New Capital

International Investment Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 1062)

New Capital

ANNUAL REPORT 2006

CONTENTS

CHAIRMAN'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006,

the audited net profit for New Capital International Investment Limited ("New Capital" or the "Company") and its subsidiaries (the "Group") totaled HK$25,860,547. The consolidated net asset value of the Company was HK$191,665,423 as at 31 December 2006. The Group's audited combined loss for the year up to 31 December 2005, and combined net asset value per share as at 31 December 2005 were HK$12,726,109 and HK$0.264 respectively.

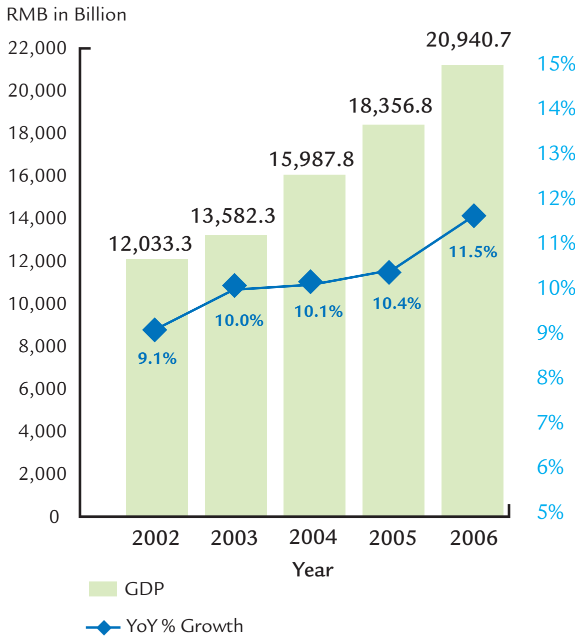
NEW CORPORATE STRUCTURE

New Capital has entered new Investment Management Agreement with Avanta Investment Management Limited ("Avanta") commencing from 1 September 2006. Avanta has extensive experience in advising listed investment holding companies in Hong Kong, which have diversified investments in listed and unlisted investments. The Company considers that such extensive experience is relevant to the Company in pursuing its investment objective. New Capital also engaged ZY International Project Management Limited to render Project Management service to the Company from 1 October 2006. The Project Manager is knowledgeable in the investment environment and government systems in China. It has successful track record in property development and industrial projects. Its professional management team together with its local expertise is expected to add value in project supervision and to enhance the potential of investee companies, and to provide valuable advice on situations when dealing with various issues of investing in China.

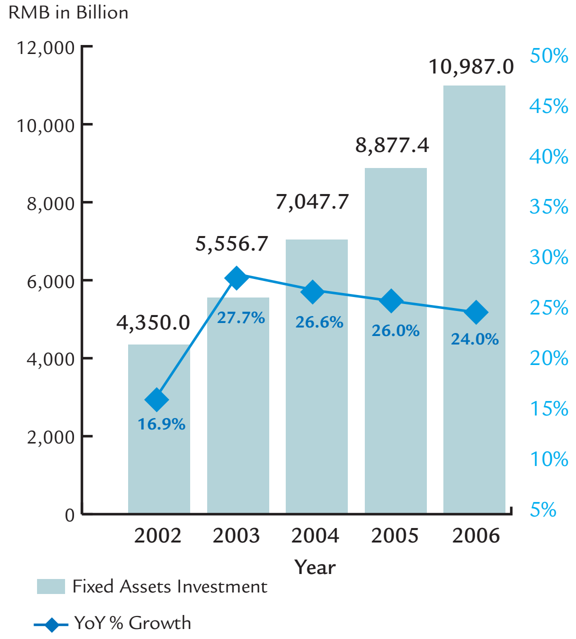
In order to reinforce the management of the Company, the Company has established new inhouse management structure in order to better serve the needs of the Company and to meet the rising corporate governance requirements.

CONTINUED GROWTH IN 2006

China has recorded another year of impressive economic growth in 2006. Real GDP growth reached 11.5% in 2006, and is set to be the fourth consecutive year that China has achieved a double-digit increase.



Various government authorities have implemented a range of monetary-based tightening policies to contain economic growth. Abundant liquidity continued to buoy the Chinese economy in 2006. Foreign reserves grew 30% and exceeded US$1 trillion, equity prices continued to surge despite rising interest rate and higher required reserve ratios. Property prices started to accelerate; not only buoyant asset prices created wealth effect, salaries and wages are also heading north. Fixed Asset Investment (FAI) charted only a mild deceleration by 24% towards the end of 2006. Investment in real estate was reported at RMB1,938.2 billion, up 21.8% year-on-year.



REAL ESTATE MARKET OVERVIEW

The Chinese government has expressed much concern about rising residential property prices. Throughout the year 2006, various directives, circulars and opinions were promulgated to stabilize the property prices and development of real estate market; they were aimed to strengthen control over the rising influx of foreign investment into real estate acquisition and development, further restricting investment channels while at the same time also tightening supervision of overseas investors purchasing property in China. However, these new regulations have not changed the basic strategies of institutional investors who have adopted a long-term view with respect to investing in China. High-quality properties will continue to remain the focus of attention

CHAIRMAN'S STATEMENT

for both overseas investors and domestic institutional investors. Residential development continues to flourish as the house price goes up between 10-20% in different parts of the country, supported by the continued demand for housing from the fast increasing middle class population.

REAL ESTATE TRANSACTIONS

The Group invested HKD 78 million in China Property Development (Holdings) Limited ("CPDH") in February 2002. CPDH holds a 100% interest in a Beijing residential development project, the Pacific Town Project (marketed as Richmond Park in Beijing). The project is a 240,000 square meters high-end residential development project located in the northeast corner of Beijing within the Lido Area of the Chaoyang District.

The units of Phase I of the Project have been handed over to buyers in April 2006, the project development company of Richmond Park has completed and submitted the tax audit report of Phase I to the relevant government authority. The profit of Phase I of the Project can then be distributed once approval is obtained.

Phase II-A consists of two buildings, A4 and A5. Phase III has one building of B5. The two phases represent total floor area of 51,327 sq.m. in 230 units which have been substantially pre-sold in the market, and their construction works are scheduled to complete in late 2007.

The Group has approved to acquire two commercial floors of Xing Cheng Building in Wuhan as long term investment. Wuhan Xing Cheng Building is a commercial building situated at the city centre of Jianghan District in Wuhan. The building is at proximity to shopping malls, luxury residential apartments and commercial buildings. The acquisition will provide the Group a stable rental income and potential for capital appreciation.

CHINA ECO-HOTEL INVESTMENTS LIMITED

In December 2006, the Group entered into agreement to establish China Eco-hotel Investments Limited ("China Eco-hotel") to invest in Anyi (Sichuan) Hotel Development Company Limited ("Anyi"). Anyi is a cooperative joint venture of China Eco-hotel with Sichuan Mishan Investment Limited ("Mishan") to operate and manage economic hotel business in China. Mishan is one of the leading hotel investment and hotel management companies in Chengdu, China, it will provide experience and professional management to the joint venture. Mishan currently operate 4 economy hotels in Chengdu under the "Anyi 158" brand. The new joint venture is to expand the Anyi network to other cities in the South West region.

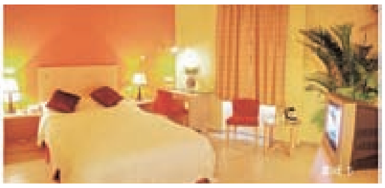
The government approval and the business license of the joint venture company has been obtained on 9 March 2007, the management team has been set up and getting ready to start development work at pre-identified sites.

FUTURE PROSPECTS

Global growth continues to be robust while oil prices have settled to much lower levels. There are no strong signs of inflationary pressure in China. Underlying demand conditions are supportive of rapid growth in the medium to long term. Private consumption is expected to remain buoyant in 2007 on the back of rising household income, rising property prices and appreciation in the currency. With the tightening monetary and administrative policy in real estate market, fixed asset investment should slow, but the real estate market to develop at a healthy pace.

The new government regulations have not changed the basic strategies of institutional investors who have adopted a long-term view with respect to investing in China. High-quality properties will continue to remain the focus of attention for both overseas investors and domestic institutional investors. The Board of the Company is confident that the Company will be benefited from its real estate investments.

The growth of the China economy and its tourism industry has led to a rapid development in the hotel industry. In recent years, the small, economic and friendly hotels have become more popular, especially for budget conscious travelers. The Company's investment in China Eco-hotel Investments Limited will provide renewed impetus for the Company in the years to come.


MANAGEMENT DISCUSSION AND ANALYSIS

RESULT

For the year ended 31 December 2006, the audited net profit for New Capital International Investment Limited ("New Capital" or the "Company") and its subsidiaries (the "Group") totaled HK$25,860,547. The consolidated net asset value of the Company was HK$191,665,423 as at 31 December 2006. The Group's audited combined loss for the year up to 31 December 2005, and combined net asset value per share as at 31 December 2005 were HK$12,726,109 and HK$0.264 respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group was in a good liquidity position, with cash and bank balances of HK$33,461,172 (31 December 2005: HK$38,967,253). As all the retained cash was placed in Hong Kong Dollars short-term deposits with a major bank in Hong Kong, the Group's exposure to exchange fluctuations is considered minimal. The Board believes that the Group has sufficient financial resources to meet its immediate investment or working capital requirements.

As at 31 December 2006, the Group had net assets of HK$191,665,423 (31st December 2005: HK$171,005,472) and no borrowings or long-term liabilities, putting the Group in an advantageous position to pursue its investment strategies and investment opportunities.

CAPITAL STRUCTURE

There has been no change to the Group's capital structure for the year in 31 December 2006.

CHARGE ON ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2006, there were no charges on the Group's assets or any significant contingent liabilities (31 December 2005: nil)

INVESTMENT PORTFOLIO

China Property Development (Holdings) Limited ("CPDH")

The Group invested HKD78 million in China Property Development (Holdings) Limited ("CPDH") in February 2002, representing an equity interest of 33.42%. CPDH holds 100% interest in a Beijing residential development project, the Pacific Town Project (marketed as Richmond Park in Beijing).

The project is a high-end residential development project located in the northeast corner of Beijing within the Lido Area of the Chaoyang District, it is situated in an up market district popular with foreigners and the diplomatic community.

Richmond Park

The Richmond Park Project, is located in the up-market Lido area at the northeastern corner of Beijing outside the Fourth Ring Road. Popular amongst foreigners, major hotels and international schools are situated within the area. With convenient access to major expressways and roads, the Beijing International Airport, CBD and Yansa Business District are all within 10 minutes drive by car. Covering a site area of 125,925 square meters, the project plans to build 243,737 square meters high-end residential space with a product mix of high-rise apartments, condominiums and villas.

Phase I of Richmond Park consists of 3 high-rise luxury residential buildings (Block A1, A2 and A3) and a clubhouse facility. The residential units had been substantially pre-sold in August 2004 with an average selling price of RMB10,517 per sqm, the units were handed over to buyers in April 2006. The Phase I of the Project has been most successful and receives great acclaim from the satisfying customers. Richmond Park was awarded as one of the best design and the most desirable housing by the local real estate associations. It has established itself in the top end of the luxury residential sector and ranks equally among projects developed by first tier international developers. The project development company of Richmond Park has completed and submitted the tax audit report of Phase I to the relevant government authority. The profit of Phase I of the Project can then be distributed once approval is obtained.

