

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate information" in the annual report.

The Company is engaged in investment holding and securities trading. Its subsidiaries are principally engaged in the manufacture and sales of garments, securities investment and trading, property development and investment. Its principal associate is engaged in the provision of information technology services in the People's Republic of China (the "PRC").

Pursuant to a special resolution passed at an extraordinary general meeting held on 8th February, 2007, the name of the Company was changed from Far East Technology International Limited 遠東科技國際有限公司 to Far East Holdings International Limited 遠東控股國際有限公司 with effect from 27th February, 2007.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING 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 Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position of the Group for the current and prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC) – INT 11	HKFRS2 – Group and Treasury Share Transactions ⁷
HK(IFRIC) – INT 12	Service Concession Arrangements ⁸

For the year ended 31st December, 2006

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance. The principal accounting policies adopted are below:

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Interests in associates

An associate is an entity, in which the Group has significant influence, but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or jointly control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of the assets over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

Leasehold land held for undetermined future use

Leasehold land held for undetermined future use is regarded as held for capital appreciation purpose and classified as an investment property, and carried at fair value. Changes in fair value of the leasehold land are recognised directly in profit or loss for the period in which changes take place.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Owner-occupied leasehold interest in land

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. The leasehold interests in land are classified as prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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.

Where 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.

Inventories

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

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of estimates, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Revenue recognition

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

Proceeds from sale of securities are recognised on a trade date upon the execution of a binding sale agreement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Dividend income from investments is recognised when the Group's right to receive payment has been established.

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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. 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 exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. 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.

Retirement benefit costs

Payments to defined contribution retirement benefits plans or the Mandatory Provident Fund schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets held for trading) 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 held for trading are recognised immediately in profit or loss.

Financial assets

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

Financial assets held for trading

At each balance sheet date subsequent to initial recognition, financial assets at held for trading (including derivatives assets) are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivables

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

Available-for-sale financial assets

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

Investment in convertible notes

Convertible notes are regarded as hybrid instruments, consisting of a debt component and embedded derivative components. At the date of acquisition, the fair value of the debt component is estimated using the prevailing market interest rate for similar non-convertible debt and is recognised as an available-for-sale financial asset. The fair value of the embedded derivative components are calculated using the Black-Scholes pricing model. The gain arising from excess of fair value (determined at initial recognition using valuation techniques whose variables were not based solely on observable market data) over the cost of acquisition of the convertible notes at the date of acquisition (gain on initial recognition) is credited to the carrying amount of the convertible notes. The gain on initial recognition is recognised in profit or loss over the maturity period of the convertible notes on a straight line basis. On derecognition or disposal of the convertible notes, the unamortised portion of the gain on initial recognition is recognised in profit or loss.

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Investment in convertible notes (continued)

At each balance sheet date subsequent to initial recognition, the convertible notes are measured at fair value. Changes in fair value of the debt component of the convertible notes are recognised in equity, until the instruments are disposed of or are determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or losses. Changes in fair value of the embedded derivative components of the convertible notes are recognised directly in profit or loss in the period in which they arise.

The interest income on the debt component of convertible notes is calculated using the effective interest rate to the debt component (excluding the gain on initial recognition).

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities (including trade and other payables, amounts due to directors, amounts due to related companies, amount due to a minority shareholder, amount due to a jointly controlled entity, bank and other loans, and obligations under a finance lease) are measured at amortised cost, using the effective interest method after initial recognition.

4. TURNOVER

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Sales of goods	33,502,783	33,874,829	18,949,636	20,290,438	52,452,419	54,165,267
Property rental income	1,033,189	864,733	–	–	1,033,189	864,733
Dividend income from listed securities	694,727	671,058	–	–	694,727	671,058
Securities trading	31,075,036	13,196,835	–	–	31,075,036	13,196,835
	66,305,735	48,607,455	18,949,636	20,290,438	85,255,371	68,897,893

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – securities investment and trading, property development and investment and industrial. These divisions are the basis on which the Group reports its primary segment information.

In November, 2006, the Group discontinued a major separate line of business in relation to the manufacturing and sale of commodity concrete.

Principal activities of the remaining segment are as follows:

- | | | |
|-------------------------------------|---|--|
| Securities investment and trading | – | investment and trading in securities. |
| Property development and investment | – | properties development and investment. |
| Industrial | – | manufacturing and sale of garments. |

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Business segments** (continued)

Segment information about these businesses is presented below.

2006

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial-manufacturing and sales of garment HK\$	Industrial-manufacturing and sales of commodity concrete HK\$	
TURNOVER					
External sales	<u>31,769,763</u>	<u>1,033,189</u>	<u>33,502,783</u>	<u>18,949,636</u>	<u>85,255,371</u>
RESULTS					
Segment results	<u>(6,501,812)</u>	<u>2,073,328</u>	<u>6,094</u>	<u>(2,942,599)</u>	<u>(7,364,989)</u>
Other income					3,340,565
Finance costs					(660,854)
Unallocated expenses					(1,287,682)
Gain on disposal of a jointly controlled entity					13,566,390
Gain on disposal of interest in subsidiaries					5,575,474
Gain on disposal of interest in an associate					16,804,646
Loss on deemed disposal of an associate					(1,648,160)
Share of results of associates					<u>(11,763,146)</u>
Profit before taxation					16,562,244
Taxation					<u>(371,654)</u>
Profit for the year					<u>16,190,590</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2006

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial- manufacturing and sales of garment HK\$	Industrial- manufacturing and sales of commodity concrete HK\$	
ASSETS					
Segment assets	61,125,995	40,855,995	24,773,013	-	126,755,003
Tax prepaid					103,649
Interests in associates					39,593,645
Unallocated corporate assets					64,841,841
Consolidated total assets					<u>231,294,138</u>
LIABILITIES					
Segment liabilities	1,627,715	818,468	7,825,506	-	10,271,689
Deferred taxation					1,017,143
Bank and other loans					10,886,860
Unallocated corporate liabilities					3,565,837
Consolidated total liabilities					<u>25,741,529</u>
OTHER INFORMATION					
Capital additions	436,196	3,577,731	1,163,431	-	5,177,358
Depreciation	277,044	-	2,748,640	197,987	3,223,671
Amortisation of prepaid lease payments	-	-	82,439	121,740	<u>204,179</u>

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Business segments** (continued)

