

For the year ended 31st December, 2006

1. GENERAL INFORMATION

Shell Electric Mfg. (Holdings) Company Limited (the "Company") is a limited company incorporated in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the Company's registered office and principal place of business is Shell Industrial Building, 12 Lee Chung Street, Chai Wan Industrial District, Hong Kong.

The principal activities of the Company and its subsidiaries (collectively, the "Group") comprise manufacturing and marketing of electric fans and other electrical household appliances and EMS business, investment holding, property investment and development and trading of and investments in securities.

The financial statements on pages 21 to 87 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31st December, 2006 were approved for issue by the board of directors on 26th April, 2007.

2. ADOPTION OF NEW AND REVISED HKFRSS

2.1 Impact of new and revised HKFRSs which are effective during the year

During the year, the Group has adopted the following new and revised HKFRSs which are relevant to its operations:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

(i) *HKAS 21 Amendment – Net Investment in a Foreign Operation*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated.

(ii) *HKAS 27 Amendment – Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 3 "Summary of significant accounting policies" in Year 2006 Annual Report.

(iii) *HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*

This amendment has revised HKAS 39 "Financial Instruments: Recognition and Measurement" to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement.

(iv) *HKAS 39 Amendment – The Fair Value Option*

This amendment has changed the definition of a financial instrument at fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement.

2. ADOPTION OF NEW AND REVISED HKFRSS (Continued)**2.1 Impact of new and revised HKFRSs which are effective during the year (Continued)***(v) HKAS 39 & HKFRS 4 Amendments - Financial Guarantee Contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

(vi) HK(IFRIC)-Int 4 - Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1st January, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied.

The adoption of the above new and revised HKFRSs did not result in significant changes in the Group's accounting policies and had no significant financial impact on the Group's financial statements.

2.2 Impact of new and revised HKFRSs which are issued but not yet effective

The following are new and revised HKFRSs relevant to the operations of the Group which are issued but not yet effective in the current financial year:

HKAS 1 Amendment	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments 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

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 May, 2006

⁴ Effective for annual periods beginning on or after 1st June, 2006

⁵ Effective for annual periods beginning on or after 1st November, 2006

HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32 "Financial Instruments: Disclosure and Presentation".

HKFRS 8 requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues for the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

The Group has not early adopted the above HKFRSs. The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far the Group has concluded that while the adoption of HKAS 1 Amendment and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's financial statements.

For the year ended 31st December, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years, unless otherwise stated.

Basis of preparation

These financial statements have been prepared under the historical cost convention except for certain properties, financial assets and financial liabilities which are measured at fair values or revalued amounts, as appropriate. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions have been used in preparing these financial statements. Although these estimates and assumptions are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4 "Critical Accounting Estimates and Judgements".

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All material intercompany transactions, balances and unrealised gains on transactions within the Group are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of 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. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of the subsidiaries are included in the Company's income statement to the extent of dividend received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses, unless they are classified as held for sale in accordance with HKFRS 5 "Non-current Assets held for Sale and Discontinued Operations".

Associates and jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity. An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

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

Associates and jointly controlled entities *(Continued)*

Investments in associates and jointly controlled entities are accounted for in the consolidated financial statements under the equity method of accounting, except when the investment is classified as held for sale, in such case they are accounted for in accordance with HKFRS 5. Under equity method of accounting, investments are initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the associates' and the jointly controlled entities' net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, less any identified impairment loss. The Group's share of the post-acquisition reserves of the associates and jointly controlled entities is included in the consolidated reserves.

Unrealised gains on transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associates and jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

In the Company's balance sheet, associates and jointly controlled entities are carried at cost less any impairment losses. The results of the associates and jointly controlled entities are included in the Company's income statement to the extent of dividends received and receivable.

When the Group's share of losses in an associate/a jointly controlled entity equals or exceeds its interest in the associate/jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate/jointly controlled entity.

Goodwill

Goodwill arising from the acquisition of subsidiaries, associates and jointly controlled entities represents the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets acquired and liabilities including contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is initially recognised in the consolidated balance sheet as an asset at cost and subsequently measured at cost less any impairment losses. In case of associates and jointly controlled entities, goodwill is included in the carrying amount of the investment in associates and jointly controlled entities, respectively, rather than recognised as a separate asset on the consolidated balance sheet. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may be impaired. An impairment loss recognised for goodwill is not reversed in the subsequent period. On subsequent disposal of a subsidiary, associate or jointly controlled entity, the carrying amount of goodwill relating to the entity sold is included in determining the amount of gain or loss on the disposal.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of the subsidiaries, associates and jointly controlled entities is recognised immediately in the income statement.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purpose.

Investment property is initially stated at cost, including directly attributable costs, and subsequently stated at fair value determined by external professional valuers at each balance sheet date to reflect the prevailing market conditions at the balance sheet date. Any gain or loss resulting from either a change in the fair value or disposal of an investment property is immediately recognised in income statement.

For property occupied by the Group as an owner-occupied property which becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with in asset revaluation reserve. For a transfer from inventories to investment properties any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the income statement.

For the year ended 31st December, 2006

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

Property, plant and equipment

Freehold land is stated at cost and is not depreciated. Other property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sales or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5.

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

Depreciation is provided to write off the cost of each item of property, plant and equipment less its residual value, if applicable, over its estimated useful lives on a straight-line basis at the following rates per annum:

<i>Category of property, plant and equipment</i>	<i>Annual rates</i>
Buildings	2% to 5%
Plant, machinery, tools, moulds and equipment	10% to 20%
Furniture, fixtures and office equipment	10% to 33.33%
Motor vehicles	20% to 33.33%

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the item and is recognised in the income statement.

Non-current assets and disposal group held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups.

Non-current assets and disposal groups (other than investment properties) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Intangible assets (Other than goodwill)

Intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development expenditures

Expenditure incurred on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising from development expenditure is recognised only if the Group can demonstrate the technical feasibility of the intangible asset; how economic benefits are generated from the intangible asset, the availability of resources to complete the development of the intangible asset and the ability to measure reliably the intangible asset. Other development expenditure is recognised as an expense in the period in which it is incurred. Deferred development expenditures are stated at cost less any impairment losses and are amortised on a straight-line basis over the commercial lives of the underlying products.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Other than goodwill) (Continued)

Taxi licences

Cost incurred in the acquisition of permanent taxi operation licences, which have indefinite useful lives, are carried at cost less any impairment losses and are not amortised.

Shopping mall operating right

Shopping mall operating right represents right of operating in a shopping mall. Cost incurred in the acquisition of the right is carried at cost less any impairment losses and is amortised over the period of operation of 30 years.

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current asset, and rental receivable under the operating leases are credited to the income statement on a straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases, net of any incentives received or receivable, are charged to the income statement on a straight-line basis over the lease terms.

Prepaid lease rental on land are up-front prepayments made for the leasehold land and land use rights which are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in cost of land and buildings as a finance lease in property, plant and equipment.

When the Group's interests in leasehold land and buildings are in the course of development for investment purpose, the leasehold land component is included in properties under development and properties held for sale. During the development period of such properties, the amortisation charge of the prepaid land lease is capitalised as part of the building costs but charged to the income statement on completion of development of such properties.

Impairment of non-financial assets

Goodwill, other intangible assets, property, plant and equipment and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing. Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the assets' carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

Investments and other financial assets

The Group classifies its financial assets into one of the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and the risks of the embedded derivatives are not closely related to those of the host contract.

All regular way purchases and sales of financial assets are recognised on trade date. Regular way purchase or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated by the Group on initial recognition as at fair value through profit or loss. Such assets are classified as "Investments held for trading" in the balance sheet. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Subsequent to initial recognition, financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables including amounts due from related parties are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired as well as through the amortisation process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Investments and other financial assets** *(Continued)**Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any other categories of financial assets. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of impairment loss is recognised in the income statement of the period in which the impairment occurs.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement of the period in which the reversal occurs.

(ii) Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Impairment losses in respect of debt instruments are reversed through the income statement, if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(iii) Financial assets carried at cost

If there is objective evidence that an impairment loss on an unquoted investment that is no carried at fair value has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory of properties

Inventory of properties comprise properties under development and properties held for sale.

Properties under development are investments in land and buildings on which construction work has not been completed and which, upon completion, management intends to hold for sale purposes. These properties are carried at cost less any impairment losses. Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

The costs of inventory of properties consist of land held under operating lease (see policy stated under "Operating Leases"), development expenditures including construction costs, borrowing costs and other direct costs attributable to the development of such properties.

Other inventories

Other inventories are stated at the lower of cost, computed using weighted average method, and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads.

Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Foreign currencies

The financial statements are presented in Hong Kong Dollars ("HK\$"), which is also the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined.

The functional currencies of certain entities of the Group are currencies other than HK\$. For the purpose of the consolidated financial statements, assets and liabilities of those entities at the balance sheet date are translated into HK\$ at exchange rate prevailing on the balance sheet date. Income and expense items are translated into HK\$ at the average exchange rate for the year. The resulting exchange differences are dealt with in the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the foreign entity is disposed of.

Goodwill and fair value adjustments arising on acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Income tax

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

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

Income tax *(Continued)*

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to the borrowing, and amortisation of ancillary costs incurred in connection with arranging the borrowing.

Financial liabilities

Financial liabilities, comprising borrowings and trade and other payables including amounts due to related parties, are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

For the year ended 31st December, 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

Share-based payment transactions

The Group operates equity-settled share-based compensation plans for remuneration of its employees. All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

When fair value of options cannot be estimated reliably, the Group measures the options at their intrinsic value initially at the date the grantees rendered service and subsequently at each reporting date and when options are exercised, forfeited or lapsed, with any change in intrinsic value recognised in the income statement.

All equity-settled share-based compensation is ultimately recognised as an expense in income statement with a corresponding increase in equity. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Share-based payment transactions** *(Continued)*

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The cost of cash-settled share-based payment transactions is measured initially at fair value at the grant date. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in income statement.

Provisions and contingent liabilities

Provision is recognised when the Group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. When the effect of discounting is material, provision is stated at the present value of the expenditure expected to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

Equity instruments

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

Revenue recognition

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

- (i) Sales of goods are recognised when goods are delivered and title has passed.
- (ii) Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:
 - the significant risks and rewards of ownership of the properties are transferred to buyers;
 - neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
 - the amount of revenue can be measured reliably;
 - it is probable that the economic benefits associated with the transaction will flow to the Group; and
 - the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits received on properties sold prior to the date of revenue recognition are included in the balance sheet under sales deposits received.

- (iii) Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.

For the year ended 31st December, 2006

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

Revenue recognition *(Continued)*

- (iv) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.
- (v) Rental from investment properties is recognised on a straight-line basis over the periods of the respective tenancies.
- (vi) Licence fee income is recognised when the licence holders' rights to receive payment have been established.
- (vii) Building management and service fee income is recognised on an appropriate basis over the relevant period in which the services are rendered.

Related parties

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

- (a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Company or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

Estimates of fair value of investment properties

Knight Frank Petty Limited ("Knight Frank") and Cushman & Wakefield of California, Inc ("Cushman & Wakefield") were engaged to carry out an independent valuation of the Group's investment properties as at 31st December, 2006.

The valuation conducted by Knight Frank was carried out in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors which defines market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion".

The appraisal conducted by Cushman & Wakefield was prepared in accordance with the Uniform Standards of Professional Appraisal Practice of the United States which defines market value as "the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus".

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)***4.1 Critical accounting estimates and assumptions** *(Continued)**Estimates of fair value of investment properties* *(Continued)*

The basis used by Knight Frank and Cushman & Wakefield in arriving at the valuation is disclosed in note 15.

Management has reviewed the valuations conducted by Knight Frank and Cushman & Wakefield and compared them with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the valuations conducted by Knight Frank and Cushman & Wakefield of the Group's investment properties is reasonable.

Impairment of assets

The Group tests at least annually whether goodwill and other intangible assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates.

Estimates of current tax and deferred tax

The Group is subject to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Allowance for trade and other receivables

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts receivable and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including current creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group deteriorate thus resulting in impairment as to their ability to make payments, additional allowances may be required.

Allowance for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable values. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

4.2 Critical judgements in applying the entity's accounting policies*Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply of goods or services.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

For the year ended 31st December, 2006

5. REVENUE

An analysis of the revenue, which also represents the Group's turnover, is as follows:

	2006 HK\$'000	2005 HK\$'000
Continuing operations:		
Sales of goods	1,245,517	1,167,423
Sales of properties	206,185	73,348
Property management fee income	11,661	–
Property rental income	72,909	62,328
Taxi licence fee income	16,791	15,069
	<hr/>	<hr/>
Revenue from continuing operations	1,553,063	1,318,168
Discontinued operations:		
Sale of goods	–	34,504
	<hr/>	<hr/>
Revenue from discontinued operations (note 9)	–	34,504
	<hr/>	<hr/>
Total revenue	1,553,063	1,352,672

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into eight operating divisions – electrical household appliances, electric cables, property leasing, property investment and development, securities trading, car rental, computer hardware and software, and direct investments. These divisions form the basis on which the Group reports its primary segment information.

The principal activities are as follows:

Electrical household appliances	–	manufacturing and marketing of electric fans, vacuum cleaners and other electrical household appliances, and EMS business
Electric cables	–	manufacturing and trading of electric cables
Property leasing	–	leasing of properties
Property investment and development	–	property investment and development
Securities trading	–	trading of securities
Car rental	–	taxi rental operation
Computer hardware and software	–	development and trading of computer hardware and software
Direct investments	–	direct investment

For the year ended 31st December, 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below:

2006

REVENUE AND RESULTS

	Continuing operations									
	Electrical household appliances <i>HK\$'000</i>	Electric cables <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Car rental <i>HK\$'000</i>	Computer hardware and software <i>HK\$'000</i>	Direct investments <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE (Note (1))	1,190,840	36,520	72,910	217,845	-	16,791	18,157	-	-	1,553,063
RESULT										
Segment result	56,524	8,079	191,169	42,686	59,101	14,936	(43,084)	(4,870)	-	324,541
Unallocated corporate expenses, net										(57,875)
Interest income										29,710
										296,376
Finance costs	(3,509)	-	(7,748)	(5,736)	(4,334)	-	-	-	(10,540)	(31,867)
Share of results of associates	-	-	25,046	22,541	-	-	-	5,749	-	53,336
Share of results of jointly controlled entities ("JCE")	-	-	-	(145,350)	-	-	-	-	-	(145,350)
Profit before income tax										172,495
Income tax expense										(86,100)
Profit for the year										86,395

Note (1): There were no inter-segment sales between different business segments for the year ended 31st December, 2006.