Phase II-A consists of two buildings, A4 and A5. Phase III has one building of B5. The two phases represent total floor area of 51,327 sqm in 230 units which have been substantially pre-sold in the market, and their construction works are scheduled to complete in late 2007.

The project company is working on the site clearance of building A6 of Phase II-B and building B6 of Phase IV-A. Once the remaining households are resettled, construction work will commence immediately. The sales permit of building A7 of Phase I is obtained in February 2007, the project company is planning to launch sales of the retail properties in the clubhouse building.

Wuhan Xing Cheng Building

Wuhan city is the capital of Hubei Province; it is a famous historical and cultural city in China, a central metropolitan in the middle reaches of Yangtze River, national pivotal industrial base, centre of finance, commerce, logistics, information, science and education in Central China, long being reputed as "Oriental Chicago".

Wuhan is located at the geo-economic centre of China, the Beijing-Guangzhou and Beijing-Kowloon trunk railways run from north to south of the city, and it is also at the confluence of Yangtze river and Hanjiang river which run from west to east.

MANAGEMENT DISCUSSION AND ANALYSIS

Wuhan Xing Cheng Building is a commercial building situated at the city centre of Jianghan District in Wuhan. It is adjacent to the Wuhan Mobile & Telecommunication Bureau Building in the east, China Southern Airline Building in the west, 70 meters north of the building is Hankou Railway Station and the five -star Oriental Hotel. The building is at proximity to shopping malls, luxury residential apartments and commercial buildings.

Wuhan Xing Cheng Building has 16 floors; the underground floor is public areas and car parks. The first and second floors are areas for shopping purposes; the third to fifteen floors are commercial offices. The Group has approved to acquire the beneficial interest of Profit Harbour Industrial Limited, a company registered in Hong Kong, which holds the retail floors, Level 1 and Level 2 of Wuhan Xing Cheng Building, and is leased out to CITIC Bank (中信實業銀行武漢分行) and Beijing Illinois (北京伊力諾依家品店) a nationwide high-end store for household items and furniture.

The acquisition will provide the Group a stable rental income, together with a potential for capital appreciation.

China Eco-hotel Investments Limited ("China Eco-hotel")

One of the newest business segments to take root in China's growing economy in recent years is something that most westerners take for granted: economy hotel chains.

While China's urban dwellers and business travelers are well acquainted with luxury and mid-priced hotel brands from Marriott International Inc. and Hilton Hotels Corporation, the rest of the lodging industry remains fragmented, dominated by guest houses and other privately owned properties. But with almost every aspect of China's economy growing explosively, from heavy industry to disposable income, the demand for a standardized chain of lower-priced hotels is growing.

In December 2006, the Group entered into agreement to establish China Eco-hotel Investments Limited ("China Eco-hotel") to invest in Anyi (Sichuan) Hotel Development Company Limited ("Anyi"). Anyi is a cooperative joint venture of China Eco-hotel with Sichuan Mishan Investment Limited ("Mishan") to operate and manage economic hotel business in China. Mishan is one of the leading hotel investment and hotel management companies in Chengdu, China, it will provide experience and professional management to the joint venture. Mishan currently operate 4 economy hotels in Chengdu under the "Anyi 158" brand. The new joint venture is to expand the Anyi network to other cities in the South West region.

Anyi 158 hotels are economy hotels at a standard daily rate of RMB158 per night for an en suite room inclusive of breakfast. Independent air conditioning, telephone, television and broadband internet access are standard facilities of the room. It has taken reference of the features of economic hotels in developed countries, by providing hotel services that emphasize simple function, value for money, helpful and friendly staffs but low costs. Such new idea adopts ways of operations by running chain hotels under brand name. The target customers of Anyi 158 are the inbound travelers, individual, family or business clients, they are offered with low room rate RMB158 with great value. The service counter of Anyi 158 has fax, copy, printing and hotel booking services provided, ticketing and tourist services are also offered.

The growth of the PRC's economy and its tourism industry has led to a rapid development in the hotel industry. In recent years, the small, economic and friendly hotels have become more popular, especially for budget conscious travelers. The Board of the Company believed that the new investment will provide renewed impetus for the Company.

The government approval and the business license of the joint venture company has been obtained on 9 March 2007, the management team has been set up and getting ready to start development work at pre-identified sites. China Eco-hotel will invest initially up to RMB30 million, for Anyi to add ten more economy hotels in South West region of China within the next two years, then to strategically expand to other cities and establish an extensive hotel network in China under the Anyi brand. China Eco-hotel has an option to invest a further RMB50 million when the network expands.

Beijing Far East Instrument Co., Ltd. ("Far East")

Based on the unaudited management account as at 31 December 2006, the revenue of Far East increased by 26% to Rmb265 million. Its gross profit margin improved to 11.8% in 2006. Its profit before adjustment for the year 2006 achieved historical high, was approximately Rmb11 million, as compared with Rmb6 million in 2005. The profit is coming both from the main business operations and the investment income distributed by its associates.

The main business operations cover the manufacturing of self-produced electrical products and the derived income from Beijing Rosemount Far East Instrument Co. Limited, the joint venture of Far East with Rosemount Inc. for advanced market segment. The profit increased by 46.3% to Rmb5.7 million.

Far East has explored into automated products and industrial integrated control system, it joined hand with other companies into sector of intelligent building control system and construction technology. The investment income coming from the distributed dividend income from its investment has increased by 147.5% to Rmb5.5 million in 2006.

Quoted Investment

On 24 October 2005, the Company subscribed 3,954,000 shares of China Construction Bank Corporation – H shares ("China Construction Bank") at HK$2.35 per share. The Company has disposed 2,954,000 shares in December 2006 and the remaining 1,000,000 shares in January 2007 of China Construction Bank. The disposal contributed a gain of approximately HK$5 million to the Group.

The Group has also disposed 7,810,000 shares of Skyworth Digital Company Limited ("Skyworth") during the year 2006. The disposal produced a gain of approximately HK$266,000 to the Group. At the end of December 2006, the Group is holding 2,190,000 shares of Skyworth, which is valued at HK$0.77 per share.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Liu Xiao Guang, aged 51, is the Chairman of the board of directors of the Company. He is also the chairman of the board of directors of Beijing Capital Land Ltd., which is a H-share company listed on the Stock Exchange and is a property developer in Beijing, focusing primarily on developing quality/high-end office buildings and commercial properties and medium to high-end residential properties. Mr. Liu has been appointed an Executive Director since April 2004. He was the deputy director of the Beijing Municipal Planning Commission, deputy secretary-general of the City Planning and Construction Exchange and an adjunct professor of Beijing Commerce College. Mr. Liu has extensive experience in the management and supervision of large investment projects, and in various sectors and industries, including finance, securities, futures, foreign currency, real estate, commerce, foreign trade, tourism, consultancy and government investment fund. Mr. Liu also participated extensively in the review and approval of foreign investment projects as well as in supervising the preparation of foreign investment research and feasibility studies in Beijing for Beijing Capital. He is currently the vice chairman and deputy general manager of Beijing Capital, a large-sized enterprise group directly under the supervision of Beijing Municipal People's Government. Mr. Liu obtained a bachelor's degree in economics from Beijing Commerce College in 1983.

Mr. Lawrence H. Wood (also known as Wu Yuk Shing or Hu Xu Cheng), aged 45, has been appointed an Executive Director since August 2003. Mr. Wood graduated with a bachelor degree in economics from the Beijing Economics College in 1983. Over the past 10 years, he has been working with the Beijing International Trade Association and the Beijing International Trade Research Institute, during which period his responsibilities included performing financial and economic research and providing professional advice on Beijing Government's cross-provincial investments and foreign investments, participating in the decision-making process for granting export rights to Beijing government-owned enterprises, evaluating investment proposals as well as supervising sino-foreign investments in Beijing.

Mr. Cheng Bing Ren, aged 56, is the deputy general manager of the Beijing International Trust and Investment Corporation Limited ("BITIC"), a state-owned enterprise which is engaged in the provision of financial trust products and services. Since Mr. Cheng joined BITIC in 1987, he has been primarily responsible for managing BITIC's trust management business. Being a member of the senior management of BITIC's trust management business, Mr. Cheng has wide discretion and authority to make investment decisions for the discretionary trust clients of BITIC. Most of these clients have been assigned by the PRC government. Mr. Cheng is also responsible for the evaluation, monitoring and management of investments for BITIC itself. Mr. Cheng worked as a deputy chairman of China Security Corp. Limited since 2002, primarily responsible for human resource management and internal auditing issues and making significant strategy decision. In 2005, Mr. Cheng is appointed as the Chairman of the Auditing Committee, taking charge of routine duties of the committee. He obtained a graduate certificate from Beijing Normal College, a teachers' college in the PRC, in 1977. Mr. Cheng was appointed an Executive Director in April 2004.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Liu Xue Min, aged 48, was appointed Executive Director of the Company in April 2004. Mr. Liu graduated with a master degree in currency and banking from Post Graduate Institute of Chinese Academy of Social Science in the PRC in 1998. He is the chairman of First Capital Securities Co., Limited, which is a subsidiary of Beijing Capital and is engaged in the provision of financial services including securities consultation and asset management, and was the general manager of Beijing Jingfang Economic Development Company, a state-owned company which is engaged in the investment, securities and real estate development businesses in the PRC, from 1993 to 1997.

Mr. Shi Tao, aged 43, was appointed Executive Director of the Company in November, 2006. He holds a Bachelor degree in Engineering from Tsinghua University and a Master degree in Engineering from Wuhan Industrial University (now Wuhan University of Technology). Mr. Shi has years of business experience in the PRC. Mr. Shi is currently the President of Sense Control International Limited, the substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Mr. Shi is also an Executive Director of China Haidian Holdings Limited, company whose shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), from April 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. To Chun Kei, aged 40, has over 10 years of experience in accounting and financial management. He was the financial controller of a private company in Hong Kong which is primarily engaged in the property investment business from 2001 to 2004. Prior to joining this private company in 2001, he worked as the financial controller of Kiu Lok Service Management Co., Ltd., a subsidiary of New World Property Holdings Limited, from 2000 to 2001. He also worked as a senior accountant in Hop Hing Holdings Limited, the shares of which are listed on the Stock Exchange, during 1994 to 2000. Mr. To graduated from the University of Western Sydney, Australia and has a bachelor degree in business administration. He is a fellow member of Hong Kong Institute of Certified Public Accountants and Association of International Accountants. Mr. To was appointed an Independent Non-executive Director in April 2004.

