1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The principal activities of the Group are manufacturing and trading of fiberboards and veneers, property development and investment, hotel operation and investment holding.

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

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

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

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) - INT 8	Scope of HKFRS 2[3]
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) - INT 11	HKFRS 2 - Group and treasury share transactions[6]

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

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and financial assets at fair value through profit or loss, which are measured at revalued amounts or fair values as explained in the accounting policies set out below.

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

Basis of consolidation

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

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

All significant intra-group transactions, balances income and expenses have been eliminated on consolidation.

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

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

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

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

i. Hotel Property

Hotel properties are stated in the balance sheet at their open market value based on independent professional valuations at each balance sheet date. The Group has resolved to account for the hotel properties using the revaluation model.

ii. Property, plant and equipment (other than Hotel properties)

Property, plant and equipment (other than hotel properties) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

Land and buildings in Hong Kong under medium-term leases	Over the lease term
Land and buildings outside Hong Kong under medium-term leases	2.5% to 4.5% or over the lease term, if shorter
Furniture, equipment and leasehold improvements	10% to 20%
Plant and machinery	10% to 30%
Motor vehicles	15% to 30%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the consolidated income statement.

Properties held for development

Properties held for development are stated at cost less any identified impairment loss.

Depreciation of these properties, on the same basis as other property, plant and equipment, commences when the assets are put into use.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Financial instruments

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

Financial assets at fair value through profit or loss

The Group's financial asset is classified into financial assets at fair value through profit or loss. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Financial liabilities and equity

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Convertible notes

Convertible notes issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the embedded call option for the holder to convert the notes into equity, is included in equity (convertible notes equity reserve).

In subsequent years, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised, in which case the balance stated in convertible notes reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the retained earnings. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Derecognition

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

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Impairment losses (other than goodwill, (see the accounting policies in respect of goodwill above))

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

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

Turnover

Turnover represents the gross amounts received and receivable for revenue arising on hotel operations, goods sold by the Group to outside customers, less return and allowances and gross rental income during the year.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

(i) Hotel operations

Revenue arising from hotel operations is recognised when the relevant services are rendered.

(ii) Sales of goods

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

(iii) Rental income

Rental income arising from properties let under operating leases is recognised on a straight-line basis over the periods of the respective leases.

(iv) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Taxation

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as ‘other income’.

Retirement benefits scheme

Payments to defined contribution retirement scheme are charged as an expense as they fall due.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

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

The Group as lessor

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

The Group as lessee

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

Foreign currencies

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

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

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

4. FINANCIAL INSTRUMENTS

The Group's major financial instruments include convertible loan notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign Exchange Exposure

The Group mainly earned revenue and incurred cost in Hong Kong dollar and Renminbi. The directors consider that the Group's foreign exchange risks are minimal.

Credit risk

The Group's concentration of credit risk by geographical locations is mainly in the PRC.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Fair value

The fair value of financial assets and financial liabilities are determined as follows:

i) the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

ii) the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – fibreboards and veneers, hotel operations and property investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Fibreboards and veneers	—	manufacturing and trading of fibreboards and veneers
Hotel operations	—	hotel ownership and management
Property investment	—	holding investment properties, properties held for development and properties held for sale

Segment information about these businesses is presented below.

2006

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Consolidated HK$'000
TURNOVER	403,817	24,654	1,545	430,016
RESULTS				
Segment result	79,202	855	18,555	98,612
Interest income				1,568
Net unrealized holding gain on financial assets at fair value through profit or loss				2
Unallocated corporate expenses				(10,968)
Operating profit				89,214
Finance costs				(8,527)
Profit before taxation				80,687
Income tax expense				(9,747)
Profit for the year				70,940

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

BALANCE SHEET

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	179,784	155,654	163,053	498,491
Goodwill	89,880			89,880
Financial assets at fair value through profit or loss				3
Bank balances and cash				137,415
Unallocated corporate assets				38,382
Consolidated total assets				764,171
LIABILITIES				
Segment liabilities	129,331	6,007	4,947	140,285
Unallocated corporate liabilities				217,354
Consolidated total liabilities				357,639

OTHER INFORMATION

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital additions	11,606	1,339	—	91	13,036
Depreciation and amortisation	5,726	8,378	—	414	14,518
Increase in fair value on investment properties	—	—	18,500	—	18,500
Impairment loss in respect of land use right	11,444	—	—	—	11,444
Loss on disposal of property held for development	—	—	—	1,678	1,678

