Limited is deemed to be interested in the 36,324,994 shares through its interests in Byford Group Limited. The 36,324,994 shares comprise (i) 2,105,675 shares directly held by Byford Group Limited and 34,219,319 shares held by Mega Earn Management Limited.

3. Mr. Wong is deemed to be interested in the 36,324,994 shares through his interests in Expert Rich Investments Limited. Ms. Gomes Maria Da Silva Rubi Angela is the spouse of Mr. Wong and therefore, she is also deemed to be interested in the shares.

Save as disclosed above, as at 31 December 2006, so far as is known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had any interests or short positions in shares or underlying shares 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 was, directly or indirectly, interested in 5% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances at general meetings of the Company or held any option in respect of such capital.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 53% of the Group's total sales for the year and sales to the largest customer included therein amount to 50%. Purchases from the Group's five largest suppliers accounted for 92% of the Group's total purchases for the year and purchases from the largest supplier included therein amounted to 64%.

None of the Directors or any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers.

CONNECTED TRANSACTIONS

There was no connected transactions that was not exempted under rule 14A.31 of the Listing Rules during the year.

Subsequent to the year ended 31 December 2006, Preciseworth Investments Limited, a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement dated 2 March 2007 with Profit Leap International Limited ("Profit Leap") to dispose the entire issued share capital of Firstone Enterprises Limited and the entire shareholder's loan due to the Group at a nominal consideration of HK$50,000.

Profit Leap is an investment holding company and is wholly-owned by Ms. Yiu Kwan Fung, a director of a subsidiary of the Company, and therefore, Profit Leap is a connected person of the Company as defined in the Listing Rules and the transaction was constituted as a major and connected transaction, which was completed on 16 April 2007.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 15 to 20.

BOARD PRACTICES

The Company had received an annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. The Company was of the view that all the independent non-executive Directors met the independence guidelines as set out in rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

AUDITORS

Moore Stephens had been appointed as auditors of the Company after the resignation of Ernst & Young in December 2004. During the year, Moore Stephens resigned and CCIF CPA Limited was appointed as auditors of the Company in January 2007.

A resolution will be submitted to the annual general meeting to re-appoint the auditors, CCIF CPA Limited.

On behalf of the Board
Fortuna International Holdings Limited

Wong Ching Ping, Alex
Chairman

Hong Kong, 19 April 2007

Corporate Governance Report

The Board is committed to maintaining a high standard of corporate governance.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions of the "Code on Corporate Governance Practices" (the "Code"), as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2006, except with the deviation from code provision A.4.1 in respect of the requirement for all non-executive directors be appointed for a specific term.

BOARD OF DIRECTORS

The Board is chaired by Mr Wong Ching Ping, Alex, who was appointed by the Board as Chairman and executive Director of the Company with effect from 9 August 2006. There are two executive Directors (including Mr. Alex Wong) and three independent non-executive Directors. Names and biographies of the Directors are set out in "Biographies of Directors" section of this annual report. All Directors are able to take independent professional advice in furtherance of their duties, if necessary, in accordance with the procedures adopted by the Company on 20 September 2006. The independent non-executive Directors are high calibre professionals with diversified industry expertise to discharge directors' duties and safeguarding the interests of shareholders and the Company as a whole. Each independent non-executive Directors has confirmed that he/she has satisfied the criteria of independence as set out in the Listing Rules and the Directors has assessed and affirmed their independence.

Directors' Securities Transactions

All Directors disclose to the Board on their first appointment their interests as director and such declarations of interests are updated annually. The Directors' interests as at 31 December 2006 in shares of the Company and its associated corporations are set out in the "Directors' and Chief Executives' Interests in Securities" section of the Directors' report. The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules as its code of conduct ("Model Code") regarding Directors' and relevant employees' securities trading. Having made specific enquiry to all Directors of the Company, all of them have confirmed that they have complied with the required standard of dealings as set out in the Model Code.

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. It formulates overall directions and strategies of the Group, monitors its financial performance and maintains effective oversight over the management. Specific Board committees are set up with delegated powers and clear terms of reference. Daily operations and administration are led by Mr. Wong Tak Chung, Andrew. Matters reserved to the Board are those affecting the Company's overall strategic policies, finances and shareholders. The Board is also responsible for presenting a balanced, clear and understandable of the financial and other information contained in the Company's accounts and have an effective internal control system.

Corporate Governance Report

The Board of Directors held six meetings during 2006. A least 14 days' notice of all regular Board meetings is given to all Directors and they are provided with the opportunity to include matters for discussion in the agenda if the need arise. The agenda and the accompanying Board papers are sent to all Directors at least 3 days before the date of every regular Board meeting. Minutes of every Board meeting are circulated to all Directors for their perusal and comment. All the signed Board minutes are kept by the Company Secretary.

The following tables summarizes the attendance of individual Director and committee member in 2006:

	Meetings held/attended in 2006		
	Board	**Audit Committee**	**Remuneration Committee**
Number of meetings held during the year	6	4	1
Independent non-executive Directors			
Kwok Chi Sun, Vincent[1]	4/5	3/3	0/0
Tso Hon Sai, Bosco	5/6	3/4	1/1
Cheng Wing Keung, Raymond[2]	4/5	4/4	1/1
Hui Wai Man, Shirley[3]	2/3	1/2	1/1
Tang Yiu Wing[4]	1/1	0/0	0/0
Executive Directors			
Kwok Ying Chuen[5]	1/2		
Yu Won Kong, Dennis[5]	1/2		
Wong Tak Chung, Andrew	6/6		
Wong Ching Ping, Alex[6]	3/3		

Notes:

1. Mr. Kwok Chi Sun, Vincent resigned as an independent non-executive Director, the chairman of remuneration committee and a member of audit committee effective 19 June 2006.

2. Mr. Cheng Wing Keung, Raymond was appointed as the chairman of remuneration committee on 19 June 2006. He resigned as an independent non-executive Director, the chairman of remuneration committee and a member of audit committee effective 20 September 2006.

3. Ms. Hui Wai Man, Shirley was appointed as an independent non-executive Director, a member of the audit committee and remuneration committee effective 16 June 2006.

4. Mr. Tang Yiu Wing was appointed as an independent non-executive Director, the chairman of remuneration committee and a member of the audit committee effective 20 September 2006.

5. Mr. Kwok Ying Chuen and Mr. Yu Won Kong, Dennis both resigned as an executive Director effective 1 June 2006.

6. Mr. Wong Ching Ping, Alex was appointed as an executive Director and the Chairman of the Company effective 9 August 2006.

CHAIRMAN AND CHIEF EXECUTIVE

To avoid concentration of power and control, the Board appointed Mr. Wong Ching Ping, Alex as the Chairman of the Company effective 9 August 2006. Mr. Wong has assumed the responsibility to manage the Board, ensuring all Directors receive adequate information and properly briefed on issues arising at Board meetings. Mr. Wong Tak Chung, Andrew, an executive Director of the Company, is responsible to lead the day to day management of the Company's operation, ensuring the decisions of the Board are properly implemented.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company deviates from Code Provision A.4.1 as the independent non-executive Directors were appointed without a specific term. However, the Bye-laws of the Company has been amended to effect that one-third of the Directors for the time being shall retire by rotation from office, subject to re-election. The Board is of the opinion that the current arrangement is fair and reasonable but will review the structure from time to time and will make appropriate changes when necessary.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company comprises three independent non-executive Directors, namely . Mr. Tang Yiu Wing (Chairman), Mr. Tso Hon Sai, Bosco and Ms. Hui Wai Man, Shirley.

The Remuneration Committee was established on 7 July 2005 with specific written terms of reference. One meeting was held in 2006, the attendance of which was set out on page 16 of this annual report.

The Remuneration Committee has reviewed and approved the remuneration package for Mr. Wong Ching Ping, Alex, the newly appointed executive Director.

The Company has adopted a share option scheme on 28 January 2004, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out in note 31 to the financial statements. The structure of the emolument payable to executive Directors comprises basic salary and pension. Details of the Directors' remuneration are set out in note 10 to the financial statements.

The major roles and functions of the Remuneration Committee are as follows:

1. To review annually and recommend to the Board the overall remuneration policy for the Directors, and key senior management officers.

2. To review annually the performance of the Executive Directors and key senior management officers and recommend to the Board specific adjustments in remuneration and/or reward payments.

3. To ensure that the level of remuneration of non-executive directors and independent non-executive Directors are linked to their level of responsibilities undertaken and contribution to the effective functioning of the Board of the respective companies in the Group.

4. To review and approve the compensation payable to executive Directors and key senior management officers in connection with any loss or termination of their office or appointment.

5. To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct.

6. To ensure that no Director is involved in deciding his own remuneration.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 31 December 2006, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards, which also include the Hong Kong Accounting Standards and Interpretations, which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

AUDIT COMMITTEE

The Audit Committee of the Company was established in September, 2004 with specific written terms of reference. The committee comprises three independent non-executive Directors, namely. Mr. Tso Hon Sai, Bosco (Chairman), Ms. Hui Wai Man, Shirley and Mr. Tang Yiu Wing.

The Audit Committee had convened four meetings in 2006, the attendance of which is set out on page 16 of this annual report.

During the meetings held in 2006, the Audit Committee had performed the following works:

(i) reviewed the financial reports for the year ended 31 December 2005 and for the six months ended 30 June 2006;

(ii) reviewed the recommendation from the external auditors in relation to the audit of the Group for the year ended 31 December 2005; and

(iii) approved external auditors to perform non-audit services and appointment of independent financial advisor to advise the independent shareholders on an open offer.

The major roles and functions of the Audit Committee are as follows:

1. To consider the appointment of the external auditors, the audit fees, and any questions of resignation or dismissal of the external auditors of the Group.

2. To discuss with the external auditors the nature and scope of the audit.

3. To review the interim and annual financial statements before submission to the Board of Directors.

4. To discuss problems and reservations arising from the interim review and final audit, and any matters the auditors may wish to discuss.

5. To review the external auditors' management letters and management's response.

6. To review the Group's internal control systems.

7. To consider the major findings of internal investigations and management's response.

INTERNAL CONTROL

The internal control system has been designed to safeguard the assets of the Company, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations.

The management has carried out an annual review of the implemented system and procedures, including areas covered accounting, business and legal compliance. The scope of review was discussed with and agreed by the audit committee. A report after the review has been submitted to the audit committee and the Board. In addition to the annual review, the management will conduct any special review as required.