2005

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial-manufacturing and sales of garment HK\$	Industrial-manufacturing and sales of commodity concrete HK\$	
TURNOVER					
External sales	<u>13,867,893</u>	<u>864,733</u>	<u>33,874,829</u>	<u>20,290,438</u>	<u>68,897,893</u>
RESULTS					
Segment results	<u>(8,335,548)</u>	<u>4,558,459</u>	<u>219,937</u>	<u>(2,718,256)</u>	(6,275,408)
Other income					1,042,378
Finance costs					(359,669)
Unallocated expenses					(1,064,162)
Gain on disposal of interest in an associate					2,872,542
Gain on deemed disposal of an associate					11,320,610
Share of results of associates					9,332,317
Share of results of a jointly controlled entity	-	(1,215,879)	-	-	<u>(1,215,879)</u>
Profit before taxation					15,652,729
Taxation					<u>(659,254)</u>
Profit for the year					<u>14,993,475</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2005

	Continuing operations			Discontinued operation	Consolidated
	Securities investment and trading	Property development and investment	Industrial-manufacturing and sales of garment	Industrial-manufacturing and sales of commodity concrete	
	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS					
Segment assets	47,460,730	34,938,836	41,095,436	–	123,495,002
Tax prepaid					20,650
Interests in associates					64,138,770
Interest in a jointly controlled entity	–	1,583,310	–	–	1,583,310
Unallocated corporate assets					47,333,305
Consolidated total assets					<u>236,571,037</u>
LIABILITIES					
Segment liabilities	2,389,886	561,874	23,888,785	–	26,840,545
Deferred taxation					702,606
Bank and other loans					15,272,939
Unallocated corporate liabilities					6,768,056
Consolidated total liabilities					<u>49,584,146</u>
OTHER INFORMATION					
Capital additions	584,820	–	223,665	–	808,485
Depreciation	170,294	–	2,866,819	99,627	3,316,740
Amortisation of prepaid lease payments	–	–	82,439	121,740	<u>204,179</u>

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC"), Japan and United States.

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					
	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Hong Kong	22,033,374	13,857,851	-	-	22,033,374	13,857,851
The PRC	423,331	713,700	18,949,636	20,290,438	19,372,967	21,004,138
Japan	43,849,030	30,579,019	-	-	43,849,030	30,579,019
United States	-	3,456,885	-	-	-	3,456,885
	<u>66,305,735</u>	<u>48,607,455</u>	<u>18,949,636</u>	<u>20,290,438</u>	<u>85,255,371</u>	<u>68,897,893</u>

Revenue from the Group's discontinued operation of HK\$18,949,636 (2005: HK\$20,290,438) for the year ended 31st December, 2006 was derived principally from the PRC.

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

	Carrying amount of segment assets	
	2006 HK\$	2005 HK\$
Hong Kong	100,445,917	82,399,566
The PRC	26,309,086	41,095,436
	<u>126,755,003</u>	<u>123,495,002</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

	Additions to property, plant and equipment and investment properties					
	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Hong Kong	733,861	790,368	-	-	733,861	790,368
The PRC	4,443,497	18,117	-	-	4,443,497	18,117
	<u>5,177,358</u>	<u>808,485</u>	<u>-</u>	<u>-</u>	<u>5,177,358</u>	<u>808,485</u>

6. OTHER INCOME

Included in other income is:

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
	Interest income	<u>1,132,567</u>	<u>359,012</u>	<u>-</u>	<u>-</u>	<u>1,132,567</u>

For the year ended 31st December, 2006

7. DIRECTORS' EMOLUMENTS

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

	Mr. Deacon Te Ken Chiu HK\$	Mr. Duncan Chiu HK\$	Mr. Dennis Chiu HK\$	Tan Sri Dato' David Chiu HK\$	Mr. Daniel Tat Jung Chiu HK\$	Mr. Derek Chiu HK\$	Mr. Desmond Chiu HK\$	Ms. Margaret Chiu HK\$	Mr. Chi Man Ma HK\$	Dr. Lee G Lam HK\$	Mr. Ryan Yen Hwung Fong HK\$	Mr. Hing Wah Yim HK\$	Total 2006 HK\$
2006													
Fees	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	5,000	120,000	120,000	60,000	425,000
Other emoluments:													
Salaries and other benefits	-	664,500	-	-	-	-	391,500	-	-	-	-	-	1,056,000
Retirement benefits schemes contributions	-	12,000	-	-	-	-	12,000	-	-	-	-	-	24,000
Share-based payment expense	-	1,540,848	-	-	-	-	-	-	-	-	-	-	1,540,848
Total emoluments	15,000	2,232,348	15,000	15,000	15,000	15,000	418,500	15,000	5,000	120,000	120,000	60,000	3,045,848

	Mr. Deacon Te Ken Chiu HK\$	Mr. Duncan Chiu HK\$	Mr. Dennis Chiu HK\$	Tan Sri Dato' David Chiu HK\$	Mr. Daniel Tat Jung Chiu HK\$	Mr. Derek Chiu HK\$	Mr. Desmond Chiu HK\$	Ms. Margaret Chiu HK\$	Mr. Chi Man Ma HK\$	Dr. Lee G Lam HK\$	Mr. Ryan Yen Hwung Fong HK\$	Total 2005 HK\$
2005												
Fees	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	30,000	120,000	120,000	390,000
Other emoluments:												
Salaries and other benefits	-	395,000	-	-	-	-	342,500	-	-	-	-	737,500
Retirement benefits schemes contributions	-	12,000	-	-	-	-	12,000	-	-	-	-	24,000
Share-based payment expense	1,287,800	2,060,480	643,900	-	-	-	-	-	-	-	-	3,992,180
Total emoluments	1,302,800	2,482,480	658,900	15,000	15,000	15,000	369,500	15,000	30,000	120,000	120,000	5,143,680

For the year ended 31st December, 2006

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2005: three) was executive director and one (2005: one) was non-executive director whose emoluments are included in note 7 above. The emoluments of the remaining three (2005: one) individuals were as follows:

	2006	2005
	HK\$	HK\$
Salaries and other benefits	910,878	330,000
Retirement benefits schemes contributions	34,809	11,000
Share-based payment expense	128,404	128,780
	<u>1,074,091</u>	<u>469,780</u>

9. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Interest on:						
Bank loans wholly repayable within five years	122,495	202,086	–	–	122,495	202,086
Other loans	437,935	50,074	47,176	90,649	485,111	140,723
Obligations under a finance lease	53,248	16,860	–	–	53,248	16,860
	<u>613,678</u>	<u>269,020</u>	<u>47,176</u>	<u>90,649</u>	<u>660,854</u>	<u>359,669</u>

For the year ended 31st December, 2006

10. DISCONTINUED OPERATIONS

- (a) In November, 2006, the Group disposed of its entire 90% equity interest in Goldtrack Limited, the principal underlying assets of which is 70% equity interest in Suzhou Goldtract Commodity Concrete Company Limited, a company registered and carried out manufacturing of commodity concrete in the PRC (collectively referred to as the Goldtrack Group"), to a third party at a consideration of HK\$1.

