

annual report  
2005

# SHELL ELECTRIC



SINCE 1952

蜆壳電器工業（集團）有限公司  
SHELL ELECTRIC MFG. (HOLDINGS) CO. LTD.

(Stock Code: 00081)

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## DIRECTORS

- Mr. Billy K Yung (*Group Chairman & Managing Director*)
- \*\* Cav Gr Cr Dr. Leo Tung-Hai Lee, *GBS, OBE, Chev Leg d'Hon, Comm Leopold II, LLD, JP*
- \*\* Mr. Shiu-Kit Ngai, *SBS, OBE, JP*  
Madam Yung Ho Wun Ching  
Mr. Leung Chun Wah  
Mr. Plato Poon Chak Sang
- \* Mr. Simon Yung Kwok Choi
- \*\* Mr. Peter Wong Chung On
- \*\* Mr. Peter Lam

(\* *Non-Executive Director*)

(\*\* *Independent Non-Executive Directors*)

## BANKERS

Bank of America, N.A.  
The Hongkong & Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
China Construction Bank, Hong Kong Branch

## SOLICITORS

Woo, Kwan, Lee & Lo

## COMPANY SECRETARY

Mr. Peter Lee Yip Wah

## REGISTERED OFFICE

Shell Industrial Building, 12 Lee Chung Street, Chai Wan Industrial District, Hong Kong

## AUDITORS

Grant Thornton

## SHARE REGISTRARS

Standard Registrars Limited, Share Registration Public Office, 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong

## PROFIT FOR THE YEAR

The Group's audited consolidated profit attributable to the equity holders of the Company for the year ended 31st December, 2005 amounted to HK\$157,171,000. Earnings per share were 33.07 cents.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of 8 cents per share (2004: 7 cents per share) in respect of the year 2005 to shareholders whose names appear on the Register of Members of the Company on 30th May, 2006. Warrants for the final dividend will be posted on 5th June, 2006.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 25th May, 2006 to Tuesday, 30th May, 2006, both days inclusive, during which period no transfer of the Company's shares will be effected. In order to qualify for the proposed final dividend, all share certificates with the duly completed transfer forms must be lodged with the Company's Registrars, Standard Registrars Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, 24th May, 2006.

## BUSINESS REVIEW

### Electrical Household Appliances: Ceiling Fans, Table Fans and Vacuum Cleaners

In 2005, profit margin of the ceiling fans business is comparable to the prior year. Sales to the Europe and North America markets have recorded slight decline while markets in the Middle East, Africa and Asia markets have generated growth. The higher value product series is gaining gradual market acceptance. This has helped to the maintenance of a reasonable profit margin amid prevailing high material price levels and the Group will continue to develop this market to improve sales and profit margin performance.

Turnover of the table fans business is comparable to that in the prior year; however profits have declined due to high material costs and currency impacts. Competitions and high material price levels are expected to remain key challenges and the Group maintains a cautious optimistic stance.

The vacuum cleaners contract manufacturing business has improved in the second half of the year with the addition of two new models under OEM contract. Production volume is expected to continue to grow in 2006 however, profit margin may tighten as plastics material costs have increased.

### Optics and Imaging

Over the year, the EMS business recorded increases in laser scanner and fuser shipments by 45% and 90% respectively. Two additional fuser production lines are being installed and a new lower cost fuser model is expected to go into mass production in the second quarter of 2006. Due to the phase out of an old model a sales dip in the first quarter is expected however, over 2006 healthy revenue growth and modest profit improvement will be anticipated.

### Electric Wire and Cable

The Group's 98% owned Guangdong Macro Cable company has returned to profitability in 2005. The sale of the company's factory land was completed and the factory facility in the new location had commenced operations. The re-location and the associated asset rationalization shall reduce depreciation and amortization costs and improve profit performance. During the year, costs of primary materials reached record highs and margins were affected. These prices are expected to stay at high levels during 2006 and the company shall further strengthen efficiency to maintain competitiveness.

### Stainless Steel Welded Tubes Products

The Group's 90.1% owned Hua Feng Stainless Steel Welded Tubes company reported a small profit from operations for the year. In November, the company completed the disposal of its production equipment and the transfer of its operation staff team to an independent third party; its factory premise has also been leased to the buyer. This business divestiture is in line with the Group's strategy to rationalize its resources and focus on strengthening its strategic market position in its core businesses.

### Taxi Operation

The Guangzhou SMC Taxi company had a stable year of operation. Due to the continuing government order for the temporary suspension of registration for transfer of taxi licenses, the number of licenses in the Group's portfolio is maintained at 775. Under collaborative team efforts, the company's assessment by the industry has improved.

## Real Estate Investment & Development

During the year, Citic Plaza continued to attract quality tenants from multi-national and Fortune 500 companies and lease renewals have also recorded stable rate increases. The Citic Plaza Station on the Guangzhou Number Three Subway Line has opened and has further enhanced the convenience for visitors and tenants of the building. Rising 80 storey and 395 meters high, Citic Plaza maintains the seventh tallest building standing in the world. The Group has taken advantage of the strong market for high end offices and captured profits through a series of office unit disposals in 2005. The Group will continue to monitor the market and take advantage of opportunities in the rising trend.

The long term lease for the hi-tech manufacturing facility in Shenzhen continues to provide stable rental contribution.

The over supply conditions in the regional market continued to affect rental performance of the Group's office complex in Livermore, California. Several new leases are under negotiation and the Group expects to reduce the target vacancy rate from 25% to 20% in 2006.

In January 2005, the Group invested in 20% interest in a property project in Guangzhou. The project will include a five-star "Westin" hotel in one tower, an office tower and a shopping mall covering total gross floor area of about 127,000 m<sup>2</sup>. The structural construction composing 46 storeys has been completed in January 2006. The office block is expected to complete for occupation by the forth quarter of 2006 and the hotel shall commence operation by the first quarter of 2007.

In June 2005, the Group completed the acquisition of a 56% indirect interest in China Ever Bright Real Estate Development Limited, a property development company in the PRC. The acquisition represents a strategic addition and will greatly enrich the Group's business opportunities in the PRC property sector. At completion, the company's project portfolio primarily consisted of six developments in progress located in Guangzhou, Beijing, Hefei and Shanghai. Total gross floor area from projects under development and projects held for future development is approximately 1.3 million m<sup>2</sup> and is composed of various residential, office, and commercial property projects. Subsequently, three new projects have been added that greatly expanded the land bank reserve of the company. These projects are progressing according to plan, based on current market conditions the company is expected to make significant profit contribution to the Group as each of these projects complete between 2007 and 2010.

## Technology Investment Projects

### *Internet Automatic Migration Software for Enterprises*

Apeon Corporation continues to make progress on the execution of the four stack value proposition strategy to service the Independent Software Vendor (ISV) and enterprise solution customers as well as building a viable installed base for future product and service revenue. The four stack value proposition strategy consists of offering a Web migration service platform; solution migration service; on-going maintenance and support services for the migrated solution; and new solution module development. The successful execution of this strategy during the year has enabled Apeon to grow its revenue and installed base many times throughout the world. The introduction of the Apeon for Power Builder 3.0 product gained great market acceptance and enabled the product license revenue to grow at a much faster pace than prior year. Apeon will introduce additional products in 2006 as well as introducing service platforms for the Java and .NET market. The company has put in place a professional services team to enable the company to offer Information Technology Outsourcing (ITO) services to the current installed base. The Company is confident to meet the sales target in 2006 through the product and service value-add strategy.

### *Super Blade Computing System*

Galactic Computing has launched its GT4000 supercomputing blade product series; in June 2005 the company's 4.0 Teraflops supercomputing blade model achieved the World's 100th fastest ranking on the TOP500 List of supercomputers. The GT4000 series customers include research institutes and government departments in the Mainland and Hong Kong and these computers have been deployed for use in the high performance application area including biomedical research, medical picture archive and communication system, weather forecasting, newsgroup and high volume data hosting. The company also achieved ISO 9001:2000 certification and the Shenzhen High-tech Enterprise title in 2005. In 2006, Galactic's total product strategy will include extending the product offering from supercomputing to mid-range and entry-level computer servers, server management software and data storage system. The company projects to achieve significant revenue growth and maintains prospect for profit break even in 2006.

### *System Integration and Software Development*

The Group's 26.66% owned MDCL-Frontline (China) Limited continues to develop its low end hardware trading business and expand its distribution network. The company maintained profitability in 2005 and recorded moderate growth. Its application systems and software services business has successfully launched the complete software product.

*Broadband Communication IC*

Fund raising efforts for a new equity round to support this company's continual operation has proceeded continually throughout the year however no commitment has resulted. In March 2006, the company ran into unendurable insolvency condition and has to be dissolved. The company's assets are secured to the Group for the bridge funding extended and the Group is taking actions to close the company and take over its intellectual property assets including its patents and technology.

*Electronic Integrated Rectifier Chips*

During the year, APD has continued to expand its product range to meet the broader product needs of customers and has also improved its customer sample request response time. Market awareness for the company's SBR™ integrated rectifier IC products is expected to improve. In 2006, a new generation of products for high temperature applications in the high voltage (300V, 400V, 500V and 600V) range is expected to be introduced. This will be a new unique product range empowering high power product applications such as computer servers, large size LCD and Plasma displays etc. and its strong performance and price advantages shall further strengthen APD's unique and distinctive technology edge in the market.

**Financial Investment**

During the year, the world's major stock markets had a weighted average rise of about 9%. For the year ended 31st December 2005, the Group's financial investment activities recorded profit of approximately HK\$43,732,000 and the market value of the Group's financial investment holdings amounted to HK\$106,829,000.

By Order of the Board

**BILLY K YUNG**

*Chairman*

Hong Kong, 20th April, 2006

## REVENUE AND OPERATING RESULTS

For the year ended 31st December, 2005 the Group recorded a turnover of HK\$1,352,672,000 representing an increase of HK\$95,438,000 or 8% over HK\$1,257,234,000 in 2004. The increase in the turnover mainly came from the EMS business.

The Group achieved a profit attributable to shareholders of HK\$157,171,000 for the year 2005 (2004: HK\$137,883,000). As the Group adopted the new accounting standard HKAS40, it revalued its investment properties as at 31st December, 2005 thus resulting in a revaluation surplus of HK\$45,826,000 being recognized as profits in the period under review.

## FINANCIAL RESOURCES AND LIQUIDITY

With a view to achieving a strong and sustainable financial performance, the Group continued to maintain its financial resources in a healthy state and consistently sustained a stable liquidity position throughout the period under review. In addition, there was no material change in the timing orders were secured which might give rise to volatility of the sales.

A secured commercial loan of HK\$160,000,000 advanced to an independent third party in 2004 was reduced to HK\$140,000,000 after a repayment of HK\$20,000,000 took place in November 2005. The loan carried an interest rate of 15% per annum and was scheduled to be fully repaid in the second half of 2006.

According to the terms of the agreements entered into between the Group and Shunde City Heng Shun Communication Investment Management Corporation in February 2004, repayment of the remaining balance of the loan to a former subsidiary totalling Rmb81,000,000 (approximately HK\$76,067,000), together with accrued interest, was scheduled to be made by three installments over three years ending 31st December 2007. The Group received the early repayment of the entire loan of Rmb81,000,000 together with accrued interest up to the date of loan retirement on 1st November, 2005.

During the period under review, the Group obtained new bank loans totalling HK\$430,000,000 to finance the acquisition of the entire issued share capital of Tigerlily Overseas Limited ("Tigerlily"). The Group repaid part of these bank loans which were curtailed to HK\$195,000,000 as at 31st December, 2005. In addition, the outstanding balance of the term loan which was obtained from a bank to finance the purchase of securities in 2005 stood at HK\$20,000,000 as at 31st December, 2005.

Most of banking facilities of the Group were subject to floating interest rates. Other than the U.S. and P.R.C. term loans of approximately US\$15,000,000 and RMB180,000,000 respectively which were secured by certain assets of the Group located in the United States and Mainland China respectively, all banking facilities of the Group have been arranged on short-term basis.

Apart from the above, there were no material changes to the Group's available banking facilities since 31st December, 2004.

## FOREIGN EXCHANGE EXPOSURE

The Group's borrowings were mainly denominated in Hong Kong Dollars, US Dollars and Renminbi. The Group continued to conduct its sales mainly in US Dollars and Renminbi and make payments either in US Dollars, Hong Kong Dollars or Renminbi. As the group under Tigerlily conducted its sales, receivables and payables, bank borrowings and expenditures in Renminbi, the directors considered that a natural hedging existed. All in all, the directors considered that the Group's risk exposure to foreign exchange rate fluctuations remained minimal.

## GEARING RATIO

The Group continued to follow its policy of maintaining a prudent gearing ratio. As at 31st December, 2005, the Group recorded a gearing ratio, expressed as a percentage of total bank borrowings net of cash to shareholders' funds, of 12.67% (31st December, 2004 (restated): zero). During the period under review, the Group obtained certain bank loans totalling approximately HK\$430,000,000 and HK\$283,000,000 to finance the acquisition of the entire issued share capital of Tigerlily and the property development projects of Tigerlily's subsidiary companies in the P.R.C. respectively. As a result, both the total bank borrowings net of cash and the Group's gearing ratio went up significantly.

## SIGNIFICANT ACQUISITIONS AND DISPOSALS

In January 2005, the Group entered into an acquisition agreement with an independent third party to purchase 20% equity interest in Yue Tian Development Limited ("Yue Tian") with cash consideration of HK\$3,814,400. Simultaneously with the execution of the acquisition agreement, the Group and Yue Tian entered into a loan agreement, pursuant to which the Group agreed to advance a sum of HK\$60,000,000 to Yue Tian. Details of this acquisition are set out in the Circular distributed to the shareholders on 25th January, 2005. In addition, the Group entered into agreements with two directors of Appeon Corporation ("Appeon") for acquiring their shares representing 14.69% in aggregate in Appeon, details of which are set out in the press announcement dated 31st January, 2005.

On 28th June, 2005, the Group acquired 100% of the issued share capital of Tigerlily for a consideration of HK\$515,473,000. Tigerlily and its subsidiaries were principally engaged in property development in the PRC. Details of this acquisition are set out in the Circular to shareholders dated 28th June, 2005.

During the period under review, Shunde Hua Feng Stainless Steel Welded Tubes Limited, an indirect 90.1% owned subsidiary of the Company sold machinery and equipment for the production of steel pipes to a third party with a cash consideration of US\$2,500,000.

Other than the above, there is no significant acquisition and disposal during the period and up to the date of this report.

### **CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

Tigerlily group had issued guarantee to banks for credit facilities to jointly controlled entities amounting to approximately HK\$31,716,000 as at 31st December, 2005.

Tigerlily group and its jointly controlled entities had commitments on capital expenditures for property development projects amounting to approximately HK\$1,767,494,000 and HK\$512,888,000 respectively as at 31st December, 2005.

Other than the above, there was no significant change in capital commitments and contingent liabilities compared to the position as at 31st December, 2004.

### **CAPITAL EXPENDITURE AND CHARGES ON ASSETS**

The Group had a total capital expenditure amounting to HK\$141,597,000 during the period under review.

Based on certain real estate in Mainland China, the Group secured a mortgage loan of RMB180,000,000 from a P.R.C. bank during the period under review.

Other than the above, there was no significant change in charges on assets of the Group as at 31st December, 2005 compared to the position as at 31st December, 2004.

### **EMPLOYEES**

As at 31st December, 2005, the Group has approximately 1,815 employees. The pay levels of these employees are commensurate with their responsibilities, performance and market condition. In addition, share option schemes are put in place as a longer term incentive to align interests of employees to those of shareholders.

The Group's co-operative joint venture companies in Mainland China continued to provide employment to approximately 4,000 people.



## EXECUTIVE DIRECTORS

**Mr. Billy K Yung**, aged 52, eldest son of the late Dr. Yung Yau, is the Group Chairman and Managing Director of the Company. Mr. Yung received a Bachelor's degree in Electrical Engineering from University of Washington and a Master degree in Industrial Engineering from Stanford University. He has worked for the Group for over 29 years.

**Madam Yung Ho Wun Ching**, aged 74, is the wife of the Group founder, the late Dr. Yung Yau. She has been involved in the development of the Group since inception and was appointed as an executive director in 1984.

**Mr. Leung Chun Wah**, aged 59, joined the Group in 1977 and was appointed as an executive director in 1990. Mr. Leung is the General Manager of the ceiling fan division. Mr. Leung took a Bachelor's degree of Business Administration from University of East Asia, Macau.

**Mr. Plato Poon Chak Sang**, aged 60, joined the Group in 1982 and was appointed as an executive director in 1992. He has forty years' experience in export and international marketing. Mr. Poon is the General Manager of the oscillating fan division and is also responsible for the management of the Company's heater sales business.

## NON-EXECUTIVE DIRECTOR

**Mr. Simon Yung Kwok Choi**, aged 49, son of the late Dr. Yung Yau, was appointed as a non-executive director in 1991. He holds both a Bachelor's and Master degree of Arts from Stanford University. He is the Chairman of the Venes Group of Companies.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Leo Tung-Hai Lee, GBS, LLD, JP**, aged 84, has been an independent non-executive director of the Company since 1998. Dr. Lee is the chairman of Tung Tai Group of Companies and an independent non-executive director or non-executive director of several publicly listed companies in Hong Kong, including Beijing Enterprises Holdings Limited. He is a member of a number of public services committees and heads many social service organizations, including as an adviser of the Advisory Board of the Tung Wah Group of Hospitals, chairman of the Association of Chairmen of the Tung Wah Group of Hospitals, chairman of Friends of Hong Kong Association and vice president of the China Overseas Friendship Association. Dr. Lee served as a Standing Committee member of the eighth and ninth National Committee of the Chinese People's Political Consultative Conference; an Adviser on Hong Kong Affairs to the Hong Kong & Macau Affairs Office of the State Council and Xinhua News Agency, Hong Kong Branch; a member of the Preparatory Committee for the Hong Kong Special Administrative Region; and a member of the Hong Kong Special Administrative Region Selection Committee. He has been honoured with awards by different governments, which include the Cavaliere di Gran Croce of Italy, the O.B.E. of Great Britain, Chevalier Legion d'Honneur of France, Commandeur de l'Ordre de Leopold II of Belgium and Gold Bauhinia Star of the Hong Kong Special Administrative Region Government of the People's Republic of China. Dr. Lee has over 40 years of experience in business management.

**Mr. Shiu-Kit Ngai, SBS, OBE, JP**, aged 81, was appointed as an independent non-executive director since 1998. Mr. Ngai, a Deputy of the 9th National Peoples' Congress of the PRC.; a member of The Preparatory & Working Committee for the Hong Kong Special Administrative Region; and also a member of The Selection Committee for the First Government of H'Kong Special Administrative Region. He served as an Adviser on Hong Kong Affairs to The People's Republic of China; and a member The Legislative Council of Hong Kong and The Chairman of The Trade & Industry Panel (1985-1997). He has been honoured with awards by O.B.E. of Great Britain and Silver Bauhinia Star of the Hong Kong Special Administrative Region Government of the People's Republic of China. Mr. Ngai was the Former President of The Chinese Manufacturers' Association of Hong Kong and is now the permanent Hon. President of The Association.

**Mr. Peter Wong Chung On**, aged 56, has been appointed as an independent non-executive director in March 2004. Mr. Wong received his Bachelor of Laws Degree and Master of Laws Degree in Chinese and Comparative Law from University of Wolverhampton in United Kingdom and City University of Hong Kong respectively. He is an associate member of both of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants of the United Kingdom. In addition, he is also an associate member of the Hong Kong Institute of Certified Public Accountants. During the period from 1986 to 1990, he was employed by the Group as the Financial Controller and an in-house Financial Consultant. He had approximately 20 years of financial management experience in the manufacturing field before joining the Group. He is now a Solicitor practicing in Peter C.O. Wong & Associates.