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

2005

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Consolidated HK$'000
TURNOVER	316,487	22,359	1,019	339,865
RESULTS				
Segment result	39,969	(2,750)	6,672	43,891
Interest income				420
Net unrealized holding loss on financial assets at fair value through profit or loss				(82)
Unallocated corporate expenses				(20,377)
Operating profit				23,852
Finance costs				(8,248)
Profit before taxation				15,604
Income tax expense				(4,735)
Profit for the year				10,869

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

BALANCE SHEET

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	161,574	171,058	172,040	504,672
Goodwill	89,880			89,880
Financial assets at fair value through profit or loss				1
Bank balances and cash				81,505
Unallocated corporate assets				2,053
Consolidated total assets				678,111
LIABILITIES				
Segment liabilities	110,289	5,180	10,788	126,257
Unallocated corporate liabilities				206,622
Consolidated total liabilities				332,879

OTHER INFORMATION

	Fiberboards and veneers HK$'000	Hotel operations HK$'000	Property investment HK$'000	Unallocated HK$'000	Consolidated HK$'000
Capital additions	1,443	1,004	—	1,150	3,597
Depreciation and amortisation	10,707	7,752	—	716	19,175
Increase in fair value on investment properties	—	—	6,000	—	6,000

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

The Group's fibreboards and veneers and hotel operations are located in the People's Republic of China, other than Hong Kong (the "PRC").

Property investment and development are located in both PRC and Hong Kong.

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

	Sales revenue by geographical market		Contribution to profit for the year	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**428,865**	338,903	**79,502**	37,269
Hong Kong	**1,151**	962	**19,110**	6,622
	430,016	339,865	**98,612**	43,891
Interest income			**1,568**	420
Net unrealised holding gain/(loss) on financial assets at fair value through profit			**2**	(82)
Unallocated corporate expenses			**(10,968)**	(20,377)
Operating profit			**89,214**	23,852
Finance costs			**(8,527)**	(8,248)
Profit before taxation			**80,687**	15,604
Income tax expense			**(9,747)**	(4,735)
Profit for the year			**70,940**	10,869

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and goodwill	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**636,902**	638,376	**12,945**	3,597
Hong Kong	**127,269**	39,735	**91**	—
	764,171	678,111	**13,036**	3,597

6. OTHER OPERATING INCOME

Other operating income included the following items:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Valued added tax refunded	**26,338**	22,480
Interest income	**1,568**	420
Exchange gain	**6,595**	—

7. FINANCE COSTS

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Interest on convertible notes	**8,527**	8,245
Others	**—**	3
	8,527	8,248

8. INCOME TAX EXPENSE

	2006 HK$'000	2005 HK$'000
Current tax – Provision for PRC enterprises income tax	**9,747**	4,735

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries have no assessable profits for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

One of the Group's PRC subsidiaries operating in the People's Republic of China (the PRC) are eligible for certain tax holidays and concessions. Pursuant to the relevant laws and regulations in the People's Republic of China (the PRC), the Group's PRC subsidiary is exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	**80,687**	15,604
Tax at the rates applicable to profits in the countries concerned	**23,378**	8,518
Tax effect of non deductible expenses	**8,334**	4,922
Tax effect of non taxable revenue	**(4,609)**	(1,282)
Tax effect of tax deductible not recognised	**(644)**	(644)
Effect of tax exemptions granted to PRC subsidiaries	**(17,217)**	(8,275)
Tax effect of tax loss for the year	**505**	1,496
Tax effect for the year	**9,747**	4,735

At the balance sheet date, the Group has unused estimated tax losses of HK$14,412,000 (2005: HK$14,412,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the estimated tax losses due to the unpredictability of future profit streams.

8. INCOME TAX EXPENSE *(continued)*

The revaluation surplus for both years arising on the revaluation of properties of the Group does not constitute a timing difference. Therefore, deferred tax has not been recognised in respect of the valuation surplus relating to properties.

9. PROFIT FOR THE YEAR

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Profit for the year has been arrived at after charging/(crediting):		
Amortisation of land use rights	**530**	544
Depreciation of property, plant and equipment	**13,988**	18,631
Total depreciation and amortisation	**14,518**	19,175
Auditors' remuneration	**1,000**	900
Staff costs (including directors' remuneration and retirement benefit scheme contribution)	**35,002**	30,187
Unrealised holding (gain)/loss on financial assets at fair value through profit or loss	**(2)**	82
(Gain)/loss on disposal of property, plant and equipment	**(67)**	243
Net foreign exchange (gains)/losses	**(6,595)**	448
Gross rental income from investment properties	**(1,545)**	(1,019)
Less:		
Direct operating expenses from investment properties that generated rental income during the year	**326**	210
Direct operating expenses from investment properties that did not generated rental income during the year	**217**	297
	(1,002)	(512)