The results of Goldtrack Group up to the date of disposal, which have been included in the consolidated financial statements, were as follows:

	HK\$
Turnover	18,949,636
Cost of sales	<u>(20,937,398)</u>
Gross loss	(1,987,762)
Other income	254,141
Distribution costs	(93,205)
Administrative expenses	(843,792)
Finance costs	(47,176)
Other expenses	<u>(17,840)</u>
Loss for the year	<u><u>(2,735,634)</u></u>

The carrying amounts of the assets and liabilities of Goldtrack Group at the date of disposal were approximately HK\$14.7 million (2005: HK\$15.1 million) and HK\$20.9 million (2005: HK\$18.1 million), respectively.

A gain of approximately HK\$5.6 million arose on the disposal of Goldtrack Group, being the proceeds of disposal less the carrying amount of the subsidiary's net liabilities and the realisation of exchange reserve. No tax charge or credit arose from the transaction.

The net liabilities of Goldtrack Group at the date of disposal were disclosed in note 40.

The amounts of net cash flows attributable to the operating, investing and financing activities of discontinued operations amounted to inflow of HK\$0.6 million (2005: HK\$0.4 million), outflow of HK\$0.9 million (2005: Nil) and inflow of HK\$0.3 million (2005: outflow of HK\$0.5 million), respectively.

11. PROFIT (LOSS) BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Profit (loss) before taxation has been arrived at after charging (crediting):						
Amortisation of prepaid lease payments	82,439	82,439	121,740	121,740	204,179	204,179
Auditor's remuneration	666,667	658,000	7,333	8,000	674,000	666,000
Cost of inventories recognised as expense	30,938,975	30,936,790	20,937,398	21,290,852	51,876,373	52,227,642
Depreciation	3,025,684	3,037,113	197,987	99,627	3,223,671	3,136,740
Directors' remuneration and other staff costs, including retirement benefits schemes contributions of HK\$1,394,000 (2005: HK\$1,048,235)	12,719,213	15,756,051	1,204,667	1,335,013	13,923,880	17,091,064
Exchange (gain) loss, net	(1,133,387)	308,053	-	(194,150)	(1,133,387)	113,903
Impairment loss on interests in an associate	240	-	-	-	240	-
Loss on disposal of property, plant and equipment	17,409	16,844	-	-	17,409	16,844
Operating lease in respect of rented premise	327,646	273,202	-	-	327,646	273,202
Share of tax of associates (included in share of results of associates)	2,560,396	1,309,702	-	-	2,560,396	1,309,702
Write off of amount due from an associate	22,104	-	-	-	22,104	-
and after crediting:						
Dividend income from available-for-sale investment	165,669	79,026	-	-	165,669	79,026
Rental income from investment properties, less outgoings of HK\$51,791 (2005: HK\$34,579)	981,398	830,154	-	-	981,398	830,154

For the year ended 31st December, 2006

12. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
The charge comprises:						
PRC enterprise income tax:						
Current year	54,967	55,303	-	-	54,967	55,303
Underprovision in prior years	2,150	125,248	-	-	2,150	125,248
	57,117	180,551	-	-	57,117	180,551
Deferred taxation (note 39)	314,537	478,703	-	-	314,537	478,703
	371,654	659,254	-	-	371,654	659,254

PRC enterprise income tax is calculated at a tax rate of 24%. Where the export sales of the relevant entity exceeds a certain percentage, that entity will entitle to enjoy a concession tax rate of 12%.

12. TAXATION (continued)

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

	2006 HK\$	2005 HK\$
Profit before taxation	<u>16,562,244</u>	<u>15,652,729</u>
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	2,898,393	2,739,228
Tax effect of expenses not deductible for tax purpose	582,485	1,771,672
Tax effect of income not taxable for tax purpose	(6,488,818)	(1,932,865)
Tax effect of utilisation of tax losses previously not recognised	(15,076)	(88,133)
Tax effect of tax losses not recognised	1,578,453	1,168,594
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(28,794)	(19,572)
Share of tax effect of associates	2,058,551	(3,304,705)
Share of tax effect of a jointly controlled entity	–	212,779
Underprovision in prior years	2,150	125,248
Others	(215,690)	(12,992)
Taxation charge for the year	<u>371,654</u>	<u>659,254</u>

13. DIVIDEND

The directors do not recommend the payment of a dividend for the year.

For the year ended 31st December, 2006

14. EARNINGS PER SHARE

For both continuing and discontinued operations, 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 HK\$	2005 HK\$
Earnings		
Earnings for the purpose of basic earnings per share	<u>15,962,052</u>	<u>14,907,576</u>
	2006	2005 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>109,450,595</u>	<u>73,736,649</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus shares issued during the current year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for both years.

No adjustment has been made for the potential ordinary shares of the associate as the effect in 2006 is anti-dilutive. The effect of dilutive potential ordinary shares of an associate was considered to be insignificant in 2005.

From continuing operations

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

	2006 HK\$	2005 HK\$ (Restated)
Earnings		
Earnings for the year attributable to equity holders of the Company	15,962,052	14,907,576
Less: (Profit) loss for the year from discontinued operation	<u>(2,839,840)</u>	<u>2,613,941</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u>13,122,212</u>	<u>17,521,517</u>

The denominators used are the same as those detailed above for both basic earnings per share.

14. EARNINGS PER SHARE (continued)

From discontinued operations

Basic earning per share for discontinued operation in 2006 is 2.6 HK cents (2005: loss per share 3.6 HK cents), based on the profit for the year from discontinued operation of HK\$2.8 million (2005: loss for the year HK\$2.6 million). The denominator used is the same as that detailed above for basic earnings per share.

15. INVESTMENT PROPERTIES

	THE GROUP	THE COMPANY
	HK\$	HK\$
AT VALUATION		
At 1st January, 2005	32,640,000	4,640,000
Increase in fair value recognised in income statement	3,400,000	–
At 31st December, 2005	36,040,000	4,640,000
Addition during the year	3,577,731	–
Increase in fair value recognised in income statement	1,422,269	–
At 31st December, 2006	41,040,000	4,640,000

All of the Group's and the Company's investment properties including both land and building elements are situated in Hong Kong and Macau held under medium-term leases and are rented out under operating leases.

The investment properties were fair valued at 31st December, 2006 in existing state on an open market value basis by DTZ Debenham Tie Leung Limited, an independent firm of valuers not connected with the Group. DTZ Debenham Tie Leung Limited is member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties published by the Hong Kong Institute of Surveyors, was arrived at by considering the capitalised income to be derived from properties or, where appropriate, by reference to market evidence of transaction prices for similar properties.