**Mr. Peter Lam**, aged 54, has been appointed as an independent non-executive director in September 2004. Mr. Lam received a Bachelor degree in Civil Engineering from Lehigh University and a Master degree in Construction Management from Stanford University. He is the Registered Manager of Building Contractors' Association School, Permanent Supervisor of The Hong Kong Construction Association and Board of Directors of Heifer International Hong Kong. He was a Former President of the Hong Kong Construction Association, Former Vice President of Hong Kong Institution of Engineers, Former Committee Member of Institute for Enterprise of The Hong Kong Polytechnic University, Former Director of 'Mother Choice' Association under Community Chest and a member of The Selection Committee for the First Government of Hong Kong Special Administrative Region. He is the President of Lam Construction Group.

## SENIOR MANAGEMENT STAFF

**Mr. Chow Kai Chiu, David**, aged 41, Chartered Financial Analyst, is the Deputy Chief Executive of the Group. Mr. Chow received his Bachelor of Applied Science degree in Computer Engineering and Masters degree in Business Administration from University of Waterloo and York University in Canada respectively. He has previously held positions at First Marathon Securities Limited in Canada, Asian Capital Partners (HK) Limited, and HSBC Private Equity (Asia) Limited in the corporate finance and investment management field.

**Dr. Wang Tao Guang**, age 41, joined 中國光大房地產開發有限公司, a subsidiary of the Group in 2005 as a director. Dr. Wang was admitted in 1999 as a post doctor researcher (full scholarship) in Harvard University. Dr. Wang holds a Doctor's degree in Economics, a Master's degree in Economic Law and a Bachelor's degree in Law in the Peking University. He also holds a Master's degree in Finance in the Bowling Green State University in the United States. Dr. Wang has previously held positions at Everbright Securities Corporation Ltd and China Everbright Holdings Ltd (a listed company on HKEX) as a Vice President and an Executive Director/General Manager respectively.

**Mr. Yau Kin Hing, Henry**, aged 51, is the Deputy Group Managing Director. Mr. Yau holds a Bachelor's degree in Engineering and a Master degree from Computer Science in the Northwestern University. He received his Master degree in Business Administration from the University of Chicago and a Doctor of jurisprudence degree from DePaul University. He is a certified accountant in Illinois and holds attorney qualifications in Illinois. Before joining SMC in 2000, he served as the China CFO for various multi-national companies, especially experienced in China related operations. He was active in the investment, corporate finance and merger and acquisition areas in the United States.

**Mr. Chiu Yim Yen, Raymond**, aged 54, is the CEO and President of Appeon Corporation. Mr. Chiu holds a Bachelor's degree with Honors in Electronics Engineering Technology from California State Polytechnic University at San Luis Obispo, California and a Master degree with Honors in Business Administration from Pepperdine University at Malibu, California. Before joining Appeon Corporation in 2005, he served as the Vice President of China Strategic Initiatives Office for Sybase Corporation, a US company, in China. Mr. Chiu is a 30-year IT veteran with comprehensive experience in the United States and Asia Pacific that ranges from venture investment, government liaison, business development, sales and marketing, product development, operations management, and consulting in both the United States and Asia Pacific. Prior to Sybase, he was the Regional Vice President and general manager of the Open Enterprise Computing Line of Business for Siemens Nixdorf AG/Siemens-Pyramid Information Systems Inc. in the Asia Pacific Region.

**Mr. Chu Ka Loy**, aged 57, joined the Group in 1993 as Financial Controller of the Group. Mr. Chu has previously held senior financial positions in public listed and private companies for over 10 years. He is an associate member of both of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants of the United Kingdom. In addition, he is an associate member of the Hong Kong Institute of Certified Public Accountants.

**Mr. Ho Chi Sing, Spencer**, aged 45, is the Senior Investment Manager of the Group. Mr. Ho holds a Bachelor's degree in Laws and Litigation in University of Wolverhampton, United Kingdom, and a Master degree in Systems Management in Lancaster University, United Kingdom. Prior to joining the Group in 1999, he was the fund manager of BOC China Fund. He has over 15 years' working experience in banking and investment management.

**Mr. Tang Che Yin, Benny**, aged 51, is the General Manager of SMC Multi-Media Products Company Limited. Mr. Tang holds a Bachelor's degree of science in engineering and a Master degree of computer science in the University of Hong Kong and the University of Manchester of the United Kingdom respectively. He is a Chartered Engineer and also a member of the Council of Engineer in the United Kingdom. Before joining the Group in 1991, He has over 10 years' working experience in multi-national companies with focus on technical and factory management.

**Mr. Gao Yang**, aged 40, CTO of Appeon Corporation. Mr. Gao has 12 years of enterprise software development and management experience in Silicon Valley, and was the pioneering architect and project leader for building the first embedded Web server while working at Digital Microwave. He holds a M.S. from Georgia State University in Computer Sciences.

**Mr. Wong Yat Sheung, Nelson**, aged 33, is the General Manager of Galactic Computing Corporation. Mr. Wong received his Bachelor's degree in Computer Engineering from Chinese University of Hong Kong and Master degree in Economic Laws from Peking University. Before joining SMC in 2000, he has previously held position at Hong Kong Monetary Authority in banking supervision and IT management field.

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

## PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding, manufacturing and marketing of electrical appliances, property investment and development. Details of the activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 48 to note 50 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 19.

An interim dividend of 4.00 cents per share amounting to HK\$20,019,000 was paid to the shareholders during the year. Subject to the approval of shareholders at the forthcoming annual general meeting, the board of directors of the Company (the "Board") now recommend the payment of a final dividend of 8 cents per share to the shareholders on the register of members on 30 May 2006, thus giving rise to a final dividend distribution amounting to HK\$40,039,000 and the retention of the remaining profit for the year.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital of the Company and outstanding share options of the Company and its subsidiaries are set out in note 35 to the financial statements.

## RESERVE

Details of the movements in the reserves of the Group and the Company during the year are set out in note 36 to the financial statements.

## DIVIDEND RESERVE

Dividend reserve of the Company at 31st December, 2005, calculated under section 79B of the Companies Ordinance amounted to HK\$40,039,000 (2004 : HK\$31,352,000).

## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$1,297,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

## PRINCIPAL PROPERTIES

Details of the principal properties held for development and/or sale and for investment purposes are set out on page 86.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 85.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## DIRECTORS

The directors of the Company during the year were as follows:

### Executive directors

Mr. Billy K YUNG (*Group Chairman and Managing Director*)  
 Madam YUNG HO Wun Ching  
 Mr. LEUNG Chun Wah  
 Mr. Plato POON Chak Sang

### Non-executive director

Mr. Simon YUNG Kwok Choi

### Independent non-executive directors

Cav Gr Cr Dr. Leo Tung-Hai LEE, *GBS, OBE,*  
*Chev Leg d'Hon, Comm Leopold II, LLD, JP*  
 Mr. Shiu-Kit NGAI, *SBS, OBE, JP*  
 Mr. Peter WONG Chung On  
 Mr. Peter LAM

In accordance with Article 103 of the Company's Articles of Association, Madam Yung Ho Wun Ching, Mr. Leung Chun Wah and Mr. Plato Poon Chak Sang shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Company still considers such directors to be independent.

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

Each non-executive director is subject to retirement by rotation in accordance with the Company's Articles of Association.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of directors and senior management are set out on page 8.

## DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS

### (a) In contracts of significance

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## (b) Shares

As at 31st December, 2005, the interests of the directors and their associates in the shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Name of director	Capacity	Nature of interests	Number of ordinary shares beneficially owned	Aggregate long position	Percentage of aggregate long position in shares to the issued shares capital of the Company
Mr. Billy K Yung	Beneficial owner	Personal	13,208,666	204,704,750	40.90%
	Interest of child under 18 or spouse (Note 1)	Other	181,496,084		
	Interest held jointly with another person	Other	10,000,000		
Dr. Leo Tung-Hai Lee	Beneficial owner	Personal	5,306,382	5,306,382	1.06%
Mr. Peter Lam	Beneficiary of a trust (Note 2)	Other	1,300,000	1,300,000	0.26%
Madam Yung Ho Wun Ching	Beneficial owner	Personal	53,196,300	63,196,300	12.63%
	Interest of spouse (Note 3)	Family	10,000,000		
Mr. Leung Chun Wah	Beneficial owner	Personal	1,799,400	1,799,400	0.36%
Mr. Plato Poon Chak Sang	Beneficial owner	Personal	739,200	739,200	0.15%
Mr. Simon Yung Kwok Choi	Beneficial owner	Personal	39,147,911	43,677,351	8.73%
	Interest of controlled corporation (Note 4)	Corporate	3,529,440		
	Interest of spouse (Note 5)	Family	1,000,000		

### Notes:

- (1) These shares are held by a trust for the benefit of Mr. Billy K Yung's family members.
- (2) These shares are held by a trust for the benefit of Mr. Peter Lam.
- (3) This interest represents the holding of shares held by the late Dr. Yung Yau.
- (4) These shares are held by Konvex Enterprises Limited, which is wholly-owned by Mr. Simon Yung Kwok Choi.
- (5) This interest represents the holding of shares held by Mr. Simon Yung Kwok Choi's spouse, Madam Chiu Man.

## (c) Share options

Particulars of the directors' interests in the share option schemes of the Company and its subsidiaries namely Apeon Corporation and Galactic Computing Corporation are set out in note 35 to the financial statements.

## (d) Disclosure of other interest

- (i) Certain directors held shares in subsidiaries as trustees for the Company.
- (ii) During the year ended 31st December, 2005, the Group's wholly owned subsidiary, Extra-Fund Investment Limited, entered into securities trading transactions with Tung Tai Securities Co., Ltd. of which the Group's independent non-executive director, Dr. Leo Tung-Hai Lee is both a director and a substantial shareholder. The transactions were conducted on an arm's length basis and gave rise to a broker's commission of approximately HK\$27,000 for the year ended 31st December, 2005 (2004: HK\$30,000).

Other than as disclosed above, none of the directors or their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation as at 31st December, 2005.

## SUBSTANTIAL SHAREHOLDERS

At 31st December, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that other than the interests disclosed above in respect of certain directors, the following shareholders had relevant interests and short positions in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Nature of interests	Number of ordinary shares beneficially held	Aggregate long position	Percentage of aggregate long position in shares to the issued share capital of the Company
UBS Trustees (BVI) Limited	Trustee of a trust (Note 1)	Other	189,604,334	189,604,334	37.88%
Diamond Key Enterprises Inc.	Beneficial owner (Note 1)	Beneficial	108,779,287	108,779,287	21.73%
On Fat Profits Corporation	Beneficial owner (Note 1)	Beneficial	72,716,797	72,716,797	14.53%
Madam Yung Siu Chee Margaret	Beneficial owner	Personal	28,154,604	28,154,604	5.63%
Madam Chiu Man	Beneficial owner Interest of spouse (Note 2)	Personal Family	1,000,000 42,677,351	43,677,351	8.73%

Notes:

1. 72,716,797 shares and 108,779,287 shares form part of the 189,604,334 shares held by UBS Trustees (BVI) Limited which are disclosed in the section headed "DIRECTORS' INTEREST" above as being held under a trust with Mr. Billy K Yung's family members as the beneficiaries.
2. Madam Chiu Man's shares under personal and family interest are in fact the same block of shares already disclosed respectively under family interest, personal and corporate interests of her husband, Mr. Simon Yung Kwok Choi as disclosed in the section headed "DIRECTORS' INTEREST" above.

Other than as disclosed above, there was no person, other than the director of the Company, who has an interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company kept under section 336 of the SFO.

## ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Except for the share options granted to the directors pursuant to the schemes as set out in note 35 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## MAJOR SUPPLIERS AND CUSTOMERS

For the financial year ended 31st December, 2005, the five largest suppliers of the Group accounted for approximately 49% of the total purchases of the Group, of which 17% was attributable to the largest supplier and the five largest customers accounted for approximately 61% of the total sales of the Group's turnover, of which 31% was attributable to the largest customer.

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in the major suppliers or customers noted above.

## FINANCIAL ASSISTANCE AND GUARANTEES TO AFFILIATED COMPANIES

### (A) Advance to entities

In accordance with the requirements under Rule 13.20 of the Listing Rules, the Director of the Company reported that as at 31st December, 2005, a secured commercial loan of HK\$140,000,000 advanced to Pacific Top International Corp., the major shareholder of the Group's major associate, continued to exist. The loan carried an interest rate of 15% per annum and was repayable on or before 24th August, 2006.

### (B) Financial assistance and guarantees to affiliated companies

In accordance with the requirements under Rule 13.16 of the Listing Rules, the directors of the Company reported that as at 31st December, 2005, the Group had provided the following financial assistance and guarantees to certain affiliated companies, which, in aggregate, exceeded 8% of the market capitalization of the Company as at 31st December, 2005:

Name of affiliated companies	Attributable interest held by the Group %	Advances HK\$'000	Guarantees given for banking facilities granted HK\$'000	Total amount as at 31st December, 2005 HK\$'000
China Dynasty Development Limited	40	177,454	–	177,454
Hong Kong Construction SMC Development Limited	20	88,223	–	88,223
Yue Tian Development Limited	20	125,229	80,000	205,229
廣州市環博展覽有限公司	28	73,044	–	73,044
		<u>463,950</u>	<u>80,000</u>	<u>543,950</u>
		(note 1)	(note 2)	

Notes:

- (1) The above advances are unsecured and have no fixed terms of repayment. Except the advance to Hong Kong Construction SMC Development Limited which is subjected to interest rate at 10% per annum, all advances are interest-free.
- (2) As at 31st December, 2005, banking facilities utilized by Yue Tian Development Limited are HK\$30,588,000.



Pursuant to Rule 13.22 of the Listing Rules, the combined balance sheet, which has been realigned with the Group's accounting policies, of the affiliated companies to which financial assistance and guarantees for their benefit have been given by the Group as at 31st December, 2005 (the latest practicable date) is presented below:

	<b>Combined Total</b> <i>HK\$'000</i>	<b>Interest attributable to the Group</b> <i>HK\$'000</i>
Non-current assets	1,793,530	507,863
Current assets	3,645,393	1,045,798
Current liabilities	(2,094,942)	(668,797)
Non-current liabilities	<u>(1,783,729)</u>	<u>(463,045)</u>
	<u>1,560,252</u>	<u>421,819</u>

*Note:* Combined balance sheet has been realigned with the Group's accounting policies.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors and their respective associates have any interest in a business or are interested in any business which competes or may compete either directly or indirectly with, or is similar to, the business of the Group as at 31st December, 2005.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## AUDITORS

During the year, Messrs. Deloitte Touche Tohmatsu resigned as auditors of the Company and Grant Thornton was appointed by the directors to fill the casual vacancy. There have been no other changes of auditors in the past three years.

On behalf of the Board

### **BILLY K YUNG**

*Chairman of the Board*

Hong Kong, 20th April, 2006



# CORPORATE GOVERNANCE REPORT

This Corporate Governance Report is issued pursuant to Appendix 23 of the Listing Rules.

The Company is firmly committed to statutory and regulatory corporate governance standards and adheres to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness.

The Board of Directors is pleased to report that throughout the year up to 31st December, 2005, the corporate governance practices of the Group are in compliance with the Code Provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules, except for the deviations set out in the following detailed discussion.

The following detailed discussion sets out the manner by which the Group has met the Code Provisions in the Code for the year ended 31st December, 2005.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made thorough enquiry of the Directors, the Company can reasonably confirm that the Directors have complied with the required standard set out in the Model Code during the year ended 31st December, 2005.

## BOARD OF DIRECTORS

The Board of Directors (the "Board") comprises of nine members, of which four members are executive Directors, one member is a non-executive Director and four members are independent non-executive Directors. Biographical details of the Directors are set out on page 8 of this Annual Report.

The Board supervises the management of the business and affairs of the Group. It has established self-regulatory and monitoring mechanisms to ensure that effective corporate governance is practiced. The Board oversees the Group's overall strategic plans, approves major funding and investment proposals and reviews the financial performance of the Group.

The Board meets regularly and additional meetings are convened when deemed necessary by the Board. Board members are provided with complete, adequate and timely information to allow the Directors to fulfill their duties properly.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should separate and should not be performed by the same individual. Mr. Billy K. Yung is currently the Chairman of the Board and the Managing Director of the Company. The Board considers that the present structure is more suitable to the Company because it can promote the efficient formulation and implementation of the Company's strategies.

## DIRECTORS' ATTENDANCE AT BOARD, AUDIT COMMITTEE AND REMUNERATION COMMITTEE MEETINGS

Name of director	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Mr. Billy K Yung	5/5	3/3	1/1
Dr. Leo Tung-Hai Lee	4/5	3/3	N/A
Mr. Shiu-Kit Ngai	5/5	3/3	N/A
Madam Yung Ho Wun Ching	4/5	N/A	N/A
Mr. Leung Chun Wah	4/5	N/A	N/A
Mr. Plato Poon Chak Sang	5/5	N/A	N/A
Mr. Simon Yung Kwok Choi	5/5	N/A	N/A
Mr. Peter Wong Chung On	5/5	3/3	1/1
Mr. Peter Lam (appointed as member of audit committee on 21st December 2005)	4/5	0/3	1/1

## NOMINATION OF DIRECTORS

The Board of Directors has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals.

In accordance with Article 103 of the Company's Article of Association, one-third of the Directors will retire from office at the Company's annual general meeting. Madam Yung Ho Wun Ching, Mr. Leung Chun Wah and Mr. Plato Poon Chak Sang shall retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

None of the independent non-executive Directors has been appointed for a term of more than three years. Mr. Peter Lam, who was appointed as an addition to the Board on 6th September, 2004, retired at the annual general meeting of the Company for 2005 and was re-elected as a director of the Company.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Mr. Simon Yung Kwok Choi, the Non-executive director of the Company, has not been appointed for a specific term but is subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.

## REMUNERATION COMMITTEE

The Remuneration Committee was formed on 20th January, 2005. The Remuneration Committee consists of a majority of independent non-executive Directors and its members are:

Mr. Peter Lam (*independent non-executive Director*) (*Chairman*)  
 Mr. Peter Wong Chung On (*independent non-executive Director*)  
 Mr. Billy K Yung (*executive Director*)

The Remuneration Committee is charged with the responsibility of determining the specific remuneration packages of all executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, and to advise the Board on the remuneration of the independent non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and key executives, the Remuneration Committee takes into account the performance of the Group as well as those individual Directors and key executives.

The Remuneration Committee Meeting held considered and approved the pay rise of the executive directors, reviewed the share option scheme and recommended/approved the granting of share option.

## ACCOUNTABILITY AND AUDIT

The Directors have acknowledged by executing a management representation letter with the Auditors that they bear the ultimate responsibility of preparing the Group's financial statements in accordance with statutory requirements and applicable accounting standards. The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Report of the Auditors on page 18.

## AUDIT COMMITTEE

The Audit Committee was formed on 22nd September, 1998 to review and supervise the financial reporting process and internal control mechanism of the Company. The Audit Committee comprises four members, all of whom are independent non-executive Directors. The members are:

Dr. Leo Tung-Hai Lee (*Chairman*)  
 Mr. Shiu-Kit Ngai  
 Mr. Peter Wong Chung On  
 Mr. Peter Lam (*appointed on 21st December, 2005*)

The Audit Committee has reviewed with the management and the auditors of the Company the accounting principles and practices adopted by the Group and discussed the audited financial statements for the year ended 31st December, 2005.