Dr. Kwong Chun Wai Michael, aged 42, is a fellow of the International Institute of Management, a fellow of the Hong Kong Institute of Marketing and a member of the Institute of Supply Chain Management. He is currently an independent non-executive Director of China Haidian Holdings Limited, a company whose shares are listed on the Stock Exchange, a director of the Hong Kong Economic and Trade Association, examiner of Cambridge Career Awards in Business, University of Cambridge Local Examination Syndicate in the United Kingdom and a business strategist specialising in the area of marketing and business administration. Dr. Kwong obtained a bachelor of arts degree with honours in philosophy from the University of Nottingham in the United Kingdom in 1987 and a doctor degree in business administration from Newport University in the United States in 2001. He has worked in leading media corporations as senior executives and served in the past as executive committee member in the Hong Kong branch of the Chartered Institute of Marketing and council member of the Hong Kong Institute of Marketing. Dr. Kwong was appointed an Independent Non-executive Director in April 2004.

Mr. Fung Tze Wa, aged 50, is a certified public accountant. He has been a director of Lawrence CPA Limited, a professional accounting firm in Hong Kong since 2002 and had worked in the fields of accounting and finance in several listed companies in Hong Kong for over 10 years. Mr. Fung has extensive experience in auditing, taxation and company secretarial practice in Hong Kong. He is an independent non-executive director of China Haidian Holdings Limited and Jiwa Bio-Pharm Holdings Limited, companies whose shares are listed on the Stock Exchange and is a member of the Hong Kong Institute of Certified Public Accountants, the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. He obtained a master degree in professional accounting from Hong Kong Polytechnic University in 2000. Mr. Fung was appointed an Independent Non-executive Director in April 2004.

CORPORATION INFORMATION

DIRECTORS

Executive directors

Mr. Liu Xiao Guang, *Chairman*

Mr. Lawrence H. Wood, *Chief Executive Officer*
(also known as Wu Yuk Shing or Hu Xu Cheng)

Mr. Cheng Bing Ren

Mr. Liu Xue Min

Mr. Shi Tao

Independent non-executive directors

Mr. To Chun Kei

Dr. Kwong Chun Wai Michael

Mr. Fung Tze Wa

REGISTERED OFFICE

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P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3306
Two Exchange Square
Central
Hong Kong

COMPANY SECRETARY

Ms. Lo Wing Suet, Anita

QUALIFIED ACCOUNTANT

Mr. Chu Kim Wah

MEMBERS OF THE AUDIT COMMITTEE

Mr. To Chun Kei

Dr. Kwong Chun Wai Michael

Mr. Fung Tze Wa

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
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Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKER

The Bank of East Asia, Limited
Ground Floor
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10 Des Voeux Road Central
Hong Kong

CORPORATION INFORMATION

INVESTMENT MANAGER

Avanta Investment Management Limited
Unit 1701, Tower Two
Lippo Centre
89 Queensway
Hong Kong

PROJECT MANAGER

ZY International Project Management Limited
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Offshore Incorporations Centre
Tortola, British Virgin Islands

CUSTODIAN

ING Management (Hong Kong) Limited
35th Floor
One International Finance Centre
1 Harbour View Street
Central
Hong Kong

WEBSITE

www.newcapital.com.hk

COMPANY TELEPHONE NO.

2973 6883

STOCK CODE

1062

REPORT OF THE DIRECTORS

The directors present their report to the shareholders together with the audited financial statements for the financial year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Group is the holding of equity investments primarily in companies or other entities with significant business interests or involvement in the People's Republic of China ("PRC").

SUBSIDIARIES AND ASSOCIATES

Particulars of the Group's principal subsidiaries and associates at 31 December 2006 are set out on pages 71 and 55 of this report.

RESULTS

The results of the Group for the financial year ended 31 December 2006 are set out in the consolidated income statement as set out on page 30 of this report.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is given on page 74 of this report.

DIVIDENDS

The Directors resolved to recommend the payment of a final dividend of HK1.6 cents per share in respect of the financial year ended 31 December 2006 (2005: nil).

FIXED ASSETS

Details of movements in fixed assets are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the Company's authorised and issued share capital during the financial year are set out in note 19 to the financial statements on pages 62 to 63 of this report.

RESERVES

Movements in the reserves during the financial year are set out in note 20 to the financial statements on pages 63 to 64 of this report.

DIRECTORS

The directors of the Company during the financial year were:

- Mr. Liu Xiao Guang, *Chairman*
- Mr. Lawrence H Wood, *Chief Executive officer*
  (also known as Wu Yuk Shing or Hu Xu Cheng)
- Mr. Cheng Bing Ren
- Mr. Liu Xue Min
- Mr. Shi Tao (appointed on 16 November 2006)
- Dr. Kwong Chun Wai Michael
- Mr. To Chun Kei
- Mr. Fung Tze Wa

Mr. Cheng Bing Ren, Mr. Liu Xue Min and Mr. To Chun Kei will retire by rotation from the board of directors in accordance with Article 88 of the Company's articles of association at the forthcoming annual general meeting. Mr. Cheng Bing Ren, Mr. Liu Xue Min and Mr. To Chun Kei, all being eligible, offer themselves for re-election.

Mr. Shi Tao who appointed on 16 November 2006 to fill a casual vacancy shall hold office until the next following annual general meeting and shall then be eligible for re-election in accordance with Article 87(3) of the Company's articles of association.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to11 of the annual report.

DIRECTORS' SERVICE CONTRACT

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the forthcoming annual general meeting.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2006, none of the Directors of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which would have to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests, or short positions which they are taken or deemed to have under such provision of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Company, to be notified to the Company and the Stock Exchange.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to the Directors, as at 31 December 2006, the persons/companies who have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	No. of Shares	Approximate% of shareholding
Lin Si Yu *(Note 1)*	107,600,000	17.35
Sense Control International Limited *(Note 1)*	107,600,000	17.35
Dover VI Associates, LLC *(Note 2)*	105,800,000	17.06
Dover VI Associates, L.P. *(Note 2)*	105,800,000	17.06
Dover Street VI L.P. *(Note 2)*	105,800,000	17.06

Notes:

1. Sense Control International Limited is beneficially owned by Mr. Lin Si Yu. Mr. Li Si Yu is therefore deemed to be interested in the same parcel of shares held by Sense Control International Limited.

2. The 105,800,000 shares were held by Dover Street VI L.P. Dover VI Associates, LLC has controlling interest in Dover VI Associates L.P. and Dover VI Associates L.P. has controlling interest in Dover Street VI L.P. Both Dover VI Associates, LLC and Dover VI Associates L.P. are therefore deemed to be interested in the same parcel of shares held by Dover Street VI L.P..

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 28 to the annual report.

PRE-EMPTIVE RIGHTS

There are no pre-emptive rights provisions in the Articles of Association of the Company nor are there any pre-emptive rights provisions generally applicable under the law of the Cayman Islands.

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Lawrence H. Wood is holding 100% of the shareholding of ZY International Project Management Limited (the "Project Manager"). Mr. Wood is also a director and chief executive officer of the Company. Mr. Wood therefore is regarded as a connected person of the Company under Chapter 14A of the Rules Governing The Listing of Securities on the Stock Exchange (the "Listing Rules") and accordingly the project management agreement entered into between the Company and the Project Manager at 27 September 2006 constituted continuing connected transaction for the Company under Chapter 14A of the Listing Rules. Details of which are set out under Management Contracts and Continuing Connected Transactions.

Save as disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material beneficial interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

SHARE OPTION SCHEME

As at 31 December 2006, the particulars in relation to the share option scheme of the Company that are required to be disclosed under Rules 17.07 and 17.09 of Chapter 17 of the Listing Rules, were as follows:

• Purpose:	To give incentive to any executive director or employee of the Company, or any director or employee of any subsidiaries from time to time of the Company
• Participants:	any director, employee, executive of the Company, or any subsidiaries from time to time of the Company
• Total number of ordinary shares available for issue and percentage of the issued share capital that it represents as at the date of the annual report:	64,711,400 ordinary shares and 10% of the issued share capital
• Maximum entitlement of each participant:	Not to exceed 1% of the issued share capital in any 12 month period
• Period within which the securities must be taken up under an option: date of the relevant option	30 calendar months commencing from the expiration of the first 6 calendar months period after the offer
• Minimum period for which an option must be held before it can be exercised:	6 calendar months after the offer date of the relevant option
• Amount payable on acceptance of an option:	HK$10
• Period within which payments/calls/loans must be made/repaid:	Not applicable

REPORT OF THE DIRECTORS

• Basis of determining the exercise price:	The closing price of the share on the date of acceptance of grant or the average closing price of the 5 trading days preceding the day of acceptance of the relevant option or the nominal value of the share, whichever is higher
• The remaining life of the share option scheme:	Valid and effective for a period of 10 years after the date of adoption of the share option scheme unless otherwise terminated under the terms of the option scheme

Since the adoption of the share option scheme of the Company, no options to subscribe for ordinary share in the Company have been granted to any eligible participants under the share option scheme and no options have been cancelled or lapsed in accordance with the terms of the share option scheme during the financial year.

MANAGEMENT CONTRACTS AND CONTINUING CONNECTED TRANSACTIONS

Details of the management contracts and continuing connected transactions are as follows:

(1) Under an investment management agreement made between ING Beijing Investment Company Limited ("ING Beijing") (dissolved on 1 February 2007) and Baring Capital (China) Management Limited (renamed as ING Real Estate (Asia) Limited) ("ING Real Estate") dated 25 April 1994, ING Real Estate agreed to provide investment management services in relation to the investment portfolio of the Group for a period of three years from the date of the agreement. ING Real Estate, in accordance with the terms of the agreement as revised by a supplemental agreement dated 22 May 1998 and a second supplemental agreement dated 7 January 1999, is entitled to a fee calculated at the rate of 2.00 per cent. per annum of the net asset value of ING Beijing, payable quarterly in advance. ING Real Estate is also entitled, with effect from the financial year ended 31 December 1999, to receive an incentive fee calculated at (i) 10 per cent. of the realised profit of ING Beijing for a financial year if the realised profit per issued share does not exceed 10 per cent.; (ii) 15 per cent. of the realised profit if the realised profit per issued share exceeds 10 per cent. but is below 15 per cent.; or (iii) 20 per cent. of the realised profit if the realised profit per share equals or exceeds 15 per cent. The agreement is determinable by either ING Real Estate or ING Beijing giving to the other party not less than 6 months' prior notice of termination. On 29 October 2004, the Company, ING Real Estate and ING Beijing entered into a novation agreement, pursuant to which the parties agreed that ING Beijing assigned to the Company all its rights and benefits under the investment management agreement. The investment management agreement was terminated on 31 August 2006.

    Under an investment management agreement made between the Company and Avanta Investment Management Limited ("Avanta") dated 21 August 2006, Avanta agreed to provide investment management advice and all matters relating to the Company's listing status and regulations in relation to Listing Rules and Corporate Governance to the Company for a period of three years from 1 September 2006. Avanta, in accordance with the terms of the agreement, is entitled to a fee for HK$400,000 per annum, payable quarterly in advance.

As ING Real Estate and Avanta are regarded as connected persons of the Company and accordingly the two investment management agreements constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The total amount of the aforesaid transactions for the year ended 31 December 2006 were HK$1,427,494 and HK$100,000 respectively.