The Board is responsible for the system of internal control and reviewing its effectiveness. For the year under review, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the code provisions on internal control of the Code.

AUDITOR'S REMUNERATION

During the year under review, the remuneration paid to the Company's auditor, CCIF CPA Limited, is set out as follows:

Services rendered	**fees paid/payable HK$'000**
Audit services	830
Non-audit services (preparation of accountant's report for the acquisition of shares in State Empire Limited and sale of property and acted as the reporting accountants of the Company in relation to an open offer)	293
	1,123

NOMINATION OF DIRECTORS

No nomination committee has been established by the Company. The appointment of a new Director is a matter for consideration and approval by the Board. The Board would consider a number of criterion, including the past experience, qualifications and overall integrity of the potential candidate.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company communicated with the shareholders by the following modes of communication: (1) convening annual general meeting and special general meetings; and (2) providing information on the Company's performance and activities in the annual report and interim report. In addition to the annual general meeting, the Company has held one special general meeting in 2006. During the general meetings, each substantial separate issues was proposed by a separate resolution. The rights of shareholders to demand a poll were disclosed in all circulars sent to the shareholders and the procedures for demanding a poll by shareholders were explained at the commencement of the meeting. All shareholders are encouraged to attend the general meetings.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FORTUNA INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Fortuna International Holdings Limited (the "Company") set out on pages 24 to 89, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion section, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Prior year's audit scope limitation affecting opening balances

As detailed in the former auditors' report dated 21 April 2006 on the Group's financial statements for the year ended 31 December 2005 and as mentioned in note 9 (b) to the financial statements, because of the significance of the possible effects arising from limitation in evidence made available to the former auditors, specifically, the former auditors were unable to obtain sufficient and appropriate evidence to satisfy themselves as to whether the financial statements of a major subsidiary, Jafoon Limited (incorporated in Hong Kong) and its two wholly-owned subsidiaries (collectively the "Jafoon Group") were fairly stated and free from material misstatement. The directors of the Company had considered that the Company had lost its ability to exercise effective control over the Jafoon Group and consequently the financial statements of the Jafoon Group were deconsolidated. Any adjustments found to be necessary in respect thereof had we obtained sufficient and appropriate evidence would have had a consequential effect on the net assets of the Group as at 31 December 2006, and of its net loss for the current year and the prior year and the related disclosures thereof in the financial statements. In respect of the limitation of scope in prior year in the areas as described above, we are unable to express our opinion as to whether the balances brought forward as at 1 January 2006 and the comparative figures were fairly stated in the financial statements.

2. Scope limitation – deconsolidation of Excel Harvest Corporation Limited and its subsidiaries (the "Excel Harvest Group") and Silver Dragons Limited and its subsidiaries (the "Silver Dragons Group")

As explained in note 9 (a) to the financial statements, the directors of the Company had no direct access to the books and records of its subsidiaries namely Excel Harvest Group and Silver Dragons Group (collectively "Both Groups") after the directors informed the management of Both Groups that the Company intended to realise the investments in Both Groups, the management of Both Groups declined to cooperate with the Company and had not submitted any financial information to the Company. Both Groups were subsequently disposed of, the disposal of which was completed on 16 April 2007. The details in connection with the disposal were outlined in the circular dated 26 March 2007 of the Company. As the Company no longer had control over Both Groups subsequent to the disposal, the financial statements of Both Groups have been deconsolidated from the Group from 1 January 2006 to 31 December 2006. A net gain of HK$11,716,000 arising from the deconsolidation of Both Groups was recognised in the consolidation income statement as a result of extracting all the losses and net liabilities of Both Groups previously recorded in the consolidated financial statements.

We were unable to obtain sufficient audit evidence or perform alternative audit procedures to satisfy ourselves as to the timing, accuracy and completeness of the deconsolidation and to quantify the effect of the deconsolidation as at 1 January 2006 and the gain arising from the deconsolidation of HK$11,716,000. Any adjustments found to be necessary to the above amounts would affect the amounts recorded in the consolidation balance sheet, consolidated income statement and consolidated cash flow statement and related disclosures thereof in the financial statements.

3. Scope limitation – carrying amount of Daiwah Company Limited and its subsidiaries (the "Daiwah Group")

As at 31 December 2006, included in the consolidated balance sheet of the Group is the net liabilities of Daiwah Group of HK$5,638,000. The loss of Daiwah Group as recorded in the consolidated income statement for the year ended 31 December 2006 amounted to HK$1,950,000. Subsequent to the resignation of the directors of Daiwah Group in May 2006, the Company had not appointed anyone to be directors of Daiwah Group which also became dormant during the year. Consequently, we were unable to obtain sufficient and appropriate audit evidence or perform alternative audit procedures on the financial statements of the Daiwah Group for the year ended 31 December 2006. As a result, we were unable to satisfy ourselves as to whether the net liabilities of HK$5,638,000 and the loss for the year then ended of HK$1,950,000 included in the consolidated balance sheet and consolidated income statement, respectively were fairly stated. Any adjustments found to be necessary on the above amounts would affect the amounts recorded in the consolidation balance sheet and consolidated income statement, consolidated cash flow statement and the related disclosures thereof in the financial statements.

With reference to the matters set out in the basis for disclaimer of opinion, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Any adjustment to the figure may have a consequential significant effect on the profit for the year and the net assets as at 31 December 2006.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the possible effects of the scope limitations in evidence made available to us in each of the areas as set out in paragraphs (1) to (3) in the basis for disclaimer of opinion section, we do not express an opinion on the consolidation financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 19 April 2007

Delores Teh
Practising Certificate Number P03207

Consolidated Income Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 (Restated) HK$'000
CONTINUING OPERATIONS			
TURNOVER	6	**51,177**	26,481
Cost of sales		**(31,571)**	(16,026)
Gross profit		**19,606**	10,455
Other revenue and gains	6	**1,902**	5,202
Gain on disposal of investment properties		**39,710**	6,074
Selling and distribution costs		**(1,005)**	(905)
Administrative expenses		**(22,816)**	(31,225)
Other operating expenses	7(b)	**(4,000)**	(12,133)
PROFIT/(LOSS) FROM OPERATIONS	7	**33,397**	(22,532)
Finance costs	8	**(1,246)**	(1,960)
Impairment loss on goodwill		**–**	(66,860)
Impairment loss on other financial assets		**–**	(800)
Negative goodwill arising from acquisition of subsidiaries		**6,613**	–
Gain on disposal of subsidiaries		**–**	2,804
Gain/(loss) on deconsolidation of subsidiaries	9	**11,716**	(16,061)
PROFIT/(LOSS) BEFORE TAXATION		**50,480**	(105,409)
Income tax	11	**11,941**	(1,278)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**62,421**	(106,687)
DISCONTINUED OPERATIONS			
Profit/(loss) for the year from discontinued operations	12	**11,133**	(43,774)
PROFIT/(LOSS) FOR THE YEAR		**73,554**	(150,461)
ATTRIBUTABLE TO:			
Equity holders of the Company		**73,426**	(150,640)
Minority interests		**128**	179
		73,554	(150,461)
EARNINGS/(LOSS) PER SHARE			
Basic	14(a)		
– Continuing operations		**38.56 cents**	(157.13 cents)
– Discontinued operations		**6.89 cents**	(64.36 cents)
		45.45 cents	(221.49 cents)
Diluted	14(b)	**N/A**	N/A

Consolidated Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**7,468**	3,956
Investment properties	16	**16,290**	33,170
Goodwill	17	**455**	455
Interest in associates	19	**–**	–
Other financial assets	20	**–**	–
		24,213	37,581
CURRENT ASSETS			
Inventories	21	**755**	859
Trade receivables	22	**3,771**	3,960
Prepayments, deposits and other receivables		**3,854**	10,151
Trading securities	23	**–**	759
Tax prepaid		**–**	181
Cash and cash equivalents	24	**121,878**	41,764
		130,258	57,674
CURRENT LIABILITIES			
Trade payables	25	**5,245**	7,283
Accrued liabilities and other payables		**10,664**	32,171
Current tax payable		**1,492**	–
Bank loans and overdrafts	26	**701**	4,547
Obligations under finance leases	27	**–**	1,053
Due to minority shareholders	28	**1,160**	750
		19,262	45,804
NET CURRENT ASSETS		**110,996**	11,870
TOTAL ASSETS LESS CURRENT LIABILITIES		**135,209**	49,451
NON-CURRENT LIABILITIES			
Bank loans	26	**–**	13,567
Deferred taxation	29	**354**	475
Total non-current liabilities		**354**	14,042
Net assets		**134,855**	35,409
EQUITY			
Share capital	30	**4,081**	136,018
Reserves	33(a)	**130,567**	(100,788)
Equity attributable to equity holders of the Company		**134,648**	35,230
Minority interests		**207**	179
Total equity		**134,855**	35,409

WONG Ching Ping, Alex
Director

WONG Tak Chung, Andrew
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	Attributable to equity holders of the Company										
	Share capital HK$'000	Share premium account HK$'000	Translation reserve HK$'000	Mainland China statutory reserves HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005	130,018	562,543	(3,238)	910	31	191,389	3,484	(705,759)	179,378	–	179,378
Adjustment (HKAS 1)	–	–	–	–	–	–	–	–	–	1,078	1,078
Adjustment (HKAS 40)	–	–	–	–	–	–	(3,484)	3,484	–	–	–
At 1 January 2005 (Restated)	130,018	562,543	(3,238)	910	31	191,389	–	(702,275)	179,378	1,078	180,456
Released upon disposal of subsidiaries	–	–	(178)	(910)	–	–	–	–	(1,088)	–	(1,088)
Exercise of share options	6,000	1,580	–	–	–	–	–	–	7,580	–	7,580
Deconsolidation of subsidiaries	–	–	–	–	–	–	–	–	–	(1,078)	(1,078)
Profit/(loss) for the year	–	–	–	–	–	–	–	(150,640)	(150,640)	179	(150,461)
At 31 December 2005	136,018	564,123	(3,416)	–	31	191,389	–	(852,915)	35,230	179	35,409
At 1 January 2006	136,018	564,123	(3,416)	–	31	191,389	–	(852,915)	35,230	179	35,409
Capital reorganisation *(Note 30(a))*	(134,658)	(564,123)	–	–	–	698,781	–	–	–	–	–
Set off accumulated losses *(Note 30(a))*	–	–	–	–	–	(688,054)	–	688,054	–	–	–
Open offer, net of expenses *(Note 30(c))*	2,721	23,271	–	–	–	–	–	–	25,992	–	25,992
Acquisition 5% of subsidiary	–	–	–	–	–	–	–	–	–	(40)	(40)
Deconsolidation of subsidiaries	–	–	–	–	–	–	–	–	–	(60)	(60)
Profit for the year	–	–	–	–	–	–	–	73,426	73,426	128	73,554
At 31 December 2006	4,081	23,271	(3,416)	–	31	202,116	–	(91,435)	134,648	207	134,855