The amount of audit fee for the year ended 31st December, 2005 was HK\$2,543,000 (2004: HK\$1,871,000). The amount of non-audit fees payable to the auditors of the Company for the year ended 31st December, 2005 was HK\$533,000 (2004: HK\$888,000). In addition, in respect of the acquisition of Tigerlily Overseas Limited in year 2005, the amount of audit fee and non-audit fee were HK\$4,000,000 and HK\$2,000,000 respectively. The Audit Committee is of the view that the auditors' independence was not affected by the provision of these non-audit related services.

The Audit Committee has recommended to the Board of Directors that Grant Thornton, *Certified Public Accountants*, be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

## INTERNAL CONTROLS

Management has implemented a system of internal controls to provide reasonable assurance that the Group's assets are safeguarded, proper accounting records are maintained, appropriate legislation and regulations are complied with, reliable financial information are provided for management and publication purposes and investment and business risks affecting the Group are identified and properly managed.

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

**To the members of Shell Electric Mfg. (Holdings) Company Limited**  
*(incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 19 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Grant Thornton**  
*Certified Public Accountants*  
Hong Kong

20th April, 2006

# CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	Notes	2005 HK\$'000	2004 (Restated) HK\$'000
<b>Continuing operations:</b>			
Revenue	5	1,318,168	1,176,754
Cost of Sales		(1,081,369)	(953,462)
Gross profit		236,799	223,292
Other income	7	77,373	51,019
Distribution and selling expenses		(38,146)	(31,201)
Administrative expenses		(156,362)	(136,975)
Other operating expenses		(61,507)	(53,266)
Other gains/(losses)			
Fair value gain on investment properties		45,826	–
Fair value loss on share-based payment	41(c)	(4,000)	–
Fair value gain on investments held for trading/ investments in securities		34,193	74,541
Excess of interest in fair values of identifiable net assets of subsidiaries acquired		15,446	–
Impairment losses on goodwill		(7,731)	(14,581)
Impairment losses on other non-current assets		(6,531)	(191,032)
Others		10,320	9,057
Operating profit/(loss)		145,680	(69,146)
Finance costs	8(a)	(24,764)	(9,322)
Share of results of associates		14,048	26,898
Share of results of jointly controlled entities		23,604	–
Excess of interest in fair values of identifiable net assets of an associate acquired		1,491	–
Gain on disposal of interest in a jointly controlled entity		5,437	–
Loss on deemed and partial disposal of interest in an associate		–	(7,926)
<b>Profit/(Loss) before income tax</b>	8	<b>165,496</b>	<b>(59,496)</b>
Income tax expense	10	(7,561)	(14,336)
Profit/(Loss) for the year from continuing operations		157,935	(73,832)
<b>Discontinued operations:</b>			
Profit for the year from discontinued operations	9	13,006	197,476
<b>Profit for the year</b>		<b>170,941</b>	<b>123,644</b>
Attributable to:			
Equity holders of the Company	11	157,171	137,883
Minority interests		13,770	(14,239)
		170,941	123,644
Dividends	12	60,058	44,650
Earnings/(Loss) per share – Basic			
From continuing and discontinued operations	13	33.07	31.05
From continuing operations		30.33	(15.87)
Earnings per share – Diluted	13	N/A	N/A

# CONSOLIDATED BALANCE SHEET

As at 31st December, 2005

	Notes	2005 HK\$'000	2004 (Restated) HK\$'000
<b>Non-current assets</b>			
Investment properties	15	594,377	560,341
Property, plant and equipment	16	135,724	185,664
Prepaid lease rental on land	17	16,426	21,424
Goodwill	18	26,402	–
Intangible assets	19	215,421	160,287
Interests in associates	21	577,562	478,714
Interests in jointly controlled entities	22	483,248	–
Available-for-sale financial assets	23	13,020	–
Club debenture		2,920	2,920
Loans receivable	24	7,439	204,185
Deferred tax assets	38	584	2,958
Deposits paid for acquisition of investment properties		–	4,725
Deposit paid for acquisition of interest in a jointly controlled entity		14,997	–
		<b>2,088,120</b>	<b>1,621,218</b>
<b>Current assets</b>			
Inventories of properties	25	1,419,094	–
Other inventories	26	88,764	91,672
Trade and other receivables	27	295,141	241,718
Prepaid lease rental on land	17	428	542
Loans receivable	24	143,112	37,059
Amounts due from associates	29	18,760	2,086
Amounts due from jointly controlled entities	29	73,044	–
Amounts due from investees	29	6,750	11,012
Amount due from a related company		27	–
Investments held for trading	23	106,832	–
Investments in securities	23	–	211,987
Bank balances and cash	30	376,581	439,342
		<b>2,528,533</b>	<b>1,035,418</b>
Assets classified as held for sale	15(b)	50,005	–
		<b>2,578,538</b>	<b>1,035,418</b>
<b>Current liabilities</b>			
Trade and other payables	31	955,282	235,647
Deposit received for disposal of land		–	33,213
Sales deposits received		59,763	–
Amounts due to associates	32	101	227
Amounts due to jointly controlled entities	32	2,018	–
Amounts due to minority shareholders	32	17,599	–
Provisions	33	23,478	12,870
Taxation liabilities		32,457	22,727
Liability for share-based payment	41(c)	6,000	–
Bank and other borrowings	34	334,501	147,339
		<b>1,431,199</b>	<b>452,023</b>
<b>Net current assets</b>		<b>1,147,339</b>	<b>583,395</b>
<b>Total assets less current liabilities</b>		<b>3,235,459</b>	<b>2,204,613</b>

# CONSOLIDATED BALANCE SHEET

As at 31st December, 2005

	Notes	2005 HK\$'000	2004 (Restated) HK\$'000
<b>Capital and reserves</b>			
Share capital	35	250,242	223,946
Share premium and reserves	36	2,020,700	1,835,991
Equity attributable to equity holders of the Company		2,270,942	2,059,937
Minority interests		410,385	3,781
<b>Total equity</b>		<b>2,681,327</b>	<b>2,063,718</b>
<b>Non-current liabilities</b>			
Bank and other borrowings	34	378,893	112,517
Loan from a minority shareholder	37	2,366	9,210
Deferred tax liabilities	38	172,873	19,168
		554,132	140,895
		<b>3,235,459</b>	<b>2,204,613</b>

**BILLY K YUNG**  
Director

**LEUNG CHUN WAH**  
Director

# BALANCE SHEET

As at 31st December, 2005

	Notes	2005 HK\$'000	2004 HK\$'000 (Restated)
<b>Non-current assets</b>			
Investment properties	15	14,200	12,700
Property, plant and equipment	16	9,129	9,942
Intangible assets	19	–	–
Interests in subsidiaries	20	323,075	365,406
Interest in an associate	21	101	101
Available-for-sale financial assets	23	13,020	–
Club debenture		2,920	2,920
Loan receivable	24	5,971	–
		<b>368,416</b>	<b>391,069</b>
<b>Current assets</b>			
Other inventories	26	2,392	4,556
Trade and other receivables	27	33,027	51,752
Amounts due from subsidiaries	28	1,980,612	1,470,285
Amounts due from investees	29	3,956	8,065
Investments in securities	23	–	1,445
Tax prepaid		149	149
Bank balances and cash	30	27,206	54,611
		<b>2,047,342</b>	<b>1,590,863</b>
<b>Current liabilities</b>			
Trade and other payables	31	45,506	32,575
Amounts due to subsidiaries	28	31,800	157,143
Amount due to an associate	32	101	101
Bank borrowings	34	242,000	–
		<b>319,407</b>	<b>189,819</b>
<b>Net current assets</b>		<b>1,727,935</b>	<b>1,401,044</b>
<b>Total assets less current liabilities</b>		<b>2,096,351</b>	<b>1,792,113</b>
<b>Capital and reserves</b>			
Share capital	35	250,242	223,946
Share premium and reserves	36	1,844,126	1,566,603
		<b>2,094,368</b>	<b>1,790,549</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	38	1,983	1,564
		<b>2,096,351</b>	<b>1,792,113</b>

**BILLY K YUNG**  
Director

**LEUNG CHUN WAH**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

Attributable to the equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Available-for-sale financial assets/ Investment revaluation reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Property re-valuation reserve HK\$'000	Dividend reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1st January 2004	221,703	529,289	22,697	43,757	-	(2,054)	(24,017)	-	31,038	-	1,143,103	1,965,516	(99,564)	1,865,952
- as originally stated	-	-	(7,894)	-	-	-	-	-	-	-	-	(7,894)	-	(7,894)
- effects of changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- as restated	221,703	529,289	14,803	43,757	-	(2,054)	(24,017)	-	31,038	-	1,143,103	1,957,622	(99,564)	1,858,058
Revaluation surplus	-	-	2,140	-	-	-	-	-	-	-	-	2,140	-	2,140
Exchange difference arising on translation of overseas operations	-	-	-	-	-	(1,817)	-	-	-	-	-	(1,817)	(308)	(2,125)
Share of reserve of associates	-	-	1,796	-	-	-	-	-	-	-	-	1,796	-	1,796
Decrease in fair value of investments in securities not held for trading	-	-	-	-	(112,170)	-	-	-	-	-	-	(112,170)	-	(112,170)
Impairment losses on investments in securities not held for trading	-	-	-	-	112,170	-	-	-	-	-	-	112,170	-	112,170
Exchange effect of deferred tax liability	-	-	22	-	-	227	-	-	-	-	-	249	-	249
Net income (expense) recognised directly in equity	-	-	3,958	-	-	(1,590)	-	-	-	-	-	2,368	(308)	2,060
Net profit (loss) for the year	-	-	-	-	-	-	-	-	-	-	137,883	137,883	(14,239)	123,644
Total recognised income and expense for the year	-	-	3,958	-	-	(1,590)	-	-	-	-	137,883	140,251	(14,547)	125,704
Conversion of shareholder's loan into share capital of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	4,985	4,985
Realised on disposal of properties in an associate	-	-	(4,233)	-	-	-	-	-	-	-	-	(4,233)	-	(4,233)
Realised on deemed disposal of an associate	-	-	-	-	-	-	3,127	-	-	-	-	3,127	-	3,127
Realised on disposal of subsidiaries	-	-	-	-	-	1,244	-	-	-	-	-	1,244	112,907	114,151
New shares issued as scrip dividend	2,308	4,200	-	-	-	-	-	-	(6,508)	-	-	-	-	-
Interim dividend declared	-	-	-	-	-	-	-	-	13,298	-	(13,298)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(37,828)	-	-	(37,828)	-	(37,828)
Final dividend proposed	-	-	-	-	-	-	-	-	31,352	-	(31,352)	-	-	-
Shares repurchased	(65)	-	-	65	-	-	-	-	-	-	(246)	(246)	-	(246)
At 31st December, 2004	223,946	533,489	14,528	43,822	-	(2,400)	(20,890)	-	31,352	-	1,236,090	2,059,937	3,781	2,063,718
Opening adjustments arising from adoption of new accounting policies	-	-	(14,528)	-	-	-	20,890	-	-	-	(6,362)	-	6,996	6,996
At 1st January 2005, as restated	223,946	533,489	-	43,822	-	(2,400)	-	-	31,352	-	1,229,728	2,059,937	10,777	2,070,714
Revaluation surplus	-	-	-	-	-	-	-	1,481	-	-	-	1,481	-	1,481
Exchange difference arising on translation of overseas operations	-	-	-	-	-	16,686	-	-	-	-	-	16,686	(31)	16,655
Fair value changes on available-for-sale financial assets	-	-	-	-	13,020	-	-	-	-	-	-	13,020	-	13,020
Exchange effect of deferred tax liability	-	-	-	-	-	(138)	-	-	-	-	-	(138)	-	(138)
Net income (expense) recognised directly in equity	-	-	-	-	13,020	16,548	-	1,481	-	-	-	31,049	(31)	31,018
Net profit for the year	-	-	-	-	-	-	-	-	-	-	157,171	157,171	13,770	170,941
Total recognised income and expense for the year	-	-	-	-	13,020	16,548	-	1,481	-	-	157,171	188,220	13,739	201,959
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	388,169	388,169
Additional interest of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(22,609)	(22,609)
Minority interest injection	-	-	-	-	-	-	-	-	-	-	-	-	23,066	23,066
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	(2,757)	(2,757)
Interim dividend declared	-	-	-	-	-	-	-	-	20,019	-	(20,019)	-	-	-
Dividends paid	-	-	-	-	-	-	-	-	(38,115)	-	-	(38,115)	-	(38,115)
Final dividend proposed	-	-	-	-	-	-	-	-	40,039	-	(40,039)	-	-	-
New shares issued as scrip dividend	4,546	8,710	-	-	-	-	-	-	(13,256)	-	-	-	-	-
New shares issued on acquisition of subsidiaries	21,750	39,150	-	-	-	-	-	-	-	-	-	60,900	-	60,900
Appropriations	-	-	-	-	-	-	-	-	-	3,264	(3,264)	-	-	-
At 31st December, 2005	250,242	581,349	-	43,822	13,020	14,148	-	1,481	40,039	3,264	1,323,577	2,270,942	410,385	2,681,327



# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	2005 HK\$'000	2004 (Restated) HK\$'000
<b>Operating activities</b>		
Profit before income tax, including profit from discontinued operation	178,502	137,980
Adjustments for:		
Share of result of associates	(14,048)	(26,898)
Share of results of joint controlled entities	(23,604)	–
Depreciation and amortisation	20,001	43,999
Amount capitalised as development cost	–	(1,565)
Increase in provision	–	12,870
Reversal of unutilised provision	(8,970)	–
Allowance for doubtful debts	25,368	2,004
Fain value gain on investments held for trading/Net unrealised gain on trading securities	(5,179)	(26,650)
Interest income	(37,955)	(20,654)
Finance costs	24,764	22,060
Impairment loss on goodwill	7,731	14,581
Impairment loss on other non current assets	6,531	191,032
Loss/(Gain) on disposal of property, plant and equipment	74	(7,442)
Gain on disposal of discontinued operations	(14,750)	(232,659)
Excess of Interest in fair values of identifiable net assets of subsidiaries acquired	(15,446)	–
Excess of Interest in fair values of identifiable net assets of an associate acquired	(1,491)	–
Gain on disposal of interest in a jointly controlled equity	(5,437)	–
Property, plant and equipment write off	870	16,089
Loss on deemed and partial disposal of interests in associates	–	7,926
Exchange difference	(1,587)	(889)
Fair value gain on investment properties	(45,826)	–
Fair value loss on share-based payment	4,000	–
	<hr/>	<hr/>
Operating cash flows before movements in working capital	93,548	131,784
Increase in inventories of properties	(350,386)	–
Decrease/(increase) in other inventories	4,183	(17,957)
(Increase)/Decrease in trade and other receivables	(3,257)	3,113
(Increase)/Decrease in amount due from an associate	(16,984)	1,946
Increase in amount due from jointly controlled entities	(3,968)	–
Increase in amount due from related company	(6,448)	–
Decrease/(increase) in amounts due from investees	4,262	(8,060)
Decrease/(increase) in investments held for trading/investments in securities	112,218	(151,766)
Increase in trade and other payables	20,546	26,550
Increase in sales deposit received	59,763	–
Decrease in amounts due to minority shareholders	–	(23,879)
Decrease in amounts due to associates	(126)	–
Decrease in amount due to jointed controlled entities	(40,649)	–
	<hr/>	<hr/>
	(220,846)	(170,053)
<b>Cash used in operations</b>	(127,298)	(38,269)
Income tax paid	(7,926)	(2,728)
Tax refund	–	3,372
	<hr/>	<hr/>
	7,926	644
<b>Net cash used in operating activities</b>	<hr/>	<hr/>
	(135,224)	(37,625)

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	Note	2005 HK\$'000	2004 (Restated) HK\$'000
<b>Investing activities</b>			
Proceeds on disposal of subsidiaries, associates and jointed controlled entities		15,172	75,793
Loan repayment from associates		49,543	53,027
Deposit received for disposal of land		–	33,213
Deposit for additional interest in a jointly controlled entity		(14,997)	–
Repayment from a former subsidiary		–	33,124
Proceeds on disposal of property, plant and equipment		36,710	12,010
Interest received		36,887	8,950
Decrease in bank and other deposits pledged		–	4,907
Increase in long term loan receivable		(7,440)	(160,943)
Additions to intangible assets		(8)	(63,451)
Additions to investments in securities not held for trading		–	(34,123)
Additions to property, plant and equipment		(16,158)	(30,006)
Additions to investments properties		(17,754)	(29,388)
Deposit paid for acquisition of investment properties		–	(4,725)
Acquisition of a subsidiary	41	(260,060)	–
Increase in investments in subsidiaries		(14,894)	–
Increase in investments in associates		(6,271)	–
Increase in of investments in jointed controlled entities		(2,106)	–
Loan to an associate		(125,229)	–
Minority shareholders injection		23,066	–
Repayment of long term loan receivables		98,739	–
<b>Net cash used in investing activities</b>		<b>(204,800)</b>	<b>(101,612)</b>
<b>Financing activities</b>			
New bank and other borrowings		1,466,293	575,793
Advance from the holding company of a minority shareholder of a former subsidiary		–	492,875
Repayment of bank borrowings		(1,133,035)	(423,632)
Repayment of loan from a minority shareholder		–	(224,259)
Dividends paid		(38,115)	(37,828)
Interest paid		(24,442)	(11,520)
Payment made to purchase own shares		–	(246)
<b>Net cash generated from financing activities</b>		<b>270,701</b>	<b>371,183</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(69,323)</b>	<b>231,946</b>
<b>Cash and cash equivalents at 1st January</b>		<b>439,342</b>	<b>208,658</b>
<b>Effect of foreign exchange rate change</b>		<b>6,562</b>	<b>(1,262)</b>
<b>Cash and cash equivalents at 31st December</b>		<b>376,581</b>	<b>439,342</b>
<b>Analysis of the balance of cash and cash equivalents</b>			
Bank balances and cash		376,581	439,342

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 1. GENERAL INFORMATION

Shell Electric Mfg. (Holdings) Company Limited (the "Company") is a limited company incorporated in Hong Kong 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 acquisition of Tigerlily Overseas Limited ("Tigerlily") described in note 41 is in line with the Group's strategy and can enrich the Group's business opportunities in the property sector in the People's Republic of China (the "PRC").

The financial statements on pages 19 to 84 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") published by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The financial statements for the year ended 31st December, 2005 were approved by the board of directors on 20th April, 2006.

## 2. ADOPTION OF NEW AND REVISED HKFRS

### 2.1 Impact of new and revised HKFRS which are effective in the current financial year

During the year, the Group has adopted the following new and revised standards and interpretations of HKFRS which are relevant to its operations:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separated Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HK-Int 3	Revenue – Pre-Completion Contracts for the Sale of Development Properties

## 2. ADOPTION OF NEW AND REVISED HKFRS *(Continued)*

### 2.1 Impact of new and revised HKFRS which are effective in the current financial year *(Continued)*

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment. Accordingly, the financial statements for the year ended 31st December, 2004 including their presentation have been amended in accordance with HKAS 8 and comparative figures for 2004 contained in these financial statements differ from those published in the financial statements for the year ended 31st December, 2004.

Significant effects on current, prior or future periods arising from the first-time application of the standards and interpretation listed above in respect to presentation, recognition and measurement of accounts are described in the following paragraphs:

(a) *Adoption of HKAS 1*

The adoption of HKAS 1 has resulted in a change of the presentation of financial statements. In particular, minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year. In addition, share of tax of associates/jointly controlled entities which was previously included under taxation is now included in share of results of associates/jointly controlled entities.