(2) Under a project management agreement made between the Company and the Project Manager dated 27 September 2006 (the "Project Management Agreement") , the Project Manager agreed to provide project management services as defined in the Project Management Agreement includes the provision of assistance or procurement of information as may be reasonably required by the board of directors of the Company to carry out due diligence exercise on the potential projects, and assisting the Company in liaising with and supervising of PRC professional advisers; assisting in the execution of the investment and divestment decisions of the Company; responsible for the day-to-day management and supervision of the Company's investments; assisting the Company in completing all legal and statutory requirements in executing the investments of the Company, and providing coordination in obtaining all necessary approval of investments from relevant government authorities. The Project Management Agreement is for an initial term of three years and shall be automatically renewed thereafter for a further three-year period unless and until terminated by either party in accordance with the Project Management Agreement.

Pursuant to the Project Management, the Company has paid the Project Manager a sum of HK$540,000 upon execution of the agreement. It is a lump sum compensation to the Project Manager in respect of the project consultancy and management services and efforts provided by the Project Manager to the Company for the period of 4 months from 1 June 2006 to 30 September 2006.

The Project Manager, in accordance with the terms of the agreement, is entitled to a fee calculated at the rate of one per cent per annum of the net asset value of the Company as at the end of each month, payable quarterly in advance. The Project Manager is also entitled to receive an incentive fee calculated at (i) 10% of the realised profit of the Company for a financial year if the realised profit per issued share does not exceed 10%; (ii) 15% of the realized profit if the realised profit per issued share exceeds 10% but is below 15%, or (iii) 20% of the realized profit if the realised profit per share equals or exceeds 15%.

Mr. Wood is holding 100% of the shareholding of the Project Manager. Mr. Wood is also a director and chief executive officer of the Company. Mr. Wood therefore is regarded as a connected person of the Company under Chapter 14A of the Listing Rules and accordingly the Project Management Agreement constituted continuing connected transaction for the Company under Chapter 14A of the Listing Rules. The total amount of the aforesaid transaction for the year ended 31 December 2006 was HK$945,866.

(3) Under a custodian agreement between the Company and Law Debenture Corporation (H.K.) Limited ("Law Debenture") dated 1 January 2005, Law Debenture shall be responsible for the safe-keeping of all the Documents of Title which may be delivered to it by the Company from time to time during the continuance of the Custodian agreement. The Custodian agreement has no fixed term but is subject to termination by either Law Debenture or the Company giving to the other party not less than 25 days' prior notice of termination. Law Debenture is entitled to receive a fixed fee of HK$50,000 per year under the custodian agreement. The custodian agreement was terminated on 30 September 2006.

REPORT OF THE DIRECTORS

Under a custodian agreement between the Company and ING Management (Hong Kong) Limited ("ING Management") dated 20 September 2006, ING Management shall be responsible for the safe-keeping of all the Documents of Title which may be delivered to it by the Company from time to time during the continuance of the custodian agreement. The custodian agreement has no fixed term but is subject to termination by either ING Management or the Company giving to the other party not less than one month's prior notice of termination. ING Management is entitled to receive a fixed fee of HK$60,000 per year payable in advance on quarterly basis.

Law Debenture and ING Management are regarded as connected persons of the Company and accordingly the two custodian agreements constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The total amount of the aforesaid transactions for the year ended 31 December 2006 were HK$37,400 and HK$15,000 respectively.

(4) Under an administrative agreement between the Company and ING Management dated 29 October 2004, ING Management agreed to provide administrative services to the Company. The administrative agreement has no fixed term but is subject to termination by either ING Management or the Company giving to the other party not less than six months prior notice of termination. ING Management is entitled to receive a fixed fee of HK$800,000 per year under the administrative agreement. The administrative agreement was terminated on 30 September 2006.

As ING Management is regarded as connected person of the Company and accordingly the administrative agreement constituted continuing connected transaction for the Company under Chapter 14A of the Listing Rules. The total amount of the aforesaid transactions for the year ended 31 December 2006 was HK$598,356.

The directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of continuing connected transactions of the Company. The procedures were performed solely to assist the directors of the Company to evaluate in accordance with Rules 14A.38 of the Listing Rules whether, the above continuing connected transactions:

(a) had received the approval of the directors of the Company;

(b) had been entered into in accordance with the terms of the relevant agreements governing such transactions; and

(c) had not exceeded the relevant cap amounts for the financial year ended 31 December 2006.

The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

ARRANGEMENTS TO PURCHASE SHARES BY DIRECTORS

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the financial year, 26,900,000 shares of HK$0.01 each were repurchased by the Company at prices ranging from HK$0.158 to HK$0.255 per share through The Stock Exchange of Hong Kong Limited. During the period from 1 January 2007 to 13 April 2007, 120,000 shares of HK$0.01 each were repurchased by the Company at prices ranging from HK$0.182 to HK$0.185 per share through The Stock Exchange of Hong Kong Limited. As at the date of this report, all of the repurchased shares were subsequently cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the financial year.

INVESTMENTS

Details of the Group's investments as at 31st December 2006 are set out on page 60.

BANK LOAN, OVERDRAFTS AND OTHER BORROWINGS

The Group has no bank loan, overdraft or other borrowing outstanding as at 31 December 2006.

INTEREST CAPITALISED

There is no interest capitalised by the Group during the financial year.

EMPLOYEE

As at 31 December 2006, the Company has 6 employees. Basic salary, double pay, discretionary bonus and mandatory provident fund scheme are provided to these employees.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors. This Committee acts in an advisory capacity and makes recommendations to the Board. The Group's 2006 final results was reviewed and recommended to the Board for approval by this Committee on 4 April 2007.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

REPORT OF THE DIRECTORS

AUDITORS

Messrs. KPMG, who acted as auditors of the Company, have resigned with effect from 15 August 2006 and Messrs. Deloitte Touche Tohmatsu have been appointed as auditors of the Company with effect from 15 August 2006 to fill the casual vacancy until the conclusion of the next AGM. A resolution will be submitted to the forthcoming AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as the auditors of the Company.

The financial statements for the year were audited by Deloitte Touche Tohmatsu who will retire at the conclusion of the forthcoming AGM and, being eligible, will offer themselves for re-appointment.

By Order of the Board of Directors of
New Capital International Investment Limited

Liu Xiao Guang
Chairman

Hong Kong, 13 April 2007

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

In order to maintain high standards of corporate governance, the Company has applied the principles and complied with all the Code Provisions of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended 31 December 2006 with the exception of the following:–

Provision E.1.2 The chairman of the Board did not attend the annual general meeting held in May 2006 which is due to business trip.

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company in 2006. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2006.

BOARD OF DIRECTORS

Composition and role

The Board of Directors of the Company comprises:

Executive Directors:
Liu Xiao Guang, *Chairman*
Lawrence H Wood, *Chief Executive Officer*
(also known as Wu Yuk Shing or Hu Xu Cheng)
Cheng Bing Ren
Liu Xue Min
Shi Tao

Independent Non-executive Directors:
To Chun Kei
Kwong Chun Wai Michael
Fung Tze Wa

CORPORATE GOVERNANCE REPORT

The Board comprises five executive directors (one of whom is the Chairman) and three independent non-executive directors. Of the three independent non-executive directors, two of them possess appropriate professional accounting qualifications and financial management expertise. There is no relationship between members of the Board. The biographical details of the directors are set out on pages 10 to 11 of this Annual Report.

The Board is responsible for formulating the overall strategic development, reviewing and monitoring the business performance of the Group, approving investment proposals as well as approving the financial statements of the Group. The independent non-executive directors, with a wide range of expertise and a balance of skills, bring independent judgment on issues of strategic direction, development, performance and risk management through their contribution at board meetings.

The independent non-executive directors also serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. The Company has received annual confirmation from each independent non-executive director that they met all the independence set out in Rule 3.13 of Chapter 3 of the Listing Rules, the Board considers these independent non-executive directors to be independent.

The Board meets regularly throughout the year to review the overall strategy and to monitor the operation of the Group. Notice of at least 14 days for the regular meetings held in April, June, September and December and the directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular board meetings are sent out in full to all directors within reasonable time before the meetings. Draft minutes of all board meetings are circulated to directors for comment within a reasonable time prior to confirmation. Minutes of board meetings and meetings of board committees are kept by duly appointed secretaries of the respective meetings and all directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

During the year, eight full board meetings (of which four were regular quarterly meetings) were held and the individual attendance of each director is set out below:

Name of director	**Number of board meetings attended**	**Attendance rate**
Liu Xiao Guang	4/8	50%
Lawrence H. Wood	7/8	87.5%
Cheng Bing Ren	0/8	0%
Liu Xue Min	4/8	50%
Shi Tao	0/2	0%
To Chun Kei	6/8	75%
Kwong Chun Wai Michael	6/8	75%
Fung Tze Wa	6/8	75%

Chairman and Chief Executive Officer

The Chairman of the Company is Mr. Liu Xiao Guang and the Chief Executive Officer of the Company is Mr. Lawrence H. Wood. The roles of the Chairman and Chief Executive Officer are segregated and are not exercised by the same individual.

Re-election of Directors

Each of the executive directors of the Company has entered into a service contract with the Company for a term of three years. However, such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Articles of Association of the Company. In accordance with the relevant provisions in the Articles of Association of the Company, the appointment of directors is considered by the board and they must stand for election by shareholders at the annual general meetings.

The non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the provisions of the Company's Articles of Association.

Audit Committee

The Audit Committee comprises:

To Chun Kei – *Committee Chairman*
Kwong Chun Wai Michael
Fung Tze Wa

All of the Audit Committee members are independent non-executive directors. The Board considers that each Audit Committee member has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference which describe the authority and duties of the Audit Committee were adopted in 2005.

The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2006.

CORPORATE GOVERNANCE REPORT

During the year, two Audit Committee meetings were held and the individual attendance of each member is set out below:

Name of director	Number of meetings attended	Attendance rate
To Chun Kei	2/2	100%
Kwong Chun Wai Michael	1/2	50%
Fung Tze Wa	2/2	100%

Remuneration Committee

The Remuneration Committee was established in 2006 and the current members include:

Liu Xiao Guang – *Committee Chairman*
To Chun Kei
Kwong Chun Wai Michael
Fung Tze Wa

The majority of the Remuneration Committee members are independent non-executive directors. The Remuneration Committee advises the Board on the Group's overall policy and structure for the remuneration of directors and senior management. The terms of reference of the Remuneration Committee were adopted in 2005.

In determining the emolument payable to directors, the Remuneration Committee takes into consideration factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions of the Group and the desirability of performance-based remuneration.

The Remuneration Committee held one meeting in 2006 which was attended by Mr. Liu Xiao Guang and Dr. Kwong Chun Wai, Michael.

AUDITORS' REMUNERATION

During the year 2006, the total amount of remuneration paid/payable to the auditors of the Company for the audit and non-audit services rendered to the Group is as follows:–

	HK$
Annual audit services	750,000
Interim review services	250,000
Other services	115,000

The other services of HK$115,000 were the fees for HK$75,000 on account for Messrs. KPMG's attending to the liquidation of ING Beijing Investment Company Limited and for HK$40,000 payable to Messrs. Deloitte Touche Tohmatsu for factual findings on the continuing connected transactions of the Company.