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

a. Directors' emoluments

The emoluments paid or payable to each of the 7 (2005: 6) directors were as follows:

2006	Fees HK$'000	Salaries and other benefits HK$'000	Performance-based or discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Mr. Leung Siu Fai	—	1,244	178	41	1,463
Mr. Kam Hung Chung	—	1,080	178	36	1,294
Mr. You Guang Wu	313	195	132	—	640
Mr. Wang Jin Yuan	50	127	284	—	461
Mr. Chen Da Cheng	70	—	—	—	70
Mr. Chan Kwok Wai	70	—	—	—	70
Mr. Deng Hong Ping	52	—	—	—	52

2005	Fees HK$'000	Salaries and other benefits HK$'000	Performance-based or discretionary bonus HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Mr. Leung Siu Fai	—	1,244	120	41	1,405
Mr. Kam Hung Chung	—	1,080	168	36	1,284
Mr. Wang Jin Yuan	48	131	—	—	179
Mr. Chan Kwok Wai	60	—	—	—	60
Mr. Chen Da Cheng	48	—	—	—	48
Mr. You Guang Wu	48	—	—	—	48

No Directors had waived any emoluments for both years.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

b. Employees' emoluments

During the year, the six highest paid individuals included four Directors (2005: two Directors), details of whose emoluments are set out above. The emoluments of the other two individual (2005: three individuals) were as follows:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**837**	1,077
Retirement benefits scheme contributions	**15**	39
	852	1,116

The aggregate emoluments of each of these two (2005: three) highest paid individuals are less than HK$1,000,000.

11. RETIREMENT BENEFIT SCHEME

The Group contributes to a defined contribution retirement scheme which is available to Hong Kong permanent employees. This retirement scheme is administered by independent trustees with their assets held separately from those of the Group. Contributions under the staff retirement scheme for each year are based on a percentage of the eligible employees' salaries and are charged to the income statement as incurred. The total contribution to the scheme amounted to HK$112,080 (2005: HK$116,000) for the year and has been charged to the income statement. Forfeited employer contributions in respect of former employees from the staff retirement scheme before vesting period may be used by the Group to reduce its ongoing employer contributions. There is no forfeited contribution utilised during the year.

At the balance sheet date, there is no balance of forfeited contributions available to reduce the contribution payable in the future years.

Since the introduction of the Mandatory Provident Fund ("MPF") Scheme in Hong Kong, the Group has also participated in an approved MPF Scheme with Bank Consortium Trust Company Limited effective 1 December 2001 to provide an MPF Scheme to all employees.

11. RETIREMENT BENEFIT SCHEME *(continued)*

The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited at 5% of HK$20,000 for each eligible employee) as calculated under the MPF legislation. During the year under review, the total amount contributed by the Group to the MPF Scheme and charged to the income statement amounted to HK$51,363 (2005: HK$47,000).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of HK$70,940,000 (2005: a profit of HK$10,869,000) and on 914,995,817 ordinary shares (2005: 914,995,817 ordinary shares) in issue during the year.

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006	2005
	HK$'000	HK$'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to equity holders of the Company)	**70,940**	10,869
Interest on convertible notes	**8,527**	8,245
Effect of diluted potential ordinary shares:		
Earnings for the purpose of diluted earnings per share	**79,467**	19,114

	2006	2005
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**914,996**	914,996
Effect of dilutive potential ordinary shares – Convertible notes	**736,296**	736,296
Number of ordinary shares for the purposes of diluted earnings per share	**1,651,292**	1,651,292

13. INVESTMENT PROPERTIES

	In the PRC held under medium-term leases HK$'000	In Hong Kong held under medium-term leases HK$'000	Total HK$'000
FAIR VALUE OF INVESTMENT PROPERTIES			
As at 1 January 2005	900	12,000	12,900
Increase in fair value recognized in the income statement	—	6,000	6,000
As at 31 December 2005 and 1 January 2006	900	18,000	18,900
Increase in fair value recognized in the income statement	—	18,500	18,500
As at 31 December 2006	**900**	**36,500**	**37,400**

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Investment properties were revalued at their open market value at 31 December 2006 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers, on an open market value basis. This valuation gave rise to a revaluation surplus of HK$18,500,000 (2005: HK$6,000,000), which has been credited to the consolidation income statement.