(b) *Adoption of HKAS 17*

In prior years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

(c) *Adoption of HKAS 32 and HKAS 39*

HKAS 32 requires retrospective application while HKAS 39 generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

#### **Classification and measurement of financial assets and financial liabilities**

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

In previous years, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for Investment in Securities". Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "investments held for trading" (i.e. "financial assets at fair value through profit or loss" as defined in HKAS 39), "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 2. ADOPTION OF NEW AND REVISED HKFRS (Continued)

### 2.1 Impact of new and revised HKFRS which are effective in the current financial year (Continued)

(c) *Adoption of HKAS 32 and HKAS 39 (Continued)*

**Financial assets and financial liabilities other than debt and equity securities**

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "investments held for trading", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss" ("Other Financial Liabilities"). Other Financial Liabilities are carried at amortised cost using the effective interest method.

**Derivatives**

From 1st January, 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

(d) *Adoption of HKAS 36, HKAS 38 and HKFRS 3*

**Goodwill**

In prior years, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves, and goodwill arising on acquisitions on or after 1st January, 2001 was capitalised and amortised over its estimated useful life and was subject to impairment testing when there was indication of impairment. The adoption of HKFRS 3 has resulted in the Group ceasing goodwill amortisation and commencing testing for impairment annually as well as when there is indication of impairment following HKAS 36. The Group has adopted the relevant transitional provisions in HKFRS 3, under which goodwill previously recognised in reserves has been transferred to the Group's retained profits on 1st January, 2005. Regarding goodwill previously capitalised on the consolidated balance sheet, the carrying amount of the accumulated amortisation as at 1st January, 2005 was eliminated against the gross amount of goodwill. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. With respect to goodwill previously capitalised on the consolidated balance sheet, the whole amount was fully impaired in 2004 and accordingly, the adoption of HKFRS 3 does not have any financial impact to the Group.

**Intangible assets**

In prior years, the taxi licences with indefinite useful lives were amortised over 50 years. In accordance with HKAS 38, an intangible asset with an indefinite useful life shall not be amortised. Instead, in accordance with HKAS 36, the Group is required to test the intangible asset with an indefinite useful life for impairment, by comparing its recoverable amount with its carrying amount annually as well as there is an indication that the intangible asset may be impaired. As a result of the adoption of HKAS 38, the Group has discontinued amortising the cost of the taxi licences with indefinite useful lives.

(e) *Adoption of HKAS 40 and HK(SIC)-Int 21*

The Group has elected to use the fair value model HKAS 40 to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the income statement for the period they arise. In prior years, investment properties under SSAP 13 "Investment Property" were measured at open market values, with revaluation increase or decrease credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and accordingly, the amount held in investment property revaluation reserve at 1st January, 2005 has been transferred to the opening balance of retained profits.

## 2. ADOPTION OF NEW AND REVISED HKFRS (Continued)

### 2.1 Impact of new and revised HKFRS which are effective in the current financial year (Continued)

(e) *Adoption of HKAS 40 and HK(SIC)-Int 21 (continued)*

In prior years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC)-Int 21 which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC)-Int 21, this change in accounting policy has been applied retrospectively and comparative figures for 2004 have been restated.

(f) *Adoption of HKFRS 2*

HKFRS 2 requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company and its subsidiaries determined at the date of grant of the share options over the vesting period. Prior to the adoption of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The transitional provisions of HKFRS 2 allow the Group to adopt HKFRS 2 retrospectively for share options which were granted on or after 7th November, 2002 and had not yet vested on 1st January, 2005. Since all share options of the Company were lapsed or cancelled during the year ended 31st December, 2003, no retrospective application of HKFRS 2 was made for share options granted by the Company.

Share options were granted by certain of the Company's unlisted subsidiaries to their directors, employees and consultants on or after 7th November, 2002 which had not yet vested on 1st January, 2005 (the "Relevant Share Options"). Since the Group was unable to estimate reliably the fair value of the Relevant Share Options at the measurement date in accordance with the requirements in HKFRS 2, the Group measured these Relevant Share Options at their intrinsic value, initially at the date the grantees rendered service and subsequently at each reporting date and when Relevant Share Options were exercised, forfeited or lapsed, with any change in intrinsic value recognised in profit or loss. Since the subsidiaries issuing the Relevant Share Options have net liabilities and continuing losses since their establishment, the directors of the Company estimated the intrinsic value of these options to be zero at each reporting date and accordingly, no prior year adjustment has been made.

(g) *The effects of the application of the new and revised HKFRS on the consolidated income statements for the years ended 31st December, 2004 and 31st December, 2005 are summarised below:*

	HKAS 1 HK\$'000	HKAS 17 HK\$'000	Total HK\$'000
<b>Year ended 31st December, 2004</b>			
(Increase)/Decrease in administrative expenses:			
– reduction in depreciation charge due to reclassification of prepaid lease rental on land	–	550	550
– amortisation charge arising from the reclassification of prepaid lease rental on land	–	(550)	(550)
Decrease in share of results of associates	(4,441)	–	(4,441)
Decrease in income tax expense	4,441	–	4,441
Increase/(Decrease) in profit for the year	–	–	–
	HK cents	HK cents	HK cents
Increase/(Decrease) in basic earnings per share	–	–	–



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 2. ADOPTION OF NEW AND REVISED HKFRS (Continued)

### 2.1 Impact of new and revised HKFRS which are effective in the current financial year (Continued)

	HKAS 1 HK\$'000	HKAS 17 HK\$'000	HKAS 36, HKAS 38 and HKFRS 3 HK\$'000	HKAS 40 and HK (SIC)-Int 21 HK\$'000	Total HK\$'000
<b>Year ended 31st December, 2005</b>					
(Increase)/Decrease in administrative expenses :					
– discontinuation of amortisation of goodwill	–	–	1,387	–	1,387
– discontinuation of amortisation of taxi licences	–	–	3,970	–	3,970
– reduction in depreciation charge due to reclassification of prepaid lease rental on land	–	527	–	–	527
– amortisation charge arising from the reclassification of prepaid lease rental on land	–	(527)	–	–	(527)
Fair value gain on investment properties	–	–	–	45,826	45,826
Increase/(Decrease) in share of results of associates					
– change in presentation	(3,557)	–	–	–	(3,557)
– fair value gain on investment properties held by associates (net of tax)	–	–	–	15,343	15,343
(Increase)/Decrease in income tax expense	3,557	–	–	(6,026)	(2,469)
Increase/(Decrease) in profit for the year	<u>–</u>	<u>–</u>	<u>5,357</u>	<u>55,143</u>	<u>60,500</u>
	HK cents	HK cents	HK cents	HK cents	HK cents
Increase/(Decrease) in basic earnings per share	<u>–</u>	<u>–</u>	<u>1.13</u>	<u>11.60</u>	<u>12.73</u>

(h) *The effects of the application of the new and revised HKFRS on the consolidated balance sheets as at 1st January, 2005 and 31st December, 2005 are summarised below:*

	HKAS 17 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	HKAS 36, HKAS 38 and HKFRS 3 HK\$'000	HKAS 40 and HK(SIC)- Int 21 HK\$'000	Total HK\$'000
<b>At 1st January, 2005</b>					
Increase/(Decrease) in assets					
Property, plant and equipment	(21,966)	–	–	–	(21,966)
Prepaid lease rental on land included in:					
– non-current assets	21,424	–	–	–	21,424
– current assets	542	–	–	–	542
Investments in securities	–	(211,987)	–	–	(211,987)
Investments held for trading	–	211,987	–	–	211,987
(Increase)/Decrease in liabilities					
Deferred tax liabilities	–	–	–	(7,894)	(7,894)
Loan from a minority shareholder	–	6,996	–	–	6,996
(Increase)/Decrease in equity					
Retained profits	–	–	20,890	(14,528)	6,362
Goodwill reserve	–	–	(20,890)	–	(20,890)
Investment property revaluation reserve	–	–	–	22,422	22,422
Minority interests	–	(6,996)	–	–	(6,996)
<b>At 31st December, 2005</b>					
Increase/(Decrease) in assets					
Property, plant and equipment	(16,854)	–	–	–	(16,854)
Prepaid lease rental on land included in:					
– non-current assets	16,426	–	–	–	16,426
– current assets	428	–	–	–	428
Investments in securities	–	(104,713)	–	–	(104,713)
Investments held for trading	–	104,713	–	–	104,713
(Increase)/Decrease in liabilities					
Deferred tax liabilities	–	–	–	(13,920)	(13,920)
Loan from a minority shareholder	–	6,893	–	–	6,893
(Increase)/Decrease in equity					
Retained profits	–	–	20,890	(60,354)	(39,434)
Goodwill reserve	–	–	(20,890)	–	(20,890)
Investment property revaluation reserve	–	–	–	22,422	22,422
Minority interests	–	(6,893)	–	–	(6,893)

## 2. ADOPTION OF NEW AND REVISED HKFRS *(Continued)*

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

The following are standards and interpretations relevant to the operations of the Group which have been issued but are not yet effective:

HKAS 1 (Amendment)	Capital Disclosures <sup>2</sup>
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation <sup>1</sup>
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions <sup>1</sup>
HKAS 39 (Amendment)	The Fair Value Option <sup>1</sup>
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts <sup>1</sup>
HKFRS 7	Financial Instruments – Disclosures <sup>2</sup>
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease <sup>1</sup>

Notes:

1. Effective for annual periods beginning on or after 1st January, 2006.
2. Effective for annual periods beginning on or after 1st January, 2007.

The directors anticipate that the adoption of the above standards and interpretations will not have any significant impact on the Group's financial statements in the period of initial application.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

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

The presentation of analysis of expenses on the face of the consolidated income statement has been changed to the function of the expenses method during the year. Previously, expenses were classified and presented on the face of the consolidated income statement based on the nature of expenses method, whereby expenses are classified according to their nature. In the opinion of the directors, the function of expenses method can provide a more relevant and appropriate analysis of expenses in the consolidated income statement to the financial statements users than the nature of expenses method. Prior year expenses analysis is reclassified for comparative purposes.

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 of current events and actions, actual results may ultimately differ from those estimates and assumptions.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

### **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 profit or loss.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired and liabilities, 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. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

### **Subsidiaries**

A subsidiary is an entity in which the Company, directly or indirectly controls more than half of its voting power, or holds more than half of its issued share capital, or controls the composition of the board of directors.

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

### **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, over which the Group is able to exert significant influence.

An investment in an associate and jointly controlled entity is accounted for in the consolidated financial statements under the equity method of accounting and is initially recorded at cost and adjusted thereafter for the post-acquisition changes in the Group's share of the associate's and jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate and jointly controlled entity for the year, including any impairment loss on goodwill relating to the investment in the associate and jointly controlled entity.

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 profit or loss.

When the Group's share of losses in an associate or jointly controlled entity equals or exceeds its interest in the associate or the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or the jointly controlled entity.

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.

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

### 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.

### 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 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.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

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>
Freehold land	Not depreciated
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 and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Subsequent costs are included in carrying amount of that particular item of property, plant and equipment or recognised as a separate asset, as appropriate, if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement in the period in which they incur.

The gain or loss arising from the disposal 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

### **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.

Non-current assets and disposal groups 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.

#### *Research and development expenditures*

Expenditure 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.

Capitalised development expenditure is amortised on a straight-line basis over its useful life of 5 years.

#### *Taxi licences*

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

#### *Trademark*

Trademark is amortised on a straight-line basis over its useful life of 20 years.

#### *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 amortised over the period of operation of 20 years.

### **Investments and other financial assets**

The Group classifies its financial assets into the following categories: loans and receivables, investments held for trading and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised on their trade date. Financial assets are initially measured at fair value plus, in case of investments not classified as 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. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment loss. Any change in their value is recognised in income statement.

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

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

#### **Investments and other financial assets** *(Continued)*

##### *Investments held for trading*

Investments held for trading are financial assets that are held for trading or are designated by the Group to be carried at fair value through profit or loss upon initial recognition.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are those 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. Impairment losses on equity instruments classified as available-for-sale previously recognised in income statement are not reversed through 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.

#### **Club debenture**

Club debenture, which is designated as available-for-sale, is stated at fair value or at cost less impairment, if any, when its fair value cannot be reliably measured.

#### **Impairment of assets**

Goodwill, other intangible assets, property, plant and equipment and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). 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 management controls the related cash flows.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit'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 based on an internal discounted cash flow evaluation. 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. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist, and in such case, impairment loss previously recognised is reversed.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

### 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 payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and any impairment loss. Amortisation is calculated on a straight-line basis over the lease term.

Leasehold interest in land is included in properties under development and properties held for sale, of which the amortisation of prepaid land lease is capitalized as part of the building costs during the development period but charged to the consolidated income statement for completed properties.

### Inventories

Inventories of properties, which include properties under development and properties held for sale, are stated at the lower of cost and net realisable value. The costs inventories of properties consist of land held under operating lease (see accounting policy under "Leases") and development expenditures including construction costs and borrowing costs directly attributable to the construction of such properties.

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. 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 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 are translated into HK\$ at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation 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 comprise cash at bank and in hand, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

### Income tax

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

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

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

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 difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

### Retirement benefit costs

The contributions payable to the Group's defined contribution scheme and the Mandatory Provident Fund Scheme are charged to the income statement as retirement benefit cost as they fall due.

### 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 profit or loss.

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.

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.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

### Financial liabilities

The Group's financial liabilities include borrowings and trade and other payables. Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs 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 nominal value and subsequently measured at amortised cost using the effective interest rate method.

### 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. Where the time value of money is material, provision is stated at the present value of the expenditure expected to settle the obligation. 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.

### 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. Other borrowing costs are recognised as an expense in the period in which they are incurred.

### 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:

- (a) Sales of goods are recognised when goods are delivered and title has passed.
- (b) Sales of securities are recognised when the sales transactions are completed and ownership of the securities is transferred.
- (c) Sale of properties held for sale is recognised upon the conclusion of the sales and purchase agreement. Deposits received on properties sold prior to the date of revenue recognition are included in the balance sheet under sales deposits received.
- (d) Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate applicable.
- (e) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

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

### Revenue Recognition *(Continued)*

- (f) Rental from investment properties is recognised on a straight-line basis over the periods of the respective tenancies.
- (g) Licence fee income is recognised when the licence holders' rights to receive payment have been established.

### 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); or
- (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 were engaged to carry out an independent valuation of the Group's investment properties as at 31st December 2005. This valuation 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".

Knight Frank has derived the valuation of the Group's investment properties by capitalising the rental income derived from existing tenancies with due provision for reversionary income potential. The assumptions are based on market conditions existing at the balance sheet date.

Management has reviewed the Knight Frank valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the Knight Frank valuation of the Group's investment properties is reasonable.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### 4.1 Critical accounting estimates and assumptions *(Continued)*

#### *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 an 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.

## 5. REVENUE

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

	2005 HK\$'000	2004 (Restated) HK\$'000
<b>Continuing operations:</b>		
Sale of goods	1,167,423	1,102,483
Sales of properties	73,348	–
Property rental income	62,328	60,653
Taxi licence fee income	15,069	13,618
	<u>1,318,168</u>	<u>1,176,754</u>
<b>Discontinued operations:</b>		
Sale of goods	34,504	65,117
Toll fee income	–	15,363
	<u>34,504</u>	<u>80,480</u>
Revenue from discontinued operations (note 9)	<u>34,504</u>	<u>80,480</u>
Total revenue	<u><u>1,352,672</u></u>	<u><u>1,257,234</u></u>

Note:

The gross proceeds from the trading of securities for the year amounted to HK\$754,868,000 (2004: HK\$794,072,000). Upon adoption of HKAS 1 "Presentation of Financial Statements", the amount was excluded from the revenue for the year. The comparative figure for 2004 have been reclassified to conform with current year's presentation.

The results arising from the fair valuation of investment in securities/investments held for trading is now shown separately in the consolidated income statement under "Fair value gain on investments held for trading/investment in securities".

## 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 development, securities trading, car rental, computer hardware and software, and direct investments. During the year, the Group disposed of its steel pipes operation which was previously included as a business segment named "Electric Cables and Steel pipes". Details of the disposal are set out in note 9. 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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below:

2005

### REVENUE AND RESULTS

	Continuing operations									Discontinued operations		
	Electrical household appliances HK\$'000	Electric cables HK\$'000	Property leasing HK\$'000	Property 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 operations 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										(32,463)	-	(32,463)
Unallocated corporate income excluding interest income										5,612	-	5,612
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 jointed controlled entities ("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 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 operations HK\$'000	Steel pipes HK\$'000	Consolidated HK\$'000
ASSETS												
Segment assets	376,030	35,748	587,617	1,805,596	109,864	204,872	42,981	525	-	3,163,233	-	3,163,233
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
LIABILITIES												
Segment 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
Unallocated corporate liabilities	-	-	-	-	-	-	-	-	65,635	65,635	-	65,635
Consolidated total liabilities												1,985,331

### OTHER INFORMATION

	Continuing operations									Discontinued operations		
	Electrical household appliances HK\$'000	Electric cables HK\$'000	Property leasing HK\$'000	Property 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 operations HK\$'000	Steel pipes HK\$'000	Consolidated HK\$'000
Capital expenditure (note (2))	6,005	2,170	26,677	95,468	-	195	9,940	-	1,142	141,597	-	141,597
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, goodwill and intangible assets.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### 2004

#### REVENUE AND RESULTS

	Continuing operations									Discontinued operations					Consolidated (Restated) HK\$'000
	Electrical household appliances	Electric cables	Property leasing	Property development	Securities trading	Car rental	Computer hardware and software	Direct investments	Others	Total continuing operations (Restated) HK\$'000	Steel pipes	Steel processing	Toll road operation	Total discontinued operations	
REVENUE (Note)	1,058,762	40,097	60,653	-	-	13,618	3,624	-	-	1,176,754	17,118	47,999	15,363	80,480	1,257,234
RESULT															
Segment result	44,393	(2,663)	53,239	(34)	75,222	(26,677)	(93,383)	(102,597)	-	(52,500)	(20,402)	(125)	(2,106)	(22,633)	(75,133)
Unallocated corporate expenses										(38,737)					(38,737)
Unallocated corporate income excluding interest income										1,625					1,625
Interest income										20,466				188	20,654
										(69,146)				(22,445)	(91,591)
Finance costs	(451)	-	(5,394)	-	(2,854)	-	-	-	(623)	(9,322)	-	(206)	(12,532)	(12,738)	(22,060)
Gain on disposal of discontinued operations	-	-	-	-	-	-	-	-	-	-	-	4,803	227,856	232,659	232,659
Share of results of associates	-	(130)	24,719	(872)	-	-	-	3,181	-	26,898	-	-	-	-	26,898
Loss on deemed and partial disposal of interest in an associate	-	-	-	-	-	-	-	-	(7,926)	(7,926)	-	-	-	-	(7,926)
Profit before income tax										(59,496)				197,476	137,980
Income tax expense										(14,336)				-	(14,336)
Profit for the year										(73,832)				197,476	123,644

Note: There were no inter-segment sales between different business segments for the year ended 31 December, 2004.