The investment properties of the Group and the Company includes an amount of HK\$4,640,000 and HK\$4,640,000 (2005: HK\$4,640,000 and HK\$4,640,000), the title of which has not been transferred to the Group and the Company and is still registered in the name of the vendor companies which are controlled by certain directors as trustee for the Company.

For the year ended 31st December, 2006

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings in PRC held under medium term lease	Leasehold improvements	Exhibits and display items	Lifts, electrical and office equipment	Trams, coaches and motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP						
COST						
At 1st January, 2005	11,888,189	272,328	–	32,452,457	8,310,956	52,923,930
Currency realignment	376,738	–	–	700,531	180,231	1,257,500
Additions	–	–	–	231,685	576,800	808,485
Disposals	–	–	–	(301,259)	–	(301,259)
At 31st December, 2005	12,264,927	272,328	–	33,083,414	9,067,987	54,688,656
Currency realignment	454,896	–	–	1,212,559	288,839	1,956,294
Additions	–	–	427,690	18,227	1,153,710	1,599,627
Disposals	–	–	–	(151,782)	–	(151,782)
Disposal of subsidiary	(2,275,051)	–	–	(7,922,368)	(9,022,921)	(19,220,340)
At 31st December, 2006	10,444,772	272,328	427,690	26,240,050	1,487,615	38,872,455
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2005	3,325,989	53,519	–	24,824,954	8,034,323	36,238,785
Currency realignment	80,518	–	–	537,131	174,232	791,881
Provided for the year	551,923	54,936	–	2,336,707	193,174	3,136,740
Eliminated on disposals	–	–	–	(223,684)	–	(223,684)
At 31st December, 2005	3,958,430	108,455	–	27,475,108	8,401,729	39,943,722
Currency realignment	146,290	–	–	1,007,893	281,518	1,435,701
Provided for the year	536,495	27,468	13,884	2,259,391	386,433	3,223,671
Eliminated on disposals	–	–	–	(134,373)	–	(134,373)
Eliminated on disposals of subsidiaries	(1,147,076)	–	–	(7,919,641)	(8,264,416)	(17,331,133)
At 31st December, 2006	3,494,139	135,923	13,884	22,688,378	805,264	27,137,588
CARRYING VALUES						
At 31st December, 2006	6,950,633	136,405	413,806	3,551,672	682,351	11,734,867
At 31st December, 2005	8,306,497	163,873	–	5,608,306	666,258	14,744,934

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements HK\$	Exhibits and display items HK\$	Office equipment HK\$	Motor vehicle HK\$	Total HK\$
THE COMPANY					
COST					
At 1st January, 2005	272,329	–	149,136	–	421,465
Additions	–	–	8,020	576,800	584,820
At 31st December, 2005	272,329	–	157,156	576,800	1,006,285
Additions	–	427,690	8,506	–	436,196
At 31st December, 2006	272,329	427,690	165,662	576,800	1,442,481
DEPRECIATION					
At 1st January, 2005	53,526	–	56,466	–	109,992
Provided for the year	54,936	–	28,838	86,520	170,294
At 31st December, 2005	108,462	–	85,304	86,520	280,286
Provided for the year	27,468	13,884	62,652	173,040	277,044
At 31st December, 2006	135,930	13,884	147,956	259,560	557,330
CARRYING VALUES					
At 31st December, 2006	136,399	413,806	17,706	317,240	885,151
At 31st December, 2005	163,867	–	71,852	490,280	725,999

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	over the shorter of the useful life and lease term of 50 years
Leasehold improvements	10%
Exhibits and display items	10%
Lifts, electrical and office equipment	10%-20%
Trams, coaches and motor vehicles	20%-30%

The net book value of motor vehicle of the Group and the Company includes an amount of HK\$317,240 (2005: HK\$490,280) in respect of assets held under a finance lease.

For the year ended 31st December, 2006

17. PREPAID LEASE PAYMENTS

The prepaid lease payments represent leasehold land outside Hong Kong held under medium term leases and are analysed for reporting purposes.

	THE GROUP	
	2006 HK\$	2005 HK\$
Current assets	82,439	204,179
Non-current assets	1,131,911	3,466,534
	1,214,350	3,670,713

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2006 HK\$	2005 HK\$
Unlisted shares, at cost	15,055,520	25,765,601
Less: Impairment loss recognised	(1,861,753)	(6,552,967)
	13,193,767	19,212,634

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

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Direct	Indirect	
Brentford Investments Inc.	Republic of Liberia/ Hong Kong	US\$200 Ordinary shares	100%	–	Securities investment
Cathay Motion Picture Studios Limited	Hong Kong/ Hong Kong	HK\$3,000,000 Ordinary shares	100%	–	Property investment
China Entertainment (Jiangsu) Development Ltd.	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Investment holding

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Direct	Indirect	
Epoch Sino Investments Limited	British Virgin Islands/ Hong Kong	US\$10 Ordinary shares	100%	–	Investment holding
Far East Art and Cultural Corporation Limited	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Property investment
Far East Capital Management Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary shares	100%	–	Inactive
Far East Holdings China Limited	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Investment holding
Far East Holdings International Limited (now known as Far East Technology International Limited)	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	–	100%	Inactive
Far East Holdings (Jiangsu) Limited	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	–	100%	Investment holding
Jiangsu Bang Bang Silky Fashion Manufacturer Co., Ltd.	PRC/PRC*	US\$3,940,000 Paid up registered capital	–	51%	Manufacturing and sales of garment products
Jubilee Star Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary shares	–	100%	Inactive
Kwong Ming Amusement Company, Limited	Hong Kong/ Hong Kong	HK\$1,000 Ordinary shares HK\$448,000 Deferred shares	100%	–	Inactive
Marvel Star Group Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary shares	100%	–	Investment holding

For the year ended 31st December, 2006

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Direct	Indirect	
Panlong Investments (Holdings) Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Investment holding
Panlong Asset Management Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Inactive
Panlong Far East Auction Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Inactive
Peterfame Company Limited	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	100%	–	Property investment
River Joy Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	100%	–	Property investment
Skydynamic Holdings Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	100%	–	Property investment

* *Sino-foreign equity joint venture*

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

For the year ended 31st December, 2006

19. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Listed shares, at cost	13,786,211	15,386,079	13,786,211	15,386,079
Unlisted shares, at cost	-	240	-	240
Share of post-acquisition profits, net of dividends received	25,807,434	48,752,451	-	-
	<u>39,593,645</u>	<u>64,138,770</u>	<u>13,786,211</u>	<u>15,386,319</u>
Market value of listed shares	<u>259,724,592</u>	<u>144,406,349</u>	<u>259,724,592</u>	<u>144,406,349</u>

Particulars of associates of the Group at 31st December, 2006 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued ordinary share capital held by the Group		Principal activity
		2006	2005	
Chinasoft International Limited ("Chinasoft")	Cayman Islands/ The PRC	19.78%	23.2%	Provision of information technology services
Fortex Investments Limited	British Virgin Islands/ Hong Kong	-	41.67%	Deregistered*

* In October 2006, Fortex Investments Limited has been deregistered.