Consolidated Cash Flow Statement

Year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before taxation		
– Continuing operations	**50,480**	(105,409)
– Discontinued operations	**11,133**	(43,614)
	61,613	(149,023)
Adjustments for :		
Finance costs	**1,246**	1,977
Bank interest income	**(414)**	(23)
Dividend income	**(3)**	(160)
Loss on disposal of property, plant and equipment	**1,733**	8
Gain on disposal of investment properties	**(39,710)**	(6,074)
Gain on disposal of subsidiaries	**(11,160)**	(2,804)
Depreciation on owned assets	**818**	2,115
Fair value gains on investment properties	**(883)**	(280)
Negative goodwill arising from acquisition of subsidiaries	**(6,613)**	–
Impairment loss on goodwill	**–**	109,319
Impairment loss on trade and other receivables	**2,267**	12,027
(Gain)/loss on deconsolidation of subsidiaries	**(11,716)**	16,061
Impairment loss on other financial assets	**–**	800
Loss on disposal of listed securities	**–**	525
Gain on disposal of listed securities	**(227)**	(188)
Fair value gains on listed securities	**–**	(535)
Operating loss before working capital changes	**(3,049)**	(16,255)
Decrease in inventories	**103**	403
Decrease/(increase) in trade receivables	**188**	(1,698)
Decrease/(increase) in prepayments, deposits, and other receivables	**1,565**	(7,638)
Increase/(decrease) in trade payables	**2,552**	(4,774)
Increase in accrued liabilities and other payables	**2,682**	12,484
Cash generated from/(used in) operations	**4,041**	(17,478)
Hong Kong Profits Tax paid	**(32)**	(372)
Net cash generated from/(used in) operating activities – page 28	**4,009**	(17,850)

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Net cash generated from/(used in) operating activities – page 27		**4,009**	(17,850)
INVESTING ACTIVITIES			
Interest received		**414**	23
Dividend received		**3**	160
Purchases of property, plant and equipment		**(11,343)**	(196)
Proceeds from disposal of property, plant and equipment		**1,050**	–
Proceeds from disposal of investment properties		**159,710**	37,578
Increase in equity holding of a subsidiary		**(176)**	–
Payment for acquisition of subsidiaries	34(a)	**(99,545)**	(535)
Proceeds of disposal of subsidiaries	34(b)&(c)	**(2)**	6,802
Deconsolidation of subsidiaries	34(d)	**1,566**	3,334
Purchases of listed securities		**–**	(227)
Proceeds from disposal of available-for-sale equity investment		**–**	5,011
Proceeds from disposal of listed securities		**986**	3,923
Net cash generated from investing activities		**52,663**	55,873
FINANCING ACTIVITIES			
Proceeds from issue of shares		**27,204**	7,580
Share issue expenses		**(1,212)**	–
Net repayment of bank and other borrowings		**–**	(20,747)
Decrease in trust receipt loans		**–**	(10,925)
Increase in amounts due to minority shareholders		**560**	–
Interest paid		**(1,130)**	(1,914)
Interest element on finance leases payments		**(116)**	(63)
Capital element of finance lease payments		**(965)**	(1,096)
Net cash generated from/(used in) financing activities		**24,341**	(27,165)
INCREASE IN CASH AND CASH EQUIVALENTS		**81,013**	10,858
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**40,164**	29,306
CASH AND CASH EQUIVALENTS AT END OF YEAR		**121,177**	40,164
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	24	**121,177**	40,164

Balance Sheet

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**–**	5
Interest in subsidiaries	18	**55,063**	20,333
Other financial assets	20	**–**	–
		55,063	20,338
CURRENT ASSETS			
Other receivables		**73**	1,076
Cash and bank balance		**21**	19,150
		94	20,226
CURRENT LIABILITIES			
Bank overdrafts, unsecured		**354**	–
Accrued liabilities and other payables		**1,542**	1,357
		1,896	1,357
NET CURRENT (LIABILITIES)/ASSETS		**(1,802)**	18,869
Net assets		**53,261**	39,207
EQUITY			
Share capital	30	**4,081**	136,018
Reserves	33(b)	**49,180**	(96,811)
Total equity		**53,261**	39,207

WONG Ching Ping, Alex
Director

WONG Tak Chung, Andrew
Director

Notes to Financial Statements

For the year ended 31 December 2006

1. CORPORATE INFORMATION

Fortuna International Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 8 October 1992. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The principal place of business of the Group is located at Room 1901, 19/F Hutchison House, 10 Harcourt Road, Central, Hong Kong.

The activities of its principal subsidiaries and associates are set out in note 18 and 19 to the financial statements, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared, except for the deconsolidation of certain subsidiaries as explained in note 9, in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which also include the Hong Kong Accounting Standards ("HKASs") and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for the investment properties and trading securities of which stated at their fair value as further explained below.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The area involving a higher degree of judgement or complexity, or areas where the assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The Group disposed of the skin and health care business during the year, which constituted a discontinued operation under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Therefore, the results derived from the operations of skin and health care business are presented as discontinued operation in current accounting period. The comparative figures for the corresponding period in 2005 have been reclassified to conform with current year's presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Adoption of new and revised HKFRSs

The following new standards and interpretations which are relevant to the Group's operations have been issued and effective for accounting periods beginning on or after 1 January 2006:

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 6 and Amendment	Exploration for and Evaluation of Mineral Resources
HKFRS 1 Amendment	First time Adoption of Hong Kong Financial Reporting Standard
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The adoption of such standards or interpretations did not result in substantial changes to the Group's accounting policies as they are not relevant to the Group's operations.

Impact of issued but not yet effective HKFRSs

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new 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]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries and the Group's interest in associates for the year ended 31 December 2006 excluding for Excel Harvest Corporation Limited and Silver Dragons Limited and their subsidiaries as explained in note 9(a).

The assets, liabilities, revenues and results of Daiwah Company Limited and its subsidiaries (the "Daiwah Group") on its unaudited management accounts for the year ended 31 December 2006 included in these financial statements are summarized as follows:

	HK$'000
Assets	38
Liabilities	5,676
Revenues	Nil
Loss for the year	1,950

Subsequent to the resignation of the directors of Daiwah Group in May 2006, the Company had not appointed anyone to be directors of Daiwah Group which also became dormant during the year. Therefore, the directors were unable to represent that all transactions entered into the name of Daiwah Group had been properly included or disclosed in the financial statements.

As outlined in the circular dated 26 March 2007, the Group had entered into an agreement on 2 March 2007 to dispose of Daiwah Group. The disposal was completed on 16 April 2007.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries and minority interests (Continued)

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group had not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liabilitity.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale.

Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the income statement.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets (Continued)

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

Property, plant and equipment

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

Depreciation is calculated on the straight-line basis to write off the cost of an item of property, plant and equipment over its estimated useful life. The principal annual rates used for this purpose are as follows:

Machinery and equipment	20% – 33%
Furniture and fixtures	20% – 25%
Motor vehicles	20%

Initial expenditure incurred for crockery, utensils, linens and uniforms is capitalised and no depreciation is provided thereon. The cost of subsequent replacement for these items is charged to the income statement as and when incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in income statement.

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

Leased assets

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

(i) *Classification of assets leased to the Group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating lease, with the following exceptions:

– property held under operating leases that would otherwise meet definition of an investment property is classified as investment property, on a property-by-property basis and, if classified as investment, is accounted for as if held under a finance lease; and

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases. Depreciation is provided at the rates which write off the cost or valuation of the assets over the term if the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset. Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligation for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leased assets *(Continued)*

(iii) Operating lease charges

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

Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in the income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at unrealised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expenses in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they related to items recognised directly in equity, in which case they are recognised on equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exception, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future profits will be available against which asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits , that is , those differences are taken into account if they related to the same taxation authority and the same taxable entity, and are expected to reverse in a period or periods, in which tax loss or credit can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

The limited exceptions to the recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profits (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that ,in the case of taxable differences , the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner if realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefits to be utilised . Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balance and deferred tax balance, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either settle on a net basis, or to realise the assets and settle the liability simultaneously; or

– in the case if deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either

    – the same taxable entity; or

    – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settle or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

(a) *Sale of goods*

Revenues is recognised when goods are delivered at the customer premises which is taken to the point in time when customers has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(b) *Rental income from operating lease*

Rental income receivable under operating lease is recognised in income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(c) *Interest income*

Interest income is recognised as it accrues using the effective interest method

(d) *Dividend income*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

Borrowing costs

Borrowing costs are charged to the income statement in the period in which they are incurred.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities, trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchanges rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit and loss on disposal.

Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Where payment or settlement is deferred as the effect would be material, these amounts are stated at their present values.

Notes to Financial Statements

For the year ended 31 December 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

(ii) Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation.

In prior years, the financial impact of share option granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account.

With effect from 1 January 2005, in accordance with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement, or as an asset, if the cost qualifies for recognition as an asset under the Group's accounting policies. A corresponding increase is recognised in a capital reserve with equity.

Where the participants are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period. Otherwise, the Group recognises the fair value in the period in which the options are granted.

If a participant chooses to exercise options, the related captial reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related capital reserve is transferred directly to retaining earnings.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(b) the Group and the party are subject to common control;

(c) the party is an associate of the Group or a joint venture in which the Group is a venture;

(d) the party is a member of the key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(e) the party is a close member of the party referred to in (a) or is an entity under the control, joint control, or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

Cash and cash equivalents

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

Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations, and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal Group constituting the discontinued operation.

Segment reporting

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

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

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting *(Continued)*

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

3. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise bank loans and overdrafts, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operation. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not have any written risk management policies and guidelines. The directors monitor the financial risk management of the Group and take such measures as considered necessary from time to time to minimise such financial risks.