INTERNAL CONTROLS

The qualified accountant of the Company has performed a review on the internal control systems of the Company during 2006 in accordance with the Procedure Manual of the Company. The report was submitted to the Audit Committee to review.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors acknowledge their responsibility to prepare financial statements for each half and full financial year which give a true and fair view of the state of affairs of the Group. The directors also ensure the preparation of the financial statements of the Group is in accordance with statutory requirements and applicable accounting standards.

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company endeavours to maintain a high level of transparency in communicating with shareholders and the investment community at large. The Company is committed to maintain an open and effective communication policy to update its shareholders and investors on relevant information on its business through the annual general meeting, the annual and interim reports, notices, announcements and circulars.

The annual general meeting provides a useful forum for shareholders to exchanges views with the Board. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the election of individual directors. Details of poll voting procedures and the rights of shareholders to demand a poll are included in the circular to shareholders dispatched together with the annual report.

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF
NEW CAPITAL INTERNATIONAL INVESTMENT LIMITED
新資本國際投資有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of New Capital International Investment Limited (the "Company" and its subsidiaries (collectively referred to as the "Group" set out on pages 30 to 73, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

AUDITOR'S RESPONSIBILITY (Continued)

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

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

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
13 April 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 HK$	2005 HK$
Turnover	5	1,298,316	1,621,862
Other net gain		12,067	487,315
Gain on disposal of available-for-sale securities	6	5,228,806	–
Gain on disposal of securities held for trading		1,625,604	–
Operating expenses	6	(9,902,629)	(9,348,015)
Share of profits (losses) of associates	6	27,598,383	(8,552,351)
Gain on deemed disposal of associates		–	3,065,080
Profit (loss) for the year	6	25,860,547	(12,726,109)
Dividend proposed	10	1.6 cents	–
Earnings (loss) per share			
Basic	11	4.13 cents	(1.97) cents

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 HK$	2005 HK$
Non-current assets			
Property, plant and equipment	12	365,687	498,024
Interest in associates	13	110,856,719	81,347,993
Available-for-sale securities	14	6,636,300	21,976,950
Investment deposit	15	29,284,932	29,284,932
		147,143,638	133,107,899
Current assets			
Other receivables	16	12,713,975	309,542
Cash and cash equivalents	17	33,461,172	38,967,253
		46,175,147	39,276,795
Current liabilities			
Other payables	18	1,653,362	1,379,222
Net current assets		44,521,785	37,897,573
Net assets		191,665,423	171,005,472
Capital and reserves			
Share capital	19	6,202,140	6,471,140
Reserves	20	185,463,283	164,534,332
Total equity		191,665,423	171,005,472
Net asset value per share	22	0.309	0.264

The consolidated financial statements on pages 30 to 73 were approved by the Board of Directors on 13 April 2007 and are signed on its behalf by:

Liu Xiao Guang
Director

Lawrence H. Wood
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Attributable to equity holders of the Company							
	Share capital HK$	Share premium HK$	Special reserve HK$	Exchange reserve HK$	Fair value reserve HK$	Capital redemption reserve HK$	Accumulated losses HK$	Total HK$
At 1 January 2005	6,471,140	177,760,966	382,880,958	3,121,784	4,600,000	–	(391,021,181)	183,813,667
Changes in fair value of available-for-sale securities	–	–	–	–	(1,009,055)	–	–	(1,009,055)
Exchange differences on translation of PRC associates	–	–	–	926,969	–	–	–	926,969
Net expenses for the year recognised directly in equity	–	–	–	926,969	(1,009,055)	–	–	(82,086)
Loss for the year	–	–	–	–	–	–	(12,726,109)	(12,726,109)
Total recognised income and expense for the year	–	–	–	926,969	(1,009,055)	–	(12,726,109)	(12,808,195)
At 31 December 2005 and 1 January 2006	6,471,140	177,760,966	382,880,958	4,048,753	3,590,945	–	(403,747,290)	171,005,472
Changes in fair value of available-for-sale securities	–	–	–	–	1,464,700	–	–	1,464,700
Transfer to consolidated income statement upon disposal of available-for-sale securities	–	–	–	–	(2,764,145)	–	–	(2,764,145)
Exchange differences on translation of PRC associates	–	–	–	1,902,249	–	–	–	1,902,249
Net expenses for the year recognised directly in equity	–	–	–	1,902,249	(1,299,445)	–	–	602,804
Profit for the year	–	–	–	–	–	–	25,860,547	25,860,547
Total recognised income and expense for the year	–	–	–	1,902,249	(1,299,445)	–	25,860,547	26,463,351
Repurchase of shares	(269,000)	–	–	–	–	269,000	(269,000)	(269,000)
Premium on repurchase of shares	–	–	–	–	–	–	(5,534,400)	(5,534,400)
At 31 December 2006	6,202,140	177,760,966	382,880,958	5,951,002	2,291,500	269,000	(383,690,143)	191,665,423

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 HK$	2005 HK$
Operating activities			
Profit (loss) for the year		25,860,547	(12,726,109)
Adjustments for:			
Depreciation		177,787	14,229
Gain on deemed disposal of associates		–	(3,065,080)
Share of (profits) losses of associates		(27,598,383)	8,552,351
Gain on disposal of available-for-sale securities		(5,228,806)	–
Operating loss before changes in working capital		(6,788,855)	(7,224,609)
(Increase) decrease in other receivables		(12,404,433)	432,600
Increase (decrease) in other payables		274,140	(2,104,335)
(Decrease) increase in amount due to an associate		(8,094)	152
Cash generated used in operations		(18,927,242)	(8,896,192)
Investing activities			
Proceeds from disposal of available-for-sale securities		19,270,011	–
Payment for purchase of property, plant and equipment		(45,450)	(512,253)
Purchase of available-for-sale securities		–	(9,386,005)
Refund of investment deposit		–	5,715,068
Dividends received from an associate		–	2,658,852
Net cash from (used in) investing activities		19,224,561	(1,524,338)
Financing activities			
Repurchase of shares		(5,803,400)	–
Net decrease in cash and cash equivalents		(5,506,081)	(10,420,530)
Cash and cash equivalents at 1 January		38,967,253	49,387,783
Cash and cash equivalents at 31 December	17	33,461,172	38,967,253

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. REORGANISATION

The Company was incorporated in the Cayman Islands on 1 August 2003 as an exempted company with limited liability under the Companies Law, Cap.22 (Laws of 1961 as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation proposal whereby ING Beijing Investment Company Limited ("ING Beijing"), the former holding company of the Group, would become a wholly owned subsidiary of the Company to be implemented by way of a scheme of arrangement under section 166 of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong ("the Scheme") as set out in a document dated 13 January 2005 issued to the shareholders of ING Beijing, the Company became the holding company of the Group on 13 April 2005, the effective date of the Scheme. This was accomplished by the Company acquiring the entire issued share capital of ING Beijing, the then holding company of the other subsidiaries of the Group.

The Scheme became effective on 13 April 2005 and the listing of the shares of ING Beijing was withdrawn from The Stock Exchange of Hong Kong Limited ("the Stock Exchange") and the Company's shares were listed on the Stock Exchange by way of introduction on 13 April 2005.

However, all of the entities which took part in the Scheme were under common control before and immediately after the Scheme becoming effective and, consequently, there was a continuation of the risks and benefits to the controlling party that existed prior to the combination. The results of the Group for the year ended 31 December 2005 have been prepared using the basis of merger accounting in accordance with Hong Kong Accounting Guideline 5 "Merger accounting for common control combinations" issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Accordingly, the results of the Group for the year ended 31 December 2005 include the financial results of the companies which now comprise the Group for the period from 1 January 2005 (or the date of incorporation if later) to 31 December 2005 as if the current group structure had been in existence and remained unchanged throughout the period.

The address of the registered office and principal place of the business of the Company are disclosed in the corporate information of the annual report.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

Basis of preparation of the financial statements

The consolidated financial statements comprise the Company and its subsidiaries and the Group's interest in associates.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that financial instruments classified as available-for-sale securities and trading securities are stated at their fair values as explained in the accounting policy below.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies so as to obtain benefits from their activities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsidiaries (Continued)

An investment in a subsidiary is consolidated in 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.

Associates

An associate is an entity in which the Group 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 profit or loss and of change in equity, 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 investments 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 profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other investments in equity securities

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

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.

Available-for-sale securities are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except for impairment losses which are recognised directly in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

Investment in equity securities are recognised on the balance sheet when the Group becomes a party to the contractual provision of the instruments. Investment in equity securities are derecognised when the rights to receive cash flows from the investment in equity securities expire or, the Group has transferred substantially all the risks and rewards of the ownership. All regular way purchases or sales are recognised and derecognised on a trade date basis.

Property, plant and equipment

Items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Leasehold improvements	3 years
Furniture and fixtures	3 years

The useful life of an asset is reviewed annually.

Other receivables

Other receivables are initially recognised at fair value and thereafter stated at amortised cost as determined by the effective interest method less impairment losses for bad and doubtful debts.

Impairment of assets

Impairment of investments in equity securities and other receivables

Investments in equity securities and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for unquoted equity securities are not reversed.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

Impairment of investments in equity securities and other receivables (Continued)

- For other receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment

If any such indication exists, the asset's recoverable amount is estimated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Other payables

Other payables are initially recognised at fair value and thereafter stated at amortised cost according to the effective interest method.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Employee benefits

Short term employee benefits and contributions to defined contribution plans

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

Taxation

Taxation 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 profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Apart from certain limited exceptions, all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the 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 the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried 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 relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to 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).

The amount of deferred tax recognised is measured based on the expected manner of 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 asset 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 benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, 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 to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

- in the case of 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 settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Provisions and contingent liabilities

Provisions are recognised for 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.

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.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Dividends

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

Interest income

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Translation of 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 profit or loss.

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 are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a 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 or loss on disposal.

Leases

Leases which transfer to the Group substantially all the risks and rewards of ownership of an asset 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 leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

3. APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

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

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2006 and which have not been adopted in these consolidated financial statements.

Of these developments, the following relate to matters that may be relevant to the Group's operations and consolidated financial statements:

		Effective for accounting periods beginning or after
HKAS 1 (Amendment)	Capital disclosures	1 January 2007
HKFRS 7	Financial instruments: Disclosures	1 January 2007
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
HK(IFRIC) - INT 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) - INT 9	Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) - INT 10	Interim financial reporting and impairment	1 November 2006
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) - INT 12	Service concession arrangements	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT REPORTING

The Group's principal activities are holding of equity investments primarily in companies or other entities with significant business interests or involvement in the People's Republic of China ("the PRC") as a single business segment. No geographical segment information is presented as the results of the Group and its associates were substantially derived from the PRC.