In May 2006, Chinasoft allotted and issued 23,248,302 new shares at an issue price of HK\$0.05 each to China National Computer Software & Technology Service Corporation (Hong Kong) Limited as the second portion of consideration shares of HK\$1.01 each for the acquisition of 51% equity interest in the registered capital of Chinasoft Resources Information Technology Services Limited during the year. Accordingly, the Group's shareholding in Chinasoft has decreased from 23.2% to 22.48%, resulting in a loss on deemed disposal of HK\$2,151,668.

In May and June 2006, the Group acquired of 240,000 shares of Chinasoft. The Group's shareholding in Chinasoft increased from 22.48% to 22.51%.

In November 2006, Chinasoft allotted and issued 3,196,721 new shares at an issue price of HK\$1.09 each to Beijing Opportune Technology Development Company Ltd. as the consideration shares for the acquisition of the Mobile and Embedded Division of Opportune Technology. Accordingly, the Group's shareholding in Chinasoft has decreased from 22.51% to 22.42%, resulting in a gain on deemed disposal of HK\$503,508.

For the year ended 31st December, 2006

19. INTERESTS IN ASSOCIATES (continued)

In November 2006, the Group disposed of 20,000,000 shares of Chinasoft for a consideration of HK\$23,863,242, resulting in a gain on disposal of HK\$16,804,646. Accordingly, the Group's shareholding in Chinasoft has decreased from 22.42% to 19.78%.

The directors of the Group believe that the Group is able to exert significant influence over Chinasoft as the Group has nominated Mr. Duncan Chiu as a director of Chinasoft who also participates in the financial and operating decisions of Chinasoft.

The summarised financial information in respect of the Group's associates is set out below:

	2006 HK\$'000	2005 HK\$'000
Total assets	652,361	421,697
Total liabilities	(421,837)	(124,684)
Net assets	<u>230,524</u>	<u>297,013</u>
Group's share of net assets of associates	<u>39,593</u>	<u>64,139</u>
Revenue	355,947	363,505
(Loss) profit for the year	(62,183)	40,885
Group's share of results of associates for the year	<u>(11,763)</u>	<u>9,332</u>

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2006 HK\$	2005 HK\$
Cost of unlisted investments in a jointly controlled entity	-	6,478,226
Share of post-acquisition losses, net of dividends received	-	(4,894,916)
	<u>-</u>	<u>1,583,310</u>

At 31st December, 2005, the Group held a 65% interest in Wuxi Cheerman Property Co. Ltd. ("Wuxi Cheerman"), a joint venture registered and engaged in letting of properties in the PRC. Under a joint venture agreement, Wuxi Cheerman is jointly controlled by the Group and another PRC joint venture partner. During the year, the Group disposed of its entire interest in Wuxi Cheerman to a third party at a cash consideration of RMB15.5 million.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

The 2005 summarised financial information in respect of the Group's jointly controlled entity which are accounted for using the equity method in 2005 is set out below:

	2005 HK\$'000
Current assets	1,449
Non-current assets	14,910
Current liabilities	1,243
Income	6
Expenses	<u>1,873</u>

21. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments of the Group and the Company at 31st December, 2006 comprise:

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Listed equity securities in Hong Kong, at fair value	<u>12,512,564</u>	<u>8,567,359</u>	<u>2,982,304</u>	<u>–</u>

The fair values of available-for-sale investments have been determined by reference to the quoted market bid prices available on the Stock Exchange.

22. INVESTMENT IN CONVERTIBLE NOTES

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Unlisted convertible notes				
– debt component	6,298,519	–	6,298,519	–
– derivative Component	1,222,811	–	1,222,811	–
	<u>7,521,330</u>	–	<u>7,521,330</u>	–
– gain on initial recognition	(2,559,281)	–	(2,559,281)	–
	<u>4,962,049</u>	–	<u>4,962,049</u>	–

For the year ended 31st December, 2006

22. INVESTMENT IN CONVERTIBLE NOTES (continued)

In August 2006, the Company acquired the convertible notes of Golife Concept Holding Company Ltd. (formerly known as Satellite Devices Corporation) with a principal amount of HK\$8.3 million which are not traded on an active market, from a third party at a consideration of HK\$4.98 million. The convertible notes were fair valued at the date of acquisition and at balance sheet date by Greater China Appraisal Limited, an independent firm of valuers not connected to the Group. The valuation of the convertible notes was arrived at based on generally accepted valuation procedures and practices that rely on the use of certain assumptions and consideration of uncertainties. The convertible notes are non-interest bearing and will mature on 30th July, 2009.

In addition the issuer of the convertible notes has the right to redeem the whole or any part of the outstanding principal amount at any time. The directors believe that the fair value of this early redemption option is immaterial.

The fair value of the debt component of the convertible notes is measured using an applicable prevailing market interest rate and the conversion feature of the convertible note is calculated based on Black-Scholes pricing model. The effective interest rate of the debt element (excluding the gain on initial recognition) is 11.8%.

23. HELD-FOR-TRADING INVESTMENTS

The held-for-trading investments of the Group and the Company at 31st December, 2006 comprise:

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Listed equity securities:				
Hong Kong	11,864,842	8,576,289	10,808,444	7,727,159
Overseas	26,158,332	24,798,135	26,158,332	24,798,135
	38,023,174	33,374,424	36,966,776	32,525,294

The fair values of held-for-trading investments have been determined by reference to the quoted market bid prices available on the relevant exchanges.

24. INVENTORIES

	THE GROUP	
	2006 HK\$	2005 HK\$
Raw materials	1,917,834	2,502,484
Work in progress	2,476,381	1,748,010
Finished goods	2,049,849	2,242,666
	6,444,064	6,493,160

At the balance sheet dates, all inventories are carried at cost.

25. TRADE AND OTHER RECEIVABLES

For sales of goods, the Group has a policy of allowing a credit period of 30 days to 90 days to its trade customers. Rentals receivable from tenants and service income from customers are payable on presentation of invoices. The aged analysis of trade receivable is as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
0 – 30 days	–	2,270,048
31 – 60 days	894,601	1,023,174
61 – 90 days	–	2,110,841
Over 90 days	241,809	5,707,376
Total trade receivables	1,136,410	11,111,439
Other receivables	2,392,036	693,528
	3,528,446	11,804,967

26. AMOUNT DUE FROM AN ASSOCIATE

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

27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

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

28. PLEDGED BANK DEPOSITS/DEPOSITS HELD AT FINANCIAL INSTITUTIONS/BANK BALANCES AND CASH

Bank balances and deposits held at financial institutions carry interest at market rates which range from 2.50% to 3.93%. The pledged deposits carry interest rates which range from 2.75% to 5.81%.

29. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts are unsecured, interest-free and repayable on demand. The related companies are controlled by certain directors of the Company.

Included in amount due from related companies are:

- (a) an amount of HK\$993,748 due from 上海錦秋房地產有限公司, a company in which certain directors of the Company have beneficial interest.
- (b) an amount of HK\$15,149,700 due from 上海錦秋集貿市場經營管理有限公司, a company in which certain directors of the Company have beneficial interests. The amount mainly represents sales proceeds of the disposal of a 65% interest in Wuxi Cheerman received on behalf of the Group.

The amount due to related companies reflected in the Company's balance sheet are unsecured interest-free and repayable on demand.

For the year ended 31st December, 2006

30. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
0 – 30 days	–	3,105,979
31 – 60 days	520,114	832,323
61 – 90 days	–	879,792
Over 90 days	3,077	9,770,844
Total trade payables	523,191	14,588,938
Other payables	9,636,298	11,477,935
	10,159,489	26,066,873

31. AMOUNTS DUE TO DIRECTORS

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

32. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from subsidiaries are unsecured and interest free. The Company has agreed that the accounts will not be demanded for repayment within next twelve months. Accordingly, the amounts are shown as non current.

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

33. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

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

34. BANK AND OTHER LOANS

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Bank and other loans comprise:				
Bank loans, unsecured	–	3,881,947	–	3,881,947
Other loans, secured	10,886,860	11,390,992	10,886,860	11,390,992
	10,886,860	15,272,939	10,886,860	15,272,939

The other loans that are denominated in USD and YEN bear interest rates at 5.605% per annum and 0.815% per annum, respectively.

34. BANK AND OTHER LOANS (continued)

In 2005, certain other loans borne interests at Hong Kong Prime Lending Rate plus 1% or HIBOR plus 1% per annum and were repayable within one year.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	USD Loan	YEN Loan
At 31st December, 2006	HK\$8,402,447	HK\$2,484,413
At 31st December, 2005	<u>HK\$3,881,947</u>	<u>HK\$10,283,645</u>

35. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
THE GROUP AND THE COMPANY				
Amounts payable under finance lease:				
Within one year	160,008	160,008	119,925	101,727
In the second to fifth year inclusive	280,014	453,356	249,949	374,907
	440,022	613,364	369,874	476,634
Less: Future finance charges	(70,148)	(136,730)	-	-
Present value of lease obligations	<u>369,874</u>	<u>476,634</u>	369,874	476,634
Less: Amount due within one year shown under current liabilities			<u>(119,925)</u>	<u>(101,727)</u>
Amount due after one year			<u>249,949</u>	<u>374,907</u>

The obligations under a finance lease are secured by the Company's motor vehicle. The term of the lease is four years. Interest rates are fixed at 7% per annum. No arrangements have been entered into for contingent rental payments.

For the year ended 31st December, 2006

36. SHARE CAPITAL

	Number of shares		Share capital	
	2006	2005	2006 HK\$	2005 HK\$
Authorised:				
At beginning of year	70,000,000,000	700,000,000	700,000,000	700,000,000
Reduction upon capital reorganisation	-	(560,000,000)	-	(698,600,000)
Shares subdivision	-	69,860,000,000	-	698,600,000
At end of year	70,000,000,000	70,000,000,000	700,000,000	700,000,000
Issued and fully paid:				
At beginning of year	99,500,671	331,668,905	995,007	331,668,905
Reduction upon capital reorganisation	-	(265,335,124)	-	(331,005,567)
Issue of shares upon rights issue	-	33,166,890	-	331,669
Issue of bonus shares	9,949,924	-	99,499	-
At end of year	109,450,595	99,500,671	1,094,506	995,007

Pursuant to an ordinary resolution passed at annual general meeting on 23rd May, 2006, 9,949,924 ordinary shares were issued and allotted on 30th May, 2006 as fully paid up by way of one for ten bonus issue ("Bonus Issue") in respect of which an amount of HK\$99,499 was applied to the credit of the share premium account. The new ordinary shares rank *pari passu* with the existing shares in all respect.

Details of the Company's bonus issue of shares is set out in a circular of the Company dated 28th April, 2006.

In 2005, the Court has granted an order confirming the Company's capital reorganisation which results in reduction of capital, consolidation of shares, subdivision of shares and reduction of share premium as follows:

- (a) every 5 shares of HK\$1.00 each in the share capital of the Company (whether issued or unissued) be consolidated into one consolidated share of HK\$5.00 each;
- (b) upon the share consolidation taking effect, the issued share capital of the Company be reduced from HK\$331,668,905 to HK\$663,338 by cancelling paid up capital to the extent of HK\$4.99 on each consolidated share in issue arising from the share consolidation so as to form fully-paid up adjusted shares;
- (c) upon the capital reduction taking effect, each authorised but unissued consolidated share of HK\$5.00 each be subdivided into 500 adjusted shares of HK\$0.01 each; and

36. SHARE CAPITAL (continued)

- (d) upon the capital reduction taking effect, the credit amount arising from the capital reduction together with the credit amount standing in the share premium account be applied by the directors to eliminate the accumulated losses of the Company of HK\$532,554,276.

Details of the Company's capital reorganisation are set out in a circular and a supplemental circular of the Company dated 28th May, 2004 and 27th August, 2004, respectively.

In addition, the Company issued and allotted 33,166,890 ordinary shares of HK\$0.01 each for consideration of HK\$0.915 per share to finance the Group's working capital. The allotment was made on 23rd December, 2005 to the existing shareholders on the basis of one new ordinary share for every two existing shares held on 30th November, 2005. The new ordinary shares rank *pari passu* with the existing shares in all respect.

37. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 23rd May, 2005 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 20th July, 2015. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31st December, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 13,337,720 (2005: 7,025,200) of the shares of the Company in issue at that date. 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 any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1.00 per option. Options may be exercised at any time from 21st July, 2005 from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 21st July, 2005, 6,600,000 share options were granted at an initial exercise price at HK\$1.35 per share. Pursuant to the rights issue during 2005, the exercise price and number of the share option granted were adjusted from HK\$1.35 to HK\$1.2683 and from 6,600,000 to 7,025,200 respectively.

For the year ended 31st December, 2006

37. SHARE OPTION SCHEME (continued)

Pursuant to the bonus issue during the year, the exercised price and number of the share options outstanding balance as at 1st January, 2006 were adjusted accordingly from HK\$1.2683 to HK\$1.1530 and from 7,025,200 to 7,727,720 respectively.