FINANCIAL POSITIONS

	Continuing operations									
	Electrical household appliances <i>HK\$'000</i>	Electric cables <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Car rental <i>HK\$'000</i>	Computer hardware and software <i>HK\$'000</i>	Direct investments <i>HK\$'000</i>	Unallocated assets/liabilities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS										
Segment assets										
Assets classified as held for sale	-	-	24,914	131,590	-	-	-	-	-	156,504
Other assets	431,477	37,202	618,393	2,770,921	192,621	209,047	33,664	30,116	-	4,323,441
Interests in associates	-	-	404,270	-	-	-	-	49,986	101	454,357
Interests in JCE	-	-	-	377,189	-	-	-	-	-	377,189
Unallocated corporate assets	-	-	-	-	-	-	-	-	352,467	352,467
Consolidated total assets										5,663,958
LIABILITIES										
Segment liabilities	244,338	4,026	136,504	2,078,211	2,916	53,975	7,344	1,716	37,342	2,566,372
Unallocated corporate liabilities	-	-	-	-	-	-	-	-	383,293	383,293
Consolidated total liabilities										2,949,665

OTHER INFORMATION

	Continuing operations									
	Electrical household appliances <i>HK\$'000</i>	Electric cables <i>HK\$'000</i>	Property leasing <i>HK\$'000</i>	Property investment and development <i>HK\$'000</i>	Securities trading <i>HK\$'000</i>	Car rental <i>HK\$'000</i>	Computer hardware and software <i>HK\$'000</i>	Direct investments <i>HK\$'000</i>	Unallocated amounts <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure (note (2))	7,695	235	10,100	1,184	-	2,648	431	-	5,525	27,818
Depreciation and amortisation	7,185	1,062	666	5,071	-	246	1,678	-	2,627	18,535
Impairment losses recognised in income statement	-	-	-	-	-	-	1,866	-	6,556	8,422
Write off of property, plant and equipment	251	-	-	-	-	15	300	-	10	576
Allowances for doubtful debts	9,898	-	-	1,172	-	-	-	2,229	-	13,299
Fair value gain on investment properties	-	-	126,659	-	-	-	-	-	-	126,659

Note (2): Capital expenditure comprises additions to investment properties, property, plant and equipment and intangible assets.

For the year ended 31st December, 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)**Business segments (Continued)****2005****REVENUE AND RESULTS**

	Continuing operations									Discontinued operations		
	Electrical household appliances HK\$'000	Electric cables HK\$'000	Property leasing HK\$'000	Property investment and development HK\$'000	Securities trading HK\$'000	Car rental HK\$'000	Computer hardware and software HK\$'000	Direct investments HK\$'000	Others HK\$'000	Total continuing operation HK\$'000	Steel pipes HK\$'000	Consolidated HK\$'000
REVENUE (note (1))	1,117,386	40,505	62,328	73,348	-	15,069	9,532	-	-	1,318,168	34,504	1,352,672
RESULT												
Segment result	65,764	2,793	99,500	(13,820)	43,732	14,223	(63,565)	(14,013)	-	134,614	12,968	147,582
Unallocated corporate expenses, net										(26,851)	-	(26,851)
Interest income										37,917	38	37,955
										145,680	13,006	158,686
Finance costs	(940)	-	(6,164)	(1,154)	(6,026)	-	-	-	(10,480)	(24,764)	-	(24,764)
Share of results of associates	-	-	9,933	(509)	-	-	-	4,624	-	14,048	-	14,048
Share of results of JCE	-	-	-	23,604	-	-	-	-	-	23,604	-	23,604
Excess of interest in fair values of identifiable net assets of an associate acquired	-	-	-	-	-	-	-	1,491	-	1,491	-	1,491
Gain on disposal of interest in a JCE	-	-	-	5,437	-	-	-	-	-	5,437	-	5,437
Profit before income tax										165,496	13,006	178,502
Income tax expense										(7,561)	-	(7,561)
Profit for the year										157,935	13,006	170,941

Note (1): There were no inter-segment sales between different business segments for the year ended 31st December, 2005.

FINANCIAL POSITIONS

	Continuing operations									Discontinued operations		
	Electrical household appliances HK\$'000	Electric cables HK\$'000	Property leasing HK\$'000	Property investment and development HK\$'000	Securities trading HK\$'000	Car rental HK\$'000	Computer hardware and software HK\$'000	Direct investments HK\$'000	Unallocated assets/liabilities HK\$'000	Total continuing operation HK\$'000	Steel pipes HK\$'000	Consolidated HK\$'000
ASSETS												
Segment assets												
Assets classified as held for sale	-	-	50,005	-	-	-	-	-	-	50,005	-	50,005
Other assets	376,030	35,748	537,612	1,805,596	109,864	204,872	42,981	525	-	3,113,228	-	3,113,228
Interests in associates	-	-	411,631	121,768	-	-	-	44,062	101	577,562	-	577,562
Interests in JCE	-	-	-	498,245	-	-	-	-	-	498,245	-	498,245
Unallocated corporate assets	-	-	-	-	-	-	-	-	427,618	427,618	-	427,618
Consolidated total assets										4,666,658		4,666,658
LIABILITIES												
Segment liabilities												
Unallocated corporate liabilities	182,405	4,507	170,319	1,464,153	23,296	51,627	7,651	1,847	13,891	1,919,696	-	1,919,696
	-	-	-	-	-	-	-	-	65,635	65,635	-	65,635
Consolidated total liabilities										1,985,331		1,985,331

OTHER INFORMATION

	Continuing operations									Discontinued operations		
	Electrical household appliances HK\$'000	Electric cables HK\$'000	Property leasing HK\$'000	Property investment and development HK\$'000	Securities trading HK\$'000	Car rental HK\$'000	Computer hardware and software HK\$'000	Direct investments HK\$'000	Unallocated amounts HK\$'000	Total continuing operation HK\$'000	Steel pipes HK\$'000	Consolidated HK\$'000
Capital expenditure (note (2))	6,005	2,170	26,677	69,066	-	195	2,209	-	1,142	107,464	-	107,464
Depreciation and amortisation	7,741	1,085	157	4,549	-	112	2,183	-	2,093	17,920	2,081	20,001
Impairment losses recognised in income statement	4,992	-	-	-	-	-	9,270	-	-	14,262	-	14,262
Write off of property, plant and equipment	856	-	-	-	-	-	14	-	-	870	-	870
Allowances for doubtful debts	10,347	828	1,230	-	-	-	-	14,080	(3,033)	23,452	1,916	25,368
Fair value gain on investment properties	-	-	45,679	147	-	-	-	-	-	45,826	-	45,826
Reversal of unutilised provision	(8,970)	-	-	-	-	-	-	-	-	(8,970)	-	(8,970)

Note (2): Capital expenditure comprises additions to investment properties, property, plant and equipment and intangible assets.

For the year ended 31st December, 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

The Group's operations are located in Hong Kong, other regions of the PRC, North America, Europe and Asia other than the PRC.

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

	Continuing operations		Discontinued operations		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	22,164	17,917	–	–	22,164	17,917
Other regions of the PRC	759,833	514,054	–	34,504	759,833	548,558
North America	538,153	573,665	–	–	538,153	573,665
Europe	79,403	84,275	–	–	79,403	84,275
Asia, other than the PRC	46,342	48,272	–	–	46,342	48,272
Others	107,168	79,985	–	–	107,168	79,985
	1,553,063	1,318,168	–	34,504	1,553,063	1,352,672

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

	Carrying amount of segment assets		Capital expenditure	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	300,803	394,858	5,947	1,283
Other regions of the PRC	4,853,259	3,871,325	14,254	102,644
North America	469,557	339,892	7,617	3,537
Europe	3,927	20,257	–	–
Asia, other than the PRC	28,960	32,580	–	–
Others	7,452	7,162	–	–
	5,663,958	4,666,074	27,818	107,464
Deferred tax assets	–	584	–	–
	5,663,958	4,666,658		

7. OTHER INCOME

	Continuing operations		Discontinued operations		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank interest income	7,052	6,124	–	38	7,052	6,162
Interest income from loans to investees	1,485	1,055	–	–	1,485	1,055
Interest income from others, including loans receivables	21,173	30,738	–	–	21,173	30,738
Dividends from equity securities	4,683	3,638	–	–	4,683	3,638
Other rental income	14,248	11,969	–	–	14,248	11,969
Sundry income	19,792	23,849	–	72	19,792	23,921
	68,433	77,373	–	110	68,433	77,483

For the year ended 31st December, 2006

8. PROFIT BEFORE INCOME TAX

	Continuing operations		Discontinued operations		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Profit before income tax is arrived at after charging/ (crediting):						
Amortisation:						
Other intangible assets ^Δ	3,979	3,841	–	–	3,979	3,841
Prepaid lease rental on land	438	227	–	300	438	527
Depreciation of property, plant and equipment	14,190	13,900	–	1,733	14,190	15,633
Total amortisation and depreciation	18,607	17,968	–	2,033	18,607	20,001
Less: Amount capitalised as development cost	(72)	–	–	–	(72)	–
	18,535	17,968	–	2,033	18,535	20,001
Allowance for doubtful debts [#]	13,299	23,452	–	1,916	13,299	25,368
Auditors' remuneration	3,220	2,438	–	105	3,220	2,543
Cost of inventories recognised as expense	1,148,072	1,055,250	–	26,861	1,148,072	1,082,111
Finance costs (note (a))	31,867	24,764	–	–	31,867	24,764
(Gain)/loss on disposal of property, plant and equipment	103	74	–	(14,750)	103	(14,676)
Impairment losses on other non-current assets:						
Other intangible assets	8	–	–	–	8	–
Property, plant and equipment	393	1,539	–	–	393	1,539
Available-for-sale financial assets	–	4,992	–	–	–	4,992
Loan Receivable	6,548	–	–	–	6,548	–
Net foreign exchange (gain)/losses	813	(4,408)	–	–	813	(4,408)
Fair value gain on derivative financial instruments	(1,292)	(6,477)	–	–	(1,292)	(6,477)
Operating lease charge on land and buildings	6,500	6,471	–	–	6,500	6,471
Outgoing in respect of investment properties	4,310	8,507	–	–	4,310	8,507
Reversal of unutilised provision for claim [#]	–	(8,970)	–	–	–	(8,970)
Research and development costs ^{#*}	2,396	7,271	–	–	2,396	7,271
Staff costs (note (b))	139,043	133,112	–	2,388	139,043	135,500
Share of tax of associates						
Current year	5,038	3,557	–	–	5,038	3,557
Under provision in prior years	13,881	28,030	–	–	13,881	28,030
Share of tax of jointly controlled entities	3,213	6,034	–	–	3,213	6,034
(Reversal of allowance for inventories)/Allowance for inventories	182	(14,422)	–	(2,455)	182	(16,877)
Write-off of property, plant and equipment	576	870	–	–	576	870

[#] included in "other operating expenses" on the face of the consolidated income statement

^{*} excluding depreciation of property, plant and equipment and staff costs

^Δ included in "administrative expenses" on the face of the consolidated income statement

For the year ended 31st December, 2006

8. PROFIT BEFORE INCOME TAX (Continued)

Notes:

(a) Finance costs

	Continuing operations		Discontinued operations		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest charges on:						
Bank loans and overdrafts						
– wholly repayable within five years	49,194	22,094	–	–	49,194	22,094
– wholly repayable over five years	7,654	5,866	–	–	7,654	5,866
Others loans wholly repayable within five years	–	1,812	–	–	–	1,812
Total borrowing costs	56,848	29,772	–	–	56,848	29,772
Less: amount capitalised in properties under development [#]	(24,981)	(5,008)	–	–	(24,981)	(5,008)
	31,867	24,764	–	–	31,867	24,764

Note: [#] The borrowing costs have been capitalised at the average rate of 6.8% (2005: 7.4%).

(b) Staff costs

	Continuing operations		Discontinued operations		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and other benefits	136,428	130,563	–	2,308	136,428	132,871
Retirement fund contributions	2,615	2,549	–	80	2,615	2,629
	139,043	133,112	–	2,388	139,043	135,500

Total staff costs include compensations to the key management personnel (including directors), the details of which are as follows:

	Continuing operations		Discontinued operations		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Short-term employee benefits	18,954	14,866	–	–	18,954	14,866
Post-employment benefits	369	309	–	–	369	309
	19,323	15,175	–	–	19,323	15,175

For the year ended 31st December, 2006

9. DISCONTINUED OPERATIONS

In prior year, the Group discontinued its operation of steel pipe production. Pursuant to an agreement dated 1st September, 2005, the directors of Shunde Hua Feng Stainless Steel Welded Tubes Limited, an indirect 90.1% owned subsidiary of the Company, sold its machinery and equipment necessary for the production of steel pipes to a third party for a cash consideration of US\$2,500,000. After the disposal, the Group has ceased its operation of steel pipes production. This divestiture is in line with the Group's strategy to rationalise its resources and focus on strengthening its strategic market position in its core businesses.

Profit for the last year from discontinued operations is analysed as follows:

	2006 HK\$'000	2005 <i>HK\$'000</i>
Operating loss of the discontinued operations	–	(1,744)
Gain on disposal of assets of the discontinued operations	–	14,750
	<u>–</u>	<u>13,006</u>

The results of the discontinued operations for the last year are as follows:

	2006 HK\$'000	2005 <i>HK\$'000</i>
Revenue (note 5)	–	34,504
Cost of sales	–	(30,450)
Other income	–	110
Distribution and selling expenses	–	(2,219)
Administrative expenses	–	(1,575)
Other operating expenses	–	(2,114)
Finance costs	–	–
Income tax expenses	–	–
	<u>–</u>	<u>(1,744)</u>

The net cash flows incurred by the discontinued operations for the last year are as follows:

	2006 HK\$'000	2005 <i>HK\$'000</i>
Operating activities	–	12,287
Investing activities	–	13,151
Financing activities	–	–
	<u>–</u>	<u>25,438</u>

For the year ended 31st December, 2006

10. INCOME TAX EXPENSE

	Continuing operations		Discontinued operations		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Income tax expenses comprise:						
Current tax for the year						
Hong Kong	9,682	7,655	–	–	9,682	7,655
Other regions in the PRC	29,862	10,847	–	–	29,862	10,847
	39,544	18,502	–	–	39,544	18,502
Under/(Over) provision in prior years						
Hong Kong	30,164	(680)	–	–	30,164	(680)
Deferred tax (note 41)	16,392	(10,261)	–	–	16,392	(10,261)
	86,100	7,561	–	–	86,100	7,561

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year.

Income tax arising from other regions of the PRC is calculated at 15% – 33% (2005: 15% – 33%) of the estimated assessable profit.

The income tax expenses for the year can be reconciled to the profit before income tax, including profit from discontinued operations before income tax, at applicable tax rates as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before income tax, including profit from discontinued operations before income tax less share of results of associates and jointly controlled entities	264,509	140,850
Tax at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	46,289	24,649
Tax effect of expenses not deductible for tax purpose	173,158	117,477
Tax effect of income not taxable for tax purpose	(182,012)	(127,175)
Tax effect of tax losses not recognised	13,736	7,275
Utilisation of tax losses previously not recognised	(7,406)	(10,332)
Effect of different tax rates of subsidiaries operating in other jurisdictions	11,543	(673)
Under/(Over) provision in prior years	30,164	(680)
Others	628	(2,980)
Income tax expenses for the year	86,100	7,561

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Among the consolidated profit attributable to equity holders of the Company of HK\$138,833,000 (2005: HK\$157,171,000), a profit of HK\$11,570,000 (2005: profit of HK\$268,014,000) has been dealt with in the financial statements of the Company (note 39).