5. TURNOVER

The Group's turnover represents interest income and dividend income from available-for-sale securities. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2006 HK$	2005 HK$
Interest income from deposits with banks	1,032,629	1,071,862
Dividend income from available-for-sale securities	265,687	550,000
	1,298,316	1,621,862

6. PROFIT (LOSS) FOR THE YEAR

	2006	2005
	HK$	HK$
Profit (loss) for the year is arrived at after charging (crediting):		
Other net gain (loss)		
Net foreign exchange gain (loss)	12,067	(21,836)
Write back of accruals for project fees and unclaimed dividends	–	499,977
Sundry income	–	9,174
	12,067	487,315
Staff costs (including directors' emoluments)		
Contributions to defined contribution retirement plan	25,719	6,000
Salaries, wages and other benefits	1,867,947	1,057,808
	1,893,666	1,063,808
Operating expenses		
Administrative fees *(Note)*	598,356	777,641
Audit fee	700,000	818,000
Review fee for interim financial report	250,000	280,000
Custodian fee *(Note)*	52,400	50,000
Depreciation	177,787	14,229
Operating lease charges for premises	831,435	174,264
Project management fee *(Note)*	945,866	–
Legal and secretarial fees	815,729	955,091
Management fees *(Note)*	1,527,494	3,661,575
Other operating expenses	4,003,562	2,617,215
	9,902,629	9,348,015

6. PROFIT (LOSS) FOR THE YEAR (Continued)

Note:

Administrative fees are paid to ING Management (Hong Kong) Limited, a wholly owned subsidiary of ING Groep N.V.. The administrative fee is charged at a fixed amount per annum. The Company terminated these administrative fees with ING Management (Hong Kong) Limited in the current year. ING Groep N.V. was a substantial shareholder of the Company until 29 December 2006.

On 20 September 2006, the Group entered into a custodian agreement with ING Management (Hong Kong) Limited. The Group paid custodian fee of HK$15,000 to ING Management (Hong Kong) Limited in the current year.

Project management fees are paid to ZY International Project Management Limited. The Company has paid ZY International Project Management Limited a lump sum compensation in respect of the project consultancy and management services and efforts for the period of 4 months from 1 June 2006 to 30 September 2006. ZY International Project Management Limited was paid a fee calculated at the rate of one per cent per annum of the net asset value of the Company as at the end of each month, payable in advance. ZY Intranational Project Management Limited is also entitled to receive an incentive fee calculated at (i) 10% of the realised profit of the Company for a financial year if the realised profit per issued share does not exceed 10%; (ii) 15% of the realised profit if the realised profit per issued share exceeds 10% but is below 15%, or (iii) 20% of the realised profit if the realised profit per share equals or exceeds 15%. The project management fees were effective on 1 October 2006 with an initial term of three years. ZY International Project Management Limited is a related party of the Company, in which a director of the Company is the shareholder of ZY International Project Management Limited.

Management fees are paid to ING Real Estate (Asia) Limited (formerly known as "Baring Capital (China) Management Limited"), a wholly owned subsidiary of ING Groep N.V. The management fee is calculated at the rate of 2% per annum of the net asset value of the Company. On 21 August 2006, the Company entered into a new investment management agreement with an independent party and the fee is charged at a fixed amount per annum. The new investment management agreement was effective on 1 September 2006 with an initial term of three years. The management fees paid to ING Real Estate (Asia) Limited was terminated on 31 August 2006. The Group paid management fees of HK$1,427,494 to ING Real Estate (Asia) Limited in the current year.

6. PROFIT (LOSS) FOR THE YEAR (Continued)

Share of profits (losses) of associates

	2006 HK$	2005 HK$
Share of profits (losses) of associates	42,180,656	(10,598,695)
Share of associates' taxation	(14,582,273)	2,046,344
	27,598,383	(8,552,351)

Gain on disposal of available-for-sale securities

	2006			2005
	Skyworth Digital Holdings Limited ("Skyworth Digital") HK$	China Construction Bank Corporation ("CCB") HK$	Total HK$	Total HK$
Sales proceeds, net of expenses	7,295,435	11,974,576	19,270,011	–
Original cost	(7,029,000)	(7,012,205)	(14,041,205)	–
	266,435	4,962,371	5,228,806	–

The gain on disposal for the year included HK$2,764,145 which was transferred from the fair value reserve.

7. TAXATION

Reconciliation between taxation and accounting profit (loss) at applicable rate:

	2006 HK$	2005 HK$
Profit (loss) for the year	25,860,547	(12,726,109)
Taxation on profit (loss) for the year calculated at 17.5% (2005: 17.5%)	4,525,596	(2,227,069)
Tax effect of non-deductible expenses	31,113	1,550,622
Tax effect of non-taxable income	(1,142,246)	(820,214)
Tax effect of share of (profits) losses of associates	(4,829,717)	1,496,661
Tax effect of tax losses not recognised	1,415,254	–
Taxation	–	–

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for both years. There is no significant unprovided deferred taxation during the year or at the balance sheet date.

8. DIRECTORS' REMUNERATION

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

	Directors' fees HK$	Salaries, allowances and benefits in kind HK$	2006 Total HK$
Executive directors			
Liu Xiao Guang	30,000	–	30,000
Cheng Bing Ren	30,000	–	30,000
Lawrence H Wood	30,000	660,000	690,000
Liu Xue Min	30,000	–	30,000
Shi Tao	3,750	–	3,750
Independent non-executive directors			
Fung Tze Wa	100,000	–	100,000
To Chun Kei	100,000	–	100,000
Kwong Chun Wai Michael	100,000	–	100,000
	423,750	660,000	1,083,750

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

8. DIRECTORS' REMUNERATION (Continued)

	Directors' fees HK$	Salaries, allowances and benefits in kind HK$	2005 Total HK$
Executive directors			
Liu Xiao Guang	30,000	–	30,000
Cheng Bing Ren	30,000	–	30,000
Lawrence H Wood	30,000	660,000	690,000
Liu Xue Min	21,615	–	21,615
Yu Sek Kee	8,384	–	8,384
Independent non-executive directors			
Fung Tze Wa	52,603	–	52,603
To Chun Kei	52,603	–	52,603
Kwong Chun Wai Michael	52,603	–	52,603
	277,808	660,000	937,808

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: four) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2005: one) individual, are as follows:

	2006 HK$	2005 HK$
Salaries and other emoluments	558,352	120,000
Retirement scheme contributions	18,458	6,000
	576,810	126,000

The emoluments of the three (2005: one) individuals with the highest emoluments are within the band from nil to HK$1,000,000.

10. DIVIDEND PROPOSED

A final dividend of HK1.6 cents per share has been proposed by the Directors and is subject to approval by the shareholders in general meeting. No dividend was paid or declared by the Company in previous year.

11. EARNINGS (LOSS) PER SHARE

The calculation of the earnings (loss) attributable to the ordinary equity holders of the Company is as follows:

	2006	2005
	HK$	HK$
Profit (loss)		
Profit (loss) for the purpose of earnings (loss) per share	25,860,547	(12,726,109)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	626,250,466	647,114,000

No diluted earnings (loss) per share has been presented as there were no potential ordinary shares for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$	Furniture and fixtures HK$	Total HK$
COST			
Additions during the year ended, 31 December 2005 and balances at 31 December 2005 and 1 January 2006	401,733	110,520	512,253
Additions	–	45,450	45,450
At 31 December 2006	401,733	155,970	557,703
ACCUMULATED DEPRECIATION			
Charge for the year ended 31 December 2005 and balances at 31 December 2005 and 1 January 2006	11,159	3,070	14,229
Charge for the year	133,911	43,876	177,787
At 31 December 2006	145,070	46,946	192,016
CARRYING VALUES			
At 31 December 2006	256,663	109,024	365,687
At 31 December 2005	390,574	107,450	498,024

13. INTEREST IN ASSOCIATES

	2006 HK$	2005 HK$
Share of net assets	**110,856,719**	81,356,087
Amount due to an associate	–	(8,094)
	110,856,719	81,347,993

13. INTEREST IN ASSOCIATES (Continued)

The following list contains particulars of associates, all of which are unlisted companies, which principally affect the results or assets of the Group.

Name of the associate	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest held by the Group	Principal activity
China Property Development (Holdings) Limited	Incorporated	Cayman Islands	3,161 ordinary shares, 460 non-voting ordinary shares, 500 redeemable voting deferred shares and 2,567 deferred non-voting shares; all shares are at US$0.01 each	20.49% *(note (a)(i))*	Investment holding
Beijing Far East Instrument Company Limited	Sino-foreign joint venture	PRC	Registered and paid-up capital of RMB151,926,184	26% *(note (b))*	Electronic and electrical instrument manufacturing

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

13. INTEREST IN ASSOCIATES (Continued)

In particular, subsidiaries under China Property Development (Holdings) Limited are as follows:

Name of the company	Form of business structure	Place of incorporation/ establishment and operation	Particulars of issued and paid up capital	Proportion of ownership interest	Principal activity
Sound Advantage Limited ("Sound Advantage")	Incorporated	British Virgin Islands ("BVI")	1 ordinary share of US$1	100%	Investment holding
Choice Capital Limited ("Choice Capital")	Incorporated	BVI	1 ordinary share of US$1	100%	Investment holding
World Lexus Pacific Limited ("World Lexus")	Incorporated	Hong Kong	1,000,000 ordinary shares of HK$1 each	100%	Investment holding
Beijing Pacific Palace Real Estate Development Co., Ltd.	Sino-foreign joint venture	PRC	Registered and paid-up capital of US$12,000,000	100%	Property development

13. INTEREST IN ASSOCIATES (Continued)

Summary financial information on associates:

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Profit (loss) HK$'000
2006					
100 per cent	1,172,242	(822,676)	349,566	960,166	81,757
2005					
100 per cent	1,301,031	(1,046,238)	254,793	199,544	(26,179)

Details of contingent liabilities of the associates are disclosed in note 25.

Notes:

(a) China Property Development (Holdings) Limited ("CPDH")

(i) On 3 February 2005, 383 new ordinary shares of US$0.01 each of CPDH were allotted to certain related companies of a shareholder of CPDH at a price of US$10,000 each. Upon the allotment, the Group's profit sharing ratio and proportion of voting rights held were diluted from 37.37% to 33.42% and from 22.88% to 20.49% respectively. The allotment of shares resulted in a gain on deemed disposal of HK$3,065,080 which has been recognised in the consolidated income statement for the year ended 31 December 2005.

(ii) CPDH, through its wholly owned subsidiaries, Sound Advantage and Choice Capital, acquired an 80% equity interest in World Lexus in 2002. World Lexus's sole asset is a wholly owned PRC subsidiary, Beijing Pacific Palace Real Estate Development Co., Ltd. ("Beijing Pacific Palace"), which is engaged in a property development project at the Lido area of Jiangtai Town, Chaoyang District, Beijing, the PRC ("Pacific Town project").

13. INTEREST IN ASSOCIATES (Continued)

Notes: (Continued)

The Pacific Town project is a medium density residential area with a mixed development of high rise apartments and villas. The development of the project will be carried out in several phases. The completion certificate for Phase I was obtained and sales of properties in Phase I was recognised in the current year. Pre-sale of the properties in Phase IIA and Phase III commenced in September 2005 and December 2005 respectively. Resettlement work for Phase IIB and Phase III commenced during the year ended 31 December 2005.

(iii) CPDH acquired the remaining 20% equity interest in World Lexus from the former minority shareholders for a consideration of RMB40 million in November 2004. Pursuant to the equity transfer agreement ("20% Equity Transfer Agreement"), CPDH is also required to reimburse the preliminary costs amounting to RMB45 million of the Pacific Town project incurred by the minority shareholders prior to acquisition of the 80% equity interest in World Lexus by Sound Advantage and Choice Capital from the same minority shareholders in 2002. The settlement of the consideration is secured by the 20% equity interest in World Lexus.