The Group's activities are exposed to the following risks:

(a) Interest rate risk

As the Group has no significant interest bearing liabilities, the Group's exposure to market risk for changes in interest rates relates primarily to the cash and bank balances and short term time deposits.

Floating-rate interest income is charged to the income statement as incurred.

(b) Foreign currency risk

Most of the Group's monetary assets and liabilities are denominated in Hong Kong dollars, and the Group conducted its business transactions principally in Hong Kong dollars. The exchange rate risk of the Group is not significant.

(c) Credit risk

The Group has no significant concentration of credit risk and trade debtors are managed in accordance with the credit policies. The details of the Group credit policies are set out in note 22.

(d) Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank overdrafts and bank loans.

(e) Fair value

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. These calculations use cash flow projections based on financial budgets approved by management covering a twelve months period. Discount rate of 7.75% have been used for the value-in-use calculations.

Impairment loss on trade and other receivables

The Group makes impairment losses on bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Impairments are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and bad and doubtful debt expenses in the period in which such estimate has been charged.

5. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong, and over 90% of the Group's assets are located in Hong Kong.

The Group was previously engaged in the skin and health care business and such operations were discontinued during the year (see note 12). Also, the trading of jewellery business and trading of other products were deconsolidated during the year (see note 9). The Group is currently organised into five operating divisions, namely, property investment, trading of wine, artwork design, Japanese restaurant and trading of glass eel.

5. SEGMENT INFORMATION *(Continued)*

Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

2006
Group

	Continuing operations						Discontinued operations	
	Property investment HK$'000	Trading of wine HK$'000	Artwork design HK$'000	Japanese restaurant HK$'000	Trading of glass eel HK$'000	Sub-total HK$'000	Skin and health care HK$'000	Consolidated HK$'000
Segment revenue:								
Sales to external customers	3,969	3,813	–	16,588	26,807	51,177	–	51,177
Other revenue and gains	40,621	189	–	151	–	40,961	20	40,981
Total	44,590	4,002	–	16,739	26,807	92,138	20	92,158
Segment results	43,326	(136)	(1,834)	571	205	42,132	(27)	42,105
Interest income						414	–	414
Unallocated income						237	11,160	11,397
Unallocated expenses						(9,386)	–	(9,386)
Profit from operations						33,397		44,530
Finance costs						(1,246)	–	(1,246)
Negative goodwill arising from acquisition of subsidiaries						6,613	–	6,613
Gain on deconsolidation of subsidiaries						11,716	–	11,716
Profit before taxation						50,480		61,613
Income tax						11,941	–	11,941
Profit for the year from continuing operations						62,421		
Profit for the year								73,554

5. SEGMENT INFORMATION *(Continued)*

Business segments (Continued)

2006

Group

	Continuing operations					Discontinued operations	
	Property investment	Trading of wine	Artwork design	Japanese restaurant	Trading of glass eel	Skin and health care	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment assets	125,741	1,517	38	9,773	16,973	–	154,042
Unallocated assets							429
Total assets							154,471
Segment liabilities	400	1,851	3,611	4,546	2,669	–	13,077
Unallocated liabilities							6,539
Total liabilities							19,616
Other segment information:							
Depreciation	2	8	–	693	115	–	818
Unallocated amounts							–
Total							818
Impairment loss on trade and other receivables	–	1	35	–	–	–	36
Unallocated amounts							2,231
Total							2,267
Capital expenditure	4,264	18	–	7,059	2	–	11,343

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

2005

Group

	Continuing operations								Discontinued operations	
	Property investment (Restated) HK$'000	Trading of jewellery (Restated) HK$'000	Trading of wine (Restated) HK$'000	Artwork design (Restated) HK$'000	Japanese restaurant (Restated) HK$'000	Trading of glass eel (Restated) HK$'000	Trading of other products (Restated) HK$'000	Sub-total (Restated) HK$'000	Skin and health care (Restated) HK$'000	Consolidated (Restated) HK$'000
Segment revenue:										
Sales to external customers	927	3,652	2,335	1,092	10,064	8,383	28	26,481	258	26,739
Other revenue and gains	6,354	3	26	22	132	2	1,711	8,250	151	8,401
Total	7,281	3,655	2,361	1,114	10,196	8,385	1,739	34,731	409	35,140
Segment results	2,247	(11,500)	(891)	(2,186)	478	400	1,892	(9,560)	(1,138)	(10,698)
Interest income								23	–	23
Unallocated income								3,003	–	3,003
Unallocated expenses								(15,998)	–	(15,998)
Loss from operations								(22,532)		(23.670)
Finance costs								(1,960)	(17)	(1,977)
Impairment loss on goodwill								(66,860)	(42,459)	(109,319)
Impairment loss on other financial assets								(800)	–	(800)
Gain on disposal of subsidiaries								2,804	–	2,804
Loss on deconsolidation of subsidiaries								(16,061)	–	(16,061)
Loss before taxation								(105,409)		(149,023)
Income tax								(1,278)	(160)	(1,438)
Loss for the year from continuing operations								(106,687)		
Loss for the year										(150,461)

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

2005
Group

	Continuing operations							Discontinued operations	
	Property investment (Restated) HK$'000	Trading of jewellery (Restated) HK$'000	Trading of wine (Restated) HK$'000	Artwork design (Restated) HK$'000	Japanese restaurant (Restated) HK$'000	Trading of glass eel (Restated) HK$'000	Trading of other products (Restated) HK$'000	Skin and health care (Restated) HK$'000	Consolidated (Restated) HK$'000
Segment assets	48,444	1,845	3,708	2,740	5,473	8,385	25	54	70,674
Unallocated assets									24,581
Total assets									95,255
Segment liabilities	16,577	9,996	1,897	5,020	2,296	591	9,798	10,631	56,806
Unallocated liabilities									3,040
Total liabilities									59,846
Other segment information:									
Depreciation	1	124	8	1,413	502	26	–	–	2,074
Unallocated amounts									41
Total									2,115
Impairment loss on trade and other receivables	2,673	7,821	8	(730)	–	–	–	427	10,199
Unallocated amounts									1,828
Total									12,027
Impairment loss on goodwill	3,525	28,685	–	23,835	–	–	10,815	42,459	109,319
Impairment loss on other financial assets									800
Capital expenditure	–	–	4	–	6	186	–	–	196

6. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover, other revenue and gains is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005 (Restated)	**2006**	2005 (Restated)	**2006**	2005 (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover						
Trading of glass eel	**26,807**	8,383	**–**	–	**26,807**	8,383
Trading of wine products	**3,813**	2,335	**–**	–	**3,813**	2,335
Gross rentals from investment properties	**3,969**	927	**–**	–	**3,969**	927
Operation of Japanese restaurants	**16,588**	10,064	**–**	–	**16,588**	10,064
Sales of other products	**–**	4,772	**–**	–	**–**	4,772
Services on skin and health care	**–**	–	**–**	258	**–**	258
	51,177	26,481	**–**	258	**51,177**	26,739
Other revenue and gains						
Other revenue						
Bank interest income	**414**	23	**–**	–	**414**	23
Dividend income	**3**	160	**–**	–	**3**	160
Rental income from leasing of plant and equipment	**–**	2	**–**	–	**–**	2
Others	**375**	4,014	**20**	151	**395**	4,165
	792	4,199	**20**	151	**812**	4,350
Gains						
Gain on disposal of listed securities	**227**	188	**–**	–	**227**	188
Fair value gains on investment properties	**883**	280	**–**	–	**883**	280
Fair value gains on listed securities	**–**	535	**–**	–	**–**	535
	1,110	1,003	**–**	–	**1,110**	1,003
	1,902	5,202	**20**	151	**1,922**	5,353

7. PROFIT/(LOSS) FROM OPERATIONS

Profit/(Loss) from operations is arrived at after charging/(crediting):

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005 (Restated)	**2006**	2005 (Restated)	**2006**	2005 (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(a) Staff costs (including directors' remuneration *(note 10)*):						
Wages and salaries	**9,327**	12,178	**40**	16	**9,367**	12,194
Retirement scheme contributions	**378**	458	**–**	(10)	**378**	448
	9,705	12,636	**40**	6	**9,745**	12,642
(b) Other operating expenses						
Impairment loss on trade and other receivables	**2,267**	11,600	**–**	427	**2,267**	12,027
Loss on disposal of listed securities	**–**	525	**–**	–	**–**	525
Loss on disposal of property, plant and equipment	**1,733**	8	**–**	–	**1,733**	8
	4,000	12,133	**–**	427	**4,000**	12,560
(c) Other items						
Cost of inventories sold	**31,571**	16,026	**–**	744	**31,571**	16,770
Auditor's remuneration						
– audit services	**830**	929	**–**	39	**830**	968
– other services	**293**	58	**–**	–	**293**	58
Depreciation on owned assets	**818**	2,115	**–**	–	**818**	2,115
Minimum lease payment under operating leases on land and buildings	**3,072**	3,457	**–**	93	**3,072**	3,550
Exchange difference, net	**(53)**	(45)	**–**	–	**(53)**	(45)

8. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005 (Restated)	**2006**	2005 (Restated)	**2006**	2005 (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on bank loans and overdrafts wholly repayable within five years	**1,130**	1,622	**–**	–	**1,130**	1,622
Interest on other borrowings wholly repayable within five years	**–**	–	**–**	12	**–**	12
Interest on bank loans wholly repayable after five years	**–**	280	**–**	–	**–**	280
Finance charges on obligations under finance leases	**116**	58	**–**	5	**116**	63
	1,246	1,960	**–**	17	**1,246**	1,977

9. GAIN/(LOSS) ON DECONSOLIDATION OF SUBSIDIARIES

(a) Details of deconsolidation of subsidiaries in 2006

The Group had equity interest of 100% and 80% in Excel Harvest Corporation Limited and its subsidiaries (collectively "Excel Harvest Group") and Silver Dragons Limited and its subsidiaries (collectively "Silver Dragons Group"), the principal activities of which were engaged in jewellery trading business and general trading respectively. During the course of the preparation of the interim results for six months ended 30 June 2006 of the Company (the "2006 interim results"), the Directors had received the unaudited management accounts of Excel Harvest Group and Silver Dragons Group for the six months ended 30 June 2006. The details of the income statement of Excel Harvest Group and Silver Dragons Group as included in the unaudited 2006 interim results were summarised as follows:

	Excel Harvest Group	**Silver Dragons Group**	**Total**
	HK$'000	HK$'000	HK$'000
Turnover	–	–	–
Loss after taxation	(2,195)	(664)	(2,859)
Total assets as at 30 June 2006	7,381	12,808	20,189
Total liabilities as at 30 June 2006	(11,037)	(23,665)	(34,702)

9. GAIN/(LOSS) ON DECONSOLIDATION OF SUBSIDIARIES *(Continued)*

(a) Details of deconsolidation of subsidiaries in 2006 *(Continued)*

As outlined in the circular dated 26 March 2007, the Group had entered into an agreement on 2 March 2007 to dispose of both Excel Harvest Group and Silver Dragons Group. This disposal was completed on 16 April 2007. When the Directors of the Company informed the management of Excel Harvest Group and Silver Dragons Group that the Company intended to realise the investments in the two groups, the management of the two groups declined to cooperate with the Company and had not submitted any financial information to the Company. Therefore the financial statements of these two groups were not audited. As the Company no longer had control over the two groups, for the sake of more appropriate presentation in order to allow the public to evaluate the performance of the Group, the financial statements of Excel Harvest Group and Silver Dragons Group were excluded from consolidation for the year ended 31 December 2006. The details of gain arising from deconsolidation of Excel Harvest Group and Silver Dragons Group were as follows:

	Excel Harvest Group	**Silver Dragons Group**	**Total**
	HK$'000	HK$'000	HK$'000
Share of net liabilities as at 31 December 2005	(1,462)	(10,254)	(11,716)
Gain arising from deconsolidation of subsidiaries for the year ended 31 December 2006	1,462	10,254	11,716

(b) Details of deconsolidation of subsidiaries in 2005

The Group had equity interest of 75% in Jafoon Limited and its subsidiaries (collectively "Jafoon Group") which was engaged in the steel trading business. During the course of the preparation of the interim results for six months ended 30 June 2005 (the "2005 interim results"), the Directors received the unaudited management accounts of Jafoon Group for the six months ended 30 June 2005.

The details of the income statement and financial position of Jafoon Group, as included in the unaudited 2005 interim results were summarised as follow:

	HK$'000
Turnover	86,597
Loss after taxation	(1,122)
Total assets as at 30 June 2005	57,611
Total liabilities as at 30 June 2005	(52,022)

9. GAIN/(LOSS) ON DECONSOLIDATION OF SUBSIDIARIES *(Continued)*

(b) Details of deconsolidation of subsidiaries in 2005 *(Continued)*

Since the commencement of the annual audit of the Group for year ended 31 December 2005, a series of requests from the Group demanding for the submission of management accounts for audit purposes had been ignored by the management of Jafoon Group.

In mid-April 2006, professional parties such as financial and legal advisors were engaged to investigate the case. They concluded that the financial records of Jafoon Group were incomplete and were not satisfactory for audit purposes.The Group was also suspicious that there might be changes in Jafoon Group's management team.

As the Group was unable to exercise its control of the Jafoon Group in particular its ability to exercise significant influence over the financial and operating policies and to obtain financial information, the Directors considered that the Group had lost the ability to exercise control over Jafoon Group. For the sake of appropriate presentation in order to allow the public to evaluate the performance of the Group, Jafoon Group was excluded from the consolidation for the year ended 31 December 2005. The details of loss on deconsolidation of Jafoon Group were as follow:

	HK$'000
Share of net assets value as at 31 December 2004	3,229
Unamortised goodwill as at 31 December 2004	12,832
	16,061
Loss on deconsolidation of subsidiaries for the year ended 31 December 2005	(16,061)

As outlined in the circular dated 26 March 2007, the Group had entered into an agreement on 2 March 2007 to dispose of the Jafoon Group. The disposal was completed on 16 April 2007.

10. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2006 Total HK$'000
Executive directors:				
Mr. Kwok Ying Chuen#	–	500	5	505
Mr. Wong Ching Ping, Alex##	–	24	–	24
Mr. Wong Tak Chung, Andrew	–	120	3	123
Mr. Yu Won Kong, Dennis#	–	500	5	505
Independent non-executive directors ("INED"):				
Mr. Cheng Wing Keung, Raymond*	86	–	–	86
Ms. Hui Wai Man, Shirley**	64	–	–	64
Mr. Kwok Chi Sun, Vincent*	56	–	–	56
Mr. Tang Yiu Wing**	34	–	–	34
Mr. Tso Hon Sai, Bosco	120	–	–	120
	360	1,144	13	1,517

Mr. Kwok Ying Chuen and Mr. Yu Won Kong, Dennis resigned as executive directors on 1 June 2006.

Mr. Wong Ching Ping, Alex was appointed as executive director on 9 August 2006.

* Mr. Cheng Wing Keung, Raymond and Mr. Kwok Chi Sun, Vincent resigned as INED on 20 September 2006 and 19 June 2006, respectively.

** Mr. Tang Yiu Wing and Ms. Hui Wai Man, Shirley were appointed as INED on 20 September 2006 and 19 June 2006 respectively.

10. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

(a) Directors' remuneration *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2005 Total HK$'000
Executive directors:				
Mr. Kwok Ying Chuen	–	1,300	12	1,312
Mr. Wong Tak Chung, Andrew	–	34	–	34
Mr. Yu Won Kong, Dennis	–	1,300	12	1,312
Non-executive director:				
Mr. Li Siu Lok, Albert	15	–	–	15
Independent non-executive directors:				
Mr. Cheung Wing Keung, Raymond	90	–	–	90
Mr. Kwok Chi Sun, Vincent	90	–	–	90
Mr. Tso Hon Sai, Bosco	90	–	–	90
	285	2,634	24	2,943

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

10. DIRECTORS' AND FIVE HIGHEST PAID EMPLOYEES' REMUNERATION *(Continued)*

(b) Of the five highest paid employees during the year, two (2005: two) were executive directors of the Company whose remuneration are set out above. The remuneration of the remaining three (2005: three) highest paid individuals for the year are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**1,208**	2,198
Retirement scheme contributions	**48**	33
	1,256	2,231

The remuneration of the three (2005: three) highest paid employees are within the following bands:

	Number of employees	
	2006	2005
Nil – HK$1,000,000	**3**	2
HK$1,000,001 – HK$1,500,000	**–**	1
	3	3

11. INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxation for overseas subsidiaries is charged at appropriate current rates of taxation ruling in the relevant countries.

	Continuing operations		Discontinued operations		Consolidated	
	2006	2005 (Restated)	**2006**	2005 (Restated)	**2006**	2005 (Restated)
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Current tax – Hong Kong Profits Tax						
Provision for the year	**1,506**	273	**–**	–	**1,506**	273
(Over)/under provision in prior years	**12**	(130)	**–**	33	**12**	(97)
	1,518	143	**–**	33	**1,518**	176
Deferred taxation *(Note 29)*						
Origination and reversal of temporary differences	**(13,459)**	1,135	**–**	127	**(13,459)**	1,262
	(11,941)	1,278	**–**	160	**(11,941)**	1,438

11. INCOME TAX *(Continued)*

Reconciliation between tax (recovered)/expenses and accounting profit/(loss) at applicable tax rate:

	2006	2005
		(Restated)
	HK$'000	HK$'000
Profit/(loss) before taxation		
– Continuing operations	**50,480**	(105,409)
– Discontinued operations *(note 12)*	**11,133**	(43,614)
	61,613	(149,023)
Notional taxation at statutory rate	**10,783**	(26,080)
Tax effect of non-taxable income	**(28,171)**	(7,849)
Tax effect of non-deductible expenses	**3,139**	24,396
Tax effect of accelerated tax allowance not recognised	**1,635**	–
Tax effect of unused tax losses not recognised	**907**	10,034
Tax effect of tax losses utilised from previous period	**(246)**	(50)
Under provision of taxation in prior years	**12**	987
Actual tax (recovered)/expenses	**(11,941)**	1,438

The Group has estimated tax losses arising in Hong Kong of approximately HK$130,909,000 (2005: HK$127,132,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. A deferred tax asset has not been recognised in respect of these losses due to the unpredictability of future profit streams. All tax losses do not expire under current tax legislation.

12. DISCONTINUED OPERATIONS

On 30 May 2006, the Group disposed of its entire 100% interest in Profit Team Consultants Limited and its subsidiaries (the "Profit Team Group") and the shareholder's loan due from Profit Team Group to an independent third party at a consideration of HK$2. Profit Team Group principally engaged in skin and health care business.

The profit/(loss) from discontinued operations is analysed as follows:

	2006	2005
		(Restated)
	HK$'000	HK$'000
Loss on skin and health care operations for the year	**(27)**	(43,774)
Gain on disposal of skin and health care operations *(see note 34(b))*	**11,160**	–
	11,133	(43,774)

The results of the skin and health care operations for the year are as follows:

	Notes	**2006** HK$'000	2005 HK$'000
Turnover	6	**–**	258
Cost of sales		**–**	(744)
Gross profit		**–**	(486)
Other revenue	6	**20**	151
Operating expenses		**(47)**	(803)
Loss from operations		**(27)**	(1,138)
Finance costs	8	**–**	(17)
Impairment loss on goodwill		**–**	(42,459)
Loss before tax from discontinued operations		**(27)**	(43,614)
Income tax	11	–	(160)
Loss for the year from discontinued operations attributable to equity holders of the Company		**(27)**	(43,774)
The net cash flows attributable to the discontinued operations of Profit Team Group are as follows:			
Net cash (used in)/generated from operating activities		**(68)**	178
Net cash used in investing activities		**–**	(3)
Net cash generated from/(used in) financing activities		**64**	(198)
Net cash outflow		**(4)**	(23)

The carrying amounts of the assets and liabilities of Profit Team Group at the date of disposal are disclosed in note 34(b).

13. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Loss from ordinary activities attributable to equity holders of the Company for the year ended 31 December 2006 dealt with in the financial statements of the Company of loss amounted to HK$11,938,000 (2005: HK$164,963,000) (note 33(b)).

14. EARNINGS/(LOSS) PER SHARE

(a) The calculation of basic earnings/(loss) per share is based on the net profit/(loss) for the year attributable to equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

Earnings/(loss)

	2006	2005 (Restated)
	HK$'000	HK$'000
Earnings/(loss) attributable to equity holders of the Company used in the basic earnings/(loss) per share calculation		
From continuing operations	**62,293**	(106,866)
From discontinued operations	**11,133**	(43,774)
	73,426	(150,640)

Number of shares

	2006	2005 (Restated)
	'000	'000
Weighted average number of shares for the purpose of calculating basic earnings/(loss) per share	**161,545**	68,009*

* The weighted average number of shares has been adjusted for the share consolidation in 2006.