On 21st April, 2006, 5,100,000 share options were granted at an initial exercise price of HK\$1.34, 50% of 5,100,000 share options granted with exercisable period from 23rd May, 2006 to 22nd May, 2016 and the remaining 50% of 5,100,000 share options granted with exercisable period from 23rd May, 2007 to 22nd May, 2017 respectively. Pursuant to the bonus issue during the period, the exercised price and number of the share options granted were adjusted accordingly from HK\$1.34 to HK\$1.2182 and from 5,100,000 to 5,610,000 respectively.

Details of the share options granted on 21st April, 2006 and outstanding at 31st December, 2006, as adjusted for the effect of the bonus issue, are as follows:

Capacity of grantee	Grant date	Adjusted exercise price HK\$	Exercise period (both days inclusive)	Number of Share Options				
				Balance at 1.1.2006	Granted during the year	Balance before bonus issue	Adjustment for bonus issue	Balance at 31.12.2006
Directors	21/7/2005	1.153	21st July, 2005 to 20th July, 2015	6,599,430	-	6,599,430	659,942	7,259,372
	21/4/2006	1.2182	23rd May, 2006 to 22nd May, 2016	-	1,800,000	1,800,000	180,000	1,980,000
	21/4/2006	1.2182	23rd May, 2007 to 22nd May, 2017	-	1,800,000	1,800,000	180,000	1,980,000
Employees	21/7/2005	1.153	21st July, 2005 to 20th July, 2015	425,770	-	425,770	42,578	468,348
	21/4/2006	1.2182	23rd May, 2006 to 22nd May, 2016	-	750,000	750,000	75,000	825,000
	21/4/2006	1.2182	23rd May, 2007 to 22nd May, 2017	-	750,000	750,000	75,000	825,000
				<u>7,025,200</u>	<u>5,100,000</u>	<u>12,125,200</u>	<u>1,212,520</u>	<u>13,337,720</u>

No share options were exercised, forfeited or expired during the year.

37. SHARE OPTION SCHEME (continued)

The estimated fair values of the options granted on 21st April, 2006 are HK\$0.4964 and HK\$0.5613 (21st July, 2005: HK\$0.6439) respectively. The market price of the shares at the date of granted was HK\$1.34 (21st July, 2005: HK\$1.388) These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2006	2005
Share price	HK\$1.34 & HK\$1.34	HK\$1.388
Exercise price	HK\$1.34 & HK\$1.34	HK\$1.35
Expected volatility	49.74% & 49.74%	55%
Expected life	4 years & 5 years	4 years
Risk-free rate	4.51% & 4.6%	3.26%
Expected dividend yield	-	-

Expected volatility was determined by using the historical volatility of the Company's share price from 2002 to 2005 (21st July, 2005: 2002 to 2005).

The Group recognised the total expense of HK\$2,182,869 during the year (2005: HK\$4,249,740) in relation to equity-settled share-based payment transactions.

Note: As a consequence of an ordinary resolution passed at annual general meeting on 23rd May, 2006 in relation to bonus share issue, the exercise price for options, granted on 21st July, 2005 was adjusted downwards from HK\$1.35 to HK\$1.153.

For the year ended 31st December, 2006

38. RESERVES

	Share premium HK\$	Share option reserve HK\$	Investment revaluation reserve HK\$	Retained profits (accumulated losses) HK\$	Total HK\$
THE COMPANY					
At 1st January, 2005	282,892,010	–	–	(539,783,034)	(256,891,024)
Capital reduction	(201,548,709)	–	–	532,554,276	331,005,567
Recognition of equity-settled share based payments	–	4,249,740	–	–	4,249,740
Share premium arising on rights issue	30,016,035	–	–	–	30,016,035
Transaction costs attributable to issue of new shares	(1,616,714)	–	–	–	(1,616,714)
Profit for the year	–	–	–	28,620,518	28,620,518
At 31st December, 2005	109,742,622	4,249,740	–	21,391,760	135,384,122
Recognition of equity-settled share based payments	–	2,182,869	–	–	2,182,869
Bonus share issued	(99,499)	–	–	–	(99,499)
Decrease fair value of available-for-sale investments	–	–	(2,857,480)	–	(2,857,480)
Profit for the year	–	–	–	12,537,424	12,537,424
At 31st December, 2006	<u>109,643,123</u>	<u>6,432,609</u>	<u>(2,857,480)</u>	<u>33,929,184</u>	<u>147,147,436</u>

39. DEFERRED TAXATION

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$	Revaluation of properties HK\$	Tax losses HK\$	Other temporary difference HK\$	Total HK\$
At 1st January, 2005	(956)	950,636	(725,777)	–	223,903
Charge (credit) to income for the year	18,651	638,096	(178,044)	–	478,703
At 31st December, 2005	17,695	1,588,732	(903,821)	–	702,606
Charge (credit) to income for the year	48,081	291,993	(148,185)	122,648	314,537
At 31st December, 2006	65,776	1,880,725	(1,052,006)	122,648	1,017,143

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

At 31st December, 2006, the Group has unused tax losses of approximately HK\$110.1 million (2005: HK\$100.3 million) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$6.0 million (2005: HK\$5.2 million) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$104.1 million (2005: HK\$95.1 million) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At 31st December, 2006, the Company has unused tax losses of approximately HK\$92.3 million (2005: HK\$82.2 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

For the year ended 31st December, 2006

40. DISCONTINUED OPERATION

- (a) In November 2006, the Group disposed of its 90% interest in Goldtrack Limited, the principal underlying assets of which is a 70% equity interest in Suzhou Goldtract Commodity Concrete Company Limited, a company registered and which carried out manufacturing of commodity concrete in the PRC, to a third party at a consideration of HK\$1.

The effects of the disposal were summarised as follows:

	Discontinued operation HK\$
Net assets (liabilities) disposed of:	
Property, plant and equipment	1,889,207
Prepaid lease payments	2,338,595
Inventories	958,269
Trade and other receivables	9,385,021
Bank balances and cash	139,188
Trade and other payables	(18,236,350)
Amounts due to directors	(1,616,004)
Amounts due to a minority shareholder	(1,059,458)
	<u>(6,201,532)</u>
Exchange reserve realised	626,059
	<u>(5,575,473)</u>
Gain on disposal	5,575,474
	<u>1</u>
Satisfied by:	
Cash	1
	<u>1</u>
Net cash outflow arising on disposals of subsidiaries:	
Cash consideration	1
Bank balances and cash disposed of	(139,188)
	<u>(139,187)</u>

The subsidiaries disposed of contributed approximately HK\$18.9 million to the Group's turnover and incurred a loss of approximately HK\$2.7 million to the Group's profit from operations. No tax charge or credit arose from the transactions.