For the year ended 31st December, 2006

12. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Ordinary shares:		
Interim, paid – HK\$0.04 (2005: HK\$0.04) per share	20,019	20,019
Final, proposed – HK\$0.08 (2005: HK\$0.08) per share	42,039	40,039
	<u>62,058</u>	<u>60,058</u>

The final dividend of HK\$0.08 (2005: HK\$0.08) per share has been proposed by the directors and is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of basic earnings per share for continuing and discontinued operations is based on the profit for the year attributable to the equity holders of the Company of HK\$138,833,000 (2005: HK\$157,171,000) and the weighted average number of ordinary shares of 501,169,000 (2005: 475,335,000) on issue during the year.

The calculation of basic earnings per share for continuing operations is based on the profit for the year from continuing operations less results attributable to minority interests and the weighted average number of ordinary shares of 501,169,000 (2005: 475,335,000) on issue during the year. The profit for the year from continuing operations less results attributable to minority interests is calculated as follows:

	2006 HK\$'000	2005 HK\$'000
Profit for the year from continuing operations	86,395	157,935
Less: Results attributable to minority interests	(52,438)	13,755
	<u>138,833</u>	<u>144,180</u>

No diluted earnings per share has been presented as the options of the Company's subsidiaries outstanding as at the years ended 31st December, 2006 and 2005 were anti-dilutive to the Group's earnings per share.

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' remuneration**

	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Retirement fund contributions HK\$'000	Total HK\$'000
2006				
Executive directors				
Mr. Billy K Yung	100	5,066	226	5,392
Mdm Yung Ho Wun Ching	100	1,577	–	1,677
Mr. Leung Chun Wah	100	1,795	60	1,955
Mr. Plato Poon Chak Sang	100	1,497	53	1,650
Mr. Eddie Hurip	17	450	–	467
Non-executive director				
Mr. Simon Yung Kwok Choi	100	–	–	100
Independent non-executive directors				
Dr. Leo Tung-Hai Lee	100	80	–	180
Mr. Shiu-Kit Ngai	100	60	–	160
Mr. Peter Wong Chung On	100	90	–	190
Mr. Peter Lam	100	40	–	140
	<u>917</u>	<u>10,655</u>	<u>339</u>	<u>11,911</u>

For the year ended 31st December, 2006

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(a) Directors' remuneration *(Continued)*

	Fees HK\$'000	Salaries, allowances and other benefits HK\$'000	Retirement fund contributions HK\$'000	Total HK\$'000
2005				
Executive directors				
Mr. Billy K Yung	100	4,294	213	4,607
Mdm Yung Ho Wun Ching	100	1,330	–	1,430
Mr. Leung Chun Wah	100	1,740	66	1,906
Mr. Plato Poon Chak Sang	100	1,323	51	1,474
Non-executive director				
Mr. Simon Yung Kwok Choi	100	–	–	100
Independent non-executive directors				
Dr. Leo Tung-Hai Lee	100	80	–	180
Mr. Shiu-Kit Ngai	100	60	–	160
Mr. Peter Wong Chung On	100	90	–	190
Mr. Peter Lam	100	40	–	140
	<u>900</u>	<u>8,957</u>	<u>330</u>	<u>10,187</u>

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

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, 2 (2005: 1) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining 3 (2005: 4) were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and other benefits	11,893	10,472
Retirement fund contributions	83	96
	<u>11,976</u>	<u>10,568</u>

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	3
HK\$2,500,001 – HK\$3,000,000	–	–
HK\$3,000,001 – HK\$3,500,000	–	–
HK\$3,500,001 – HK\$4,000,000	–	1
HK\$7,500,001 – HK\$8,000,000	1	–

For the year ended 31st December, 2006

15. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Carrying amount at 1st January	594,377	560,341	14,200	12,700
Translation adjustment	751	457	–	–
Additions	6,268	17,754	–	–
Addition through acquisition of a subsidiary	–	3,569	–	–
Increase in fair value	126,659	45,826	4,770	1,500
Reclassification to assets classified as held for sale (note 33)	(24,914)	(50,005)	–	–
Transfer from property, plant and equipment (note 16)	4,977	11,370	–	–
Transfer from prepaid lease rental on land	–	5,065	–	–
Carrying amount at 31st December (note (a))	708,118	594,377	18,970	14,200

Notes:

- (a) The carrying amounts of the Group's and Company's interests in investment properties are analysed as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
In Hong Kong, held under long-term leases	98,220	85,450	18,970	14,200
In the USA, freehold	326,040	242,580	–	–
In other regions of the PRC, held under medium-term leases	283,858	266,347	–	–
	708,118	594,377	18,970	14,200

Investment properties which are situated in Hong Kong and other regions of the PRC were revalued as at 31st December, 2006 by Knight Frank Petty Limited on an open market basis. The valuation was arrived at by reference to comparable market transaction and where appropriate on the basis of capitalisation of net income. Investment properties situated in the USA were revalued as at 31st December, 2006 by Cushman & Wakefield of California on an income approach with reference to comparable market conditions. Knight Frank Petty Limited and Cushman & Wakefield of California are independent firms of professionally qualified valuers.

The investment properties are leased to third parties under operating leases, further details of which are included in note 47. Further particular of the investment properties are included on page 90.

- (b) As at the balance sheet date, certain of the Group's investment properties were pledged as further detailed in note 42.

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16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Tools, moulds and equipment <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
COST						
At 1st January, 2005	183,625	58,204	58,403	54,987	9,667	364,886
Translation adjustment	3,464	1,211	931	759	192	6,557
Revaluation surplus	1,481	–	–	–	–	1,481
Additions	8,592	5,283	216	5,922	870	20,883
Addition through acquisition of a subsidiary	8,257	–	–	1,685	1,188	11,130
Disposal of a subsidiary	–	–	–	(1,108)	(768)	(1,876)
Other disposals	(71,312)	(28,379)	–	(2,197)	(3,704)	(105,592)
Write-off	–	–	(1,094)	(17)	–	(1,111)
Transfer to investment properties (note 15)	(13,755)	–	–	–	–	(13,755)
Reclassification	–	–	14	(14)	–	–
At 1st January, 2006	120,352	36,319	58,470	60,017	7,445	282,603
Translation adjustment	3,260	1,175	1,519	1,252	223	7,429
Revaluation deficit	(198)	–	–	–	–	(198)
Additions	254	2,250	8	11,022	8,016	21,550
Disposals	(512)	(265)	–	(1,556)	(1,717)	(4,050)
Write-off	–	(259)	(12)	(1,423)	(158)	(1,852)
Transfer to investment properties (note 15)	(5,171)	–	–	–	–	(5,171)
Reclassification	(938)	938	–	–	–	–
At 31st December, 2006	117,047	40,158	59,985	69,312	13,809	300,311
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2005	43,361	40,214	55,566	32,068	8,013	179,222
Translation adjustment	852	859	929	444	145	3,229
Depreciation provided	1,954	5,247	160	7,631	641	15,633
Disposal of a subsidiary	–	–	–	(1,028)	(761)	(1,789)
Other disposals	(21,032)	(23,269)	–	(1,218)	(2,810)	(48,329)
Write-off	–	–	(237)	(4)	–	(241)
Impairment recognised	–	–	1,539	–	–	1,539
Transfer to investment properties (note 15)	(2,385)	–	–	–	–	(2,385)
Reclassification	–	–	1	(1)	–	–
At 1st January, 2006	22,750	23,051	57,958	37,892	5,228	146,879
Translation adjustment	613	752	1,514	808	171	3,858
Depreciation provided	2,994	2,255	144	7,037	1,760	14,190
Disposals	(184)	(59)	–	(675)	(1,645)	(2,563)
Write-off	–	(100)	(5)	(1,025)	(146)	(1,276)
Impairment recognised	–	–	–	393	–	393
Transfer to investment properties (note 15)	(194)	–	–	–	–	(194)
Reclassification	(145)	145	–	–	–	–
At 31st December, 2006	25,834	26,044	59,611	44,430	5,368	161,287
NET CARRYING AMOUNT						
At 31st December, 2006	91,213	14,114	374	24,882	8,441	139,024
At 31st December, 2005	97,602	13,268	512	22,125	2,217	135,724

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16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings HK\$'000	Plant and machinery HK\$'000	Tools and moulds HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE COMPANY						
COST						
At 1st January, 2005	3,085	366	479	17,309	4,486	25,725
Additions	–	–	–	707	436	1,143
Disposals	–	–	–	–	(2,087)	(2,087)
At 1st January, 2006	3,085	366	479	18,016	2,835	24,781
Additions	–	–	–	1,329	4,198	5,527
Disposals	–	–	–	(30)	(988)	(1,018)
At 31st December, 2006	3,085	366	479	19,315	6,045	29,290
DEPRECIATION						
At 1st January, 2005	509	322	479	9,987	4,486	15,783
Provided for the year	62	12	–	1,773	109	1,956
Disposals	–	–	–	–	(2,087)	(2,087)
At 1st January, 2006	571	334	479	11,760	2,508	15,652
Provided for the year	62	12	–	1,517	899	2,490
Disposals	–	–	–	(28)	(988)	(1,016)
At 31st December, 2006	633	346	479	13,249	2,419	17,126
NET CARRYING AMOUNT						
At 31st December, 2006	2,452	20	–	6,066	3,626	12,164
At 31st December, 2005	2,514	32	–	6,256	327	9,129

The carrying amounts of land and buildings held by the Group and the Company are analysed as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
In Hong Kong, held under long-term leases	4,273	4,472	1,153	1,183
In other regions of the PRC, held under medium-term leases	74,332	80,768	–	–
In other regions of the PRC, held under long-term leases	6,061	6,164	1,299	1,331
In the USA, freehold	6,547	6,198	–	–
	91,213	97,602	2,452	2,514

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17. PREPAID LEASE RENTAL ON LAND

The Group's leasehold lands are held under medium-term leases and are situated in other regions of the PRC. Movements of their carrying amounts during the year are as follow:

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Carrying amount at 1st January	16,854	21,966
Translation adjustment	595	480
Amortisation charged	(438)	(527)
Transfer to investment properties	–	(5,065)
	<hr/>	<hr/>
Carrying amount at 31st December	17,011	16,854
	<hr/> <hr/>	<hr/> <hr/>
Analysed into:		
Non-current portion included in non-current assets	16,621	16,426
Current portion included in current assets	390	428
	<hr/>	<hr/>
	17,011	16,854
	<hr/> <hr/>	<hr/> <hr/>

18. GOODWILL

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Carrying amount at 1st January	26,402	–
Acquisition of a subsidiary	–	26,402
Acquisition of additional interest in subsidiaries	41,714	7,731
Impairment recognised	(1,473)	(7,731)
	<hr/>	<hr/>
Carrying amount at 31st December	66,643	26,402
	<hr/> <hr/>	<hr/> <hr/>

Goodwill as at 31st December 2006 arose from the acquisition of a subsidiary in 2005 amounting to HK\$26,402,000 and from the acquisition of additional interest in another subsidiary, Jodrell Investments Limited ("Jodrell"), during the year amounting to HK\$40,241,000 as detailed in note 44. The goodwill is allocated to the cash-generating unit of property investment and development which is a reportable segment and is tested for impairment by the management by estimating the recoverable amount of the cash-generating unit based on the value in use calculations. The calculations use cash flow projections based on financial budgets approved by the management covering a period of 4 years up to year 2010. Based on the results of the impairment testing, management determines that there is no impairment of the cash-generating unit of property investment and development attributed to the goodwill.

Key assumptions used by the management in the value in use calculation of the cash-generating unit of property investment and development have been determined based on past performance and its expectations for the market development. The discount rate applied to the cash flow projections is 35% which is pre-tax and reflects specific risks relating to the cash-generating unit of property investment and development.

Apart from the considerations described above in determining the value in use of the cash generating units of property investment and development, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

For the year ended 31st December, 2006

19. OTHER INTANGIBLE ASSETS

	Taxi licences <i>HK\$'000</i>	Shopping mall operating right <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
Carrying amount at 1st January, 2005	160,287	–	160,287
Translation adjustment	3,580	1,267	4,847
Addition through acquisition of a subsidiary	–	54,120	54,120
Other addition	–	8	8
Amortisation charged	–	(3,841)	(3,841)
	<hr/>	<hr/>	<hr/>
Carrying amount at 1st January, 2006	163,867	51,554	215,421
Translation adjustment	5,832	1,834	7,666
Amortisation charged	–	(3,979)	(3,979)
Impairment recognised	–	(8)	(8)
	<hr/>	<hr/>	<hr/>
Carrying amount at 31st December, 2006	<u>169,699</u>	<u>49,401</u>	<u>219,100</u>

The carrying amount of taxi licences as at 31st December, 2006 is tested for impairment by the management by estimating its recoverable amount based on the value in use calculations. The calculations use cash flow projection based on the financial budgets approved by the management covering a period up to the year 2013, the year in which the business licence of the respective subsidiary of the Company engaging in taxi rental operation would expire.

Key assumptions used by management in the value in use calculation of the taxi licences have been determined based on past performance and its expectations for the market development. Key assumptions underlying the cash flow projections include (i) the number of taxi licences held by the Group remains the same throughout the forecast period, and (ii) the forecast taxi licence fee income is determined based on the fee income received during the year, adjusted by the expected market development. The post-tax discount rate applied to the cash flow projections is 6% which reflects specific risks relating to the taxi rental operation.

20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Unlisted shares, at cost	105,126	105,126
Less: Impairment	(105,011)	(105,011)
	<hr/>	<hr/>
Loans to subsidiaries, less impairment	115	115
Amounts due from subsidiaries	–	13,000
	<hr/>	<hr/>
	115	309,960
	<hr/>	<hr/>
	115	323,075
	<hr/>	<hr/>

Details of the Company's principal subsidiaries as at 31st December, 2006 are set out in note 51.

As detailed in note 44, the Group has acquired further equity interests in a subsidiary, Jodrell, during the year.

For the year ended 31st December, 2006

21. INTERESTS IN ASSOCIATE(S)

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	–	–	195	195
Share of net assets	288,533	270,804	–	–
Goodwill on acquisition of an associate	850	850	–	–
Loans to associates	164,974	305,908	–	–
	454,357	577,562	195	195
Less: Impairment	–	–	(94)	(94)
	454,357	577,562	101	101

Details of the Group's principal associates as at 31st December, 2006 are set out in note 52.

The loans to associates are unsecured and interest-free. The amortised costs of the loans to associates as at 31st December, 2006 are calculated at the present values of the expected settlements from the associates in accordance with the business plans of the respective associates, discounted at the rates of return of similar financial assets.

Included in loans to associates as at 31st December, 2005 was an amount of HK\$69,464,000 which was unsecured and interest-bearing at 10% per annum. However, interest income arising from the loan in previous year amounting to HK\$7,051,000 had been waived by the Group.

In the opinion of the directors, the loans to associates will not be repayable within twelve months from the balance sheet date and accordingly are shown as non-current assets.