(b) Diluted earnings/(loss) per share is not presented as there were no dilutive potential shares in issue during the year ended 31 December 2006 and 2005.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Machinery and equipment HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Crockery, utensils, linens and uniform HK$'000	Total HK$'000
Cost:						
1 January 2005	547	11,646	4,845	736	–	17,774
Additions	–	37	6	153	–	196
Acquisition of subsidiaries	–	1,126	2,732	–	238	4,096
Disposal and deconsolidation of subsidiaries	(547)	(4,556)	(3,331)	(468)	–	(8,902)
Disposals	–	(169)	(89)	(219)	–	(477)
31 December 2005	–	8,084	4,163	202	238	12,687
1 January 2006	–	8,084	4,163	202	238	12,687
Additions	–	558	6,448	–	130	7,136
Acquisition of subsidiaries	–	–	3,015	–	–	3,015
Deconsolidation of subsidiaries	–	(55)	(859)	–	–	(914)
Disposals	–	(7,398)	(3,649)	–	(18)	(11,065)
31 December 2006	–	1,189	9,118	202	350	10,859
Accumulated depreciation:						
1 January 2005	547	6,849	4,372	580	–	12,348
Charge for the year	–	1,450	660	5	–	2,115
Acquisition of subsidiaries	–	643	1,974	–	–	2,617
Disposal and deconsolidation of subsidiaries	(547)	(3,704)	(3,319)	(310)	–	(7,880)
Written back on disposals	–	(162)	(88)	(219)	–	(469)
31 December 2005	–	5,076	3,599	56	–	8,731
1 January 2006	–	5,076	3,599	56	–	8,731
Charge for the year	–	194	595	29	–	818
Acquisition of subsidiaries	–	–	3,008	–	–	3,008
Deconsolidation of subsidiaries	–	(50)	(834)	–	–	(884)
Written back on disposals	–	(4,832)	(3,450)	–	–	(8,282)
31 December 2006	–	388	2,918	85	–	3,391
Net book value:						
31 December 2006	–	801	6,200	117	350	7,468
31 December 2005	–	3,008	564	146	238	3,956

As at 31 December 2006, there was no property, plant and equipment held under finance leases.

As at 31 December 2005, the net book value of machinery and equipment of HK$2,167,000 was held under finance leases.

The net book value of HK$2,667,000 disposed of during the year ended 31 December 2006 was connected with the artwork design business.

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Furniture and fixtures
	HK$'000
Cost:	
1 January 2005 and 31 December 2005	8
1 January 2006	8
Disposals	(8)
31 December 2006	–
Accumulated depreciation:	
1 January 2005	1
Additions	2
31 December 2005	3
1 January 2006	3
Written back on disposals	(3)
31 December 2006	–
Net book value:	
31 December 2006	–
31 December 2005	5

16. INVESTMENT PROPERTIES

Group

	2006	2005
	HK$'000	HK$'000
Beginning of the year	**33,170**	73,520
Additions	**4,207**	–
Acquisition of a subsidiary	**120,000**	–
Disposal and deconsolidation of subsidiaries	**(21,970)**	(8,600)
Disposal	**(120,000)**	(32,030)
Fair value adjustment	**883**	280
End of the year	**16,290**	33,170

(a) The Group's investment properties are all situated in Hong Kong and are held under medium term leases.

(b) Investment properties were revalued as at 31 December 2006 and 2005 by an independent firm of surveyors, Dudley Surveyors Limited, on an open market value basis.

(c) As at 31 December 2005, certain of the Group's investment properties with carrying amount of HK$21,970,000 were pledged to secure general banking facilities granted to the Group.

17. GOODWILL

Group

	HK$'000
Cost:	
1 January 2005	146,755
Opening adjustment to eliminate accumulated amortisation *(note a)*	(22,329)
Acquisition of subsidiaries *(note 34(a))*	455
31 December 2005	124,881
1 January 2006 and 31 December 2006	124,881
Accumulated amortisation and impairment:	
1 January 2005	22,329
Eliminated against cost at 1 January 2005 *(note a)*	(22,329)
Disposal and deconsolidation of subsidiaries	15,107
Impairment loss on goodwill during the year *(note b)*	109,319
31 December 2005	124,426
1 January 2006 and 31 December 2006	124,426
Net book value:	
31 December 2006	455
31 December 2005	455

Notes:

(a) With effect from 1 January 2005, the Group no longer amortises goodwill, in accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

(b) The recoverable amount of the cash generated unit (the "CGU") is determined from value in use calculations. These calculations require the use of estimates. These calculations use cash flow projections based on financial budgets approved by management covering a twelve months period. Discount rate of 7.75% have been used for the value in use calculations.

18. INTEREST IN SUBSIDIARIES

Company

	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	69,312	69,312
Due from subsidiaries	512,942	470,750
	582,254	540,062
Provision for impairment loss	(527,191)	(519,729)
	55,063	20,333

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The impairment loss represented the write-down of investment cost and amount due from subsidiaries of HK$69,312,000 (2005: HK$60,551,000) and HK$457,879,000 (2005: HK$459,178,000) respectively.

The following lists contain only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name	Place of incorporation and operation	Particulars of issued and paid-up capital	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
Firstone Corporate Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Trading of wine and other food products
Firstone Enterprises Limited	British Virgin Islands	HK$67,349,601 ordinary shares	100	–	Investment holding
Ostrindo Holdings Limited	British Virgin Islands	US$1,000 ordinary shares	–	100	Investment holding
Preciseworth Investments Limited	British Virgin Islands/ Hong Kong	US$1 ordinary share	100	–	Securities trading

18. INTEREST IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and operation	Particulars of issued and paid-up capital	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
Sky Path Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Glory Hero Corporation Limited	Hong Kong	HK$2 ordinary shares	–	100	Property holding
Main Benefit Limited	Hong Kong	HK$2 ordinary shares	–	100	Property holding
Daiwah Company Limited	British Virgin Islands/ Hong Kong	US$100 ordinary shares	–	100	Investment holding
Lei Pong Silkscreen & Inkjet Printing Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Dormant
Screenyard 8 Colours Production (HK) Limited	Hong Kong	HK$20,408 ordinary shares	–	100	Dormant
Grafixpro Limited	Hong Kong	HK$500,000 ordinary shares	–	100	Dormant
Right Choice Exhibition Display (HK) Limited	Hong Kong	HK$10,000 ordinary shares	–	100	Dormant
Pacific Glory Holdings Limited	British Virgin Islands	US$100 ordinary shares	–	80	Investment holding
Suishaya Japanese Restaurant (Kowloon) Limited	Hong Kong	HK$2 ordinary shares	–	80	Operating Japanese restaurants

18. INTEREST IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation and operation	Particulars of issued and paid-up capital	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
Cheerford Corporation Limited	Hong Kong	HK$2 ordinary shares	–	80	Tenancy agreement signing agent of fellow subsidiary
Grand Allied Profits Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Fisherton Holdings Limited	Hong Kong	HK$2 ordinary shares	–	100	Tenancy agreement signing agent of fellow subsidiary
Fisherton International Limited (Formerly known as Diamond Faith Company Limited)	Hong Kong	HK$2 ordinary shares	–	100	Trading of glass eel
Team Profit International Limited	Hong Kong	HK$1 ordinary share	–	100	Property investment
State Empire Limited	British Virgin Islands	US$1 ordinary share	–	100	Investment holding
Harbour Wealth Investment Company Limited	Hong Kong	HK$2,000,000 ordinary shares	–	100	Property investment

19. INTEREST IN ASSOCIATES

Group

	2006	2005
	HK$'000	HK$'000
Share of net assets	–	–
Amounts due from associates	52,070	52,070
Impairment loss on amounts due from associates	(52,070)	(52,070)
	–	–

The balances with associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, they will not be repayable within twelve months from the balance sheet date and accordingly, the amounts have been classified as non-current assets.

Particulars of the Group's associates are as follows:

Name	Business structure	Place of incorporation/ registration and operation	Percentage of equity attributable to the Group		Principal activities
			Directly	Indirectly	
Centra Intertraco Limited	Corporate	Hong Kong	–	35	Investment holding
Shenzhen Capstone Food and Beverage Co., Ltd.	Corporate	mainland China	–	24.5	Dormant
Shaoguan Quan Tong Industrial Ltd.	Corporate	mainland China	–	25	Dormant

20. OTHER FINANCIAL ASSETS

Group and Company

	2006 HK$'000	2005 HK$'000
Unlisted equity investment, at cost	156,514	156,514
Due from investee	518	518
Impairment loss	(157,032)	(157,032)
	–	–

Other financial assets represents an unlisted investment (11.14% equity interest) in a company incorporated in the British Virgin Islands which owns a group of subsidiaries, the operations of which were terminated in prior year. Therefore, full impairment for the cost of investment and the amount due from investee was provided in prior year.

21. INVENTORIES

Group

	2006 HK$'000	2005 HK$'000
Finished goods	755	859

At 31 December 2006, no inventory items was carried at net realisable value (2005: Nil).

22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 days, except for certain well-established customers where the credit terms are extended to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

In view of the aforementioned and that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivable are non-interest bearing.

22. TRADE RECEIVABLES *(Continued)*

An aged analysis of the trade receivables as at the balance sheet date, based on invoice date, and net of impairment loss for bad and doubtful debt, is as follows:

Group

	2006	2005
	HK$'000	HK$'000
Current to 3 months	**3,603**	3,781
3 to 6 months	**165**	72
Over 6 months	**3**	107
	3,771	3,960

All of the trade receivables are expected to be recovered within one year.