Associated Surveyors & Auctioneers Ltd is a member of the Institute of Valuers, and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

14. PROPERTY, PLANT AND EQUIPMENT

2006

	Hotel properties in the PRC held under medium-term leases HK$'000	Land and buildings HK$'000	Furniture equipment and leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP						
At 1 January 2006	165,000	17,556	16,208	114,812	3,153	316,729
Exchange adjustments	—	648	639	4,235	36	5,558
Additions	—	—	741	12,295	—	13,036
Disposals and write off	—	—	(525)	(1,140)	—	(1,665)
Deficit on revaluation	(17,000)	—	—	—	—	(17,000)
At 31 December 2006	148,000	18,204	17,063	130,202	3,189	316,658
Comprising:						
At cost	—	18,204	17,063	130,202	3,189	168,658
At valuation – 2006	148,000	—	—	—	—	148,000
	148,000	18,204	17,063	130,202	3,189	316,658
DEPRECIATION						
At 1 January 2006	—	2,840	14,283	40,190	2,613	59,926
Exchange adjustments	—	124	646	1,584	21	2,375
Provided for the year	7,952	822	600	4,439	175	13,988
Eliminated on disposals and write off	—	—	(515)	(1,033)	—	(1,548)
Eliminated on revaluation	(7,952)	—	—	—	—	(7,952)
At 31 December 2006	—	3,786	15,014	45,180	2,809	66,789
NET BOOK VALUES						
At 31 December 2006	148,000	14,418	2,049	85,022	380	249,869

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

2005

	Hotel properties in the PRC held under medium-term leases	Land and buildings	Furniture equipment and leasehold improvements	Plant and machinery	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
THE GROUP						
At 1 January 2005	165,000	17,225	17,366	111,631	2,741	313,963
Exchange adjustments	—	331	328	2,147	11	2,817
Additions	—	—	2,155	1,041	401	3,597
Disposals and write off	—	—	(3,641)	(7)	—	(3,648)
At 31 December 2005	165,000	17,556	16,208	114,812	3,153	316,729
Comprising:						
At cost	—	17,556	16,208	114,812	3,153	151,729
At valuation – 2005	165,000	—	—	—	—	165,000
	165,000	17,556	16,208	114,812	3,153	316,729
DEPRECIATION						
At 1 January 2005	—	1,991	16,660	30,173	2,412	51,236
Exchange adjustments	—	38	329	581	9	957
Provided for the year	7,500	811	690	9,438	192	18,631
Eliminated on disposals and write off	—	—	(3,396)	(2)	—	(3,398)
Eliminated on revaluation	(7,500)	—	—	—	—	(7,500)
At 31 December 2005	—	2,840	14,283	40,190	2,613	59,926
NET BOOK VALUES						
At 31 December 2005	165,000	14,716	1,925	74,622	540	256,803

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Hotel properties situated in the PRC were revalued on the basis of their open market value on 31 December 2006 by Associated Surveyors & Auctioneers Ltd., an independent firm of professional valuers. This valuation gave rise to revaluation deficit of HK$17,000,000 (2005: surplus of HK$7,500,000), which has been directly charged to the hotel property revaluation reserve.

If hotel properties had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK$68,056,000 (2005: HK$ HK$71,458,000).

The net book value of land and buildings shown above comprises:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
In the PRC held under medium-term leases	**14,418**	14,716

15. LAND USE RIGHTS

The Group's interest in land use rights represent prepaid operating lease payments and their net book value are as follows:

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
In the PRC held under medium-term leases	**13,323**	24,409

16. PROPERTIES HELD FOR DEVELOPMENT

	THE GROUP In the PRC held under long leases HK$'000
COST	
At 1 January 2005 and 1 January 2006	199,267
Disposals	(199,267)
At 31 December 2006	**—**
IMPAIRMENT LOSS	
At 1 January 2005 and 1 January 2006	151,267
Written back on disposals	(151,267)
At 31 December 2006	—
NET BOOK VALUE	
At 31 December 2006	**—**
At 31 December 2005	48,000

17. GOODWILL

	THE GROUP
	HK$'000
COST LESS AMORTISATION	
At 1 January 2005, 1 January 2006 and 31 December 2006	97,484
IMPAIRMENT LOSS	
At 1 January 2005	—
Charged for the year	7,604
At 31 December 2005 and 31 December 2006	7,604
CARRYING VALUES	
At 31 December 2006	**89,880**
At 31 December 2005	89,880

The goodwill is arising on acquisition of subsidiaries during 2002.