#### FINANCIAL POSITIONS

	Continuing operations									Discontinued operations					Consolidated (Restated) HK\$'000
	Electrical household appliances	Electric cables	Property leasing	Property development	Securities trading	Car rental	Computer hardware and software	Direct investments	Un-allocated assets/liabilities	Total continuing operations (Restated) HK\$'000	Steel pipes	Steel processing	Toll road operation	Total discontinued operations	
ASSETS															
Segment assets	486,244	95,532	580,784	740	263,791	251,834	23,248	2,145	-	1,704,318	49,551	-	-	49,551	1,753,869
Interests in associates	-	-	440,679	1,686	-	-	-	36,248	101	478,714	-	-	-	-	478,714
Unallocated corporate assets	-	-	-	-	-	-	-	-	424,053	424,053	-	-	-	-	424,053
Consolidated total assets										2,607,085				49,551	2,656,636
LIABILITIES															
Segment liabilities	181,306	37,929	147,374	(566)	137,295	45,190	5,839	1,797	-	556,164	12,853	-	-	12,853	569,017
Unallocated corporate liabilities	-	-	-	-	-	-	-	-	23,901	23,901	-	-	-	-	23,901
Consolidated total liabilities										580,065				12,853	592,918

#### OTHER INFORMATION

	Continuing operations									Discontinued operations					Consolidated (Restated) HK\$'000
	Electrical household appliances	Electric cables	Property leasing	Property development	Securities trading	Car rental	Computer hardware and software	Direct investments	Un-allocated amounts	Total continuing operations (Restated) HK\$'000	Steel pipes	Steel processing	Toll road operation	Total discontinued operations	
Capital expenditures	8,404	13,513	29,388	-	-	42,787	28,581	-	1,035	123,708	3,068	-	-	3,068	126,776
Depreciation and amortisation	7,915	2,219	30	97	-	4,317	7,288	49	2,316	24,231	6,735	940	10,528	18,203	42,434
Impairment losses recognised in income statement	11,860	6,558	-	-	-	34,689	49,253	103,253	-	205,613	-	-	-	-	205,613
Write off of property, plant and equipment	3,478	-	-	-	-	-	-	199	-	3,677	12,412	-	-	12,412	16,089
Allowances for doubtful debts	1,479	158	165	-	-	-	-	-	-	1,802	(92)	294	-	202	2,004
Provision for claim	12,870	-	-	-	-	-	-	-	-	12,870	-	-	-	-	12,870

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC"), North America, Europe and Asia other than Hong Kong and 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	
	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 (Restated) HK\$'000
Hong Kong	17,917	14,684	-	-	17,917	14,684
PRC	514,054	329,153	34,504	80,480	548,558	409,633
North America	573,665	597,938	-	-	573,665	597,938
Europe	84,275	119,533	-	-	84,275	119,533
Asia, other than Hong Kong and PRC	48,272	45,754	-	-	48,272	45,754
Others	79,985	69,692	-	-	79,985	69,692
	<b>1,318,168</b>	<b>1,176,754</b>	<b>34,504</b>	<b>80,480</b>	<b>1,352,672</b>	<b>1,257,234</b>

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

	Carrying amount of segment assets		Capital Expenditure	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	394,858	593,255	1,283	1,115
PRC	3,871,325	1,709,028	136,777	117,912
North America	339,892	329,639	3,537	7,541
Europe	20,257	14,226	-	-
Asia, other than Hong Kong and PRC	32,580	6,207	-	208
Others	7,162	1,323	-	-
	<b>4,666,074</b>	<b>2,653,678</b>	<b>141,597</b>	<b>126,776</b>
Deferred tax assets	584	2,958		
	<b>4,666,658</b>	<b>2,656,636</b>		

## 7. OTHER INCOME

	Continuing operations		Discontinued operations		Total	
	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 (Restated) HK\$'000
Bank interest income	6,124	2,951	38	124	6,162	3,075
Interest income from loans to associates	-	6,710	-	-	-	6,710
Interest income from loans to investees	1,055	233	-	-	1,055	233
Interest income from others, including loans receivable	30,738	10,572	-	64	30,738	10,636
Dividends from equity securities	3,638	1,842	-	-	3,638	1,842
Other rental income	11,969	4,881	-	47	11,969	4,928
Sundry income	23,849	23,830	72	547	23,921	24,377
	<b>77,373</b>	<b>51,019</b>	<b>110</b>	<b>782</b>	<b>77,483</b>	<b>51,801</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 8. PROFIT/(LOSS) BEFORE INCOME TAX

	Continuing operations		Discontinued operations		Total	
	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 (Restated) HK\$'000
Profit/(Loss) before income tax is arrived at after charging/(crediting):						
Amortisation:						
Goodwill	-	1,387	-	-	-	1,387
Goodwill on acquisition of associate	-	49	-	-	-	49
Intangible assets	3,841	9,118	-	-	3,841	9,118
Prepaid lease rental on land	227	227	300	323	527	550
Depreciation of property, plant and equipment	13,900	15,015	1,733	17,880	15,633	32,895
Total amortisation and depreciation	17,968	25,796	2,033	18,203	20,001	43,999
Less: Amount capitalised as development cost	-	(1,565)	-	-	-	(1,565)
	17,968	24,231	2,033	18,203	20,001	42,434
Allowance for doubtful debts #	23,452	1,802	1,916	202	25,368	2,004
Auditors' remuneration	2,438	1,668	105	203	2,543	1,871
Cost of inventories recognised as expense	1,055,250	946,540	26,861	35,797	1,082,111	982,337
Finance costs (note (a))	24,764	9,322	-	12,738	24,764	22,060
(Gain)/loss on disposal of property, plant and equipment	74	(8,809)	(14,750)	1,367	(14,676)	(7,442)
Impairment losses on goodwill	7,731	14,581	-	-	7,731	14,581
Impairment losses on other non-current assets:						
Investment in securities not held for trading	-	112,170	-	-	-	112,170
Intangible assets	-	69,072	-	-	-	69,072
Property, plant and equipment	1,539	9,790	-	-	1,539	9,790
Available-for-sale financial assets	4,992	-	-	-	4,992	-
Net foreign exchange (gain)/losses	(4,408)	114	-	524	(4,408)	638
Net (gain) on derivative financial instruments	(6,477)	-	-	-	(6,477)	-
Operating lease charge on land and buildings	6,471	3,512	-	44	6,471	3,556
Outgoing in respect of investment properties	8,507	7,414	-	-	8,507	7,414
Provision for claim (note 33):						
Charge for the year#	-	12,870	-	-	-	12,870
Reversal of unutilised provision#	(8,970)	-	-	-	(8,970)	-
Research and development costs # *	7,271	2,737	-	-	7,271	2,737
Staff costs (note (b))	133,112	106,695	2,388	3,746	135,500	110,441
Share of tax of associates:						
Current year	3,557	4,441	-	-	3,557	4,441
Under provision in prior years	28,030	-	-	-	28,030	-
Share of tax of jointly controlled entities	6,034	-	-	-	6,034	-
(Reversal of allowance for inventories)/ write-down of inventories to net realisable value	(14,422)	18,889	(2,455)	(16,070)	(16,877)	2,819
Write-off of property, plant and equipment	870	3,677	-	12,412	870	16,089

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

\* excluding depreciation of property, plant and equipment and staff costs

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 8. PROFIT/(LOSS) BEFORE INCOME TAX (Continued)

Notes:

(a) Finance costs

	Continuing operations		Discontinued operations		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Interest charges on:						
Bank loans and overdrafts						
– wholly repayable within five years	22,094	2,389	–	123	22,094	2,512
– wholly repayable over five years	5,866	5,394	–	–	5,866	5,394
Others loans wholly repayable within 5 years	1,812	1,539	–	12,615	1,812	14,154
Total borrowing costs	29,772	9,322	–	12,738	29,772	22,060
Less: amount capitalised in properties under development#	(5,008)	–	–	–	(5,008)	–
	<b>24,764</b>	<b>9,322</b>	<b>–</b>	<b>12,738</b>	<b>24,764</b>	<b>22,060</b>

# The borrowing costs have been capitalised at the average rate of 7.49% per annum.

(b) Staff costs

	Continuing operations		Discontinued operations		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and other benefits	130,563	104,498	2,308	3,622	132,871	108,120
Retirement fund contributions	2,549	2,197	80	124	2,629	2,321
	<b>133,112</b>	<b>106,695</b>	<b>2,388</b>	<b>3,746</b>	<b>135,500</b>	<b>110,441</b>

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

	Continuing operations		Discontinued operations		Total	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Short-term employee benefits	14,866	10,234	–	–	14,866	10,234
Post-employment benefits	309	441	–	–	309	441
	<b>15,175</b>	<b>10,675</b>	<b>–</b>	<b>–</b>	<b>15,175</b>	<b>10,675</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 9. DISCONTINUED OPERATIONS

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 rationalize its resources and focus on strengthening its strategic market position in its core businesses. In previous year, the Group disposed of its steel processing and toll road operations and accordingly, the 2004 comparative figures have been restated.

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

	2005 <i>HK\$'000</i>	2004 (Restated) <i>HK\$'000</i>
Operating loss of the discontinued operations	<b>(1,744)</b>	(35,183)
Gain on disposal of assets of the discontinued operations	<b>14,750</b>	232,659
	<b>13,006</b>	197,476

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

	2005 <i>HK\$'000</i>	2004 (Restated) <i>HK\$'000</i>
Revenue ( <i>note 5</i> )	<b>34,504</b>	80,480
Cost of sales	<b>(30,450)</b>	(65,102)
Other income	<b>110</b>	782
Distribution and selling expenses	<b>(2,219)</b>	(1,767)
Administrative expenses	<b>(1,575)</b>	(36,735)
Other operating expenses	<b>(2,114)</b>	(103)
Finance costs	–	(12,738)
Income tax expenses	–	–
Operating loss of the discontinued operations	<b>(1,744)</b>	(35,183)

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

	2005 <i>HK\$'000</i>	2004 (Restated) <i>HK\$'000</i>
Operating activities	<b>12,287</b>	23,668
Investing activities	<b>13,151</b>	1,237
Financing activities	–	11,597
Net cash inflow	<b>25,438</b>	36,502

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 10. INCOME TAX EXPENSE

	Continuing operations		Discontinued operations		Total	
	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 (Restated) HK\$'000
Income tax expenses comprise:						
Current tax						
Hong Kong	7,655	10,874	-	-	7,655	10,874
Other regions in the PRC	10,847	288	-	-	10,847	288
	<u>18,502</u>	<u>11,162</u>	<u>-</u>	<u>-</u>	<u>18,502</u>	<u>11,162</u>
(Over)/Under provision in prior years						
Hong Kong	(680)	270	-	-	(680)	270
Other regions in the PRC	-	(266)	-	-	-	(266)
	<u>(680)</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>(680)</u>	<u>4</u>
Deferred tax (note 38)	(10,261)	3,170	-	-	(10,261)	3,170
	<u>7,561</u>	<u>14,336</u>	<u>-</u>	<u>-</u>	<u>7,561</u>	<u>14,336</u>

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year.

Income tax arising from other regions in the PRC is calculated at 15% – 33% (2004: 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:

	2005 HK\$'000	2004 (Restated) HK\$'000
Profit before income tax, including profit from discontinued operations before income tax less share of results of associates and jointly controlled entities	<u>140,850</u>	<u>111,082</u>
Tax at Hong Kong profits tax rate of 17.5% (2004: 17.5%)	24,649	19,439
Tax effect of expenses not deductible for tax purpose	117,477	48,995
Tax effect of income not taxable for tax purpose	(127,175)	(52,972)
Tax effect of tax losses not recognised	7,275	21,035
Utilisation of tax losses previously not recognised	(10,332)	(15,447)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(673)	(4,268)
(Over)/Under provision in prior years	(680)	4
Others	(2,980)	(2,450)
Income tax expenses for the year	<u>7,561</u>	<u>14,336</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Among the consolidated profit attributable to equity holders of the Company of HK\$157,171,000 (2004: HK\$137,883,000), a profit of HK\$268,014,000 (2004: loss of HK\$73,459,000) has been dealt with in the financial statements of the Company (note 36).

## 12. DIVIDENDS

Ordinary shares:

Interim, paid – HK4.00 cents (2004: HK3.00 cents) per share  
Final, proposed – HK8.00 cents (2004: HK7.00 cents) per share

<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>20,019</b>	13,298
<b>40,039</b>	31,352
<b>60,058</b>	44,650

Share scrip alternatives were offered in respect of the 2004 interim and final dividends. These share scrip alternatives were accepted by the shareholders, as follows:

Dividends:

Cash  
Share scrip alternative

2004 final dividends HK\$'000	2004 interim dividends HK\$'000
18,096	6,790
13,256	6,508
31,352	13,298

The final dividend of HK8 cents (2004: HK7.00 cents) 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/(LOSS) 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\$157,171,000 (2004: HK\$137,883,000) and the weighted average number of ordinary shares of 475,335,000 (2004: 444,132,000) in issue during the year.

The calculation of basic earnings/(loss) per share for continuing operations is based on the profit/(loss) for the year from continuing operations less results attributable to minority interests and the weighted average number of ordinary shares of 475,335,000 (2004: 444,132,000) in issue during the year. The profit/(loss) for the year from continuing operations less results attributable to minority interests is calculated as follows:

Profit/(Loss) for the year from continuing operations  
Results attributable to minority interests

<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000 (Restated)
<b>157,935</b>	(73,832)
<b>(13,755)</b>	3,333
<b>144,180</b>	(70,499)

No diluted earnings per share has been presented as the options of the Company's subsidiaries outstanding as at the years ended 31st December, 2005 and 2004, except for the option of Tigerlily outstanding as at 31st December, 2005 as referred to in note 41(c), were anti-dilutive to the Group's earnings/(loss) per share.

In respect of the option of Tigerlily, the exercise of such would have no dilutive effect to the Group's earnings/(loss) per share. For details about the option, please refer to Note 41(c).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 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
<b>2005</b>				
<b>Executive directors</b>				
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	1,453	66	1,619
Mr. Plato Poon Chak Sang	100	1,023	51	1,174
<b>Non-executive director</b>				
Mr. Simon Yung Kwok Choi	100	–	–	100
<b>Independent non-executive directors</b>				
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>8,370</u>	<u>330</u>	<u>9,600</u>
<b>2004</b>				
<b>Executive directors</b>				
Mr. Billy K Yung	100	4,205	196	4,501
Mdm Yung Ho Wun Ching	100	1,280	34	1,414
Mr. Leung Chun Wah	100	1,303	65	1,468
Mr. Plato Poon Chak Sang	100	986	49	1,135
Dr. Yung Yau	–	1,046	47	1,093
<b>Non-executive director</b>				
Mr. Simon Yung Kwok Choi	100	–	–	100
<b>Independent non-executive directors</b>				
Dr. Leo Tung-Hai Lee	100	80	–	180
Mr. Shiu-Kit Ngai	100	60	–	160
Mr. Peter Wong Chung On	76	45	–	121
Mr. Peter Lam	32	–	–	32
	<u>808</u>	<u>9,005</u>	<u>391</u>	<u>10,204</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, 1 (2004: 3) was a director of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining 4 (2004: 2) were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and other benefits	10,472	3,146
Retirement fund contributions	96	146
	<u>10,568</u>	<u>3,292</u>

Their emoluments were within the following bands:

	2005 Number of employees	2004 Number of employees
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	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	–
	<u>1</u>	<u>–</u>

During the years ended 31 December, 2005 and 2004, no emoluments were paid by the Group to the directors and the highest paid employees of the Group as an inducement to join the Group or upon joining the Group or as compensation for loss of office.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 15. INVESTMENT PROPERTIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Carrying amount at 1st January	560,341	526,707	12,700	12,700
Translation adjustments	457	2,106	–	–
Additions	17,754	29,388	–	–
Acquisition of a subsidiary (note 41)	3,569	–	–	–
Increase in fair value	45,826	2,140	1,500	–
Reclassification to assets classified as held for sale (note (b))	(50,005)	–	–	–
Transfer from property, plant and equipment (note 16)	11,370	–	–	–
Transfer from prepaid lease rental on land	5,065	–	–	–
	<u>594,377</u>	<u>560,341</u>	<u>14,200</u>	<u>12,700</u>
Carrying amount at 31st December (note (a))	<u>594,377</u>	<u>560,341</u>	<u>14,200</u>	<u>12,700</u>

Notes:

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

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
In Hong Kong, held under long-term leases	85,450	74,000	14,200	12,700
In the USA, freehold	242,580	230,880	–	–
In other regions of the PRC, held under medium-term leases	266,347	237,300	–	–
In Canada, freehold	–	18,161	–	–
	<u>594,377</u>	<u>560,341</u>	<u>14,200</u>	<u>12,700</u>

Investment properties which are situated in Hong Kong and other regions of the PRC were revalued as at 31st December, 2005 by Messrs. Knight Frank, an independent firm of professional valuers, on an open market existing use basis. Investment properties situated in the USA were revalued as at 31st December, 2005 on an income capitalisation approach with reference to comparable market conditions by Cushman & Wakefield of California, Inc., an independent firm of professional valuers.

Further particular of the investment properties are included on page 87.

- (b) During the year, the Group has entered into agreements with independent third parties to dispose of the property located in Canada and certain properties located in the PRC in the year 2006. Accordingly, these properties were revalued as at 31st December, 2005 based on the selling price agreed with the purchasers and are reclassified as held for sale.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Toll road in other regions of the PRC HK\$'000	Plant and machinery HK\$'000	Tools, moulds and equipment HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
<b>COST</b>							
At 1st January, 2004 (Restated)	213,908	428,487	179,585	57,819	49,981	14,269	944,049
Translation adjustment	359	1,885	407	75	48	20	2,794
Additions	16,400	–	3,149	65	9,722	670	30,006
Disposal of subsidiaries	(29,694)	(430,372)	(32,363)	–	(863)	(2,607)	(495,899)
Other Disposals	(12,252)	–	(632)	–	(692)	(2,622)	(16,198)
Write-off	(5,096)	–	(91,498)	–	(3,209)	(63)	(99,866)
Reclassification	–	–	(444)	444	–	–	–
At 1st January, 2005 (Restated)	183,625	–	58,204	58,403	54,987	9,667	364,886
Translation adjustment	3,464	–	1,211	931	759	192	6,557
Revaluation	1,481	–	–	–	–	–	1,481
Additions	8,592	–	5,283	216	5,922	870	20,883
Acquisition of a subsidiary (note 41)	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)	–	–
<b>At 31st December, 2005</b>	<b>120,352</b>	<b>–</b>	<b>36,319</b>	<b>58,470</b>	<b>60,017</b>	<b>7,445</b>	<b>282,603</b>
<b>DEPRECIATION AND IMPAIRMENT</b>							
At 1st January, 2004 (Restated)	49,469	55,393	136,108	49,538	29,042	12,004	331,554
Translation adjustment	39	236	297	75	24	16	687
Depreciation charge	4,227	10,481	9,009	2,155	6,151	872	32,895
Disposals of subsidiaries	(8,099)	(66,110)	(23,274)	–	(715)	(2,299)	(100,497)
Other Disposals	(8,040)	–	(466)	–	(407)	(2,517)	(11,430)
Write-off	(793)	–	(80,894)	–	(2,027)	(63)	(83,777)
Impairment recognised	6,558	–	–	3,232	–	–	9,790
Reclassification	–	–	(566)	566	–	–	–
At 1st January, 2005 (Restated)	43,361	–	40,214	55,566	32,068	8,013	179,222
Translation adjustment	852	–	859	929	444	145	3,229
Depreciation charge	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)	–	–
<b>At 31st December, 2005</b>	<b>22,750</b>	<b>–</b>	<b>23,051</b>	<b>57,958</b>	<b>37,892</b>	<b>5,228</b>	<b>146,879</b>
<b>NET CARRYING AMOUNT</b>							
<b>At 31st December, 2005</b>	<b>97,602</b>	<b>–</b>	<b>13,268</b>	<b>512</b>	<b>22,125</b>	<b>2,217</b>	<b>135,724</b>
At 31st December, 2004 (Restated)	140,264	–	17,990	2,837	22,919	1,654	185,664