The following illustrates the summarised financial information of the Group's associates extracted from their management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group:

	2006 HK\$'000	2005 HK\$'000
Results for the year*		
Revenue	876,203	842,281
Profit/(Loss) for the year	250,363	(6,151)
Financial position		
Assets	3,368,063	4,021,431
Liabilities	(2,353,083)	(3,027,242)
	1,014,980	994,189

* including the results of Yue Tian Group up to the date it is classified as assets held for sales.

During the year, the Group accounted for the associates as set out in note 52 using equity method except for Yue Tian Development Limited ("Yue Tian") and Guangzhou Cheng Jian Tian Yu Real Estate Development Company Limited (collectively referred to as the "Yue Tian Group"), which are accounted for using equity method only up to the date on which they are classified as held for sales in accordance with HKFRS 5 (note 33). The carrying amount of the Group's interests in the associates as at that date is included in "Assets classified as held for sale" on the face of the consolidated balance sheet.

For the year ended 31st December, 2006

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Share of net assets	362,992	483,248
Goodwill on acquisitions of/acquisition of additional interest in jointly controlled entities	14,197	–
	377,189	483,248

On 21st February, 2006, the Group acquired further equity interest in a jointly controlled entity, 廣州市光大花園房地產開發有限公司, at cash consideration of approximately HK\$15,281,000. As a result, the Group's effective interest in the jointly controlled entity has increased by 8%.

On 21st September, 2006, a non-wholly owned subsidiary of the Group acquired from an independent third party 51% equity interest in 北京金華星置業有限公司("Jin Hua Xing"), a PRC entity, at cash consideration of approximately HK\$124,413,000. HK\$4,977,000 of the consideration was payable as at 31st December, 2006. According to the Articles of Association of Jin Hua Xing, all resolutions of the board of Jin Hua Xing shall be approved by a 2/3 majority. Due to the Group has only 4 representatives on the board of directors of Jin Hua Xing which composes 7 persons, the Group does not have control over Jin Hua Xing.

Details of the Group's principal jointly controlled entities at 31st December, 2006 are set out in note 53.

The following illustrates the summarised financial information of the Group's jointly controlled entities extracted from their management accounts which have been adjusted to ensure consistency in accounting policies adopted by the Group:

	2006	From 28th June, 2005 to 31st December, 2005
	HK\$'000	HK\$'000
Share of results for the year/period		
Revenue	71,382	180,021
(Loss)/Profit after income tax expenses attributable to the Group	(145,350)	23,604
Share of assets and liabilities		
Total non-current assets	231,968	265,361
Total current assets	1,954,781	1,288,219
Total current liabilities	(1,579,358)	(756,131)
Total non-current liabilities	(243,514)	(313,091)
Minority interests	(885)	(1,110)
	362,992	483,248

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23. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENTS HELD FOR TRADING

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Equity securities, at fair value				
Unlisted	4	13,023	–	13,020
Listed in Hong Kong	109,043	103,303	–	–
Listed outside Hong Kong	78,905	3,526	–	–
	<u>187,952</u>	<u>119,852</u>	<u>–</u>	<u>13,020</u>
Club debentures, at cost	2,920	2,920	2,920	2,920
	<u>190,872</u>	<u>122,772</u>	<u>2,920</u>	<u>15,940</u>
Represented by:				
Available-for-sale financial assets	2,920	15,940	2,920	15,940
Investments held for trading	187,952	106,832	–	–
	<u>190,872</u>	<u>122,772</u>	<u>2,920</u>	<u>15,940</u>

The net losses of the Group's and the Company's available-for-sale financial assets for the year which amounted to HK\$13,020,000 (2005: gain of HK\$13,020,000) has been dealt with directly in equity.

The fair values of the listed equity securities are based on quoted market prices available on the relevant stock exchange. Club debentures are stated at cost less impairment.

As at the balance sheet date, certain equity securities were pledged as further detailed in note 42.

24. LOAN(S) RECEIVABLE

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Loans receivable (net of impairment) from:				
A shareholder of an associate (note a)	–	142,129	–	–
An investee (note b)	15,600	5,971	–	5,971
Others (note c)	4,018	2,451	–	–
	<u>19,618</u>	<u>150,551</u>	<u>–</u>	<u>5,971</u>
Less: Amount due within one year included as current assets	<u>(17,787)</u>	<u>(143,112)</u>	<u>–</u>	<u>–</u>
Amount due after one year included in non-current assets	<u>1,831</u>	<u>7,439</u>	<u>–</u>	<u>5,971</u>

Notes:

- (a) The amount of the loan receivable from the major shareholder of one of the Group's major associates, China Dynasty Development Ltd. ("China Dynasty"), as at 31st December, 2005 was secured, repayable on or before 24th August, 2006 and interest-bearing at 15% per annum. The amount was fully repaid on 24th August, 2006.
- (b) The balance as at 31st December, 2006 was unsecured, interest bearing at 4% per annum and repayable on 15th December, 2007. The balance as at 31st December, 2005 was unsecured, interest-bearing at 10% per annum and not repayable within twelve months from the balance sheet date. Impairment loss has been recognised in respect of the balance during the year in view of financial uncertainty of the investee.
- (c) The balances as at 31st December, 2006 were unsecured (2005: unsecured) and interest-bearing at 5% – 7% (2005: 5% – 7%) per annum. HK\$2,187,000 (2005: HK\$983,000) of the balances as at 31st December, 2006 is repayable on demand and is thereby included in current asset and the remaining balance of HK\$1,831,000 (2005: HK\$1,468,000) is not repayable within twelve months from the balance sheet date and is thereby included in non-current assets.

In the opinion of the directors, the carrying amounts of these loans receivable at the balance sheet date approximate their fair values.

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25. DEPOSIT PAID FOR ACQUISITION OF OTHER INVESTMENT

The Company entered into a legally binding memorandum of undertaking with certain independent third parties on 27th December, 2006, pursuant to which the Company proposed to subscribe for convertible and non-convertible notes in an aggregate principal amount of S\$17,000,000 (equivalent to approximately HK\$85,850,000) in cash. As at 31st December, 2006, deposit amounting to S\$2,000,000 (equivalent to approximate HK\$10,139,000) as required under the memorandum of undertaking was paid. Details of this transaction are set out in the Circular to the shareholders of the Company dated 25th January, 2007.

26. INVENTORY OF PROPERTIES

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Properties under development, at cost	1,860,095	1,363,587
Properties held for sale, at cost	86,814	55,507
	1,946,909	1,419,094

The Group's properties under development and properties held for sale are located in other regions of the PRC.

As at the balance sheet date, the carrying amount of leasehold interests in land included in inventory of properties which is held under long-term leases was HK\$587,191,000 (2005: HK\$1,017,609,000).

As further detailed in note 42, certain of the Group's inventory of properties were pledged as at the balance sheet date.

27. OTHER INVENTORIES

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Raw materials	66,252	55,633	–	–
Work-in-progress	10,526	4,479	–	–
Finished goods	22,488	28,652	2,848	2,392
	99,266	88,764	2,848	2,392
Inventories stated				
At cost	85,591	76,588	2,848	2,392
At net realisable value	13,675	12,176	–	–
	99,266	88,764	2,848	2,392

28. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade receivable	160,905	144,668	7,468	19,744
Prepayments and deposits	223,584	76,571	3,885	230
Other receivables	86,532	73,929	21,159	13,053
	471,021	295,168	32,512	33,027

For the year ended 31st December, 2006

28. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group maintains a defined credit policy. For sales of goods, the Group allows an average credit period of 60 days to its trade customers. Rentals receivable from tenants and service income receivable from customers are payable on presentation of invoices. The aged analysis of the trade receivables of the Group and the Company as at the balance sheet date is as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Current	93,037	90,673	7,434	18,886
31 – 60 days	53,355	34,613	34	858
61 – 90 days	8,879	9,066	–	–
91 – 180 days	4,051	6,887	–	–
181 – 360 days	978	2,276	–	–
Over 360 days	605	1,153	–	–
	160,905	144,668	7,468	19,744

Included in the balance of prepayments and deposits as at 31st December, 2006 was a prepayment amounting to HK\$135,819,000 for acquiring the right for primary development on certain areas of land in Hohhot, Inner Mongolia.

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

29. AMOUNTS DUE FROM/TO SUBSIDIARIES

The balances are unsecured and repayable on demand. Except for an amount of HK\$25,084,000, the balances due from the subsidiaries are interest-free. Except for an amount of HK\$1,985,218,000, the balances due to the subsidiaries are interest-free. The directors consider that the carrying amounts of the balances approximate their fair values.

30. AMOUNT(S) DUE FROM ASSOCIATES/JOINTLY CONTROLLED ENTITIES/INVESTEES/A RELATED PARTY

- (a) The balances are unsecured, interest-free and repayable on demand.
- (b) During the year, the Group advanced approximately HK\$44,203,000 to a PRC entity which is wholly owned by a director of one of the Company's subsidiaries. The advance is unsecured, interest-free and repayable on demand.

The directors consider that the carrying amounts of the above balances approximate their fair values.

31. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Assets		
Equity derivatives	1,292	–

As at 31st December, 2006, the Group held two forward contracts in respect of the shares of a listed company in Hong Kong (the "Shares"). The aggregate notional amount of the contracts as at 31 December 2006 was HK\$123,173,000. Under the contracts, the Group is required to buy certain numbers of the Shares, depending on the market price of the listed company's shares on each of the settlement dates during the period of the contracts at the underlying forward prices. When the market price of the listed company's shares exceeds the knock-out prices as set forth in the contracts, the contracts would be terminated.

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31. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Further details about the terms of these contracts are as follows:

	Forward price HK\$	Number of Shares# Lower	Higher	Knock-out price HK\$	Maturity date
Contract 1	14.625	43,500	87,000	17.0625	14 May 2007
Contract 2	14.4254	38,000	76,000	17.064	17 July 2007

settle on weekly basis

The equity derivatives are not designated as hedging instrument according to HKAS 39 and are measured at fair value, as determined by an independent financial institution.

32. BANK BALANCES AND CASH

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$403,160,000 (2005: HK\$307,431,000). The RMB is not freely convertible into other currencies.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short-term time deposits are made for periods varying from one day to seven days, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

33. ASSETS CLASSIFIED AS HELD FOR SALE

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Investment properties (note a)	24,914	50,005
Interest in an associate (note b)	131,590	–
	156,504	50,005

- (a) As the Group has entered into provisional sale and purchase agreements with independent third parties to dispose of these properties, these properties were revalued as at 31st December, 2006 based on the selling price as stipulated in the provisional sale and purchase agreements and are reclassified as "assets classified as held for sale".
- (b) In September 2006, the Group entered into a non-legally binding letter of intent in relation to the proposed disposal of its 20% effective interest in a property development project (the "Development Project").

On 2nd March, 2007, SMC Property Investment Limited ("SMC Property"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "SP Agreement") with a related company and an independent third party in relation to the disposal of the entire issued share capital of Allright Investments Limited ("Allright") and assigned to the purchaser the total principal amount due from Allright to SMC Property at an aggregate consideration of HK\$177,302,000 (the "Sale"). The Development Project is effectively held by Yue Tian, an associate of the Group in which Allright holds 20% equity interest. Further details about the Sale are set out in a circular to the shareholders of the Company dated 28th March, 2007.

In the opinion of the directors, the Sale is highly probable and the Group's interests in Yue Tian are reclassified and presented in the consolidated balance sheet as "assets classified as held for sale" as at 31st December 2006 accordingly.

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34. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade payables	572,587	275,978	13,559	21,654
Temporary receipts	37,904	53,913	310	318
Deferred income	29,725	30,790	–	–
Other payables and accruals	275,453	594,601	25,131	23,534
	915,669	955,282	39,000	45,506
Current	52,887	65,561	10,622	17,796
31 – 60 days	352,060	14,196	938	2,448
61 – 90 days	21,722	6,273	57	212
91 – 180 days	5,431	2,005	911	198
181 – 360 days	9,731	83,689	32	–
Over 360 days	130,756	104,254	999	1,000
	572,587	275,978	13,559	21,654

The directors consider that the carrying amount of trade and other payables approximates their fair values.

35. AMOUNT(S) DUE TO AN ASSOCIATE/JOINTLY CONTROLLED ENTITIES/MINORITY SHAREHOLDERS

The amounts due are unsecured, interest-free and repayable on demand. The directors consider that the carrying amounts of the balance approximate their fair values.

36. PROVISIONS

	Provision for claim HK\$'000	Guarantee HK\$'000	Total HK\$'000
THE GROUP			
At 1st January, 2005	12,870	–	12,870
Recognised on acquisition of a subsidiary	–	23,478	23,478
Reversal of unutilised provision	(8,970)	–	(8,970)
Utilisation of provision – transfer to trade and other payables	(3,900)	–	(3,900)
At 1st January, 2006 and 31st December, 2006	–	23,478	23,478

As at the date of the acquisition of Tigerlily Overseas Limited ("Tigerlily") on 28th June, 2005, Tigerlily and its subsidiaries gave guarantees to banks for mortgage bank loans granted to purchasers of their properties and for credit facilities granted to third parties which amounted to approximately HK\$382,165,000. Contingent liabilities have arisen from certain of these guarantees and the fair value of the contingent liabilities at the date of acquisition as assessed by the directors of the Company amounted to HK\$23,478,000, which, in the opinion of the directors, approximates the amount of provision required as at the balance sheet date.

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37. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank loans	939,010	664,378	372,948	242,000
Other loan	–	49,016	–	–
	939,010	713,394	372,948	242,000
Secured	512,905	291,851	–	–
Unsecured	426,105	421,543	372,948	242,000
	939,010	713,394	372,948	242,000
The maturity of the above borrowings is as follows:				
Bank loans:				
– due within one year	832,434	334,501	372,948	242,000
– more than one year, but not exceeding two years	3,470	225,253	–	–
– more than two years, but not exceeding five years	11,720	13,731	–	–
– more than five years	91,386	90,893	–	–
	939,010	664,378	372,948	242,000
Other loan:				
– more than one year, but not exceeding two years	–	49,016	–	–
	939,010	713,394	372,948	242,000
Less: Amounts due within one year included in current liabilities	(832,434)	(334,501)	(372,948)	(242,000)
Amounts due after one year included in non-current liabilities	106,576	378,893	–	–

The carrying amounts of the bank and other loans are denominated in the following currencies:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong Dollar	363,922	262,000	363,922	242,000
RMB	452,862	332,541	–	–
US Dollar	122,226	112,849	9,026	–
Canadian Dollar	–	6,004	–	–
	939,010	713,394	372,948	242,000

The RMB bank loans as at 31st December, 2006 were arranged at fixed interest rates of 5.76% to 7.49% per annum. RMB loans equivalent to HK\$283,525,000 as at 31st December, 2005 were bank loans which were arranged at fixed interest rates of 5.58% to 7.49% per annum while the remaining balance of HK\$49,016,000 was other loan which was arranged at fixed interest rate of 8% per annum.