CPDH has withheld part of the consideration and reimbursement costs amounting to RMB45 million, as a result of not assisting CPDH in recovering RMB10 million recoverable under the 20% Equity Transfer Agreement, and other breaches of warranties, to cover certain contingent liabilities of Beijing Pacific Palace and World Lexus as set out in notes 25(a) and (b). Due to disputes between the minority shareholders over the proportion which should be received by each shareholder, the balance of the consideration and reimbursement after deducting the amount withheld was settled by a payment to the Hong Kong High Court pursuant to an interpleader relief filed by CPDH.

13. INTEREST IN ASSOCIATES (Continued)

Notes: (Continued)

(b) Beijing Far East Instrument Company Limited ("Beijing Far East")

In March 2002, the Group entered into a conditional agreement with Beijing Capital Group pursuant to which, the Group agreed to sell an equity interest of 9% in Beijing Far East for a consideration of approximately RMB14 million, subject to the fulfilment of certain conditions. The consideration is payable over a period of 5 years. Up to 31 December 2006, the disposal has not been accounted for as the conditions have not been satisfied, including the settlement of the consideration. According to the agreement between the Group and Beijing Capital Group, Beijing Capital Group is required to transfer back the equity interest in Beijing Far East in relation to the unpaid portion of the consideration to the Group upon the expiry of the 5-year period ended 31 December 2006. The Group continues to account for the share of profit or loss attributable to the portion of equity interest for which consideration has not been settled. As such, although the legal interest in Beijing Far East held by the Group was 26% at 31 December 2006, the Group has accounted for 35% of the result of Beijing Far East for the year. The Group is negotiating with Beijing Capital Group on the resolution of the transfer of 9% equity interest and no agreement has been reached up to the date of the consolidated financial statements are authorised for issue by the directors. A director of the Company is also a member of the key management of Beijing Capital Group.

(c) Beijing North Star Hyundai Pipe Company Limited ("Beijing North Star")

During the year ended 31 December 2005, the Group disposed of its entire 28% equity interest in Beijing North Star to a director of the Company for a nominal consideration. The carrying value of Beijing North Star was fully written off in prior years and the disposal did not result in a gain or loss to the Group.

14. AVAILABLE-FOR-SALE SECURITIES

	2006 HK$	2005 HK$
Securities listed in Hong Kong	4,344,800	18,386,005
Fair value adjustment	2,291,500	3,590,945
	6,636,300	21,976,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

14. AVAILABLE-FOR-SALE SECURITIES (Continued)

The amount represents the Group's investments in Skyworth Digital and CCB, which shares are listed on the Stock Exchange.

At 31 December 2005, the investment in Skyworth Digital of 10,000,000 shares were stated at a directors' valuation of HK$1.14 per share, being the average market price of Skyworth Digital during the period from 11 January to 31 March 2006, after eliminating any exceptionally high or low prices. The directors consider this basis of valuation to be reasonable in view of the lack of a quoted market price of the shares of Skyworth Digital as at 31 December 2005. A fair value adjustment of HK$2,200,000 was charged to the fair value reserve at 31 December 2005.

During the year ended 31 December 2005, the Group acquired a total of 3,954,000 ordinary shares of CCB. At 31 December 2005, the shares were stated at their fair value of HK$2.675 per share. A fair value adjustment of HK$1,190,945 was credited to the fair value reserve at 31 December 2005.

During the year, the Group disposed of 7,810,000 shares and 2,954,000 shares in Skyworth Digital and CCB, respectively. Details of the gain on disposal of these shares are set out in note 6.

During the year, a decrease in fair value of the remaining shares of Skyworth Digital amounting to HK$810,300 and an increase in fair value of the remaining shares of CCB amounting to HK$2,275,000, were recognised in fair value reserve.

15. INVESTMENT DEPOSIT

The amount represents the purchase consideration paid to acquire a 15% equity interest in a joint venture entity in the PRC in 2003 pursuant to a purchase agreement dated 10 November 2003. The PRC joint venture entity is engaged in the development of residential properties at the Taiyanggong Zone F in Beijing, the PRC. The purchase agreement has expired as the equity transfer was not effected by 31 October 2004 due to a delay.

According to a settlement agreement dated 10 May 2005, the investment deposit of HK$35 million plus compensation would be refunded by the vendor in two instalments on 30 June 2005 and 31 December 2005. The first instalment of HK$5.7 million was received in July 2005 and accounted for as a partial repayment of the investment deposit in the consolidated financial statements.

15. INVESTMENT DEPOSIT (Continued)

The vendor did not pay the final instalment due on 31 December 2005. The Group negotiated with the vendor to settle the remaining balance by transfer of an equity interest in a company which holds certain investment properties in the PRC to the Group. Subsequent to the balance sheet date, the Group entered into an agreement with the vendor for the transfer of such equity interest in that company which holds certain investment properties in the PRC.

The directors considered that the investment deposit would be recoverable from the Group's attributable interest derived from these investment properties in the PRC and accordingly, no impairment loss for bad and doubtful debts is required at 31 December 2006.

16. OTHER RECEIVABLES

All of the other receivables are expected to be recovered within one year. The directors considered the fair value of the balances approximates the carrying values.

17. CASH AND CASH EQUIVALENTS

	2006 HK$	2005 HK$
Deposits with banks	**15,500,976**	38,065,027
Cash at bank and in hand	**17,960,196**	902,226
	33,461,172	38,967,253

The effective interest rates of the deposits range from 2.82% to 4.78% (2005: 2.75% to 3.78%) per annum and all of them have a maturity within three months from initial inception. The directors considered the fair value of the balances approximates the carrying values.

18. OTHER PAYABLES

All of the other payables are expected to be settled within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

19. SHARE CAPITAL

	Number of shares	Share capital HK$
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2005	10,000,000	100,000
Increase in authorised share capital *(note)*	11,990,000,000	119,900,000
At 31 December 2005 and 31 December 2006	12,000,000,000	120,000,000
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	647,114,000	6,471,140
Repurchase of shares	(26,900,000)	(269,000)
At 31 December 2006	620,214,000	6,202,140

The Company repurchased its own shares on the Stock Exchange as follows:

Month	Number of shares	Price per share Lowest HK$	Price per share Highest HK$	Aggregate consideration HK$
February 2006	13,940,000	0.158	0.255	1,156,440
March 2006	9,890,000	0.220	0.225	3,973,950
October 2006	3,070,000	0.219	0.220	673,010
	26,900,000			5,803,400

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premium on repurchase was charged against accumulated losses. An amount equivalent to the nominal value of the shares cancelled was transferred from accumulated losses to the capital redemption reserve.

19. SHARE CAPITAL (Continued)

Note:

Pursuant to a written resolution of the sole shareholder of the Company dated 4 November 2004, the authorised share capital of the Company was increased from HK$100,000 to HK$120,000,000 by the creation of 11,990,000,000 additional ordinary shares of HK$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company conditional upon the Scheme becoming effective.

Pursuant to the Scheme described in note 1 to the consolidated financial statements, the Company allotted and issued 637,114,000 ordinary shares of HK$0.01 each, credited as fully paid, and also credited as fully paid the 10,000,000 nil paid ordinary shares of HK$0.01 each, in consideration for the acquisition of the entire issued share capital of ING Beijing on 13 April 2005.

20. RESERVES

Nature and purposes of reserves

Share premium

The excess of the value of the shares of ING Beijing acquired pursuant to the Scheme over the nominal value of the shares of the Company issued in exchange has been credited to the share premium account.

The application of the share premium account is governed by section 34 of the Companies Law of the Cayman Islands.

Special reserve

The special reserve represents the difference between the amount recorded as share capital issued by the Company pursuant to the Scheme and the amount recorded for the share capital of ING Beijing acquired.

Exchange reserve

The exchange reserve comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates. The reserves are dealt with in accordance with the accounting policy set out in note 2.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policy in note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

20. RESERVES (Continued)

Nature and purposes of reserves (Continued)

Capital redemption reserve

The capital redemption reserve represented the nominal value of shares cancelled upon repurchase.

Distributability of reserves

In accordance with the Companies Law of the Cayman Islands, the share premium account is distributable to the equity shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

21. EQUITY COMPENSATION BENEFITS

ING Beijing operated a share option scheme under which the Board of Directors of ING Beijing may grant options to employees of ING Beijing and its subsidiaries, including directors, to subscribe for shares of ING Beijing. Each option gave the holder the right to subscribe for one share. The subscription price will be the higher of:

(i) the closing price of the shares of ING Beijing as stated in the Stock Exchange's daily quotation sheet on the date of grant (being a business day); and

(ii) the average closing price of the shares of ING Beijing as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

The share option scheme of ING Beijing was terminated and a new share option scheme was adopted by the Company effective 13 April 2005. All outstanding share options granted in prior years under the share option scheme of ING Beijing lapsed in November 2004. Terms of the new share option scheme of New Capital are similar to those of ING Beijing.

There were no options granted under the new share option scheme of New Capital during the years ended 31 December 2006 and 2005 or outstanding options as at the balance sheet dates.

22. NET ASSET VALUE PER SHARE

The net asset value per share is computed based on the consolidated net assets of HK$191,665,423 (2005: HK$171,005,472) and 620,214,000 ordinary shares in issue as at 31 December 2006 (2005: 647,114,000 ordinary shares).

23. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

Credit risk

The Group monitors its exposure to credit risks on an ongoing basis. Investments are normally liquid securities except those entered into for long term strategic purposes.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Cash balances maintained for liquidity are placed with a number of major banks. In addition, the Group is subject to credit risk for funds under a brokerage account included in other receivables. The credit risk is limited because the counter parties are with sound credit-rating.

Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

Interest rate risk

The Group has no borrowings and is not exposed to significant interest rate risk.

23. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk

The Group is exposed to foreign currency risk as the operations and income of certain of the Group's investments are denominated in Renminbi ("RMB"). The fluctuation of the exchange rate of RMB against the Hong Kong dollars ("HK$") affects the Group's results as remittances of retained earnings from these investments out of the PRC involve conversion from RMB to HK$.

Equity price risk

Investments in securities are subject to changes in market prices. The exposure to price change is managed by closely monitoring the changes in market conditions that may have an impact in the market prices or factors affecting the value of these investments in securities.

Fair values

All financial instruments are carried at amounts not materially different from their fair values at 31 December 2006 and 2005.

Estimation of fair values

Fair value of securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

24. COMMITMENTS

Capital commitments

At the balance sheet date, the Group's share of the capital commitments of an associate, Beijing Pacific Palace, outstanding not provided for in the financial statements was as follows:

	2006	2005
	HK$	HK$
Authorised and contracted for	**146,648,000**	43,734,000
Authorised but not contracted for	**441,546,000**	429,108,000
	588,194,000	472,842,000

24. COMMITMENTS (Continued)

Operating lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2006	2005
	HK$	HK$
Within 1 year	801,060	767,688
After 1 year but within 5 years	534,040	1,279,480
	1,335,100	2,047,168

The Group leases a property under an operating lease. The lease runs for an initial period of three years for fixed rentals, with an option to renew the lease upon expiry when all terms are renegotiated. The lease does not include any contingent rentals.