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	HK$'000
Unlisted investments, at cost	**1,096,607**	1,096,607
Less: Impairment loss	**(1,073,000)**	(1,073,000)
	23,607	23,607

Particulars of the Company's principal subsidiaries as at 31 December 2006 are set out in note 31.

19. PROPERTIES HELD FOR SALE

THE GROUP

Properties held for sale are stated at net realisable value.

20. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
Fibreboards		
Raw materials	**61,996**	36,250
Work in progress	**2,735**	1,767
Finished goods	**1,682**	424
	66,413	38,441
Food, beverages and hotel supplies	**1,428**	1,495
	67,841	39,936

21. TRADE AND OTHER RECEIVABLES

THE GROUP

The Group allows an average credit period of 90 days to its trade customers.

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

	THE GROUP	
	2006	2005
	HK$'000	HK$'000
0-60 days	**2,948**	3,070
61-90 days	**1,051**	750
91-120 days	**418**	299
over 120 days	**2,017**	1,552
Trade receivables	**6,434**	5,671
Other receivables	**57,406**	8,406
	63,840	14,077

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006 HK$'000	2005 HK$'000
THE GROUP		
Listed shares in Hong Kong	**3**	1
Market value of listed shares	**3**	1
Carrying amount analysed for reporting purposes as:		
Current	**3**	1
Non current	**—**	—
Total	**3**	1

23. TRADE AND OTHER PAYABLES

THE GROUP

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

	THE GROUP	
	2006 HK$'000	2005 HK$'000
0-60 days	**3,949**	8,656
61-90 days	**2,141**	1,562
91-120 days	**7**	199
over 120 days	**6,720**	4,516
Trade payables	**12,817**	14,933
Other payables	**97,937**	73,555
	110,754	88,488

The directors consider that the carrying amount of trade and other payable approximates their fair value.

24. SHARE CAPITAL

	Number of shares		Nominal value	
	2006	2005	**2006**	2005
			HK$'000	HK$'000
Ordinary shares of HK$0.10 each				
Authorised				
At beginning and end of the year	**3,000,000,000**	3,000,000,000	**300,000**	300,000
Issued and fully paid:				
At beginning and end of the year	**914,995,817**	914,995,817	**91,500**	91,500

25. SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 20 May 2003 (the "Scheme"). During the year, no options was granted, exercised, lapsed or cancelled under the Scheme. At 31 December 2005 and 2006, there were no options outstanding under the Scheme.

The primary purpose of the Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including Directors, and business associates of the Company and its subsidiaries, to subscribe for ordinary shares in the Company, in accordance with the terms of the Scheme.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of approval of the Scheme without prior approval from the Company's shareholders.

The maximum entitlement for any one participant is that the total number of ordinary shares of the Company issued and to be issued upon exercise of the options granted to such participant under the Scheme and any other option schemes of the Company (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of ordinary shares of the Company in issue.

The Scheme is for a term of 10 years from the date of adoption and will expire on 20 May 2013. No option has been granted since the adoption of the Scheme.

25. SHARE OPTION SCHEME *(continued)*

No charge is recognised in the income statement in respect of the value of options granted for both years.

26. CONVERTIBLE NOTES

On 9 May 2002, the Group issued HK$230,000,000 convertible notes (the "Notes") which are due on 9 May 2007 (the "Maturity Date"), bear interest at 1% per annum and in units of HK$1,000,000 each. The Notes are convertible at the discretion of the holders of the Notes, at any time upon the expiry of 6 months from the date of issue of the Notes up to an including its Maturity Date in whole or in part into shares of HK$0.10 each in the Company at an initial conversion price of HK$0.27 per share, subject to adjustment.

During the year, HK$ Nil (2005: HK$ Nil) Notes were converted into shares of the Company.

The Company shall repay such principal moneys outstanding under the Notes to the holders of the Notes on the Maturity Date together with all interest accrued thereon up to and including the maturity date.

The fair value of the liability component and the equity conversion component were determined at issuance of the bonds.

The fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in convertible note reserve.

The fair value of the liability component of the convertible notes is calculated using cash flows discounted at a rate based on the borrowing rate of 4.5%.

Interest expenses on the notes are calculated using the effective interest method by applying the effective interest rate of 4.5% to the liabilities component.