The remaining loan balances at 31st December, 2006 are bank loans denominated in HK\$ and US Dollar and are arranged at floating rates ranging from 1.51% to 5.90% (2005: 4.5% to 5.08%) per annum.

In the opinion of the directors, the carrying amounts of the Group's and the Company's current and non-current borrowings approximate their fair values. The fair values of the non-current borrowings are calculated by discounting their expected future cash flows at market rate.

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38. SHARE CAPITAL

	2006		2005	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
(a) Authorised:				
Ordinary shares of HK\$0.50 each				
Balance at beginning and end of year	<u>900,000</u>	<u>450,000</u>	<u>900,000</u>	<u>450,000</u>
(b) Issued and fully paid:				
Ordinary shares of HK\$0.50 each				
Balance at beginning of year	500,485	250,242	447,893	223,946
Shares issued as scrip dividend	–	–	9,092	4,546
Shares issued on acquisitions	<u>25,000</u>	<u>12,500</u>	<u>43,500</u>	<u>21,750</u>
Balance at end of year	<u>525,485</u>	<u>262,742</u>	<u>500,485</u>	<u>250,242</u>

The shares issued during the year ranked pari passu with existing shares in all respect.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

(c) Share option scheme

The Company

At the annual general meeting of the Company held on 11th May, 2005, the shareholders of the Company approved the adoption of a new share option scheme (the "Scheme") for a period of 10 years commencing on the adoption date. Since 11th May, 2005, the board of directors of the Company may, at its discretion, grant share options to any eligible person to subscribe for shares in the Company subject to the terms and conditions as stipulated in the Scheme. No share options were granted during the period since adoption.

Subsidiaries

Pursuant to the Company's shareholders approval in the extraordinary general meeting held on 11th November, 2002, the share option schemes of Appeon Corporation ("Appeon") and Galactic Computing Corporation ("Galactic"), subsidiaries of the Company, became effective. Certain directors, employees and consultants of Appeon and Galactic were granted options as an incentive to them for their continuing contribution to the companies they worked for at a consideration of HK\$1.00 on acceptance of the option offer. Details of the share option schemes of the subsidiaries are set out in the Company's circular to the shareholders dated 25th October, 2002.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme of Appeon ("Appeon Scheme"), together with all outstanding options granted and yet to be exercised under any other share option scheme(s) of Appeon and/or its subsidiary, must not exceed 30% of the number of the issued shares from time to time (subject to the approval of the shareholders of the Company). At the date of issue of these financial statements, the total maximum number of options available for further issue under the Appeon Scheme amounted to 866,985 (subject to approval of the shareholders of the Company) which represented 23.70% of the issued share capital of Appeon (excluding any shares issued pursuant to the Appeon Scheme) on the same date.

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38. SHARE CAPITAL (Continued)**(c) Share option scheme** (Continued)

Movements in the options to subscribe for shares in Apeon for the year ended 31st December, 2006 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options				
				As at 1.1.2006	Cancelled during the year	Granted during the year	As at 31.12.2006	
Mr. Billy K Yung	09.06.2003	09.06.2003 – 10.11.2012	2.50	6,750	–	–	6,750	
	09.06.2003	01.10.2003 – 10.11.2012	2.50	3,375	–	–	3,375	
	09.06.2003	01.04.2004 – 10.11.2012	2.50	3,375	–	–	3,375	
	09.06.2003	01.10.2004 – 10.11.2012	2.50	3,375	–	–	3,375	
	09.06.2003	01.04.2005 – 10.11.2012	2.50	3,375	–	–	3,375	
	09.06.2003	01.10.2005 – 10.11.2012	2.50	3,375	–	–	3,375	
	09.06.2003	01.04.2006 – 10.11.2012	2.50	3,375	–	–	3,375	
					27,000	–	–	27,000
Other directors of Apeon	25.11.2002	25.11.2002 – 10.11.2012	2.50	11,812	(11,250)	–	562	
	25.11.2002	01.04.2003 – 10.11.2012	2.50	11,813	(11,250)	–	563	
	25.11.2002	01.10.2003 – 10.11.2012	2.50	11,812	(11,250)	–	562	
	25.11.2002	01.04.2004 – 10.11.2012	2.50	11,813	(11,250)	–	563	
	25.11.2002	01.10.2004 – 10.11.2012	2.50	11,812	(11,250)	–	562	
	25.11.2002	01.04.2005 – 10.11.2012	2.50	11,813	(11,250)	–	563	
	25.11.2002	01.10.2005 – 10.11.2012	2.50	11,812	(11,250)	–	562	
	25.11.2002	01.04.2006 – 10.11.2012	2.50	11,813	(11,250)	–	563	
	02.06.2003	02.06.2003 – 10.11.2012	2.50	2,250	–	–	2,250	
	02.06.2003	01.10.2003 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.04.2004 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.10.2004 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.04.2005 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.10.2005 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.04.2006 – 10.11.2012	2.50	1,125	–	–	1,125	
	25.05.2005	25.05.2005 – 10.11.2012	3.00	10,000	–	–	10,000	
	25.05.2005	01.07.2005 – 10.11.2012	3.00	10,000	–	–	10,000	
	25.05.2005	01.01.2006 – 10.11.2012	3.00	10,000	–	–	10,000	
	25.05.2005	01.07.2006 – 10.11.2012	3.00	10,000	–	–	10,000	
	25.05.2005	01.01.2007 – 10.11.2012	3.00	10,000	–	–	10,000	
	25.05.2005	01.07.2007 – 10.11.2012	3.00	10,000	–	–	10,000	
	25.05.2005	01.01.2008 – 10.11.2012	3.00	10,000	–	–	10,000	
	25.05.2005	01.07.2008 – 10.11.2012	3.00	10,000	–	–	10,000	
					183,500	(90,000)	–	93,500
	Employees	25.11.2002	25.11.2002 – 10.11.2012	2.50	7,687	–	–	7,687
		25.11.2002	01.04.2003 – 10.11.2012	2.50	5,813	–	–	5,813
		25.11.2002	01.10.2003 – 10.11.2012	2.50	5,812	–	–	5,812
		25.11.2002	01.04.2004 – 10.11.2012	2.50	5,813	–	–	5,813
25.11.2002		01.10.2004 – 10.11.2012	2.50	5,812	–	–	5,812	
25.11.2002		01.04.2005 – 10.11.2012	2.50	5,813	–	–	5,813	
25.11.2002		01.10.2005 – 10.11.2012	2.50	5,812	–	–	5,812	
25.11.2002		01.04.2006 – 10.11.2012	2.50	3,938	–	–	3,938	
02.06.2003		02.06.2003 – 10.11.2012	2.50	750	–	–	750	
02.06.2003		01.10.2003 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.04.2004 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.10.2004 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.04.2005 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.10.2005 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.04.2006 – 10.11.2012	2.50	375	–	–	375	

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38. SHARE CAPITAL (Continued)

(c) Share option scheme (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			
				As at 1.1.2006	Cancelled during the year	Granted during the year	As at 31.12.2006
Employees (continued)	25.05.2005	25.05.2005 – 10.11.2012	3.00	625	(625)	–	–
	25.05.2005	01.10.2005 – 10.11.2012	3.00	625	(625)	–	–
	25.05.2005	01.04.2006 – 10.11.2012	3.00	625	(625)	–	–
	25.05.2005	01.10.2006 – 10.11.2012	3.00	625	(625)	–	–
	25.05.2005	01.04.2007 – 10.11.2012	3.00	625	(625)	–	–
	25.05.2005	01.10.2007 – 10.11.2012	3.00	625	(625)	–	–
	25.05.2005	01.04.2008 – 10.11.2012	3.00	625	(625)	–	–
	25.05.2005	01.10.2008 – 10.11.2012	3.00	625	(625)	–	–
	26.09.2005	01.03.2006 – 10.11.2012	3.00	1,625	–	–	1,625
	26.09.2005	01.09.2006 – 10.11.2012	3.00	1,625	–	–	1,625
	26.09.2005	01.03.2007 – 10.11.2012	3.00	1,625	–	–	1,625
	26.09.2005	01.09.2007 – 10.11.2012	3.00	1,625	–	–	1,625
	26.09.2005	01.03.2008 – 10.11.2012	3.00	1,625	–	–	1,625
	26.09.2005	01.09.2008 – 10.11.2012	3.00	1,625	–	–	1,625
	26.09.2005	01.03.2009 – 10.11.2012	3.00	1,625	–	–	1,625
	26.09.2005	01.09.2009 – 10.11.2012	3.00	1,625	–	–	1,625
	17.10.2005	18.02.2006 – 10.11.2012	3.00	1,000	(1,000)	–	–
	17.10.2005	18.08.2006 – 10.11.2012	3.00	1,000	(1,000)	–	–
	17.10.2005	18.02.2007 – 10.11.2012	3.00	1,000	(1,000)	–	–
	17.10.2005	18.08.2007 – 10.11.2012	3.00	1,000	(1,000)	–	–
	17.10.2005	18.02.2008 – 10.11.2012	3.00	1,000	(1,000)	–	–
	17.10.2005	18.08.2008 – 10.11.2012	3.00	1,000	(1,000)	–	–
	17.10.2005	18.02.2009 – 10.11.2012	3.00	1,000	(1,000)	–	–
	17.10.2005	18.08.2009 – 10.11.2012	3.00	1,000	(1,000)	–	–
	18.01.2006	17.07.2006 – 10.11.2012	3.00	–	–	1,250	1,250
	18.01.2006	17.01.2007 – 10.11.2012	3.00	–	–	1,250	1,250
	18.01.2006	17.07.2007 – 10.11.2012	3.00	–	–	1,250	1,250
	18.01.2006	17.01.2008 – 10.11.2012	3.00	–	–	1,250	1,250
	18.01.2006	17.07.2008 – 10.11.2012	3.00	–	–	1,250	1,250
	18.01.2006	17.01.2009 – 10.11.2012	3.00	–	–	1,250	1,250
	18.01.2006	17.07.2009 – 10.11.2012	3.00	–	–	1,250	1,250
	18.01.2006	17.01.2010 – 10.11.2012	3.00	–	–	1,250	1,250
	01.06.2006	14.10.2006 – 10.11.2012	3.00	–	–	875	875
01.06.2006	14.04.2007 – 10.11.2012	3.00	–	–	875	875	
01.06.2006	14.10.2007 – 10.11.2012	3.00	–	–	875	875	
01.06.2006	14.04.2008 – 10.11.2012	3.00	–	–	875	875	
01.06.2006	14.10.2008 – 10.11.2012	3.00	–	–	875	875	
01.06.2006	14.04.2009 – 10.11.2012	3.00	–	–	875	875	
01.06.2006	14.10.2009 – 10.11.2012	3.00	–	–	875	875	
01.06.2006	14.04.2010 – 10.11.2012	3.00	–	–	875	875	
				75,500	(13,000)	17,000	79,500

For the year ended 31st December, 2006

38. SHARE CAPITAL (Continued)**(c) Share option scheme** (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options				
				As at 1.1.2006	Cancelled during the year	Granted during the year	As at 31.12.2006	
Consultants of Appeon	25.11.2002	25.11.2002 – 10.11.2012	2.50	1,250	–	–	1,250	
	25.11.2002	01.04.2003 – 10.11.2012	2.50	1,250	–	–	1,250	
	25.11.2002	01.10.2003 – 10.11.2012	2.50	1,250	–	–	1,250	
	25.11.2002	01.04.2004 – 10.11.2012	2.50	1,250	–	–	1,250	
	25.11.2002	01.10.2004 – 10.11.2012	2.50	1,250	–	–	1,250	
	25.11.2002	01.04.2005 – 10.11.2012	2.50	1,250	–	–	1,250	
	25.11.2002	01.10.2005 – 10.11.2012	2.50	1,250	–	–	1,250	
	25.11.2002	01.04.2006 – 10.11.2012	2.50	1,250	–	–	1,250	
	09.06.2003	09.06.2003 – 10.11.2012	0.10	5,106	–	–	5,106	
	09.06.2003	01.10.2003 – 10.11.2012	0.10	2,553	–	–	2,553	
	09.06.2003	01.04.2004 – 10.11.2012	0.10	2,553	–	–	2,553	
	09.06.2003	01.10.2004 – 10.11.2012	0.10	2,553	–	–	2,553	
	09.06.2003	01.04.2005 – 10.11.2012	0.10	2,553	–	–	2,553	
	09.06.2003	01.10.2005 – 10.11.2012	0.10	2,553	–	–	2,553	
	09.06.2003	01.04.2006 – 10.11.2012	0.10	2,554	–	–	2,554	
					30,425	–	–	30,425
					<u>316,425</u>	<u>(103,000)</u>	<u>17,000</u>	<u>230,425</u>

No option was exercised by the grantees during the year.

Movements in the options to subscribe for shares in Appeon for the year ended 31st December, 2005 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			
				As at 1.1.2005	Cancelled during the year	Granted during the year	As at 31.12.2005
Mr. Billy K Yung	09.06.2003	09.06.2003 – 10.11.2012	2.50	6,750	–	–	6,750
	09.06.2003	01.10.2003 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.04.2004 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.10.2004 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.04.2005 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.10.2005 – 10.11.2012	2.50	3,375	–	–	3,375
	09.06.2003	01.04.2006 – 10.11.2012	2.50	3,375	–	–	3,375
					27,000	–	–
Other directors of Appeon	25.11.2002	25.11.2002 – 10.11.2012	2.50	23,062	(11,250)	–	11,812
	25.11.2002	01.04.2003 – 10.11.2012	2.50	23,063	(11,250)	–	11,813
	25.11.2002	01.10.2003 – 10.11.2012	2.50	23,062	(11,250)	–	11,812
	25.11.2002	01.04.2004 – 10.11.2012	2.50	23,063	(11,250)	–	11,813
	25.11.2002	01.10.2004 – 10.11.2012	2.50	23,062	(11,250)	–	11,812
	25.11.2002	01.04.2005 – 10.11.2012	2.50	23,063	(11,250)	–	11,813
	25.11.2002	01.10.2005 – 10.11.2012	2.50	23,062	(11,250)	–	11,812
	25.11.2002	01.04.2006 – 10.11.2012	2.50	23,063	(11,250)	–	11,813