25. CONTINGENT LIABILITIES

At 31 December 2006, the Group's associates, Beijing Pacific Palace and World Lexus, had the following contingent liabilities. The Group's interests in these associates is disclosed in note 13.

(a) In July 2004, Beijing Pacific Palace commenced legal proceedings against a consultancy company to recover a deposit paid of RMB14 million in relation to the Pacific Town project plus compensation of RMB34 million for the delay in resettlement work of Phase I. The consultancy company has made a counter claim of RMB20 million against Beijing Pacific Palace for breach of contract.

According to the first judgement delivered in July 2005, the court dismissed the counter claim of the consultancy company and ordered it to repay RMB9 million to Beijing Pacific Palace plus interest for the period from May 2002 to July 2005. Beijing Pacific Palace did not agree with the first judgement and filed an appeal with the court in August 2005. The final judgement was delivered in December 2005 whereby the court ordered the consultancy company to repay the entire amount of the deposit paid of RMB14 million plus interest for the period from May 2002 to the date of repayment. However, the claim of the compensation of RMB34 million by Beijing Pacific Palace was dismissed.

25. CONTINGENT LIABILITIES (Continued)

(a) (Continued)

Beijing Pacific Palace had provided for an impairment loss of RMB4 million against the deposit in prior years. The remaining amount of RMB10 million is recoverable from the former minority shareholders under the terms of the 20% Equity Transfer Agreement (note 13(a)(iii)) and has been deducted from the consideration payable to the minority shareholders. As the consultancy company may not have the ability to repay the entire amount of the deposit and only RMB10 million is recoverable under the 20% Equity Transfer Agreement, the impairment loss of RMB4 million has not been reversed at 31 December 2006 and 31 December 2005 in the financial statements of Beijing Pacific Palace.

(b) In April 2005, a third party made a claim of RMB5.3 million plus interest and damages against World Lexus for services rendered pursuant to certain agreements which amounted to a total of RMB9.4 million. As these agreements were not disclosed in the 20% Equity Transfer Agreement, this constitutes a breach of warranties included in the 20% Equity Transfer Agreement and CPDH has deducted the amount claimed by the third party from the consideration payable to the minority shareholders. In September 2005, the third party commenced legal proceedings in the Hong Kong High Court against World Lexus and subsequently, the former minority shareholders of World Lexus have filed an application to the court for an intervention to the litigation. In December 2006, World Lexus paid the third party RMB2.2 million and such third party's claim against World Lexus was dismissed. World Lexus will claim for reimbursement of such payment of RMB2.2 million together with other unrecovered costs in this action in the arbitration proceedings as set out in note 25 (c).

(c) In April 2005, CPDH and the minority shareholders of World Lexus commenced arbitration proceedings in respect of the deductions involving the matters referred to in (a) and (b) above as well as certain other deductions which CPDH has made under the terms of the 20% Equity Transfer Agreement. In January 2006, one of the former minority shareholders made a counter claim of an unquantified amount in respect of loss of the development right relating to part of the Pacific Town project. Exchange of witness statements in respect of the counter claim are in progress. By considering the legal advice available, the directors of CDPH are in the opinion that it is not likely to have any liabilities arising from the counter claim and therefore, no provision is required. The arbitration proceedings are still in progress as of the date the consolidated financial statements are authorised for issue by the directors. The hearing is likely to be held in mid 2007.

(d) In July 2005, another third party made a claim of approximately RMB50 million against World Lexus pursuant to an agreement entered into by the third party and World Lexus in 2001 for services rendered in connection with the Pacific Town project. This agreement was also not disclosed in the 20% Equity Transfer Agreement and constitutes a breach of warranties.

25. CONTINGENT LIABILITIES (Continued)

(d) (Continued)

CPDH has included this claim as part of the arbitration proceedings in (c) above. In July 2006, World Lexus was provided with a confirmation from the third party confirming that the third party has waived the rights under the alleged agreement and has withdrawn the claim. The directors of CPDH consider that no provision is required as any loss will be recoverable from the former minority shareholders under the terms of the 20% Equity Transfer Agreement.

(e) The directors of the Company, after considering the status of the above litigation and claims and the information provided by the directors of CPDH and World Lexus, are of the opinion that no provision or additional impairment loss is required to be made in the financial statements of the Group's associates which are used for equity accounting in the consolidated financial statements of the Group.

26. RELATED PARTY TRANSACTIONS

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

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group paid key management personnel compensation as follows:

	2006 HK$	2005 HK$
Salaries and other short-term employee benefits	1,867,947	1,057,808
Retirement scheme contributions	25,719	6,000
	1,893,666	1,063,808

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2006

27. FINANCIAL INFORMATION OF THE COMPANY

	2006 HK$	2005 HK$
Non-current assets		
Property, plant and equipment *(note 12)*	365,687	498,024
Investments in subsidiaries *(note a)*	40	130,974,642
Investment in an associate	78,000,008	–
Amounts due from subsidiaries	49,695,180	51,162,744
Available-for-sale securities	4,950,000	10,576,950
	133,010,915	193,212,360
Current assets		
Other receivables	12,655,951	309,534
Cash and cash equivalents	33,335,217	38,950,370
	45,991,168	39,259,904
Current liabilities		
Other payables	1,652,956	1,375,684
Amount due to a subsidiary	5,367,324	53,285,317
	7,020,280	54,661,001
Net current assets (liabilities)	38,970,888	(15,401,097)
Net assets	171,981,803	177,811,263
Capital and reserves		
Share capital *(note 19)*	6,202,140	6,471,140
Reserves *(note b)*	165,779,663	171,340,123
Total equity	171,981,803	177,811,263

27. FINANCIAL INFORMATION OF THE COMPANY (Continued)

Notes:

(a) Subsidiaries

Particulars of the principal subsidiaries of the Company, as at 31 December 2006, are as follows:

Name of subsidiary	Place of incorporation and operation	Issued and paid up capital held by the Company	Proportion of ownership interest held	Principal activity
Kencheers Investments Ltd.	BVI	1 share of US$1	100%	Investment holding
Pacific Equity Venture Inc.	BVI	1 share of HK$1	100%	Investment holding
Success Journey Ltd.	BVI	1 share of US$1	100%	Investment holding
Great Progress Ltd.	Mauritius	2 shares of US$1 each	100%	Investment holding
Grow Reach Investment Ltd.	BVI	2 shares of US$1 each	100%	Investment holding

At 31 December 2005, included in investment cost represented a capital distribution of HK$53,257,464 from ING Beijing satisfied by assignment of its loans to subsidiaries upon the commencement of members' voluntary of ING Beijing liquidation in November 2005.

27. FINANCIAL INFORMATION OF THE COMPANY (Continued)

(b) Reserve

	Share premium	Fair value	Capital redemption	Accumulated losses	Total
	HK$	HK$	HK$	HK$	HK$
At 1 January 2005	–	–	–	–	–
Changes in fair value of available-for-sale securities	–	1,190,945	–	–	1,190,945
Net expenses for the year recognised directly in equity	–	1,190,945	–	–	1,190,945
Loss for the year	–	–	–	(7,611,788)	(7,611,788)
Total recognised income and expense for year	–	1,190,945	–	(7,611,788)	(6,420,843)
Issue of shares pursuant to the Scheme	177,760,966	–	–	–	177,760,966
At 31 December 2005 and 1 January 2006	177,760,966	1,190,945	–	(7,611,788)	171,340,123
Changes in fair value of available-for-sale securities	–	2,275,000	–	–	2,275,000
Transfer to income statement upon disposal of available-for-sale securities	–	(889,745)	–	–	(889,745)
Net expenses for the year recognised directly in equity	–	1,385,255	–	–	1,385,255
Loss for the year	–	–	–	(1,411,315)	(1,411,315)
Total recognised income and expense for the year	–	1,385,255	–	(1,411,315)	(26,060)
Repurchase of shares	–	–	269,000	(269,000)	–
Premium on repurchase of shares	–	–	–	(5,534,000)	(5,534,400)
At 31 December 2006	177,760,966	2,576,200	269,000	(14,826,503)	165,779,663

28. POST BALANCE SHEET EVENT

In December 2006, the Group entered into an agreement to set up a joint venture, China Eco-Hotel Investments Limited ("China Eco-Hotel") to invest in Anyi (Sichuan) Hotel Development Co., Ltd. ("Anyi"). China Eco-Hotel was incorporated in January 2007 with authorised capital of HK$20,200,000 divided into 10,100,000 ordinary shares of HK$1 each and 10,100,000 non-voting shares of HK$1 each. The Group subscribed for 3,030,000 ordinary shares and 7,070,000 non voting shares for a total consideration of HK$10,100,000 while the Group is entitled for 50% of the equity interest in China Eco-Hotel with 30% voting rights in its shareholders' meetings.

Anyi is a sino foreign equity joint venture company incorporated in the PRC in March 2007 to operate and manage economic hotel business in the PRC. China Eco-Hotel subscribed for a equity interest of 90.9% in Anyi for a total consideration of RMB20,000,000.

FIVE YEAR GROUP FINANCIAL SUMMARY

RESULTS

	2006 HK$	2005 HK$	2004 HK$	2003 HK$	2002 HK$
Turnover	1,298,316	1,621,862	1,095,902	2,432,851	7,323,994
Profit (loss) for the year	25,860,547	(12,726,109)	6,251,287	8,181,299	(19,990,416)

ASSETS AND LIABILITIES

	2006 HK$	2005 HK$	2004 HK$	2003 HK$	2002 HK$
Non-current assets					
Property, plant and equipment	365,687	498,024	–	–	–
Interest in associates	110,856,719	81,347,993	88,567,299	92,851,572	106,703,102
Available-for-sale securities	6,636,300	21,976,950	13,600,000	44,497,050	35,111,580
Investment deposit	29,284,932	29,284,932	35,000,000	35,000,000	–
Current assets					
Other receivables	12,713,975	309,542	742,142	1,525,093	197,119
Cash and cash equivalents	33,461,172	38,967,253	49,387,783	14,470,509	31,629,055
	46,175,147	39,276,795	50,129,925	15,995,602	31,826,174
Current liabilities					
Other payables	1,653,362	1,379,222	3,483,557	1,617,495	2,015,321
Current taxation	–	–	–	5,000,000	5,000,000
	1,653,362	1,379,222	3,483,557	6,617,495	7,015,321
Net current assets	44,521,785	37,897,573	46,646,368	9,378,107	24,810,853
Net assets	191,665,423	171,005,472	183,813,667	181,726,729	166,625,535
Share capital	6,202,140	6,471,140	6,471,140	5,395,140	5,395,140
Reserves	185,463,283	164,534,332	177,342,527	176,331,589	161,230,395
Total equity	191,665,423	171,005,472	183,813,667	181,726,729	166,625,535

The consolidated financial statements in relation to each of the years ended 31 December 2002, 2003, 2004 and 2005 were prepared on the basis as set out in note 1 on page 34.