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 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
<b>THE COMPANY</b>						
<b>COST</b>						
At 1st January, 2004	3,085	366	479	16,289	5,474	25,693
Additions	–	–	–	1,035	–	1,035
Disposals	–	–	–	(15)	(988)	(1,003)
At 1st January, 2005	3,085	366	479	17,309	4,486	25,725
Additions	–	–	–	707	436	1,143
Disposals	–	–	–	–	(2,087)	(2,087)
<b>At 31st December, 2005</b>	<b>3,085</b>	<b>366</b>	<b>479</b>	<b>18,016</b>	<b>2,835</b>	<b>24,781</b>
<b>DEPRECIATION</b>						
At 1st January, 2004	448	311	479	8,332	5,117	14,687
Charge for the year	61	11	–	1,660	357	2,089
Disposals	–	–	–	(5)	(988)	(993)
At 1st January, 2005	509	322	479	9,987	4,486	15,783
Charge for the year	62	12	–	1,773	109	1,956
Disposals	–	–	–	–	(2,087)	(2,087)
<b>At 31st December, 2005</b>	<b>571</b>	<b>334</b>	<b>479</b>	<b>11,760</b>	<b>2,508</b>	<b>15,652</b>
<b>NET CARRYING AMOUNT</b>						
<b>At 31st December, 2005</b>	<b>2,514</b>	<b>32</b>	<b>–</b>	<b>6,256</b>	<b>327</b>	<b>9,129</b>
At 31st December, 2004	2,576	44	–	7,322	–	9,942

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

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 (Restated) HK\$'000	2005 HK\$'000	2004 HK\$'000
In Hong Kong, held under long-term leases	4,472	4,673	1,183	1,213
In other regions of the PRC, held under medium-term leases	80,768	127,940	–	–
In other regions of the PRC, held under long-term leases	6,164	1,363	1,331	1,363
In the USA, freehold	6,198	6,288	–	–
	<b>97,602</b>	<b>140,264</b>	<b>2,514</b>	<b>2,576</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 17. PREPAID LEASE RENTAL ON LAND

The prepaid lease rental on land of the Group comprises:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Leasehold lands held under medium-term land use rights in other regions of the PRC	<u>16,854</u>	<u>21,966</u>
Non-current portion included in non-current assets	<u>16,426</u>	21,424
Current portion included in current assets	<u>428</u>	<u>542</u>
	<u><u>16,854</u></u>	<u><u>21,966</u></u>

## 18. GOODWILL

	THE GROUP HK\$'000	
<b>COST</b>		
At 1st January, 2004		15,147
Acquisition of additional interest in a subsidiary		<u>4,984</u>
At 1st January, 2005		20,131
Elimination upon application of HKFRS 3 (note 2.1(d))		<u>(20,131)</u>
At 1st January, 2005 (Restated)		–
Acquisition of a subsidiary (note 41)		26,402
Acquisition of additional interest in a subsidiary		<u>7,731</u>
<b>At 31st December, 2005</b>		<u><u>34,133</u></u>
<b>AMORTISATION AND IMPAIRMENT</b>		
At 1st January, 2004		4,163
Amortisation charged		1,387
Impairment recognised		<u>14,581</u>
At 1st January, 2005		20,131
Elimination upon application of HKFRS 3 (note 2.1(d))		<u>(20,131)</u>
At 1st January, 2005 (Restated)		–
Impairment recognised		<u>7,731</u>
<b>At 31st December, 2005</b>		<u><u>7,731</u></u>
<b>NET CARRYING AMOUNT</b>		
<b>At 31st December, 2005</b>		<u><u>26,402</u></u>
At 31st December, 2004		<u><u>–</u></u>

Prior to 1st January, 2005, goodwill was amortised on a straight-line basis over 5 to 20 years.

Goodwill arising from the acquisition of additional interest in a subsidiary during the year amounting to HK\$7,731,000 was impaired during the year. The subsidiary is principally engaging in computer software development. The estimate of recoverable amount is based on fair value which is determined by the directors. Based on the assessment of the directors, the future prospect of the subsidiary is uncertain and impairment is recognised for the full amount of the goodwill.

The amount of goodwill as at 31st December, 2005 is allocated to the business segment of property investment and development (the "Cash-generating unit" or "CGU") and is tested for impairment by estimating the recoverable amount of the CGU 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 3 years. Based on the results of the impairment testing, management determines that there is no impairment of the CGU attributed to the goodwill.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 19. INTANGIBLE ASSETS

	THE GROUP				THE COMPANY	
	Development costs HK\$'000	Taxi licences HK\$'000	Trademark HK\$'000	Shopping mall operating right HK\$'000	Total HK\$'000	Trademark HK\$'000
<b>COST</b>						
At 1st January, 2004	26,616	154,913	2,499	–	184,028	2,499
Translation adjustment	–	281	–	–	281	–
Additions	19,744	42,654	–	–	62,398	–
At 1st January, 2005	46,360	197,848	2,499	–	246,707	2,499
Translation adjustment	–	4,419	–	1,267	5,686	–
Addition	–	–	–	8	8	–
Acquisition of a subsidiary (note 41)	–	–	–	54,120	54,120	–
Write-off	(46,360)	–	–	–	(46,360)	–
<b>At 31st December, 2005</b>	<b>–</b>	<b>202,267</b>	<b>2,499</b>	<b>55,395</b>	<b>260,161</b>	<b>2,499</b>
<b>AMORTISATION AND IMPAIRMENT</b>						
At 1st January, 2004	–	7,944	271	–	8,215	271
Translation adjustment	–	15	–	–	15	–
Amortisation charged	5,323	3,670	125	–	9,118	125
Impairment recognised	41,037	25,932	2,103	–	69,072	2,103
At 1st January, 2005	46,360	37,561	2,499	–	86,420	2,499
Translation adjustment	–	839	–	–	839	–
Amortisation charged	–	–	–	3,841	3,841	–
Write-off	(46,360)	–	–	–	(46,360)	–
<b>At 31st December, 2005</b>	<b>–</b>	<b>38,400</b>	<b>2,499</b>	<b>3,841</b>	<b>44,740</b>	<b>2,499</b>
<b>NET CARRYING AMOUNT</b>						
<b>At 31st December, 2005</b>	<b>–</b>	<b>163,867</b>	<b>–</b>	<b>51,554</b>	<b>215,421</b>	<b>–</b>
At 31st December, 2004	–	160,287	–	–	160,287	–

As at 31st December, 2005, the carrying amount of taxi licences was HK\$163,867,000 which was tested for impairment by the directors by estimating the recoverable amount based on the value in use calculations. The calculations use cash flow projection based on 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. However, management considered that they can obtain extension of the operation period from the government authority. Based on the results of the impairment testing, management determines that there is no impairment of the taxi licences.

## 20. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	105,126	105,126
Impairment	(105,011)	(105,011)
Loans to subsidiaries less impairment (note a)	115	115
Amounts due from subsidiaries (note b)	13,000	13,000
	309,960	352,291
	323,075	365,406

Notes:

- The loans are unsecured and interest-free. In the opinion of the directors, the outstanding balances will not be repayable within twelve months from the balance sheet date and accordingly are shown as non-current assets. The carrying amount of the loans approximately their fair value.
- The amounts are unsecured and interest-bearing at prevailing market rates. In the opinion of the directors, the outstanding balances will not be repayable within twelve months from the balance sheet date and accordingly are shown as non-current assets. The carrying amount of the loans approximate their fair values.

Details of the Company's principal subsidiaries as at 31st December, 2005 are set out in note 48.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 21. INTERESTS IN ASSOCIATE(S)

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	–	–	195	195
Share of net assets	270,804	181,405	–	–
Goodwill on acquisition of an associates (note a)	850	850	–	–
Loans to associates (note b)	305,908	296,459	–	–
	<u>577,562</u>	<u>478,714</u>	<u>195</u>	<u>195</u>
Impairment	–	–	(94)	(94)
	<u>577,562</u>	<u>478,714</u>	<u>101</u>	<u>101</u>

Details of the Group's principal associates as at 31st December, 2005 are set out in note 49.

Notes:

- (a) Movements of goodwill on acquisition of an associate are as follows:

	THE GROUP HK\$'000
<b>COST</b>	
At 1st January, 2004 and at 1st January, 2005	1,000
Elimination upon application of HKFRS 3 (note 2.1(d))	(150)
At 1st January, 2005 (Restated) and at 31st December, 2005	850
<b>AMORTISATION</b>	
At 1st January, 2004 and at 1st January, 2005	150
Elimination upon application of HKFRS 3 (note 2.1(d))	(150)
At 1st January, 2005 (Restated) and at 31st December, 2005	–
<b>NET CARRYING AMOUNT</b>	
<b>At 31st December, 2005</b>	<u>850</u>
At 31st December, 2004	<u>850</u>

Prior to 1st January, 2005, goodwill was amortised on a straight-line basis over 20 years. The estimate of the recoverable amount of goodwill is based on fair value which is determined by the directors.

- (b) Included in the loans to associates is an amount of HK\$69,464,000 (At 31st December, 2004: HK\$72,659,000) which is unsecured and interest bearing at 10% (2004: 10%) per annum. However, interest income arising from the loan for the year amounting to HK\$7,051,000 has been waived by the Group.

The remaining balances of the loans to associates are unsecured and interest-free. In accordance with HKAS 39, the amortised cost of the loans to associates at 31st December, 2005, estimated based on the expected settlement date in accordance with the business plans of the respective associates, is HK\$236,444,000. The fair value of the loan as at 1st January, 2005 was HK\$180,554,000 and since HKAS 39 does not allow retrospective application in this respect, no prior year adjustment is made.

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 21. INTERESTS IN ASSOCIATE(S) (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Results for the year		
Revenue	<u>842,281</u>	<u>778,535</u>
(Loss)/profit for the year	<u>(6,151)</u>	<u>71,171</u>
Financial position		
Total non-current assets	1,802,420	1,796,643
Total current assets	2,219,011	1,356,370
Total current liabilities	(1,566,697)	(1,515,412)
Total non-current liabilities	<u>(1,460,545)</u>	<u>(925,781)</u>
Net assets	<u>994,189</u>	<u>711,820</u>

## 22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2005 HK\$'000	2004 HK\$'000
Share of net assets	<u>483,248</u>	<u>—</u>

The jointly controlled entities were acquired during the year. Details of the Group's principal jointly controlled entities at 31st December, 2005 are set out in note 50.

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

	From 28th June, 2005 to 31st December, 2005 HK\$'000
Share of results for the period	
Revenue	<u>180,021</u>
Profit after income tax expenses attributable to the Group	<u>23,604</u>
Share of assets and liabilities	
Total non-current assets	265,361
Total current assets	1,288,219
Total current liabilities	(756,131)
Total non-current liabilities	(313,091)
Minority Interest	<u>(1,110)</u>
Net assets	<u>483,248</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

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

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Equity securities, at fair value				
Unlisted	13,023	4	13,020	–
Listed in Hong Kong	103,303	193,109	–	1,445
Listed outside Hong Kong	3,526	12,229	–	–
	<u>119,852</u>	<u>205,342</u>	<u>13,020</u>	<u>1,445</u>
Commodity index certificate	–	6,645	–	–
	<u>119,852</u>	<u>211,987</u>	<u>13,020</u>	<u>1,445</u>
Represented by:				
Available-for-sale financial assets	13,020	–	13,020	–
Investments held for trading	106,832	–	–	–
Investments in securities	–	211,987	–	1,445
	<u>119,852</u>	<u>211,987</u>	<u>13,020</u>	<u>1,445</u>

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

The fair values of listed equity securities are based on quoted market prices. The fair values of unlisted available-for-sale equity securities have been estimated using value in use methods.

## 24. LOANS RECEIVABLE

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Loans receivable (net of impairment) from:				
A former subsidiary	–	77,869	–	–
A shareholder of an associate (note a)	142,129	162,432	–	–
An investee (note b)	5,971	–	5,971	–
Others (note c)	2,451	943	–	–
	<u>150,551</u>	<u>241,244</u>	<u>5,971</u>	<u>–</u>
Less: Amount due within one year included as current assets	<u>(143,112)</u>	<u>(37,059)</u>	<u>–</u>	<u>–</u>
Amount due after one year included in non-current assets	<u>7,439</u>	<u>204,185</u>	<u>5,971</u>	<u>–</u>

Notes:

- The amount represents loan receivable from the major shareholder (the Borrower) of one of the Group's major associates, China Dynasty Development Ltd. ("China Dynasty") which is interest bearing at 15% (2004: 15%) per annum and repayable on or before 24th August, 2006. The loan is secured by the Borrower's 60% equity interests in China Dynasty. In addition, the Borrower has assigned to the Group a sum of HK\$210 million indebted by China Dynasty to the Borrower, being part of the debt owed by China Dynasty to the Borrower, to take effect upon the occurrence of any of the events of default as set out in the circular to the shareholders of the Company dated 4th October, 2004.
- The balance is unsecured, interest-bearing at 10% per annum, and not repayable within twelve months from the balance sheet date.
- The balance represents loan receivable from the Group's sales agent in the PRC which is secured by a personal guarantee of the owners of the sales agent and is interest-bearing at 5%–7% (2004: 6%) per annum. HK\$983,000 (2004: HK\$943,000) of the balance is repayment on demand and thereby included in current asset and the remaining balance of HK\$1,468,000 (2004: nil) is not repayable within twelve months from the balance sheet date and is included in non-current asset accordingly.

In the opinion of the directors, the carrying amount of these loans approximate to their fair values.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 25. INVENTORIES OF PROPERTIES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Properties under development, at cost	1,363,587	–
Properties held for sale, at cost	55,507	–
	<u>1,419,094</u>	<u>–</u>

As at 31st December 2005, the carrying amount of the land costs included in inventories of properties was HK\$1,017,609,000.

## 26. OTHER INVENTORIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Raw materials	55,633	60,807	–	–
Work-in-progress	4,479	3,822	–	–
Finished goods	28,652	27,043	2,392	4,556
	<u>88,764</u>	<u>91,672</u>	<u>2,392</u>	<u>4,556</u>

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Inventories stated				
At cost	76,588	44,699	2,392	4,369
At net realisable value	12,176	46,973	–	187
	<u>88,764</u>	<u>91,672</u>	<u>2,392</u>	<u>4,556</u>

## 27. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade Receivable	144,668	113,114	19,744	21,228
Prepayments	76,571	7,423	230	220
Deposits and other receivables	73,902	121,181	13,053	30,304
	<u>295,141</u>	<u>241,718</u>	<u>33,027</u>	<u>51,752</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 27. 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 analyses of the trade receivables of the Group and the Company as at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Current	90,673	75,622	18,886	18,701
31 – 60 days	34,613	22,973	858	2,527
61 – 90 days	9,066	11,068	–	–
91 – 180 days	6,887	2,268	–	–
181 – 360 days	2,276	713	–	–
Over 360 days	1,153	470	–	–
	<b>144,668</b>	<b>113,114</b>	<b>19,744</b>	<b>21,228</b>

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

## 28. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

## 29. AMOUNTS DUE FROM ASSOCIATES/JOINTLY CONTROLLED ENTITIES/INVESTEES

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.

## 30. 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\$307,431,000 (2004: HK\$274,117,000). 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 varying periods of between 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.

## 31. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Trade payables	275,978	94,683	21,654	14,580
Temporary receipts	53,913	22,619	318	490
Deferred income	30,790	24,641	–	–
Other payables and accrual	594,601	93,704	23,534	17,505
	<b>955,282</b>	<b>235,647</b>	<b>45,506</b>	<b>32,575</b>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 31. TRADE AND OTHER PAYABLES (Continued)

The aged analysis of trade payables of the Group and the Company at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Current	<b>65,561</b>	72,174	<b>17,796</b>	11,102
31 – 60 days	<b>14,196</b>	13,283	<b>2,448</b>	1,996
61 – 90 days	<b>6,273</b>	4,745	<b>212</b>	70
91 – 180 days	<b>2,005</b>	1,415	<b>198</b>	371
181 – 360 days	<b>83,689</b>	977	–	300
Over 360 days	<b>104,254</b>	2,089	<b>1,000</b>	741
	<b>275,978</b>	94,683	<b>21,654</b>	14,580

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

## 32. AMOUNTS DUE TO ASSOCIATES/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.

## 33. PROVISIONS

	THE GROUP		
	Provision for claim HK\$'000	Other HK\$'000	Total HK\$'000
At 1st January, 2004	–	–	–
Provision for the year	12,870	–	12,870
At 1st January, 2005	12,870	–	12,870
Recognised on acquisition of a subsidiary (note 41(d))	–	23,478	23,478
Reversal of unutilised provision (note)	(8,970)	–	(8,970)
Utilisation of provision	(3,900)	–	(3,900)
– transfer to trade and other payables (note)			
At 31st December, 2005	–	23,478	23,478

Note:

Pursuant to the letter dated 10th November, 2004 from the U.S. Consumer Product Safety Commission (the "CPSC"), the Group has not informed the CPSC when certain models of the table fans products could create a substantial product hazards or create an unreasonable risk of serious injury or death and this constitutes a breach of the respective law and a maximum civil penalty will be US\$1,650,000 (equivalent to HK\$12,870,000). The Group had taken legal advice on the prospective penalty from CPSC. Based on the legal advice and the information available to the Group in last year, a provision of HK\$12,870,000 was made in last year.

During the year, the amount of penalty has been finalised by the CPSC which is US\$500,000 (equivalent to approximately HK\$3,900,000). Accordingly, an amount HK\$8,970,000 has been reversed and credited to the income statement as it represents excessive provision made. The amount of penalty of US\$500,000 was duly paid in January 2006.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 34. BANK AND BORROWINGS

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Bank loans	664,378	259,856	242,000	–
Other loan	49,016	–	–	–
	<b>713,394</b>	259,856	<b>242,000</b>	–
Secured	291,851	122,619	–	–
Unsecured	421,543	137,237	242,000	–
	<b>713,394</b>	259,856	<b>242,000</b>	–
The maturity of the above borrowings is as follows:				
Bank loans				
Within one year	334,501	147,339	242,000	–
More than one year, but not exceeding two years	225,253	4,025	–	–
More than two years, but not exceeding five years	13,731	13,157	–	–
More than five years	90,893	95,335	–	–
	<b>664,378</b>	259,856	<b>242,000</b>	–
Other loans				
More than one year, but not exceeding two years	49,016	–	–	–
	<b>713,394</b>	259,856	<b>242,000</b>	–
Less: Amounts due within one year included in current liabilities	<b>(334,501)</b>	(147,339)	<b>(242,000)</b>	–
Amounts due after one year included in non-current liabilities	<b>378,893</b>	112,517	–	–

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

	THE GROUP		THE COMPANY	
	2005	2004	2005	2004
HK\$	262,000	137,237	242,000	–
RMB	332,541	–	–	–
US Dollar	112,849	116,351	–	–
Canadian Dollar	6,004	6,268	–	–
	<b>713,394</b>	259,856	<b>242,000</b>	–

Among the RMB loans, HK\$283,525,000 are bank loans which are arranged at fixed interest rates of 5.58% to 7.49% per annum while the remaining balances of RMB loans of HK\$49,016,000 is other loan which is arranged at fixed interest rate of 8% per annum. The remaining balance are bank loans denominated in HK\$ Dollar, US Dollar and Canadian Dollar and are arranged at floating rates ranging from 2.3% to 5.08% per annum (2004: from 0.53% to 3.11% 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.