For the year ended 31st December, 2006

38. SHARE CAPITAL (Continued)

(c) Share option scheme (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options				
				As at 1.1.2005	Cancelled during the year	Granted during the year	As at 31.12.2005	
Other directors of Appeon (continued)	02.06.2003	02.06.2003 – 10.11.2012	2.50	2,250	–	–	2,250	
	02.06.2003	01.10.2003 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.04.2004 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.10.2004 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.04.2005 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.10.2005 – 10.11.2012	2.50	1,125	–	–	1,125	
	02.06.2003	01.04.2006 – 10.11.2012	2.50	1,125	–	–	1,125	
	25.05.2005	25.05.2005 – 10.11.2012	3.00	–	–	10,000	10,000	
	25.05.2005	01.07.2005 – 10.11.2012	3.00	–	–	10,000	10,000	
	25.05.2005	01.01.2006 – 10.11.2012	3.00	–	–	10,000	10,000	
	25.05.2005	01.07.2006 – 10.11.2012	3.00	–	–	10,000	10,000	
	25.05.2005	01.01.2007 – 10.11.2012	3.00	–	–	10,000	10,000	
	25.05.2005	01.07.2007 – 10.11.2012	3.00	–	–	10,000	10,000	
	25.05.2005	01.01.2008 – 10.11.2012	3.00	–	–	10,000	10,000	
	25.05.2005	01.07.2008 – 10.11.2012	3.00	–	–	10,000	10,000	
					193,500	(90,000)	80,000	183,500
	Employees	25.11.2002	25.11.2002 – 10.11.2012	2.50	12,687	(5,000)	–	7,687
25.11.2002		01.04.2003 – 10.11.2012	2.50	7,063	(1,250)	–	5,813	
25.11.2002		01.10.2003 – 10.11.2012	2.50	7,062	(1,250)	–	5,812	
25.11.2002		01.04.2004 – 10.11.2012	2.50	7,063	(1,250)	–	5,813	
25.11.2002		01.10.2004 – 10.11.2012	2.50	7,062	(1,250)	–	5,812	
25.11.2002		01.04.2005 – 10.11.2012	2.50	5,813	–	–	5,813	
25.11.2002		01.10.2005 – 10.11.2012	2.50	5,812	–	–	5,812	
25.11.2002		01.04.2006 – 10.11.2012	2.50	3,938	–	–	3,938	
02.06.2003		02.06.2003 – 10.11.2012	2.50	750	–	–	750	
02.06.2003		01.10.2003 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.04.2004 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.10.2004 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.04.2005 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.10.2005 – 10.11.2012	2.50	375	–	–	375	
02.06.2003		01.04.2006 – 10.11.2012	2.50	375	–	–	375	
25.05.2005		25.05.2005 – 10.11.2012	3.00	–	–	625	625	
25.05.2005		01.10.2005 – 10.11.2012	3.00	–	–	625	625	
25.05.2005		01.04.2006 – 10.11.2012	3.00	–	–	625	625	
25.05.2005		01.10.2006 – 10.11.2012	3.00	–	–	625	625	
25.05.2005		01.04.2007 – 10.11.2012	3.00	–	–	625	625	
25.05.2005		01.10.2007 – 10.11.2012	3.00	–	–	625	625	
25.05.2005		01.04.2008 – 10.11.2012	3.00	–	–	625	625	
25.05.2005		01.10.2008 – 10.11.2012	3.00	–	–	625	625	
26.09.2005		01.03.2006 – 10.11.2012	3.00	–	–	1,625	1,625	
26.09.2005		01.09.2006 – 10.11.2012	3.00	–	–	1,625	1,625	
26.09.2005		01.03.2007 – 10.11.2012	3.00	–	–	1,625	1,625	
26.09.2005		01.09.2007 – 10.11.2012	3.00	–	–	1,625	1,625	
26.09.2005		01.03.2008 – 10.11.2012	3.00	–	–	1,625	1,625	
26.09.2005		01.09.2008 – 10.11.2012	3.00	–	–	1,625	1,625	
26.09.2005		01.03.2009 – 10.11.2012	3.00	–	–	1,625	1,625	
26.09.2005		01.09.2009 – 10.11.2012	3.00	–	–	1,625	1,625	

For the year ended 31st December, 2006

38. SHARE CAPITAL (Continued)**(c) Share option scheme** (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			
				As at 1.1.2005	Cancelled during the year	Granted during the year	As at 31.12.2005
Employees (continued)	17.10.2005	18.02.2006 – 10.11.2012	3.00	–	–	1,000	1,000
	17.10.2005	18.08.2006 – 10.11.2012	3.00	–	–	1,000	1,000
	17.10.2005	18.02.2007 – 10.11.2012	3.00	–	–	1,000	1,000
	17.10.2005	18.08.2007 – 10.11.2012	3.00	–	–	1,000	1,000
	17.10.2005	18.02.2008 – 10.11.2012	3.00	–	–	1,000	1,000
	17.10.2005	18.08.2008 – 10.11.2012	3.00	–	–	1,000	1,000
	17.10.2005	18.02.2009 – 10.11.2012	3.00	–	–	1,000	1,000
	17.10.2005	18.08.2009 – 10.11.2012	3.00	–	–	1,000	1,000
				59,500	(10,000)	26,000	75,500
Consultants of Apeon	25.11.2002	25.11.2002 – 10.11.2012	2.50	1,625	(375)	–	1,250
	25.11.2002	01.04.2003 – 10.11.2012	2.50	1,625	(375)	–	1,250
	25.11.2002	01.10.2003 – 10.11.2012	2.50	1,625	(375)	–	1,250
	25.11.2002	01.04.2004 – 10.11.2012	2.50	1,625	(375)	–	1,250
	25.11.2002	01.10.2004 – 10.11.2012	2.50	1,625	(375)	–	1,250
	25.11.2002	01.04.2005 – 10.11.2012	2.50	1,625	(375)	–	1,250
	25.11.2002	01.10.2005 – 10.11.2012	2.50	1,625	(375)	–	1,250
	25.11.2002	01.04.2006 – 10.11.2012	2.50	1,625	(375)	–	1,250
	09.06.2003	09.06.2003 – 10.11.2012	0.10	5,106	–	–	5,106
	09.06.2003	01.10.2003 – 10.11.2012	0.10	2,553	–	–	2,553
	09.06.2003	01.04.2004 – 10.11.2012	0.10	2,553	–	–	2,553
	09.06.2003	01.10.2004 – 10.11.2012	0.10	2,553	–	–	2,553
	09.06.2003	01.04.2005 – 10.11.2012	0.10	2,553	–	–	2,553
	09.06.2003	01.10.2005 – 10.11.2012	0.10	2,553	–	–	2,553
	09.06.2003	01.04.2006 – 10.11.2012	0.10	2,554	–	–	2,554
					33,425	(3,000)	–
Others	09.06.2003	03.05.2004 – 02.05.2005	2.50	6,750	(6,750)	–	–
	09.06.2003	03.05.2004 – 02.05.2005	2.50	3,375	(3,375)	–	–
	09.06.2003	03.05.2004 – 02.05.2005	2.50	3,375	(3,375)	–	–
				13,500	(13,500)	–	–
				326,925	(116,500)	106,000	316,425

No option was exercised by the grantees during the year.

For the year ended 31st December, 2006

38. SHARE CAPITAL *(Continued)*

(c) Share option scheme *(Continued)*

No option was exercised by the grantees during the year.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme of Galactic ("Galactic Scheme"), together with all outstanding options granted and yet to be exercised under other share option scheme(s) of Galactic and/or its subsidiary, must not exceed 30% of the number of issued shares from time to time (subject to the approval of the shareholders of the Company). At the date of issue of these financial statements, the total number of options available for issue under the Galactic Scheme amounted to 6,022,122 (subject to the approval of the shareholders of the Company) which represented 25.24% of the issued share capital of Galactic (excluding any shares issued pursuant to the Galactic Scheme) on the same date.

Movements in the options to subscribe for shares in Galactic for the year ended 31st December, 2006 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			
				As at 1.1.2006	Cancelled during the period	Granted during the period	As at 31.12.2006
Mr. Billy K Yung	09.06.2003	09.06.2003 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2003 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2004 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2004 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2005 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2005 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2006 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2006 – 10.11.2012	0.45	25,000	–	–	25,000
				200,000	–	–	200,000
Other directors of Galactic	25.11.2002	01.06.2003 – 10.11.2012	0.45	28,750	(6,250)	–	22,500
	25.11.2002	01.12.2003 – 10.11.2012	0.45	28,750	(6,250)	–	22,500
	25.11.2002	01.06.2004 – 10.11.2012	0.45	28,750	(6,250)	–	22,500
	25.11.2002	01.12.2004 – 10.11.2012	0.45	28,750	(6,250)	–	22,500
	25.11.2002	01.06.2005 – 10.11.2012	0.45	28,750	(6,250)	–	22,500
	25.11.2002	01.12.2005 – 10.11.2012	0.45	28,750	(6,250)	–	22,500
	25.11.2002	01.06.2006 – 10.11.2012	0.45	28,750	(6,250)	–	22,500
	25.11.2002	01.12.2006 – 10.11.2012	0.45	28,750	(6,250)	–	22,500
	09.06.2003	09.06.2003 – 10.11.2012	0.45	47,500	(6,250)	–	41,250
	09.06.2003	01.12.2003 – 10.11.2012	0.45	47,500	(6,250)	–	41,250
	09.06.2003	01.06.2004 – 10.11.2012	0.45	47,500	(6,250)	–	41,250
	09.06.2003	01.12.2004 – 10.11.2012	0.45	47,500	(6,250)	–	41,250
	09.06.2003	01.06.2005 – 10.11.2012	0.45	47,500	(6,250)	–	41,250
	09.06.2003	01.12.2005 – 10.11.2012	0.45	47,500	(6,250)	–	41,250
	09.06.2003	01.06.2006 – 10.11.2012	0.45	47,500	(6,250)	–	41,250
	09.06.2003	01.12.2006 – 10.11.2012	0.45	47,500	(6,250)	–	41,250
	25.05.2005	25.05.2005 – 10.11.2012	0.60	50,000	(50,000)	–	–
	25.05.2005	01.07.2005 – 10.11.2012	0.60	18,750	(18,750)	–	–
	25.05.2005	01.10.2005 – 10.11.2012	0.60	12,500	(12,500)	–	–
	25.05.2005	01.01.2006 – 10.11.2012	0.60	18,750	(18,750)	–	–
25.05.2005	01.04.2006 – 10.11.2012	0.60	12,500	(12,500)	–	–	
25.05.2005	01.07.2006 – 10.11.2012	0.60	18,750	(18,750)	–	–	
25.05.2005	01.10.2006 – 10.11.2012	0.60	12,500	(12,500)	–	–	
25.05.2005	01.01.2007 – 10.11.2012	0.60	18,750	(18,750)	–	–	
25.05.2005	01.04.2007 – 10.11.2012	0.60	12,500	(12,500)	–	–	
25.05.2005	01.07.2007 – 10.11.2012	0.60	18,750	(18,750)	–	–	
25.05.2005	01.10.2007 – 10.11.2012	0.60	12,500	(12,500)	–	–	
25.05.2005	01.01.2008 – 10.11.2012	0.60	18,750	(18,750)	–	–	
25.05.2005	01.04.2008 – 10.11.2012	0.60	12,500	(12,500)	–	–	
25.05.2005	01.10.2008 – 10.11.2012	0.60	12,500	(12,500)	–	–	
				860,000	(350,000)	–	510,000

For the year ended 31st December, 2006

38. SHARE CAPITAL (Continued)

(c) Share option scheme (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options				
				As at 1.1.2006	Cancelled during the period	Granted during the period	As at 31.12.2006	
Employees	25.11.2002	01.06.2003 – 10.11.2012	0.45	6,250	–	–	6,250	
	25.11.2002	01.12.2003 – 10.11.2012	0.45	6,250	–	–	6,250	
	25.11.2002	01.06.2004 – 10.11.2012	0.45	6,250	–	–	6,250	
	25.11.2002	01.12.2004 – 10.11.2012	0.45	6,250	–	–	6,250	
	25.11.2002	01.06.2005 – 10.11.2012	0.45	6,250	–	–	6,250	
	25.11.2002	01.12.2005 – 10.11.2012	0.45	6,250	–	–	6,250	
	25.11.2002	01.06.2006 – 10.11.2012	0.45	6,250	–	–	6,250	
	25.11.2002	01.12.2006 – 10.11.2012	0.45	6,250	–	–	6,250	
		01.06.2004	01.06.2004 – 10.11.2012	0.45	18,750	–	–	18,750
		01.06.2004	01.01.2005 – 10.11.2012	0.45	18,750	–	–	18,750
		01.06.2004	01.03.2005 – 10.11.2012	0.45	25,000	(25,000)	–	–
		01.06.2004	01.07.2005 – 10.11.2012	0.45	18,750	–	–	18,750
		01.06.2004	01.01.2006 – 10.11.2012	0.45	18,750	–	–	18,750
		01.06.2004	01.07.2006 – 10.11.2012	0.45	18,750	–	–	18,750
		01.06.2004	01.01.2007 – 10.11.2012	0.45	18,750	–	–	18,750
		01.06.2004	01.07.2007 – 10.11.2012	0.45	18,750	–	–	18,750
		01.06.2004	01.01.2008 – 10.11.2012	0.45	18,750	–	–	18,750
		25.05.2005	25.05.2005 – 10.11.2012	0.60	38,750	(22,500)	–	16,250
		25.05.2005	01.10.2005 – 10.11.2012	0.60	38,750	(22,500)	–	16,250
		25.05.2005	01.04.2006 – 10.11.2012	0.60	22,500	(16,250)	–	6,250
		25.05.2005	01.10.2006 – 10.11.2012	0.60	22,500	(16,250)	–	6,250
		25.05.2005	01.04.2007 – 10.11.2012	0.60	22,500	(16,250)	–	6,250
		25.05.2005	01.10.2007 – 10.11.2012	0.60	22,500	(16,250)	–	6,250
		25.05.2005	01.04.2008 – 10.11.2012	0.60	22,500	(16,250)	–	6,250
		25.05.2005	01.10.2008 – 10.11.2012	0.60	22,500	(16,250)	–	6,250
					437,500	(167,500)	–	270,000
	Consultants of Galactic	25.11.2002	01.06.2003 – 16.12.2007	0.45	31,250	–	–	31,250
		25.11.2002	01.12.2003 – 16.12.2007	0.45	31,250	–	–	31,250
25.11.2002		01.06.2004 – 16.12.2007	0.45	31,250	–	–	31,250	
25.11.2002		01.12.2004 – 16.12.2007	0.45	31,250	–	–	31,250	
25.11.2002		01.06.2005 – 16.12.2007	0.45	31,250	–	–	31,250	
				156,250	–	–	156,250	
				<u>1,653,750</u>	<u>(517,500)</u>	<u>–</u>	<u>1,136,250</u>	

No option was exercised by the grantees during the year.