26. CONVERTIBLE NOTES *(continued)*

The movement of the liability component of the convertible loan notes for the year is set out below:

	2006	2005
	HK$'000	HK$'000
Liability component beginning of the year	**189,487**	183,230
Interest charge (Note 7)	**8,527**	8,245
Interest paid	**(1,988)**	(1,988)
Liability at the end of the year	**196,026**	189,487

27. CONTINGENT LIABILITIES

a. On 16 January 2004, the Company's subsidiaries Nanhai Heng Da Timber Company Limited ("Heng Da") and Nanhai Jia Shun Timber Company Limited ("Jia Shun") both received summons issued by the Intermediate People's Court of Foshan City, Guangdong Province, the People's Republic of China (the "Court") regarding a bank loan contract dated 23 May 2003 entered into between Nanhai Heng Yi Timber Company Limited ("Heng Yi"), an independent third party, as borrower and the Shenzhen Development Bank Foshan Branch (the "Claimant") as lender in relation to a loan facility in a sum of RMB40 million (equivalent to approximately HK$38 million) and that the Claimant has advanced such loan to Heng Yi. The summons also included a guarantee dated 23 May 2003 entered into by, among others, Jia Shun, Heng Da and Nanhai Hua Guang Decorative Board Company Limited ("Hua Guang") in favour of the Claimant in relation to such loan (the "Claims"). As the operations of Hua Guang were suspended and Hua Guang was one of the guarantors in relation to the bank loan, Jia Shun and Heng Da, among others, should make full repayment of the loan and interest thereon before maturity under the bank loan contract.

   Jia Shun and Heng Da had reported to the Public Securities Bureau in Nanhai, PRC on 23 March 2004 that, among other things:

   (i) without the knowledge of board of directors of the Company and the respective board of directors of Jia Shun and Heng Da, the company chops of Heng Da and Jia Shun, and the name chop of Mr. Sun Pak Fun, the then legal representative and chairman of board of directors of Jia Shun and Heng Da, were affixed to the aforesaid guarantees;

27. CONTINGENT LIABILITIES *(continued)*

(ii) neither Jia Shun nor Heng Da had any record recording any details of the aforesaid guarantees; and

(iii) the claims were suspected to involve criminal offence.

Based on the above, the Group will deny liability and contest the Claims vigorously. The Directors consider that the Claimant does not have any valid claim against Heng Da and Jia Shun in relation to the Claims, and they strongly believe that the Group can successfully defend against the Claims.

The legal proceedings in relation to the above claims were suspended by the Intermediate Court on 26 February 2004. As at the date hereof, the Group has not received notice issued by any relevant PRC court to resume such legal proceedings.

b. The Court issued to each of Jia Shun and Heng Da a summons both dated 17 October 2005 to request Jia Shun and Heng Da to attend the interlocutory hearings which were held by the Court on 23 November 2005, in relation to two alleged claims initiated by the Claimant against Jia Shun and Heng Da as follows:

i) the Claimant alleged that a bank loan contract dated 11 October 2002 was entered into between Jia Shun as borrower and the Claimant as lender in relation to a loan amount in the sum of RMB30,000,000 (equivalent to approximately HK$28,846,000) ("First Alleged Claim"); and

ii) the Claimant alleged that a bank loan contract dated 11 October 2002 was entered into between Heng Da as borrower and the Claimant as lender in relation to a loan amount in the sum of RMB20,000,000 (equivalent to approximately HK$19,231,000) ("Second Alleged Claim").

Based on the fact finding and investigation conducted by Jia Shun and Heng Da with the assistance of its PRC lawyers, it appeared that:

i) without the knowledge of the Board and the respective boards of directors of Jia Shun and Heng Da, the company chops of Jia Shun and Heng Da and a forged name chop of Mr. Sun Pak Fun (a former executive director of the Company and joint chairman of the Board who resigned on 26 November 2003, and the former legal representative and chairman of Jia Shun and Heng Da who resigned on 26 November 2003) were allegedly affixed to the aforesaid bank loan contracts;

27. CONTINGENT LIABILITIES *(continued)*

ii) neither Jia Shun nor Heng Da had received any sum of money representing the RMB30,000,000 loan and RMB20,000,000 loan respectively, and the Claimant had not provided sufficient cogent evidence to show that such bank loans were in fact received by Jia Shun and Heng Da; and

iii) the aforesaid bank loan contracts and other related documents under the First Alleged Claim and the Second Alleged Claim were suspected to be falsified

On 9 November 2005, Jia Shun and Heng Da reported to the Public Security Bureau in Nanhai, the PRC, among other things, that the respective subject loans of the First Alleged Claim and the Second Alleged Claim involved illegal appropriation by unknown third party of Jia Shun and Heng Da's names and Mr. Sun Pak Fun's name chop and signature. It was later found that, based on the confession to the police made by the Claimant's branch manager and certain people controlled by Mr. Feng that:

i) the First and the Second Alleged Claims were fictitious transactions created by the Claimant and an enterprise controlled by Mr. Feng,

ii) the documents for the loan application were forged by the Claimant, and

iii) the proceeds from the alleged loans were used to settle the then existing loans borrowed by enterprises controlled by Mr. Feng from the Claimant.