## 35. SHARE CAPITAL

	2005		2004	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
<b>(a) Authorised:</b>				
Ordinary shares of HK\$0.50 each				
Balance at beginning and end of year	<b>900,000</b>	<b>450,000</b>	900,000	450,000
<b>(b) Issued and fully paid:</b>				
Ordinary shares of HK\$0.50 each				
Balance at beginning of year	<b>447,893</b>	<b>223,946</b>	443,407	221,703
Shares repurchased and cancelled	–	–	(130)	(65)
Shares issued as scrip dividend	<b>9,092</b>	<b>4,546</b>	4,616	2,308
Shares issued on acquisition of a subsidiary	<b>43,500</b>	<b>21,750</b>	–	–
Balance at end of year	<b>500,485</b>	<b>250,242</b>	447,893	223,946

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

### (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, is not to exceed 30% of the number of the issued shares of Appeon 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 780,985 (subject to approval of the shareholders of the Company) which represented 21.34% of the issued share capital of Appeon (excluding any shares issued pursuant to the Appeon Scheme) on the same date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. SHARE CAPITAL (Continued)

### (c) Share option scheme (Continued)

Movements in the options to subscribe for shares in Apeon 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
					<u>27,000</u>	–	–
Directors of Apeon	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
	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	
				<u>193,500</u>	<u>(90,000)</u>	<u>80,000</u>	<u>183,500</u>
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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. 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 31.12.2005		
				Cancelled during the year	Granted during the year			
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	
					59,500	(10,000)	26,000	75,500
	Consultants of Appeon	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)	–	30,425	
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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. SHARE CAPITAL (Continued)

### (c) Share option scheme (Continued)

Movements in the options to subscribe for shares in Apeon for the year ended 31st December, 2004 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	Number of share options			As at 31.12.2004	
				As at 1.1.2004	Cancelled during the year	Other Movements (Notes)		
Directors of the Company								
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	
Dr. Yung Yau (deceased on 2 May 2004)	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)	–	–	
				54,000	(13,500)	(13,500)	27,000	
Directors of Apeon								
Directors of Apeon	25.11.2002	25.11.2002 – 10.11.2012	2.50	22,500	–	562#	23,062	
	25.11.2002	01.04.2003 – 10.11.2012	2.50	22,500	–	563#	23,063	
	25.11.2002	01.10.2003 – 10.11.2012	2.50	22,500	–	562#	23,062	
	25.11.2002	01.04.2004 – 10.11.2012	2.50	22,500	–	563#	23,063	
	25.11.2002	01.10.2004 – 10.11.2012	2.50	22,500	–	562#	23,062	
	25.11.2002	01.04.2005 – 10.11.2012	2.50	22,500	–	563#	23,063	
	25.11.2002	01.10.2005 – 10.11.2012	2.50	22,500	–	562#	23,062	
Directors of Apeon	25.11.2002	01.04.2006 – 10.11.2012	2.50	22,500	–	563#	23,063	
	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		
				189,000	–	4,500	193,500	
Employees								
Employees	25.11.2002	25.11.2002 – 10.11.2012	2.50	13,249	–	(562)#	12,687	
	25.11.2002	01.04.2003 – 10.11.2012	2.50	7,626	–	(563)#	7,063	
	25.11.2002	01.10.2003 – 10.11.2012	2.50	7,624	–	(562)#	7,062	
	25.11.2002	01.04.2004 – 10.11.2012	2.50	7,626	–	(563)#	7,063	
	25.11.2002	01.10.2004 – 10.11.2012	2.50	7,624	–	(562)#	7,062	
	25.11.2002	01.04.2005 – 10.11.2012	2.50	6,376	–	(563)#	5,813	
	25.11.2002	01.10.2005 – 10.11.2012	2.50	6,374	–	(562)#	5,812	
	25.11.2002	01.04.2006 – 10.11.2012	2.50	4,501	–	(563)#	3,938	
	Employees	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	
				64,000	–	(4,500)	59,500	

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. SHARE CAPITAL (Continued)

### (c) Share option scheme (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	As at 1.1.2004	Number of share options		
					Cancelled during the year	Other Movements (Notes)	As at 31.12.2004
Consultants of Appeon	25.11.2002	25.11.2002 – 10.11.2012	2.50	1,625	–	–	1,625
	25.11.2002	01.04.2003 – 10.11.2012	2.50	1,625	–	–	1,625
	25.11.2002	01.10.2003 – 10.11.2012	2.50	1,625	–	–	1,625
	25.11.2002	01.04.2004 – 10.11.2012	2.50	1,625	–	–	1,625
	25.11.2002	01.10.2004 – 10.11.2012	2.50	1,625	–	–	1,625
	25.11.2002	01.04.2005 – 10.11.2012	2.50	1,625	–	–	1,625
	25.11.2002	01.10.2005 – 10.11.2012	2.50	1,625	–	–	1,625
	25.11.2002	01.04.2006 – 10.11.2012	2.50	1,625	–	–	1,625
	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	–	–	33,425
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
				340,425	(13,500)	–	326,925

Notes:

\* These options shall be managed by the executrixes of the late Dr. Yung Yau.

# The movements represented the reclassification of options from the category of Employees to the category of Directors of Appeon.

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, is not exceed 30% of the number of issued shares of Galactic 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 1,466,161 (subject to the approval of the shareholders of the Company) which represented 14.09% 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 31 December, 2005 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	As at 1.1.2005	Number of share options		As at 31.12.2005
					Cancelled during the year	Granted during the year	
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	–	–

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. SHARE CAPITAL (Continued)

### (c) Share option scheme (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	As at	Number of share options		As at	
				1.1.2005	Cancelled during the year	Granted during the year	31.12.2005	
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	
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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. SHARE CAPITAL (Continued)

### (c) Share option scheme (Continued)

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	As at	Number of share options		As at
				1.1.2005	Cancelled during the year	Granted during the year	31.12.2005
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)	–	–
				<u>350,000</u>	<u>(193,750)</u>	<u>–</u>	<u>156,250</u>
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)	–	–
				<u>50,000</u>	<u>(50,000)</u>	<u>–</u>	<u>–</u>
				<u>1,510,000</u>	<u>(416,250)</u>	<u>560,000</u>	<u>1,653,750</u>

No option was exercised by the grantees during the year.

Movements in the share options to subscribe for shares in Galactic for the year ended 31 December, 2004 are as follows:

Grantee	Date of grant	Period during which options are exercisable	Subscription price per share US\$	As at	Number of share options			As at	
				1.1.2004	Granted during the year	Cancelled during the year	Other movements (Notes)	31.12.2004	
Directors of the Company									
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	
					<u>400,000</u>	<u>–</u>	<u>(150,000)</u>	<u>(50,000)</u>	<u>200,000</u>
Dr. Yung Yau (deceased on 2nd May, 2004)	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)	–	–	
					<u>400,000</u>	<u>–</u>	<u>(150,000)</u>	<u>(50,000)</u>	<u>200,000</u>
	Directors of Galactic	25.11.2002	01.06.2003 – 10.11.2012	0.45	16,250	–	–	12,500#	28,750
		25.11.2002	01.12.2003 – 10.11.2012	0.45	16,250	–	–	12,500#	28,750
		25.11.2002	01.06.2004 – 10.11.2012	0.45	16,250	–	–	12,500#	28,750
		25.11.2002	01.12.2004 – 10.11.2012	0.45	16,250	–	–	12,500#	28,750
		25.11.2002	01.06.2005 – 10.11.2012	0.45	16,250	–	–	12,500#	28,750
		25.11.2002	01.12.2005 – 10.11.2012	0.45	16,250	–	–	12,500#	28,750
		25.11.2002	01.06.2006 – 10.11.2012	0.45	16,250	–	–	12,500#	28,750
		25.11.2002	01.12.2006 – 10.11.2012	0.45	16,250	–	–	12,500#	28,750
09.06.2003		09.06.2003 – 10.11.2012	0.45	41,250	–	–	6,250#	47,500	
09.06.2003		01.12.2003 – 10.11.2012	0.45	41,250	–	–	6,250#	47,500	
09.06.2003		01.06.2004 – 10.11.2012	0.45	41,250	–	–	6,250#	47,500	
09.06.2003		01.12.2004 – 10.11.2012	0.45	41,250	–	–	6,250#	47,500	
09.06.2003		01.06.2005 – 10.11.2012	0.45	41,250	–	–	6,250#	47,500	
09.06.2003		01.12.2005 – 10.11.2012	0.45	41,250	–	–	6,250#	47,500	
09.06.2003		01.06.2006 – 10.11.2012	0.45	41,250	–	–	6,250#	47,500	
09.06.2003		01.12.2006 – 10.11.2012	0.45	41,250	–	–	6,250#	47,500	
					<u>460,000</u>	<u>–</u>	<u>–</u>	<u>150,000</u>	<u>610,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. 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 1.1.2004	Granted during the year	Cancelled during the year	Other movements (Notes)	As at 31.12.2004	
Employees	25.11.2002	01.06.2003 – 10.11.2012	0.45	12,500	–	–	(6,250)#	6,250	
	25.11.2002	01.12.2003 – 10.11.2012	0.45	12,500	–	–	(6,250)#	6,250	
	25.11.2002	01.06.2004 – 10.11.2012	0.45	12,500	–	–	(6,250)#	6,250	
	25.11.2002	01.12.2004 – 10.11.2012	0.45	12,500	–	–	(6,250)#	6,250	
	25.11.2002	01.06.2005 – 10.11.2012	0.45	12,500	–	–	(6,250)#	6,250	
	25.11.2002	01.12.2005 – 10.11.2012	0.45	12,500	–	–	(6,250)#	6,250	
	25.11.2002	01.06.2006 – 10.11.2012	0.45	12,500	–	–	(6,250)#	6,250	
	25.11.2002	01.12.2006 – 10.11.2012	0.45	12,500	–	–	(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	01.03.2006 – 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
					100,000	250,000	–	(50,000)	300,000
	Consultants of Galactic	25.11.2002	01.06.2003 – 10.11.2012	0.45	37,500	–	–	(6,250)#	31,250
		25.11.2002	01.12.2003 – 10.11.2012	0.45	37,500	–	–	(6,250)#	31,250
25.11.2002		01.06.2004 – 10.11.2012	0.45	37,500	–	–	(6,250)#	31,250	
25.11.2002		01.12.2004 – 10.11.2012	0.45	37,500	–	–	(6,250)#	31,250	
25.11.2002		01.06.2005 – 10.11.2012	0.45	37,500	–	–	(6,250)#	31,250	
25.11.2002		01.12.2005 – 10.11.2012	0.45	37,500	–	–	(6,250)#	31,250	
25.11.2002		01.06.2006 – 10.11.2012	0.45	37,500	–	–	(6,250)#	31,250	
25.11.2002		01.12.2006 – 10.11.2012	0.45	37,500	–	–	(6,250)#	31,250	
28.01.2003		01.08.2003 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
28.01.2003		01.02.2004 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
28.01.2003		01.08.2004 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
28.01.2003		01.02.2005 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
28.01.2003		01.08.2005 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
28.01.2003		01.02.2006 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
28.01.2003		01.08.2006 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
28.01.2003		01.02.2007 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
09.06.2003		09.06.2003 – 10.11.2012	0.45	6,250	–	–	(6,250)#	–	
09.06.2003		01.08.2003 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
09.06.2003		01.12.2003 – 10.11.2012	0.45	6,250	–	–	(6,250)#	–	
09.06.2003		01.02.2004 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
09.06.2003		01.06.2004 – 10.11.2012	0.45	6,250	–	–	(6,250)#	–	
09.06.2003		01.08.2004 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
09.06.2003		01.12.2004 – 10.11.2012	0.45	6,250	–	–	(6,250)#	–	
09.06.2003		01.02.2005 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
09.06.2003		01.06.2005 – 10.11.2012	0.45	6,250	–	–	(6,250)#	–	
09.06.2003		01.08.2005 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
09.06.2003		01.12.2005 – 10.11.2012	0.45	6,250	–	–	(6,250)#	–	
09.06.2003		01.02.2006 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
09.06.2003		01.06.2006 – 10.11.2012	0.45	6,250	–	–	(6,250)#	–	
09.06.2003		01.08.2006 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
09.06.2003		01.12.2006 – 10.11.2012	0.45	6,250	–	–	(6,250)#	–	
09.06.2003		01.02.2007 – 10.11.2012	0.45	6,250	–	(6,250)	–	–	
01.06.2004		01.06.2004 – 10.11.2012	0.45	–	50,000	(50,000)	–	–	
01.06.2004	01.01.2005 – 10.11.2012	0.45	–	25,000	(25,000)	–	–		
01.06.2004	01.07.2005 – 10.11.2012	0.45	–	25,000	(25,000)	–	–		
01.06.2004	01.01.2006 – 10.11.2012	0.45	–	25,000	(25,000)	–	–		
01.06.2004	01.07.2006 – 10.11.2012	0.45	–	25,000	(25,000)	–	–		
01.06.2004	01.01.2007 – 10.11.2012	0.45	–	25,000	(25,000)	–	–		
01.06.2004	01.07.2007 – 10.11.2012	0.45	–	25,000	(25,000)	–	–		
23.09.2004	23.09.2004 – 10.11.2012	0.45	–	100,000	–	–	–	100,000	
				450,000	300,000	(300,000)	(100,000)	350,000	
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	
				1,410,000	550,000	(450,000)	–	1,510,000	

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 35. SHARE CAPITAL (Continued)

### (c) Share option scheme (Continued)

Notes:

\* These options shall be managed by the executrices of the late Dr. Yung Yau.

# The movements represented the reclassification of options from the category of Employees and Consultants to the category of Directors of Galactic.

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 amounted to HK\$5 (2004: HK\$NIL) for options granted under Appeon Scheme and HK\$6 (2004: HK\$3) granted under Galactic Scheme.

## 36. 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 23.

Details of the movements on the Company's share premium reserves are as follows:

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY							
At 1st January, 2004 as originally stated	529,289	7,734	43,757	–	31,038	1,069,915	1,681,733
– effect of change in accounting policy	–	(1,354)	–	–	–	–	(1,354)
As restated	529,289	6,380	43,757	–	31,038	1,069,915	1,680,379
Net loss for the year	–	–	–	–	–	(73,459)	(73,459)
Total recognised income and expense for the year	–	–	–	–	–	(73,459)	(73,459)
New shares issued as scrip dividend	4,200	–	–	–	(6,508)	–	(2,308)
Interim dividend declared	–	–	–	–	13,298	(13,298)	–
Dividends paid	–	–	–	–	(37,828)	–	(37,828)
Final dividend proposed	–	–	–	–	31,352	(31,352)	–
Shares repurchased	–	–	65	–	–	(246)	(181)
At 31st December, 2004 – opening adjustments arising from adoption of new accounting standard	533,489	6,380	43,822	–	31,352	951,560	1,566,603
	–	(6,380)	–	–	–	6,380	–
At 1st January, 2005 as restarted	533,489	–	43,822	–	31,352	957,940	1,566,603
Fair value changes on available-for-sale financial assets	–	–	–	13,020	–	–	13,020
Net income 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	581,349	–	43,822	13,020	40,039	1,165,896	1,844,126

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 36. SHARE PREMIUM AND RESERVES (Continued)

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

	2005 HK\$'000	2004 (Restated) HK\$'000
Dividend reserve	40,039	31,352
Retained profits	<u>1,165,896</u>	<u>957,940</u>
	<u><b>1,205,935</b></u>	<u><b>989,292</b></u>

## 37. LOANS FROM MINORITY SHAREHOLDERS

The amounts 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.

## 38. DEFERRED TAXATION

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 HK\$'000	Amortisation on intangible assets HK\$'000	Allowance on trade receivables HK\$'000	Allowance on inventories HK\$'000	Inventories of properties HK\$'000	Revaluation of properties HK\$'000	Revaluation of building HK\$'000	Others HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1st January, 2004	2,184	4,611	(511)	(29)	-	1,088	-	3	(1,951)	5,395
Upon adoption of HK (SIC) - INT 21	-	-	-	-	-	7,894	-	-	-	7,894
At 1st January, 2004 (Restated)	2,184	4,611	(511)	(29)	-	8,982	-	3	(1,951)	13,289
Charge to income statement for the year	657	2,060	15	8	-	-	-	99	331	3,170
Credit to equity	-	-	-	-	-	(249)	-	-	-	(249)
At 31st December, 2004 (Restated)	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 31st December, 2005	<u>3,312</u>	<u>3,548</u>	<u>(496)</u>	<u>(24)</u>	<u>152,183</u>	<u>18,533</u>	<u>1,465</u>	<u>12</u>	<u>(6,244)</u>	<u>172,289</u>

Represented by:

	2005 HK\$'000	2004 HK\$'000
Deferred tax liabilities	172,873	19,168
Deferred tax assets	<u>(584)</u>	<u>(2,958)</u>
	<u><b>172,289</b></u>	<u><b>16,210</b></u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 38. DEFERRED TAXATION (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:

	2005 HK\$'000	2004 HK\$'000
2005	N/A	17,086
2006	64,161	67,902
2007	20,885	22,184
2008	25,425	25,359
2009	51,804	52,422
2010	92,188	8,093
2011	15,256	15,256
2012	37,870	37,870
2013	5,519	5,519
2014	5,164	9,690
2015	2,616	–
2018	22,376	22,376
2019	63,782	63,782
2020	20,101	20,101
2021	7,482	7,481
2022	4,230	4,230
2024	9,834	9,970
Carried forward indefinitely	76,001	104,011
	<b>524,694</b>	<b>493,332</b>

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 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, 2004	1,047	(47)	(512)	(29)	–	459
Upon adoption of HK (SIC) – Int 21	–	–	–	–	1,354	1,354
At 1st January, 2004 (Restated)	1,047	(47)	(512)	(29)	1,354	1,813
Charge (credit) to income for the year	(251)	(22)	16	8	–	(249)
At 31st December, 2004 (Restated)	796	(69)	(496)	(21)	1,354	1,564
Charge (Credit) to income for the year	90	69	–	(3)	263	419
At 31st December, 2005	<b>886</b>	<b>–</b>	<b>(496)</b>	<b>(24)</b>	<b>1,617</b>	<b>1,983</b>

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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 39. PLEDGE OF ASSETS

The investments held for trading of the Group pledged to secure credit facilities granted to a subsidiary of the Company by:

A securities broker

<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b><u>4,216</u></b>	<u>24,176</u>

In addition to the above, certain of the Group properties and inventories of properties with an aggregate book value of approximately HK\$266,126,000 (2004: HK\$249,042,000) and HK\$208,063,000 (2004: Nil) respectively were pledged as securities for credit facilities obtained from bankers.

As at the balance sheet date, the amount of bank loans and other loan facilities secured by the above assets amounted to approximately HK\$291,851,000 (2004: HK\$122,619,000).

## 40. MAJOR NON-CASH TRANSACTIONS

- a. During the year, trade receivable from a customer amounting to approximately HK\$4,992,000 (2004: HK\$585,000) was used to settle the purchase consideration of unlisted debt securities issued by the customer.
- b. Included in the other income is interest income from associates, loans receivable and other debtors amounting to approximately HK\$ Nil (2004: HK\$6,710,000), HK\$171,000 (2004: HK\$4,152,000) and HK\$897,000 (2004: HK\$842,000) had not yet been settled.
- c. Proceeds on disposal of property, plant and equipment of approximately HK\$2,018,000 (2004: HK\$200,000) had not yet been settled at 31st December, 2005.
- d. Part of the purchase consideration of acquisition of Tigerlily during the year as mentioned in note 41 was settled by issuing 43,500,000 ordinary shares of the Company at the issue price of HK\$1.40 per share, which amounted to HK\$60,900,000. In addition, as mentioned in note 41, an option has been granted to a firm of financial advisers in connection with their financial advisory services in respect of the acquisition of Tigerlily. The fair value of the option as at the date of acquisition of Tigerlily and at 31st December, 2005 was HK\$2,000,000 and HK\$6,000,000 respectively.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 41. ACQUISITION OF SUBSIDIARIES

On 28th June, 2005, the Group acquired 100% of the issued share capital of Tigerlily (the "Acquisition") which is incorporated in the British Virgin Islands and is an investment holding company. Tigerlily has 56% effective interests in China EverBright Real Estate Development Limited ("EB Real Estate") which is principally engaged in property development in the PRC.