For the year ended 31st December, 2006

38. SHARE CAPITAL (Continued)

(c) Share option scheme (Continued)

Movements in the options to subscribe for shares in Galactic for the year ended 31st December, 2005 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			
				As at 1.1.2005	Cancelled during the year	Granted during the year	As at 31.12.2005
Mr. Billy K Yung	09.06.2003	09.06.2003 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2003 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2004 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2004 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2005 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2005 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.06.2006 – 10.11.2012	0.45	25,000	–	–	25,000
	09.06.2003	01.12.2006 – 10.11.2012	0.45	25,000	–	–	25,000
				200,000	–	–	200,000
Other directors of Galactic	25.11.2002	01.06.2003 – 10.11.2012	0.45	28,750	–	–	28,750
	25.11.2002	01.12.2003 – 10.11.2012	0.45	28,750	–	–	28,750
	25.11.2002	01.06.2004 – 10.11.2012	0.45	28,750	–	–	28,750
	25.11.2002	01.12.2004 – 10.11.2012	0.45	28,750	–	–	28,750
	25.11.2002	01.06.2005 – 10.11.2012	0.45	28,750	–	–	28,750
	25.11.2002	01.12.2005 – 10.11.2012	0.45	28,750	–	–	28,750
	25.11.2002	01.06.2006 – 10.11.2012	0.45	28,750	–	–	28,750
	25.11.2002	01.12.2006 – 10.11.2012	0.45	28,750	–	–	28,750
	09.06.2003	09.06.2003 – 10.11.2012	0.45	47,500	–	–	47,500
	09.06.2003	01.12.2003 – 10.11.2012	0.45	47,500	–	–	47,500
	09.06.2003	01.06.2004 – 10.11.2012	0.45	47,500	–	–	47,500
	09.06.2003	01.12.2004 – 10.11.2012	0.45	47,500	–	–	47,500
	09.06.2003	01.06.2005 – 10.11.2012	0.45	47,500	–	–	47,500
	09.06.2003	01.12.2005 – 10.11.2012	0.45	47,500	–	–	47,500
	09.06.2003	01.06.2006 – 10.11.2012	0.45	47,500	–	–	47,500
	09.06.2003	01.12.2006 – 10.11.2012	0.45	47,500	–	–	47,500
	25.05.2005	25.05.2005 – 10.11.2012	0.60	–	–	50,000	50,000
	25.05.2005	01.07.2005 – 10.11.2012	0.60	–	–	18,750	18,750
25.05.2005	01.10.2005 – 10.11.2012	0.60	–	–	12,500	12,500	
25.05.2005	01.01.2006 – 10.11.2012	0.60	–	–	18,750	18,750	
25.05.2005	01.04.2006 – 10.11.2012	0.60	–	–	12,500	12,500	
25.05.2005	01.07.2006 – 10.11.2012	0.60	–	–	18,750	18,750	
25.05.2005	01.10.2006 – 10.11.2012	0.60	–	–	12,500	12,500	
25.05.2005	01.01.2007 – 10.11.2012	0.60	–	–	18,750	18,750	
25.05.2005	01.04.2007 – 10.11.2012	0.60	–	–	12,500	12,500	
25.05.2005	01.07.2007 – 10.11.2012	0.60	–	–	18,750	18,750	
25.05.2005	01.10.2007 – 10.11.2012	0.60	–	–	12,500	12,500	
25.05.2005	01.01.2008 – 10.11.2012	0.60	–	–	18,750	18,750	
25.05.2005	01.04.2008 – 10.11.2012	0.60	–	–	12,500	12,500	
25.05.2005	01.10.2008 – 10.11.2012	0.60	–	–	12,500	12,500	
				610,000	–	250,000	860,000
Employees	25.11.2002	01.06.2003 – 10.11.2012	0.45	6,250	–	–	6,250
	25.11.2002	01.12.2003 – 10.11.2012	0.45	6,250	–	–	6,250
	25.11.2002	01.06.2004 – 10.11.2012	0.45	6,250	–	–	6,250
	25.11.2002	01.12.2004 – 10.11.2012	0.45	6,250	–	–	6,250
	25.11.2002	01.06.2005 – 10.11.2012	0.45	6,250	–	–	6,250
	25.11.2002	01.12.2005 – 10.11.2012	0.45	6,250	–	–	6,250
	25.11.2002	01.06.2006 – 10.11.2012	0.45	6,250	–	–	6,250
	25.11.2002	01.12.2006 – 10.11.2012	0.45	6,250	–	–	6,250

For the year ended 31st December, 2006

38. SHARE CAPITAL (Continued)

(c) Share option scheme (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			
				As at 1.1.2005	Cancelled during the year	Granted during the year	As at 31.12.2005
Employees (continued)	01.06.2004	01.06.2004 – 10.11.2012	0.45	18,750	–	–	18,750
	01.06.2004	01.01.2005 – 10.11.2012	0.45	18,750	–	–	18,750
	01.06.2004	01.03.2005 – 10.11.2012	0.45	25,000	–	–	25,000
	01.06.2004	01.07.2005 – 10.11.2012	0.45	18,750	–	–	18,750
	01.06.2004	01.01.2006 – 10.11.2012	0.45	18,750	–	–	18,750
	01.06.2004	01.03.2006 – 10.11.2012	0.45	25,000	(25,000)	–	–
	01.06.2004	01.07.2006 – 10.11.2012	0.45	18,750	–	–	18,750
	01.06.2004	01.01.2007 – 10.11.2012	0.45	18,750	–	–	18,750
	01.06.2004	01.03.2007 – 10.11.2012	0.45	25,000	(25,000)	–	–
	01.06.2004	01.07.2007 – 10.11.2012	0.45	18,750	–	–	18,750
	01.06.2004	01.01.2008 – 10.11.2012	0.45	18,750	–	–	18,750
	01.06.2004	01.03.2008 – 10.11.2012	0.45	25,000	(25,000)	–	–
	25.05.2005	25.05.2005 – 10.11.2012	0.60	–	–	38,750	38,750
	25.05.2005	01.10.2005 – 10.11.2012	0.60	–	–	38,750	38,750
	25.05.2005	01.04.2006 – 10.11.2012	0.60	–	(16,250)	38,750	22,500
	25.05.2005	01.10.2006 – 10.11.2012	0.60	–	(16,250)	38,750	22,500
	25.05.2005	01.04.2007 – 10.11.2012	0.60	–	(16,250)	38,750	22,500
	25.05.2005	01.10.2007 – 10.11.2012	0.60	–	(16,250)	38,750	22,500
	25.05.2005	01.04.2008 – 10.11.2012	0.60	–	(16,250)	38,750	22,500
	25.05.2005	01.10.2008 – 10.11.2012	0.60	–	(16,250)	38,750	22,500
				300,000	(172,500)	310,000	437,500
Consultants of Galactic	25.11.2002	01.06.2003 – 16.12.2006	0.45	31,250	–	–	31,250
	25.11.2002	01.12.2003 – 16.12.2006	0.45	31,250	–	–	31,250
	25.11.2002	01.06.2004 – 16.12.2006	0.45	31,250	–	–	31,250
	25.11.2002	01.12.2004 – 16.12.2006	0.45	31,250	–	–	31,250
	25.11.2002	01.06.2005 – 16.12.2006	0.45	31,250	–	–	31,250
	25.11.2002	01.12.2005 – 10.11.2012	0.45	31,250	(31,250)	–	–
	25.11.2002	01.06.2006 – 10.11.2012	0.45	31,250	(31,250)	–	–
	25.11.2002	01.12.2006 – 10.11.2012	0.45	31,250	(31,250)	–	–
23.09.2004	23.09.2004 – 10.11.2012	0.45	100,000	(100,000)	–	–	
				350,000	(193,750)	–	156,250
Others	09.06.2003	03.05.2004 – 02.05.2005	0.45	25,000	(25,000)	–	–
	09.06.2003	03.05.2004 – 02.05.2005	0.45	25,000	(25,000)	–	–
				50,000	(50,000)	–	–
				1,510,000	(416,250)	560,000	1,653,750

No option was exercised by the grantees during the year.

The Company considers that it is not appropriate to state the value of the share options granted during the period because generally accepted pricing models of options normally value options which were transferable (share options granted by the subsidiaries were strictly non-transferable). Besides, some parameters under the generally accepted pricing model could only be derived from historical statistical data. Owing to the reasons set out above, the Company considers that any calculation of the value of the subsidiaries' share options would not be meaningful and would be misleading to the shareholders.

The total consideration received during the year from grantees for taking up the options granted is amounted to HK\$2 (2005: HK\$5) for options granted under Appeon Scheme and HK\$6 granted under Galactic Scheme in year 2005.

For the year ended 31st December, 2006

39. SHARE PREMIUM AND RESERVES

Details of the movements on the Group's share premium and reserves are set out in the consolidated statement of changes in equity on page 25. Details of the movements on the Company's share premium and reserves are as follows:

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Available- for-sale financial assets reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY						
At 1st January, 2005	533,489	43,822	–	31,352	957,940	1,566,603
Fair value changes on available-for-sale financial assets recognised directly in equity	–	–	13,020	–	–	13,020
Net profit for the year	–	–	–	–	268,014	268,014
Total recognised income and expense for the year	–	–	13,020	–	268,014	281,034
New shares issued as scrip dividend	8,710	–	–	(13,256)	–	(4,546)
New shares issued on acquisition of subsidiaries	39,150	–	–	–	–	39,150
Interim dividend declared	–	–	–	20,019	(20,019)	–
Dividends paid	–	–	–	(38,115)	–	(38,115)
Final dividend proposed	–	–	–	40,039	(40,039)	–
At 31st December, 2005 and 1st January, 2006	581,349	43,822	13,020	40,039	1,165,896	1,844,126
Fair value changes on available-for-sale financial assets recognised directly in equity (<i>note 23</i>)	–	–	(13,020)	–	–	(13,020)
Net profit for the year	–	–	–	–	11,570	11,570
Total recognised income and expense for the year	–	–	(13,020)	–	11,570	(1,450)
New shares issued on acquisitions of subsidiaries	58,750	–	–	–	–	58,750
Interim dividend declared	–	–	–	20,019	(20,019)	–
Dividends paid	–	–	–	(60,058)	–	(60,058)
Final dividend proposed	–	–	–	42,039	(42,039)	–
At 31st December, 2006	<u>640,099</u>	<u>43,822</u>	<u>–</u>	<u>42,039</u>	<u>1,115,408</u>	<u>1,841,368</u>

For the year ended 31st December, 2006

39. SHARE PREMIUM AND RESERVES (Continued)

The Company's reserves available for distribution to shareholders are as follows:

	2006 HK\$'000	2005 HK\$'000
Dividend reserve	42,039	40,039
Retained profits	1,115,408	1,165,896
	1,157,447	1,205,935

40. LOAN FROM A MINORITY SHAREHOLDER

The balance due is unsecured, interest free and not repayable within twelve month from the balance sheet date. The fair value of the loan is calculated by discounting the expected future cash flows at prevailing interest rate.

41. DEFERRED TAX

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior reporting periods:

THE GROUP

	Accelerated tax depreciation	Amortisation on intangible assets	Allowance on trade receivables	Allowance on inventories	Inventories of properties	Revaluation of properties	Revaluation of building	Others	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2005	2,841	6,671	(496)	(21)	–	8,733	–	102	(1,620)	16,210
Acquisition of subsidiary	–	–	–	–	170,952	526	1,465	–	(6,741)	166,202
Charge/(Credit) to income statement for the year	577	(3,123)	–	(3)	(18,769)	9,078	–	(91)	2,070	(10,261)
(Credit)/Charge to equity	(106)	–	–	–	–	196	–	1	47	138
At 1st January, 2006	3,312	3,548	(496)	(24)	152,183	18,533	1,465	12	(6,244)	172,289
Charge/(Credit) to income statement for the year	2,329	5,776	13	(62)	5,252	3,242	–	1,255	(1,413)	16,392
(Credit)/Charge to equity	(7)	125	–	–	–	3	–	1	1	123
At 31st December, 2006	5,634	9,449	(483)	(86)	157,435	21,778	1,465	1,268	(7,656)	188,804

Represented by:

	2006 HK\$'000	2005 HK\$'000
Deferred tax liabilities	188,804	172,873
Deferred tax assets	–	(584)
	188,804	172,289

For the year ended 31st December, 2006

41. DEFERRED TAX (Continued)

At the balance sheet date, the Group's unused tax losses available for offset against future profits, not recognised as deferred tax assets, are analysed as follows:

	2006 HK\$'000	2005 HK\$'000
2006	N/A	64,161
2007	19,375	20,885
2008	25,511	25,425
2009	52,709	51,804
2010	96,356	92,188
2011	55,049	15,256
2012	35,341	37,870
2013	3,471	5,519
2014	4,867	5,164
2015	1	2,616
2016	4	–
2018	22,376	22,376
2019	63,782	63,782
2020	20,101	20,101
2021	7,482	7,482
2022	4,230	4,230
2024	9,834	9,834
2025	2,868	–
2026	752	–
Carried forward indefinitely	80,570	76,001
	504,679	524,694

No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams. The tax losses of the subsidiaries in Hong Kong may carry forward indefinitely. The tax losses of the subsidiaries in the PRC except Hong Kong and the U.S.A. may be carried forward five years and twenty years respectively from the financial year when the corresponding loss was incurred.

THE COMPANY

	Accelerated tax depreciation HK\$'000	Amortisation of intangible assets HK\$'000	Allowance on trade receivables HK\$'000	Allowance on inventories HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1st January, 2005	796	(69)	(496)	(21)	1,354	1,564
Charge/(Credit) to income statement for the year	90	69	–	(3)	263	419
At 1st January, 2006	886	–	(496)	(24)	1,617	1,983
Charge/(Credit) to income statement for the year	1,022	–	13	(63)	511	1,483
At 31st December, 2006	1,908	–	(483)	(87)	2,128	3,466

For the purposes of balance sheet presentation, the deferred tax assets and liabilities have been offset as they are related to income taxes levied by the same tax authority.

For the year ended 31st December, 2006

42. PLEDGE OF ASSETS

At the balance sheet date, the carrying amount of the assets pledged by the Group to secure general banking and other loan facilities granted to the Group are analysed as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Investment properties	326,040	266,126	–	–
Inventory of properties	1,140,678	208,063	–	–
Investments held for trading	14,862	4,216	–	–
	<u>1,481,580</u>	<u>478,405</u>	<u>–</u>	<u>–</u>

In addition, the Group has pledged its 20% interest of the issued share capital of the associate, Yue Tian, to a bank to secure for the banking facilities granted to the associate.

The Group has also pledged its 100% interest of the issued share capital of its subsidiary, Full Revenue Inc, to a bank to secure for the banking facilities granted to the Group.

43. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Part of the investment cost incurred for the acquisition of additional 20% interest of Jodrell as mentioned in note 44 was settled by issuing 25,000,000 ordinary shares of the Company at the issue price of HK\$2.85 per share, which amounted to HK\$71,250,000. This constitutes a major non-cash transaction.

The remaining balance of the investment cost amounting to HK\$64,797,000 was settled by cash. This cash consideration together with the cash consideration paid for addition interest in another subsidiary amounting to HK\$1,473,000, resulted in net cash outflow of HK\$66,270,000 in aggregate in respect of increase in investment in subsidiaries during the year.

44. ADDITIONAL INTEREST IN A SUBSIDIARY

On 22nd December, 2006, the Group acquired 20% equity interest of Jodrell, a non-wholly owned subsidiary of the Group, from its minority shareholder at an aggregate consideration of approximately HK\$134,126,000 which was satisfied as to HK\$62,876,000 by way of cash and HK\$71,250,000 by issuing 25,000,000 ordinary shares of the Company at the issue price of HK\$2.85 per share which represented the market price of the Company's share as at the date of acquisition (the "Additional Acquisition"). After taking into account the professional fee incidental to the Additional Acquisition of HK\$1,921,000, the total cost of the Additional Acquisition amounted to HK\$136,047,000.