The Company has engaged PRC lawyers who on behalf of Jia Shun and Heng Da, had:-

i) obtained a statement from Mr. Sun Pak Fun dated 1 November 2005, which he confirmed, among other things, according to his knowledge, the aforesaid bank loan contracts did not exist and Jia Shun or Heng Da has never received the sum representing the alleged loans. Mr. Sun Pak Fun also confirmed that the signature and name chop that were allegedly affixed to the aforesaid bank loan contracts and appeared therein as his own were in fact forged;

ii) filed a defence to court in denying liability on 2 November 2005;

iii) applied to court for extension in period for obtaining further evidence and such application was granted to obtain further evidence as soon as possible with no specified due date; and

iv) attended the interlocutory hearings held by the Court on 23 November 2005.

27. CONTINGENT LIABILITIES *(continued)*

Jia Shun and Heng Da received the respective written judgements of the first instance from the Intermediate Court on 28 August 2006, whereby the Intermediate Court held that both Jia Shun and Heng Da are liable to repay the alleged loans amount in the sum of RMB30,000,000 and RMB20,000,000 respectively together with accrued interest to the Claimant, which in aggregate amounted to an equivalent of HK$58,321,000. Upon receiving the judgments, Jia Shun and Heng Da had promptly engaged PRC lawyers to look into the matters and respective appeals were filed with the High Court on 11 September 2006 to appeal against such written judgments of first instance. Based on the legal opinion issued by PRC lawyers, according to the laws of the PRC as at the date hereof, a written judgment of the first instance is only a preliminary hearing and such a judgment cannot be enforced once an appeal is filed against such a judgment. The aforesaid written judgements of the first instance therefore become invalid.

Based on the legal opinions of PRC lawyers engaged for each of the Claims, and the facts finding and investigations conducted so far by Jia Shun and Heng Da and PRC lawyers, it has appeared that:- i) the respective boards of directors of Jia Shun and Heng Da and the Board had never discussed or approved any of the alleged loans and the relevant guarantees; ii)without the knowledge of the respective boards of directors of Jia Shun and Heng Da and the Board, the alleged company chops of Jia Shun and Heng Da and the alleged Mr. Sun's name chop and signature (as the case may be), were affixed to certain bank loan contracts and guarantees. Mr. Sun has confirmed in his statements that his name chop and signature (as the case may be) that were allegedly affixed to certain bank loan contracts and guarantees were in facts forged. All such acts being suspected to involve forgery of documents; and iii) none of the alleged loans had ever been deposited into any of Jia Shun's and/or Heng Da's bank accounts. The Company is of the view that the Claims were in fact a conspiracy to defraud among certain staff of the Claimant and certain enterprises controlled by Mr. Feng. The Group will continue to contest vigorously against the Claims.

27. CONTINGENT LIABILITIES *(continued)*

Based on the legal opinion of the PRC lawyers, the Directors consider that the Claimant does not have any valid claim against Jia Shun and Heng Da in relation to the First Alleged Claim and the Second Alleged Claim, and they believe that the Group can successfully defend against both claims. Thus, the Group has contested and will continue to contest against the First Alleged Claim and the Second Alleged Claim vigorously. Accordingly, the board will not make any provision on loss in litigation in respective on the Alleged claims. At present, the Board anticipates that the respective Alleged claims will not cause any material adverse impact on the business operations and financial position of the Group.

c. The Group had a maximum contingent consideration of HK$48,000,000 in respect of the acquisition of the entire issued share capital of Can Manage. However, as the vendor being uncontactable, the Directors have been unable to ascertain whether this amount has been properly dealt with, which will become payable, among others, when the consolidated net profit of Can Manage and its subsidiary, namely Jia Shun, achieved an amount of HK$80,000,000. However, the operation of Jia Shun was suspended during the period from 17 August 2003 to 10 October 2003 due to a failure in the supply of electricity and steam from the power plant operated under the power supply agreement and a court order dated 19 August 2003 to freeze Jia Shun's assets in relation to an alleged claim from the Shenzhen Development Bank Foshan Branch. In addition, the production facilities were substantially different from those prior to the suspension. In view of all the above incidences, couple with the fact that the vendor was not contactable up to the date of this report, the directors could not reasonably ascertain the amount of contingent consideration, if any, which has to be paid to the vendor.