23. TRADING SECURITIES

Group

	2006	2005
	HK$'000	HK$'000
Trading securities (at market value)		
Listed equity securities in Hong Kong	**–**	759

24. CASH AND CASH EQUIVALENTS

Group

	2006	2005
	HK$'000	HK$'000
Fixed deposit	**23,628**	–
Bank balances and cash	**98,250**	41,764
Cash and cash equivalents in the balance sheet	**121,878**	41,764
Bank overdrafts, secured *(note 26)*	**–**	(1,600)
Bank overdrafts, unsecured *(note 26)*	**(701)**	–
Cash and cash equivalents in the consolidated cash flow statement	**121,177**	40,164

25. TRADE PAYABLES

An aged analysis of trade payables as at the balance sheet date, based on invoice date, is as follows:

Group

	2006 HK$'000	2005 HK$'000
Current to 3 months	**3,997**	1,003
3 to 6 months	**3**	439
Over 6 months	**1,245**	5,841
	5,245	7,283

26. BANK LOANS AND OVERDRAFTS

Group

	2006 HK$'000	2005 HK$'000
Bank overdrafts, secured *(note 24)*	**–**	1,600
Bank overdrafts, unsecured *(note 24)*	**701**	–
Bank loans, secured	**–**	16,514
	701	18,114
Bank loans and overdrafts are repayable as follows:		
Within one year or on demand	**701**	4,547
In the second year	**–**	1,638
In the third to fifth years, inclusive	**–**	3,613
After five years	**–**	8,316
	701	18,114
Portion classified as current liabilities	**(701)**	(4,547)
Long term portion	**–**	13,567

26. BANK LOANS AND OVERDRAFTS *(Continued)*

At 31 December 2006, the Group had no secured bank loans and overdrafts. At 31 December 2005, the Group's secured interest-bearing bank loans and overdrafts were secured by the following:

(a) first legal charges over certain investment properties of the Group with carrying amount of HK$21,970,000;

(b) first legal charges over properties of certain independent third parties;

(c) corporate guarantee executed by an independent third party; and

(d) personal guarantee executed by certain directors of the Group's subsidiaries – Excel Harvest Group and Silver Dragons Group.

27. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2006, the Group had no obligations under finance leases payable. At 31 December 2005, the Group's obligations under finance leases payable were as follows:

Group

	Total minimum lease payments 2006 HK$'000	Total minimum lease payments 2005 HK$'000	**Present value of minimum lease payments 2006 HK$'000**	Present value of minimum lease payments 2005 HK$'000
Amounts payable:				
Within one year	–	1,090	–	1,053
Total minimum finance lease payments	–	1,090	–	1,053
Less: total future finance charges	–	(37)		
Present value of lease obligations	–	1,053		

28. DUE TO MINORITY SHAREHOLDERS

The amounts due to minority shareholders were unsecured, interest free and repayable on demand.

29. DEFERRED TAXATION

The movements in deferred tax liabilities/(assets) during the year are as follows:

	Revaluation of investment properties HK$'000	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
1 January 2005	739	(696)	–	43
Disposal and deconsolidation of subsidiaries	(537)	(293)	–	(830)
Charged to consolidated income statement during the year	50	1,212	–	1,262
31 December 2005	252	223	–	475
1 January 2006	252	223	–	475
Acquisition of subsidiaries	12,273	1,920	(567)	13,626
Deconsolidation of subsidiaries	(183)	(105)	–	(288)
Credited to consolidated income statement during the year *(note 11)*	(12,119)	(1,907)	567	(13,459)
31 December 2006	223	131	–	354

The deferred tax liabilities arising from acquisition of subsidiaries amounted to HK$12,273,000 was credited to consolidated income statement subsequent to the disposal of the investment properties during the year.

30. SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Authorised:		
12,500,000,000 ordinary shares of HK$0.02 each (2005: 25,000,000,000 ordinary shares of HK$0.01 each)	**250,000**	250,000
500 convertible preference shares of HK$100,000 each (2005: 50 convertible preference shares of HK$1,000,000 each)	**50,000**	50,000
Issued and fully paid:		
204,027,273 ordinary shares of HK$0.02 each (2005: 13,601,818,226 ordinary shares of HK$0.01 each)	**4,081**	136,018

30. SHARE CAPITAL *(Continued)*

A summary of the movements in the Company's share capital during the year is presented as follows:

	Notes	Number of shares	HK$'000
At 1 January 2006		13,601,818,226	136,018
Capital reduction on 20 March 2006	(a)	–	(134,658)
Share consolidation on 20 March 2006	(b)	(12,241,636,404)	–
Open Offer	(c)	2,720,363,644	2,721
Share consolidation on 14 November 2006	(d)	(3,876,518,193)	–
At 31 December 2006		204,027,273	4,081

Notes:

(a) By a special resolution passed by the shareholders of the Company on 20 March 2006, the share capital of the Company reorganised as follows with effect from 20 March 2006:

(i) cancelled paid up capital to the extent of HK$0.0099 on each ordinary share of the Company so that the nominal value of each issued share was reduced from HK$0.01 to HK$0.0001 ("Capital Reduction");

(ii) subdivided each of the authorised but unissued share of HK$0.01 into 100 ordinary shares of nominal value of HK$0.0001 each;

(iii) subdivided each of the authorised but unissued convertible preference share of the Company of HK$1,000,000 each into 100 convertible preference shares of nominal value of HK$10,000 each;

(iv) cancelled the entire amount standing to the credit of the share premium account of the Company as at 20 March 2006 ("Share Premium Reduction"); and

(v) transferred the credit arising from the Share Premium Reduction and the Capital Reduction totalling HK$698,781,000 to the contributed surplus account of the Company and applied the amount therein to set off against the Company's accumulated losses of HK$688,054,000 in accordance with the applicable laws, including the laws of Bermuda and the bye-laws of the Company.

30. SHARE CAPITAL *(Continued)*

(b) By an ordinary resolution passed by the shareholders of the Company on 20 March 2006, every 10 of the ordinary shares of the Company (both issued and unissued) of HK$0.0001 each were consolidated into one new share of HK$0.001 each and every 10 of the convertible preference shares of the Company of HK$10,000 each were consolidated into one new convertible preference share of HK$100,000 each.

(c) On 25 April 2006, 2,720,363,644 ordinary shares ("Offer Shares") of HK$0.001 were issued at HK$0.01 per share through an open offer ("Open Offer") to the shareholders of the Company. The Offer Shares rank pari passu in all respects with the then existing shares of the Company. The premium arose from the issue of the Offer Shares of approximately HK$24,483,000, net of share issuing expenses of approximately HK$ 1,212,000 was credited to the share premium account. The Company used the net proceeds from the Open Offer of approximately HK$992,000 for the Group's general working capital and approximately HK$25,000,000 for settling part of the consideration payable of the acquisition of State Empire Limited by the Group.

(d) By an ordinary resolution passed by the shareholders of the Company on 14 November 2006, every 20 of the ordinary shares of the Company (both issued and unissued) of HK$0.001 each were consolidated into one new share of HK$0.02 each.

31. SHARE OPTION SCHEME

On 28 January 2004, the shareholders of the Company approved the adoption of the share option scheme (the "New Scheme"). The purpose of the New Scheme is to provide incentives or rewards to participants thereunder for their contribution to the Group and/or enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest ("Invested Entity"). Eligible participants of the New Scheme include mainly the directors, employees, suppliers of goods or services, customers, shareholders, business partners and professional advisers of the Company or any Invested Entity. The New Scheme became effective on 29 January 2004 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all share options to be granted under the New Scheme is 408,054,546 shares, being an amount equivalent, upon their exercise, to 10% of the shares in issue of the Company at 25 May 2006, being the date of the shareholders of the Company approving the refreshment of the limit in respect of the granting of share options under the New Scheme. The maximum number of shares issuable under the share options to each eligible participant in the New Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

31. SHARE OPTION SCHEME *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share option may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and the period commences on the date of which the offer is made and ends on a date which is not later than 10 years from the date of the offer of the share options subject to any provisions of the New Scheme determining the rights of the grantees.

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer and (iii) the nominal value of a share of the Company.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

There is no outstanding options remain un-exercised at the beginning and at the end of the period. No option was granted, exercised, cancelled nor lapsed during the year ended 31 December 2006.

31. SHARE OPTION SCHEME *(Continued)*

All the share option granted under the scheme on 28 January 2004 are fully exercised in 2005. The movement of the scheme during the year ended 31 December 2005 is as follows:

	Number of share options									Price of Company's shares***		
Participant	At 1 January 2005	Grant during the year	Exercise during the year	Lapsed during the year	Cancelled during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	At grant date of options	Immediately before the exercise date	At exercise date of options
									HK$	HK$	HK$	HK$
Employee												
Lu Siu Bo	70,000,000	–	(70,000,000)	–	–	–	11-Feb-04	11-Feb-04 to 10-Feb-05	0.0198	0.0200	0.0770	0.0770
Business partners												
Ng Po Hing	30,000,000	–	(30,000,000)	–	–	–	11-Feb-04	11-Feb-04 to 10-Feb-05	0.0198	0.0200	0.0770	0.0770
Kwong Man Kei	–	100,000,000	(100,000,000)	–	–	–	10-Oct-05	10-Oct-05 to 9-Oct-06	0.0112	0.0120	0.0100	0.0100
Lam Chok Fai	–	100,000,000	(100,000,000)	–	–	–	10-Oct-05	10-Oct-05 to 9-Oct-06	0.0112	0.0120	0.0100	0.0100
Poon Wai Man	–	100,000,000	(100,000,000)	–	–	–	10-Oct-05	10-Oct-05 to 9-Oct-06	0.0112	0.0120	0.0100	0.0100
Wang Yun Tse	–	100,000,000	(100,000,000)	–	–	–	10-Oct-05	10-Oct-05 to 9-Oct-06	0.0112	0.0120	0.0100	0.0100
Sacklin Raymond Montague	–	100,000,000	(100,000,000)	–	–	–	7-Oct-05	7-Oct-05 to 6-Oct-06	0.0112	0.0110	0.0100	0.0100
	30,000,000	500,000,000	(530,000,000)	–	–	–						
	100,000,000	500,000,000	(600,000,000)	–	–	–						

31. SHARE OPTION SCHEME *(Continued)*

Notes to the reconciliation of share options outstanding during the period 1 January 2005 to 31 December 2005:

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure line.

The Board considered that the disclosure of value of the 500,000,000 share options granted during 2005 is not appropriate as the assumptions used to estimate the value of the options are volatile and subjective which renders the value uncertain.

The 600,000,000 share options exercised during 2005 resulted in the issue of 600,000,000 ordinary shares of the Company and new share capital of HK$6,000,000 and share premium of HK$1,580,000.

32. EMPLOYEE RETIREMENT BENEFITS

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

33. RESERVES

(a) Group

The amount of the Group's reserves and movements therein for the two years are presented in the consolidated statement of changes in equity on page 26 of the financial statements.