41. MAJOR NON-CASH TRANSACTION

During the year, the Group disposed of its interests in a jointly controlled entity. The disposal proceeds of HK\$15,149,700 was received by a related company on behalf of the Group (see note 29).

In 2005, the Group entered into a finance lease arrangement in respect of an asset with a total capital value at the inception of the lease of HK\$500,000. No new finance lease was entered into during the year.

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, trade and other receivables, amount due from an associate, amount due from a minority shareholder, amounts due from related companies, bank balances and cash, trade and other payables, amounts due to directors, amount due to a minority shareholder, amount due to related companies, amount due to a jointly controlled entity, bank and other loans, and obligations under a finance lease. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below:

Currency risk

Certain bank and other loans are denominated in US dollars and Japanese Yen as stated in note 34. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to the bank deposits and deposits held by financial institutions. Interest rate risk relating to bank and other loans is minimal due to their short term nature or at fixed interest rate. The fair value interest rate risk relate primarily to obligations under finance lease and debt component of convertible notes. The Group currently does not have an interest rate hedging policy to hedge against its exposures. However, the management closely monitors interest rate exposures and will consider entering into interest rate swap transactions to hedge significant interest rate risk should the risk arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's credit risk is primarily attributable to its trade receivables debt component of convertible notes, amounts due from related companies, amount due from minority shareholder and amount due from associate companies. The Group is exposed to concentration of credit risk as a substantial portion of its sales is generated from a limited number of customers. During the year, the top five customers of the Group accounted for about 46% (2005: 67%) of the Group's sales. The Group manages its credit risk by closely monitoring the granting of credit. The Group also reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The credit risk on bank balances and deposits is limited because the counterparties are banks with assigned by international credit rating agencies.

Price risk

The Group is exposed to equity security price risk on the Group's held for trading investments, available-for-sale investments and investments in convertible notes. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Fair value of financial instruments

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

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 prices.

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

The fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binominal model).

The carrying amounts of the Group's major financial instruments which are carried at cost or amortised cost (including trade and other receivables, bank balances and cash, trade and other payables, amounts due from/to related companies, and bank and other loans) approximate their fair values due to their short maturity.

43. PLEDGE OF ASSETS

At 31st December, 2006:

- (a) margin trading facilities in respect of securities transactions to the extent of approximately HK\$15.8 million (2005: HK\$10.9 million), of which HK\$7.9 million (2005: HK\$10.9 million) has been utilised after considering deposits held by financial institutions, were secured by the listed investments of the Group and the Company of approximately HK\$31.6 million (2005: HK\$31.8 million) and HK\$30.7 million (2005: HK\$31.2 million), respectively; and
- (b) overdraft and revolving loan facilities to the extent of approximately HK\$17.1 million (2005: HK\$40.5 million), of which nil (2005: HK\$3.9 million) had been utilised, were secured by time deposits held by the Company of approximately HK\$4.2 million (2005: HK\$4.9 million) and by a floating charge over certain properties of the Company of approximately HK\$5.5 million (2005: HK\$5.4 million).

44. OPERATING LEASE ARRANGEMENTS

The Group as lessor

Property rental income earned during the year was HK\$1,033,189 (2005: HK\$864,733). The properties held have committed tenants for the next two years.

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

	2006 HK\$	2005 HK\$
Within one year	1,531,934	660,000
In the second to fifth year inclusive	3,270,604	192,500
	4,802,538	852,500

The Group and the Company as lessee

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

	2006 HK\$	2005 HK\$
Within one year	160,920	234,692
In the second to fifth year inclusive	78,780	18,360
	239,700	253,052

Operating lease payments represent rentals payable by the Group to a company controlled by certain directors of the Company for the use of its office premises. Leases are negotiated for a term of two years.

45. RETIREMENT BENEFITS SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% (2005: 5%) of relevant payroll costs to the scheme, which contribution is matched by employees.

Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

For the year ended 31st December, 2006

46. COMMITMENTS

- (i) At 31st December, 2006, the Group had a capital commitment of HK\$24.3 million contracted but not provided to purchase Flat C on 22 Floor of Tower 3, Tregunter, with car parking space No. 26 on level 5 of Tower 3, No. 14 Tregunter Path, Hong Kong.
- (ii) On 27 September 2006, Jubilee Star Limited ("Jubilee Star"), a subsidiary of the Group and China Aviation Supplies Import and Export Group Corporation ("China Aviation") entered into a conditional joint venture agreement for the transformation of Beijing Kailan Aviation Technology Co. Ltd. ("Beijing Kailan") into an equity joint venture through capital injection of approximately RMB20.47 million into Beijing Kailan by Jubilee Star. Upon the completion of the transformation, China Aviation and Jubilee Star will own a 68% and 32% equity interest in Beijing Kailan respectively. The obligation of Jubilee Star to contribute capital of approximately RMB20.47 million is conditional upon the fulfillment of certain terms and conditions and approval from relevant authorities.

Save as above, no other capital commitment contracted for but not provided; or approved but not contracted for in the consolidated financial statements.

47. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

Related party	Nature of transaction	2006	2005
		HK\$	HK\$
Minority shareholder	Sales of goods	6,313,728	8,123,804
	Purchases of materials	1,575,392	1,893,439

Terms and balances with related parties are set out in notes 26, 27, 29, 31 and 33 and on the balance sheet.

The key management of the Group comprises all directors and the three (2005: one) highest paid employees, details of their remuneration are disclosed in notes 7 and 8. The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

48. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to balance sheet date, the Group entered into the transactions as follows:

(i) Disposal of 20 million shares of Chinasoft International Limited

On 26 January 2007, the Group disposed of 20 million shares held in Chinasoft International Limited, to Oriental Patron Securities Limited, an independent third party for a consideration of HK\$35.4 million. Accordingly, the equity interest in this associate held by the Group is reduced from 19.78% to approximately 17.15% of the issued share capital of Chinasoft International Limited.

(ii) Convertible notes of Golife Concepts Holdings Limited is converted.

In March 2007, the Group converted the entire HK\$8.3 million principal amount of convertible notes issued by Golife Concepts Holdings Limited to shares.

(iii) Issuance of new shares by Chinasoft International Limited

On 19 April 2007, Chinasoft International Limited entered into a subscription agreement with ABN AMRO Bank N.V. (the "Subscriber"), whereby the Subscriber has conditionally agreed to subscribe for a total of 32,300,000 new ordinary shares ("New Share") of Chinasoft at the price of HK\$1.7 per New Share. Upon the completion of the subscription of the New Shares by the Subscriber, the equity interest in this associate held by the Group is further reduced from 17.15% to approximately 16.45% of the issued share capital of Chinasoft International Limited.