28. OPERATING LEASE ARRANGEMENTS

The Group as lessee

	2006	2005
	HK$'000	HK$'000
Minimum lease payments paid under operating leases during the year:		
Plant and machinery	—	12,821
Premises	**1,626**	5,516
	1,626	18,337

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of rented premises and plant and machinery, which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**977**	17,364
In the second to fifth year inclusive	**649**	973
	1,626	18,337

Operating lease payments represent rentals payable by the Group for its office premises and plant and machinery. Leases are negotiated for an average terms of 3 years to 4 years, respectively.

28. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group as lessor

The Group's property rental income earned during the year was approximately HK$1,545,000 (2005: HK$1,019,000). All of the properties held have committed tenants for the next 2 years.

At the balance date, the Group had contracted with tenants for the following future minimum lease payments:

	2006	2005
	HK$'000	HK$'000
Within one year	**1,055**	292
In the second to fifth year inclusive	**324**	—
	1,379	292

29. COMMITMENTS

	2006	2005
	HK$'000	HK$'000
Commitments for the acquisition of the property, plant and equipment	**798**	—
Commitments for the environmental renovation project	**661**	—
Commitments for hotel equipment renovation project	**117**	—
Total commitments	**1,576**	—

30. RELATED PARTY TRANSACTION

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
	HK$'000	HK$'000
Short-term employee benefits	**3,781**	2,791
Post-employment employee benefits	**77**	77
	3,858	2,868

The remuneration of directors and key management personnel is determined or proposed by the remuneration committee having regard to the performance of individuals and market trends.

31. PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held %	Principal activity
Direct subsidiary				
China Investments Limited	Hong Kong	HK$1,000	100	Investment holding
Indirect subsidiaries				
Airlane Development Limited	Hong Kong	HK$2	100	Property trading
Barmax Development Limited	Hong Kong	HK$2	100	Property trading
Botex Development Limited	Hong Kong	HK$2	100	Property trading
Centon Development Limited	Hong Kong	HK$2	100	Property trading
Charland Investment Limited	Hong Kong	HK$2	100	Property trading
China Alliance Industries Limited	Hong Kong	HK$2	100	Property trading
Cyro Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Expert Target Development Limited	Hong Kong	HK$2	100	Property trading
Fairwind International Limited	Hong Kong	HK$2	100	Property development
Greenswood Property Limited	Hong Kong	HK$2	100	Property investment
Guilin Li-Feng Real Estate Company Ltd. *(Note 1)*	PRC	RMB8,459,827	100	Property development
Guilin Plaza Hotel (formerly named as Guilin Sight-Seeing Hotel Company Limited) *(Note 2)*	PRC	RMB14,500,000	100	Hotel operations

31. PRINCIPAL SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued and fully paid ordinary share capital/ registered capital	Percentage held %	Principal activity
Indirect subsidiaries				
Nanhai Heng Da Timber Company Limited 南海亨達木業有限公司 *(Note 2)*	PRC	RMB40,789,076	100	Manufacturing and trading of veneers
Jofra Company Limited	Hong Kong	HK$1,000	100	Investment holding
Nanhai Jia Shun Timber Company Limited 南海佳順木業有限公司 *(Note 2)*	PRC	RMB39,800,000	100	Manufacturing and trading of medium density fibreboards
Kawan (HK) Trading Company Limited	Hong Kong	HK$4,000,000	100	Trading of steels and other materials
Langmax Investment Limited	Hong Kong	HK$2	100	Property trading
Lina Development Limited	Hong Kong	HK$2	100	Property trading
Metropolitan Development Limited	Hong Kong	HK$2	100	Property trading
Rich Asset Development Limited	Hong Kong	HK$2	100	Property trading
Rich Horn Development Limited	Hong Kong	HK$2	100	Property trading
Senicon Investment Limited	Hong Kong	HK$2	100	Property trading
Sino Sense Development Limited	Hong Kong	HK$2	100	Property trading
Skyway Limited	Hong Kong	HK$2	100	Property development
Trener Investment Limited	Hong Kong	HK$2	100	Property trading
Universal Talent Development Limited	Hong Kong	HK$2	100	Property trading
Wise Lite Limited	Hong Kong	HK$2	100	Property development

31. PRINCIPAL SUBSIDIARIES *(continued)*

Notes:

1. This is a sino-foreign co-operative joint venture.
2. This is a wholly foreign owned enterprise.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

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