The contributed surplus of the Group represents:

(i) the excess of the nominal value of the subsidiary's shares acquired over the nominal value of the Company's shares issued in exchange at the time of the Group re-organisation prior to the listing of the Company's shares in 1992;

(ii) the credit arising from the reduction of the nominal value of the shares of the Company from HK$0.10 each to HK$0.01 each in prior year; and

(iii) the credit arising from share premium reduction and capital reduction after setting off against the Company's accumulated losses during the year (Note 30(a)).

33. RESERVES *(Continued)*

(b) Company

	Share premium account	Contributed surplus *(Note (a))*	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	562,543	192,083	(688,054)	66,572
Exercise of share options	1,580	–	–	1,580
Loss for the year	–	–	(164,963)	(164,963)
At 31 December 2005	564,123	192,083	(853,017)	(96,811)
At 1 January 2006	564,123	192,083	(853,017)	(96,811)
Capital reorganisation	(564,123)	698,781	–	134,658
Set off accumulated losses	–	(688,054)	688,054	–
Open offer, net of expenses	23,271	–	–	23,271
Loss for the year	–	–	(11,938)	(11,938)
As 31 December 2006	23,271	202,810	(176,901)	49,180

Notes:

(a) Contributed surplus

The Company's contributed surplus represents (i) the excess of the nominal value of the share capital of the subsidiaries at the date on which they were acquired by the Company over the nominal amount of the Company's shares issued for the acquisition at the time of the Group reorganisation prior to the listing of the Company's shares in 1992, less dividends paid out and an amount utilised on redemption of shares in prior year, (ii) the credit arising from the reduction in nominal value of HK$0.09 of the Company's shares in prior year and (iii) the credit arising from share premium reduction and capital reduction after setting off against the Company's accumulated losses during the year (Note 30(a)).

(b) Distributable reserves

The Company did not have any reserve available for cash distribution or distribution in specie at 31 December 2006 as computed in accordance with the Companies Act 1981 of Bermuda (as amended).

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

The net assets acquired during the year ended 31 December 2006 and 2005, and the goodwill arising, are as follows:

	2006			2005
	Carrying amount HK$'000	Fair value adjustment HK$'000	Fair value HK$'000	Fair value/ carrying amount HK$'000
Net assets acquired:				
Property, plant and equipment	7	–	7	1,479
Investment properties	112,000	8,000	120,000	–
Deferred taxation	(12,226)	(1,400)	(13,626)	–
Inventories	–	–	–	139
Trade receivables	–	–	–	135
Utility deposits and other debtors	1,750	–	1,750	924
Cash and cash equivalents	2,502	–	2,502	2,505
Trade payables	–	–	–	(1,213)
Accrued liabilities and other payables	(1,986)	–	(1,986)	(634)
Minority interests	–	–	–	(750)
	102,047	6,600	108,647	2,585
Goodwill			(6,600)	455
Total consideration, satisfied by cash			102,047	3,040

Net cash outflow arising on acquisition is as follow:

	2006 HK$'000	2005 HK$'000
Cash consideration	(102,047)	(3,040)
Cash and bank balances acquired	2,502	2,505
	(99,545)	(535)

Notes:

(i) For the year ended 31 December 2006

On 19 June 2006, the Group acquired 100% of the issued share capital of State Empire Limited for cash consideration of HK$102,047,000.

The subsidiaries acquired during the year contributed HK$43,163,000 to the Group's revenue and HK$ 53,167,000 to the Group's profit

(ii) For the year ended 31 December 2005

On 25 April 2005, the Group acquired 75% of the issued share capital of Pacific Glory Limited for cash consideration of HK$ 2,700,000 and on 18 October 2005, the Group acquired 100% of the issued share capital of Grand Allied Profit Limited for consideration of HK$340,000.

The subsidiaries acquired during the year contributed HK$18,585,000 to the Group's revenue and HK$873,000 to the Group's profit.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries attributable to discontinued operations

As explained in note 12, on 30 May 2006, the Group discontinued its skin and health care operations at the time of the disposal of Profit Team Consultants Limited and its subsidiaries to an independent third party.

Net liabilities disposed of :

	2006 HK$'000
Other receivables	48
Cash and bank balances	2
Trade payables	(4,278)
Accrued liabilities and other payables	(6,320)
Amount due to fellow subsidiaries	(589)
Amount due to immediate holding company	(11,898)
Tax payable	(23)
	(23,058)
Assignment of amount due to immediate holding company	11,898
	(11,160)
Gain on disposal of subsidiaries	11,160
Total consideration	–

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

	HK$'000
Cash consideration	–
Cash and bank balance disposed of	(2)
	(2)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of subsidiaries

	2006 **HK$'000**	2005 HK$'000
Net assets disposed of:		
Investment properties	–	7,100
Property, plant and equipment	–	5
Goodwill	–	2,274
Inventories	–	70
Prepayment, deposits and other receivables	–	175
Cash and bank balances	–	4
Tax refundable	–	10
Trade payables	–	(2,142)
Accrued liabilities and other payables	–	(2,401)
Deferred tax	–	(5)
Revaluation reserve	–	(910)
Translation reserve	–	(178)
	–	4,002
Gain on disposal of subsidiaries	–	2,804
Total consideration	–	6,806
Satisfied by:		
Cash	–	6,806

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

	2006 **HK$'000**	2005 HK$'000
Cash consideration	–	6,806
Cash and bank balances disposed of	–	(4)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	6,802

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(d) Deconsolidation of subsidiaries

	2006			2005
	Excel Harvest Group HK$'000	**Silver Dragons Group HK$'000**	**Total HK$'000**	Jafoon Group HK$'000
Net (liabilities)/assets deconsolidated:				
Investment properties	**8,780**	**13,190**	**21,970**	1,500
Property, plant and equipment	**30**	**–**	**30**	1,015
Goodwill	**–**	**–**	**–**	12,832
Inventories	**–**	**–**	**–**	7,295
Trade receivables	**–**	**–**	**–**	4,850
Prepayment, deposits and other receivables	**4,157**	**12**	**4,169**	21,342
Pledge time deposit	**–**	**–**	**–**	3,009
Bank balances	**8**	**25**	**33**	–
Tax refundable	**500**	**–**	**500**	–
Trade payables	**(312)**	**–**	**(312)**	(3,440)
Accrued liabilities and other payables	**(8,004)**	**(11,263)**	**(19,267)**	(1,616)
Tax payable	**–**	**(290)**	**(290)**	(690)
Bank overdrafts	**(1,592)**	**(7)**	**(1,599)**	(3,334)
Obligations of finance leases	**(88)**	**–**	**(88)**	–
Interest-bearing bank and other borrowings	**(4,806)**	**(11,708)**	**(16,514)**	(25,325)
Deferred tax	**(135)**	**(153)**	**(288)**	(299)
Minority interests	**–**	**(60)**	**(60)**	(1,078)
	(1,462)	**(10,254)**	**(11,716)**	16,061
Gain/(loss) on deconsolidation of subsidiaries	**1,462**	**10,254**	**11,716**	(16,061)
	–	**–**	**–**	–
An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the deconsolidation of subsidiaries is as follows:				
Bank balances in respect of deconsolidated subsidiaries	**(8)**	**(25)**	**(33)**	–
Bank overdrafts in respect of deconsolidated subsidiaries	**1,592**	**7**	**1,599**	3,334
Net inflow/(outflow) of cash and cash equivalents in respect of the deconsolidation of subsidiaries	**1,584**	**(18)**	**1,566**	3,334

35. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases out investment properties under operating lease arrangements with leases negotiated for terms of two years with an option to renew the lease after that date at which time are terms renegotiated. Lease payments are usually increased every 2 years to reflect market rentals. None of the leases includes contingent rentals.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases are receivable as follows:

Group

	2006	2005
	HK$'000	HK$'000
Within one year	**457**	288
In the second to fifth years, inclusive	**148**	7
	605	295

(b) As lessee

The Group leases certain properties under operating lease arrangements. These leases are negotiated for terms ranging from one to two years.

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	2006	2005
	HK$'000	HK$'000
Within one year	**4,457**	725
In the second to fifth years, inclusive	**10,728**	–
Over five years	**2,000**	–
	17,185	725

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following commitments not provided for at the balance sheet date:

Group

	2006 **HK$'000**	2005 HK$'000
Capital commitments, contracted for acquisition of property, plant and equipment	**31**	–
Capital commitments, contracted for acquisition of investment property	**–**	3,700
Capital commitments, contracted for acquisition of subsidiaries	**–**	100,000
	31	103,700

37. POST BALANCE SHEET EVENTS

On 2 March 2007, the Group entered into a conditional sale and purchase agreement with Profit Leap International Limited (the "Profit Leap"), a company wholly-owned by a director of the Firstone Corporate Limited (one of the Company's subsidiaries) to dispose of the entire issued share capital of Firstone Enterprises Limited (the "Firstone") and the entire shareholder's loan due to the Group for a nominal consideration of HK$50,000 (the "Firstone Disposal"). Firstone is an investment holding company incorporated in the British Virgin Islands holding various non-core operations of the Group, including the distribution of wine in Hong Kong, trading of jewellery and steel and artwork design business. These non-core businesses have been operating at a loss for the past few years despite various measures adopted by the Directors to improve the performance of these operations. The nominal consideration was arrived at after arm's length negotiation between the Group and Profit Leap. The Firstone Disposal constituted as a major and connected transaction of the Company under the Listing Rules and the details of which are set out in the Company's circular dated 26 March 2007. The Firstone Disposal was completed on 16 April 2007.

38. RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

The key management personnel of the Group are the Directors of the Company. Details of the remuneration paid to them are set out in note 10 to the financial statements.

39. COMPARATIVE FIGURES

Due to the disposal of the Profit Team Group during the period, which constituted a discontinued operation under HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operation", certain comparative figures have been reclassified to conform with current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 April 2007.

Summary of Investment Properties

	Location	Purpose	Floor area sq.ft.	Group's interest
1.	Flat C, 24/F, Village Tower, No. 7 Village Road, Happy Valley, Hong Kong	Residential	900	100%
2.	Flat 12, 26/F, Apartment Tower, Western Side Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong	Residential	843	100%
3.	8/F Lok Kui Industrial Building, Nos. 6-8 Hung To Road, Kwun Tong, Kowloon	Industrial	8,000	100%