Jodrell, being an 80% owned subsidiary of Tigerlily, was acquired by the Company on 28th June, 2005 following the acquisition of the entire issued share capital of Tigerlily on that date. As a result of the Additional Acquisition, Jodrell has become a wholly owned subsidiary of the Group.

For the year ended 31st December, 2006

44. ADDITIONAL INTEREST IN A SUBSIDIARY *(Continued)*

Further information about the Additional Acquisition is as follows:

	<i>HK\$'000</i>
Net assets acquired	95,806
Goodwill arising on the Additional Acquisition	40,241
	<hr/>
Total cost of investments	136,047
	<hr/> <hr/>
Satisfied by:	
Cash	64,797
Shares of the Company issued	71,250
	<hr/>
	136,047
	<hr/> <hr/>
Net cash outflow arising on the Additional Acquisition:	
Cash consideration paid	64,797
	<hr/> <hr/>

45. RETIREMENT BENEFITS SCHEMES

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

Prior to joining the MPF Scheme, the Group operated a defined contribution retirement benefit scheme ("Old Scheme") for its qualifying employees in Hong Kong. All the assets under the Old Scheme were transferred to the MPF Scheme and are separately identified within the MPF Scheme and members can withdraw their entitled benefits from the Old Scheme in accordance with the scheme rules once they resign from the Group. Forfeited contributions in relation to the Old Scheme, if any, will be used to reduce the contribution payable in the future years.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total expenses recognised in the income statement of HK\$2,615,000 (2005: HK\$2,629,000) represents contributions payable to these schemes by the Group in the current year.

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46. CAPITAL COMMITMENTS

As at the balance sheet date, the Group and the Company had significant commitments as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Contracted for but not provided in the financial statements:				
Subscription of convertible and non-convertible notes (note 25)	75,711	–	75,711	–
Acquisition of inventory of properties	1,446,291	1,829,965	–	–
Additions to property, plant and equipment	–	4,184	–	3,277
	1,522,002	1,834,149	75,711	3,277

In addition, the Group's share of the jointly-controlled entities' own capital commitments, which are contracted but not provided for and are not included in the above, is HK\$296,089,000 (2005: HK\$512,888,000).

47. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain of its manufacturing plants, office properties and quarters under operating lease arrangements. Leases of these properties are negotiated for period ranging from one to twenty-three years and rentals are fixed over the contracted period. At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises payable as follows:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	6,873	8,254	1,200	1,200
In the second to fifth year, inclusive	14,688	14,400	900	2,100
Over five years	45,359	32,957	–	–
	66,920	55,611	2,100	3,300

As lessor

The Group leases its investment properties (note 15) under operating lease arrangements with leases negotiated for period ranging from one to nine years. At the balance sheet date, the Group and the Company had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	66,230	57,848	5,891	4,687
In the second to fifth year, inclusive	183,199	173,274	2,268	1,850
Over five years	26,907	19,729	–	–
	276,336	250,851	8,159	6,537

For the year ended 31st December, 2006

48. GUARANTEES

As at the balance sheet date, the Group had issued the following significant guarantees:

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees given to:				
A supplier of an associate to secure the repayment of balance due by the associate to the supplier	26,980	13,455	26,980	13,455
Banks for credit facilities granted to				
– certain subsidiaries	–	–	120,695	138,853
– an associate	102,400	102,400	102,400	102,400
– a jointly controlled entity	44,789	31,716	–	–
Banks for mortgage loans granted to purchasers of certain subsidiaries' properties	290,946	–	–	–
	465,115	147,571	250,075	254,708

The Group provided guarantees in respect of the mortgage bank loans granted by certain banks to purchasers of certain jointly controlled entities' properties amounted to HK\$216,200,000 (2005: HK\$19,222,000).

The Company, together with certain of its subsidiaries, issued cross guarantees to bankers as part of the security for credit facilities granted to the Company and its subsidiaries.

49. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Save as disclosed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

	Minority shareholders		Associates		Jointly controlled entities		Related company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest received from	1,258	960	–	–	–	–	–	–
Commission paid to	–	–	149	271	–	–	3	27
Service income received from	3,900	–	–	–	–	–	–	–
Handling income received from	–	–	–	–	448	–	–	–

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50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's business activities expose it to a variety of risks associated with financial instruments. The management manages and monitors these risk exposures to ensure that appropriate measures are implemented on a timely and effective manner to mitigate these risks.

Currency risk

Certain trade payables and bank loans of the Group are denominated in foreign currencies which expose the Group to foreign currency risk. The management considers that the foreign currency risk can be offset by foreign currency income. The Group currently does not have a foreign currency hedging policy. However, the management continuously monitors foreign exchange exposure arising from foreign currency payments in respect of trade payable and bank loans.

Credit risk

The Group has a credit policy in place to ensure that it can smoothly and effectively managed trade receivables and loan receivables. Trade credits are made to customers with the ability to issue letter of credit or an appropriate credit history. Loans are made to certain borrowers with adequate assets as pledge.

The Group has no significant concentrations of credit risk.

Interest rate risk

The Group's interest rate risk arises from bank loans. Most of the bank borrowings are arranged on a short-term basis with floating interest rate. This being the case, the Group is able to reduce the level of the bank borrowings whenever its cashflows warrant a repayment of the existing bank loans. The management therefore considers that the impact of interest rate fluctuations is insignificant. The management, however, will monitor closely the interest rate exposures and will consider to enter into interest rate swaps to hedge against interest rate exposures whenever the need arises.

Price risk

The Group is exposed to equity security price risk because of its investments in securities held for trading. They are stated at fair value at each balance sheet date. The management monitors and manages this risk exposure by maintaining a portfolio of investments with different risk profiles.

51. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place/country of incorporation/operation	Class of shares held	Paid up issued/registered ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Allright Investments Limited	Samoa	Ordinary	1 shares of US\$1	–	100%	Investment holding
Appeon Corporation	British Virgin Islands	Ordinary	3,658,032 shares of US\$0.01 each	–	89.33%	Investment holding
China Everbright Real Estate Development Limited	PRC (Note b)	Paid up capital	Rmb133,000,000	–	70%	Investment holding and property development
Extra-Fund Investment Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	100%	–	Securities trading
Fast City Limited	Cayman Islands	Ordinary	1 share of US\$1	100%	–	Investment holding
Fast-Gain Overseas Limited	British Virgin Islands	Ordinary	1 share of US\$1	–	100%	Property investment
Full Revenue Inc.	Samoa	Ordinary	1 share of US\$1	100%	–	Investment holding

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place/country of incorporation/operation	Class of shares held	Paid up issued/registered ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
Galactic Computing Corporation	British Virgin Islands	Ordinary	23,861,240 shares of US\$0.01 each	–	100%	Investment holding
Guangdong Macro Cables Co., Ltd.	PRC (Note a)	Paid up capital	US\$20,960,000	–	98%	Manufacturing and trading of cables and electrical wires
Guangzhou SMC Car Rental Company Limited	PRC (Note a)	Paid up capital	HK\$15,000,000	–	95%	Taxi operations
Jodrell Investments Limited	British Virgin Islands	Ordinary	10 shares of US\$1 each	–	100%	Investment holding
Kinder Limited	Samoa	Ordinary	1 share of US\$1	–	100%	Investment holding
Quanta Global Limited	British Virgin Islands	Ordinary	1 share of US\$1	100%	–	Trading of electric fans
Quanta Global Macao Commercial Offshore Limited	Macau	Paid up capital	MOP100,000	100%	–	Trading of electric fans
Quickjay Management Limited	British Virgin Islands	Ordinary	50,000 shares of US\$1 each	100%	–	Investment holding
Shell Electric Mfg. (China) Company Limited	British Virgin Islands	Ordinary	100 shares of US\$10 each	100%	–	Trading of electric fans
Shell Electric Mfg. (China) Sdn. Bhd.	Malaysia	Ordinary	2 shares of RM1 each	100%	–	Trading of electric fans
Shell Electric Mfg. (China) Company Limited	Samoa	Ordinary	1 share of US\$1	100%	–	Trading of electric fans
Shell Electric Mfg. (H.K.) Company Limited	Hong Kong	Ordinary	1,000 shares of HK\$10 each	100%	–	Trading of electric fans
Shunde Hua Feng Stainless Steel Welded Tubes Limited	PRC (Note a)	Paid up capital	US\$6,792,000	–	90.1%	Manufacturing and trading of welded tubes
佛山市順德區蜆華多媒體製品有限公司	PRC (Note b)	Paid up capital	US\$10,710,000	–	100%	Manufacturing and trading of electrical appliances
SMC Cable Limited	British Virgin Islands	Ordinary	1 share of US\$1	100%	–	Investment holding
SMC Development Corp.	USA	Ordinary	1,000 shares of US\$10 each	–	100%	Property development

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place/country of incorporation/operation	Class of shares held	Paid up issued/registered ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
SMC Home Products Corp.	Canada	Ordinary	2,100,100 shares of CAN\$1 each	100%	–	Property investment
SMC Investments Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	100%	–	Property investment
SMC Marketing Corp.#	USA	Ordinary	10,000 shares of US\$1,021 each	100%	–	Marketing of the Group's products
SMC Microtronic Company Limited	Hong Kong	Ordinary	10,000 shares of HK\$1 each	100%	–	Provision of management services
SMC Multi-Media Products Company Limited	British Virgin Islands	Ordinary	1 share of US\$1	100%	–	Trading of electrical appliances
SMC Multi-Media (H.K.) Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	–	100%	Design, management and trading of electrical appliances
SMC Property Investment Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	100%	–	Investment holding
SMC Real Estate Fund Limited	Hong Kong	Ordinary	100 shares of HK\$1 each	99%	1%	Investment holding
SMC Steel Pipes Limited	British Virgin Islands	Ordinary	1 share of US\$1	100%	–	Investment holding
Speed Power Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	100%	–	Trading of electric fans
Sybond Venture Limited	Cayman Islands	Ordinary	1 share of US\$1	100%	–	Investment holding
Tigerlily Overseas Limited	British Virgin Islands	Ordinary	50,000 shares of US\$1 each	–	100%	Investment holding
Vineyard Management Company#	USA	Ordinary	1,000 shares of US\$10 each	–	100%	Property investment
業盈置業(深圳)有限公司	PRC (Note b)	Paid up capital	HK\$10,000,000	–	100%	Property investment
正陽軟件(深圳)有限公司	PRC (Note b)	Paid up capital	HK\$9,000,000	–	89.33%	Computer software development
蜆壳星盈科技(深圳)有限公司	PRC (Note b)	Paid up capital	HK\$24,000,000	–	100%	Computer software and hardware development

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51. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place/country of incorporation/ operation	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
蜆壳星盈軟件(深圳)有限公司	PRC (Note b)	Paid up capital	HK\$8,000,000	–	100%	Computer software and hardware development
北京光大房地產開發有限公司	PRC (Note c)	Paid up capital	Rmb28,000,000	–	70%	Investment holding and property development
北京中京藝苑房地產開發有限責任公司	PRC (Note c)	Paid up capital	Rmb30,000,000	–	70%	Property development
上海光大置業發展有限公司	PRC (Note c)	Paid up capital	Rmb15,000,000	–	70%	Investment holding
合肥光大置業有限公司	PRC (Note c)	Paid up capital	Rmb20,000,000	–	70%	Investment holding
北京快樂城堡購物中心有限公司	PRC (Note c)	Paid up capital	Rmb10,000,000	–	70%	Property investment
安徽博鴻房地產開發有限公司	PRC (Note c)	Paid up capital	Rmb20,000,000	–	70%	Property development
光大物業管理有限公司	PRC (Note c)	Paid up capital	Rmb3,500,000	–	70%	Property management
呼和浩特光大環城建設開發有限公司	PRC (Note c)	Paid up capital	Rmb120,000,000	–	56%	Property development
廣州光大置業有限公司	PRC (Note c)	Paid up capital	Rmb10,000,000	–	70%	Property development
北京光大置業有限責任公司	PRC (Note c)	Paid up capital	Rmb50,000,000	–	70%	Property development

Subsidiaries not audited by Grant Thornton Hong Kong or other Grant Thornton International members firms

Notes:

- (a) The companies are incorporated in the PRC as sino-foreign equity joint ventures.
- (b) The companies are incorporated in the PRC as wholly foreign owned enterprises.
- (c) The companies are incorporated in the PRC as limited liability companies.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. A complete list of all the subsidiaries of the Group will be annexed to the next annual return of the Company.

None of the subsidiaries had any debt securities outstanding during the year.

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52. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associated company	Place/country of incorporation/ operation	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
MDCL-Frontline (China) Limited	British Virgin Islands	Ordinary	65,269,561 shares of HK\$1 each	–	26.66%	Trading of computer equipment and provision of computer software support services
China Dynasty Development Ltd.#	British Virgin Islands	Ordinary	1,000 shares of US\$1each	–	40%	Property investment
Hong Kong Construction SMC Development Limited	Hong Kong	Ordinary	10,000,000 shares of HK\$1 each	–	20%	Investment holding
Kumagai SMC Development (Guangzhou) Ltd.	PRC (note a)	Paid up capital	US\$59,000,000	–	20%	Property development
Yue Tian Development Limited	Hong Kong	Ordinary	72,000 shares of HK\$1 each	–	20%	Investment holding
Guangzhou Cheng Jian Tian Yu Real Estate Development Company Limited	PRC (note b)	Paid up capital	US\$22,500,000	–	20%	Property development

Associates not audited by Grant Thornton Hong Kong or other Grant Thornton International members firms

Notes:

(a) The company is incorporated in the PRC as wholly foreign owned enterprise.

(b) The company is incorporated in the PRC as sino-foreign cooperative enterprise.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group.

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53. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Name of jointly controlled entity	Place/country of incorporation/ operation	Class of shares held	Paid up issued/ registered ordinary share capital	Proportion of nominal value of issued/registered capital held by the Company		Principal activities
				Directly	Indirectly	
廣州市環博展覽有限公司	PRC (Note a)	Paid up capital	Rmb50,000,000	–	35%	Property development
上海金鶴數碼科技發展有限公司	PRC (Note b)	Paid up capital	US\$2,400,000	–	45.5%	Property development
北京金華星置業有限公司	PRC (Note a)	Paid up capital	Rmb20,000,000	–	35.7%	Property development
北京中順超科房地產開發有限公司	PRC (Note a)	Paid up capital	Rmb10,000,000	–	24.99%	Property development
廣州市光大花園房地產開發有限公司	PRC (Note a)	Paid up capital	Rmb100,000,000	–	43%	Property development
廣州市光大花園物業管理有限公司	PRC (Note a)	Paid up capital	Rmb500,000	–	56.23%	Property management
廣西光大旅遊投資有限公司	PRC (Note a)	Paid up capital	Rmb30,000,000	–	52.9%	Investment holding
廣西桂林光大立元生態家園開發建設有限公司	PRC (Note a)	Paid up capital	Rmb10,000,000	–	37.03%	Property development

Notes:

- (a) The companies are incorporated in the PRC as limited liability companies.
- (b) The company is incorporated in the PRC as sino-foreign equity joint venture.