The purchase consideration is HK\$500,834,000 which was satisfied as to HK\$439,934,000 by way of cash and HK\$60,900,000 by issuing 43,500,000 ordinary shares of the Company at the issue price of HK\$1.4 per share which represented the market price of the Company's share as at the date of Acquisition. After taking into account the professional fee incidental to the Acquisition of HK\$14,639,000, and the value of the option as mentioned in note (c) below, the total cost of the Acquisition amounted to HK\$515,473,000.

The fair values of the identifiable assets and liabilities including contingent liabilities of Tigerlily and its subsidiaries as at the date of Acquisition and the corresponding carrying amounts immediately before the Acquisition are as follows:

	Carrying amount HK\$'000	Fair value adjustments HK\$'000 (note (a))	Fair value HK\$'000
Investment properties	1,973	1,596	3,569
Property, plant and equipment	6,692	4,438	11,130
Intangible assets	54,120	–	54,120
Interests in jointly controlled entities	96,586	363,508	460,094
Inventories of properties	550,671	518,037	1,068,708
Other inventories	1,630	–	1,630
Trade and other receivables	83,232	–	83,232
Amounts due from jointly controlled entities	69,076	–	69,076
Amounts due from minority interests	32	–	32
Amounts due from related companies	309	–	309
Tax prepaid	223	–	223
Investments held for trading	1,884	–	1,884
Bank balances and cash	192,513	–	192,513
Trade and other payables	(695,217)	–	(695,217)
Amounts due to minority shareholders	(17,598)	–	(17,598)
Amounts due to related companies	(6,730)	–	(6,730)
Amounts due to jointly controlled entities	(42,667)	–	(42,667)
Bank borrowings	(117,388)	–	(117,388)
Minority interests	(71,338)	(316,831)	(388,169)
Deferred tax liabilities	–	(166,202)	(166,202)
Contingent liabilities arising from financial guarantee contracts (note (d))	–	(23,478)	(23,478)
Net assets acquired	<u>108,003</u>	<u>381,068</u>	489,071
Goodwill arising on Acquisition (notes (b) and 18)			<u>26,402</u>
Total cost of investment			<u>515,473</u>
The total cost of investment is satisfied by:			
Cash			452,573
Shares issued			60,900
Issue of option (note (c))			2,000
			<u>515,473</u>
An analysis of the net cash outflow arising on the Acquisition is as follows:			
Cash consideration paid			452,573
Bank balances and cash acquired			(192,513)
Net outflow of cash and cash equivalents in respect of the Acquisition			<u>260,060</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 41. ACQUISITION OF SUBSIDIARIES (Continued)

### Notes

- (a) As at the 31st December, 2005, the directors of the Company have completed the fair value assessment on the identifiable assets and liabilities including contingent liabilities of Tigerlily and its subsidiaries as at the date of the Acquisition. There are no material differences between the total amount of the finalised fair value adjustments and the total amount of the provisional fair value adjustments as disclosed in the 2005 interim report of the Company. The changes in amount of the fair value adjustments are mainly resulted from more comprehensive valuation conducted afterwards in respect of the inventories of properties including those held by the jointly controlled entities as at date of Acquisition, and the assumption of the contingent liabilities as further explained in note (d) below.
- (b) The goodwill arising on the Acquisition is attributable to the anticipated profitability of the property development market in the PRC and the anticipated future operating synergies from the combination.
- (c) Pursuant to an agreement (the "Agreement") dated 29th April, 2005 entered into by SMC Real Estate Fund Limited ("SMC Real Estate"), a subsidiary of the Company, and a firm of financial advisers (the "Adviser"), the Adviser has been granted an option (the "Option") at the consideration of HK\$1, to purchase 1,250 shares of Tigerlily (the "Option Shares") at an exercise price of HK\$12,630,000 in exchange for its financial advisory services in connection with the Acquisition.

The Option is exercisable for a period of 5 years from the date of Acquisition of Tigerlily and shall lapse automatically upon expiry of the exercise period. Upon the exercise of the Option by the Adviser, SMC Real Estate is required to purchase, and the Adviser is required to sell, the Option Shares at the consideration of 95% of the then fair market value of the Option Shares. As at 31st December, 2005, the Option is still outstanding.

As at the date of Acquisition, the value of the financial advisory services agreed between the Group and the Adviser was HK\$2,000,000. As at 31st December, 2005, the fair value of the Option was considered by the directors of the Company as HK\$6,000,000 which is arrived at after taken into account the expected future cash flows arising from the underlying properties acquired in respect of the Acquisition and is recognised in the consolidated balance sheet as "Liability for share-based payment" under current liabilities. The change in fair value of the Option amounting to HK\$4,000,000 is recognised as "Fair value loss on share-based payment" on the face of the consolidated income statement.

- (d) As at the date of the Acquisition, Tigerlily and its subsidiaries gave guarantees to banks for mortgage bank loans granted to purchasers of 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 as at the date of the Acquisition as assessed by the directors of the Company amounted to HK\$23,478,000.
- (e) Since the Acquisition, Tigerlily and its subsidiaries has contributed revenue of HK\$73,348,000 and a profit of HK\$23,812,000 to the Group's revenue and profit for the year.

Had the Acquisition been completed on 1st January, 2005, the revenue from continuing operations of the Group and profit for the year from continuing operations of the Group would have been HK\$1,844,637,000 and HK\$240,449,000 respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.



## 42. 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\$2,629,000 (2004: HK\$2,321,000) represents contributions payable to these schemes by the Group in the current year.

## 43. CAPITAL COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Contracted for but not provided in the financial statements:				
Establishment of a joint venture to develop manufacturing facilities in the PRC	–	3,899	–	–
Additional inventories of properties	1,767,494	–	–	–
Additions to property, plant and equipment	66,655	2,772	3,277	336
	<b>1,834,149</b>	<b>6,671</b>	<b>3,277</b>	<b>336</b>

In addition, the Group's contracted but not provided for share of the jointly-controlled entities own capital commitments, which are not included in the above, is HK\$512,888,000 (2004: Nil).

## 44. OPERATING LEASE COMMITMENTS

The Group/Company as lessee

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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	8,254	4,214	1,200	1,200
In the second to fifth year inclusive	14,400	4,152	2,100	3,300
Over five year	32,957	–	–	–
	<b>55,611</b>	<b>8,366</b>	<b>3,300</b>	<b>4,500</b>

Leases of properties are negotiated for period ranging from one to fourteen years and rentals are fixed over the contracted period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 44. OPERATING LEASE COMMITMENTS (Continued)

### As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for the 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	57,848	57,940	4,687	4,768
In the second to fifth year inclusive	173,274	180,213	1,850	2,272
Over five years	19,729	63,089	–	–
	<u>250,851</u>	<u>301,242</u>	<u>6,537</u>	<u>7,040</u>

## 45. CONTINGENT LIABILITIES

As at the balance sheet date, the Group had the following contingent liabilities not provided for in the financial statements:

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Guarantees given to:				
A supplier of an associate to secure the repayment of balance due by the associate to the supplier	13,455	6,692	13,455	6,692
Banks for credit facilities granted to:				
– certain subsidiaries	–	–	138,853	259,856
– certain associates	102,400	22,400	102,400	22,400
– a jointly controlled entity	31,716	–	–	–
	<u>147,571</u>	<u>29,092</u>	<u>254,708</u>	<u>288,948</u>

The Group's share of the contingent liabilities of jointly controlled entities in respect of guarantees given to banks for mortgage bank loans granted to purchasers of the properties amounted to HK\$19,222,000 (2004: nil).

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.

## 46. 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.

During the year, the group entities entered into the following transactions with related parties that are not members of the Group:

	Notes	Minority shareholders		Associates		Related company	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Purchases from	(a)	–	21,612	–	–	–	–
Interest paid to	(b)	–	10,622	–	–	–	–
Commission received from	(c)	–	415	–	–	–	–
Interest received from	(b)	960	–	–	6,710	–	–
Commission paid to	(d)	–	–	271	338	27	30

Notes:

- (a) The transactions were carried out at cost plus a percentage profit mark-up.
- (b) The transactions were based on interest rates agreed by the parties concerned.
- (c) The transactions were based on an agreed rate charged on trading of goods.
- (d) The transactions were based on a fixed rate charged on the value of trading of securities on an agreed amount for the commission paid to a related company and on the provision of property leasing management services for commission paid to associates. The commission for trading of securities was paid to a company in which one of the independent non-executive Directors of the Group had a beneficial interest.

## 47. 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 a 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 48. 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
Apeon Corporation	British Virgin Islands	Ordinary	3,658,032 shares of US\$0.01 each	–	86.68%	Investment holding
China Everbright Real Estate Development Limited <sup>#</sup>	PRC (Note c)	Paid up capital	Rmb133,000,000	–	56%	Investment holding and property development
Extra-Fund Investment Limited	Hong Kong	Ordinary	2 shares of HK\$1 each	100%	–	Securities trading
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
Galactic Computing Corporation	British Virgin Islands	Ordinary	10,399,702 shares of US\$0.01 each	–	100%	Investment holding
Guangdong Macro Cables Co., Ltd. <sup>#</sup>	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 <sup>#</sup>	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	–	80%	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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 48. 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	
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 <sup>#</sup>	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 <sup>#</sup>	PRC (Note b)	Paid up capital	US\$10,003,300	–	100%	Manufacturing and trading appliances
SMC Cable Limited	British Virgin Islands	Ordinary	1 share of US\$1	100%	–	Investment holding
SMC Development Corp. <sup>#</sup>	USA	Ordinary	1,000 shares of US\$10 each	–	100%	Property development
SMC Home Products Corp. <sup>#</sup>	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. <sup>#</sup>	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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 48. 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	
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 <sup>#</sup>	USA	Ordinary	1,000 shares of US\$10 each	–	100%	Property investment
業盈置業(深圳) 有限公司 <sup>#</sup>	PRC (Note b)	Paid up capital	HK\$10,000,000	–	100%	Property investment
正陽軟件(深圳) 有限公司 <sup>#</sup>	PRC (Note b)	Paid up capital	HK\$9,000,000	–	86.68%	Computer software development
蜆壳星盈科技(深圳) 有限公司 <sup>#</sup>	PRC (Note b)	Paid up capital	HK\$24,000,000	–	100%	Computer software and hardware development
北京光大房地產 開發有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb28,000,000	–	56%	Investment holding and property development
北京中京藝苑房地產 開發有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb30,000,000	–	56%	Property development
上海光大置業發展 有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb15,000,000	–	56%	Investment holding
合肥光大置業 有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb20,000,000	–	56%	Investment holding
北京快樂城堡購物 中心有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb10,000,000	–	56%	Property investment
安徽博鴻房地產 開發有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb20,000,000	–	56%	Property development
光大物業管理 有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb3,500,000	–	56%	Property management
呼和浩特光大環城 建設開發有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb120,000,000	–	44.8%	Property development
廣州光大置業 有限公司 <sup>#</sup>	PRC (Note d)	Paid up capital	Rmb10,000,000	–	56%	Property development

<sup>#</sup> Subsidiaries not audited by Grant Thornton Hong Kong or other Grant Thornton International member firms

## 48. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

- (a) The companies are incorporated in the PRC as cooperative or equity joint ventures.
- (b) The companies are incorporated in the PRC as wholly foreign owned enterprises.
- (c) The company is incorporated in the PRC as sino-foreign equity joint venture.
- (d) 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.

## 49. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associated company	Place/ country of incorporation/ operation	Class of shares held	Paid up issued/ registered ordinary share capital	Interest 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\$1 each	–	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

\* For identification only

# 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.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 50. 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 <sup>#</sup>	PRC (Note a)	Paid up capital	Rmb50,000,000	–	28%	Property development
上海金鶴數碼科技 發展有限公司 <sup>#</sup>	PRC (Note b)	Paid up capital	US\$2,400,000	–	36.4%	Property development
廣州市光大花園房 地產開發有限公司 <sup>#</sup>	PRC (Note a)	Paid up capital	Rmb100,000,000	–	28%	Property development
廣州市光大花園物業 管理有限公司 <sup>#</sup>	PRC (Note a)	Paid up capital	Rmb500,000	–	41.7%	Property management
廣西光大旅遊投資 有限公司 <sup>#</sup>	PRC (Note a)	Paid up capital	Rmb30,000,000	–	39.7%	Investment holding

<sup>#</sup> Joint controlled entities not audited by Grant Thornton Hong Kong or other Grant Thornton International members firms

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.



# FINANCIAL SUMMARY

	For the year ended 31 December				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
<b>RESULTS</b>					
Turnover	<u>1,186,239</u>	<u>1,146,747</u>	<u>1,340,526</u>	<u>1,257,234</u>	<b>1,352,672</b>
Profit (loss) before income tax	10,262	(53,242)	76,058	137,980	<b>178,502</b>
Income tax expenses	<u>(9,111)</u>	<u>(11,369)</u>	<u>(5,593)</u>	<u>(14,336)</u>	<b>(7,561)</b>
Profit (loss) for the year	1,151	(64,611)	70,465	123,644	<b>170,941</b>
Minority interests	<u>27,127</u>	<u>(3,454)</u>	<u>17,354</u>	<u>14,239</u>	<b>(13,006)</b>
Net profit (loss) for the year	<u>28,278</u>	<u>(68,065)</u>	<u>87,819</u>	<u>137,883</u>	<b>157,935</b>
	HK\$	HK\$	HK\$	HK\$	HK\$
Earnings (loss) per share					<b>33 cents</b>
Basic	6 cents	(14 cents)	20 cents	31 cents	<b>33 cents</b>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>20 cents</u>	<u>N/A</u>	<b>N/A</b>

## ASSETS AND LIABILITIES

	At 31 December				2005 HK\$'000
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	
Total assets	2,706,235	2,491,744	2,583,992	2,656,636	<b>4,666,658</b>
Deduct:					
Total liabilities	(773,789)	(661,477)	(726,756)	(592,918)	<b>(1,985,331)</b>
Minority interests	<u>106,924</u>	<u>81,078</u>	<u>99,564</u>	<u>(3,781)</u>	<b>(410,385)</b>
Shareholders' funds	<u>2,039,370</u>	<u>1,911,345</u>	<u>1,956,800</u>	<u>2,059,937</u>	<b>2,270,942</b>

The financial information for four years ended 31st December, 2004 have been restated to reflect the financial effect on the adoption of new HKFRS during the year.

# PARTICULARS OF MAJOR PROPERTIES

AT 31 DECEMBER 2005

## (A) PROPERTIES HELD AS PROPERTY, PLANT AND EQUIPMENT

Name/location	Type	Gross floor area	Effective % held	Stage of completion	Lease terms
Shell Industrial Building 12 Lee Chung Street Chaiwan, Hong Kong (Note)	Industrial premises	132,194 sq.ft. (including roof area 3,074 sq.ft.)	100%	100%	Long-term
No. 18 San Yue East Rd., Beijiao Industrial Park, Beijiao Town Shunde, Guangdong Province, People's Republic of China	Industrial premises	62,805 sq.m.	100%	100%	Medium-term
4th Floor, Kantone Centre, 1 Ning Foo Street, Chaiwan, Hong Kong	Industrial premises	4,860 sq.ft.	100%	100%	Long-term
1931 N. Great South- West Parkway, Grand Prairie, Texas, U.S.A.	Commercial premises and warehouse	97,134 sq.ft.	100%	100%	Freehold
Unit A, 22/F, Bai He Garden, Block 2, Po Bei Road 999 Nong Tsui Wai Region, Shanghai City, Shanghai, PRC	Staff quarters	161.19 sq.m.	100%	100%	Long-term
中國廣東省順德市 大良區紅崗村委會 飛鵝崗 162 號 及 168 號 (Note)	Industrial premises	24,671.74 sq.m.	100%	100%	Medium-term
Unit Nos. 701 and 702, Shanghai China Everbright Convention Centre Block C, No. 70 Caobao Road, Xuhui District, Shanghai City, the PRC	Commercial premises	269.72 sq.m.	56%	100%	Medium
Unit No. 602 of Block 6 and units Nos. 1003 and 1103 of Block 11, Hong Qiao Guan Da Hua Yuan, Lane 269, Cheng Jia Qiao Road, Min Hang District, Shanghai City, the PRC	Staff quarters	540.55sq.m.	56%	100%	Medium

Note: Partly classified as property, plant and equipment and partly as investment properties.

# PARTICULARS OF MAJOR PROPERTIES

AT 31 DECEMBER 2005

## (B) PROPERTIES HELD FOR INVESTMENT

Location	Type	Gross floor area	Effective % held	Stage of completion	Lease terms
Tak King Industrial Building, Lower ground floor, 27 Lee Chung Street, Chaiwan, Hong Kong	Industrial premises	9,384 sq.ft.	100%	100%	Long-term
City of Livermoore, County of Alameda, California, U.S.A. (Phases I & II)	Commercial complex	237,913 sq.ft. (Site area–19.59 acres)	100%	100%	Freehold
The whole of level of 63/F, & 8 office units of CITIC Plaza Office Tower 233 Tianhe North Road, Tianhe Ju, Guangzhou Guangdong, PRC	Commercial	3,887.16 sq.m.	100%	100%	Medium-term
中國廣東省深圳市福田保稅區紅棉道B105-19-3地段	Hi-tech Industrial factory premises	31,348 sq.m. (site area of land)	100%	100%	Medium-term
Unit Nos. 801 and 802, Shanghai China Everbright Convention Centre Block C, No. 70 Caobao Road, Xuhui District, Shanghai City, the PRC	Commercial premises	269.72 sq.m.	56%	100%	Medium

## (C) PROPERTIES HELD AS INVENTORIES

### (a) Properties under development

Name/location	Type	Site Area	Effective % held	Stage of Completion	Lease terms
A piece of land namely 1 Jie Fang 25/2 Qiu at Bei Cai Town, Zhong Jiang High-tech Zone, Pudong District, Shanghai City, the PRC	Commercial premises	7,543sq.m	36.4%	0%	Medium
3 adjoining development sites at No.48 Pin An Li Xi Da Jie, Xi Cheng District, Beijing City, the PRC	Commercial premises	15,091sq.m.	56%	50%	Medium
Portion of a mixed-use Development at Hefei New Station Comprehensive Development Trial Area in Hefei City, An Hui Province, the PRC	Residential and commercial premises	25,926.73 sq.m.	56%	65%	Medium

# PARTICULARS OF MAJOR PROPERTIES

AT 31 DECEMBER 2005

## (C) PROPERTIES HELD AS INVENTORIES (Continued)

### (b) Properties held for future development

Name/location	Type	Site Area	Effective % held	Lease terms
中國內蒙古自治區 首府呼和浩特市 東南二環周邊等土地	Land under development	6,403,200 sq.m.	44.8%	Medium
中國廣州市海珠區 工業大道北西地段	Residential and commercial premises	53,975 sq.m.	56%	Medium

## (D) PROPERTIES HELD BY ASSOCIATES

Location	Type	Gross floor area	Effective % held	Stage of completion
CITIC Plaza, Junction of Tianhe North Road, Lim Ho Mid Road and Lim Ho West Road Guangzhou Guangdong, PRC (excluding partly of office units)	Commercial	35,053 sq.m.	20%	100%
CITIC Plaza, Junction of Tianhe North Road, Lim Ho Mid Road and Lim Ho West Road Guangzhou Guangdong, PRC (partly of office units)	Commercial Complex	41,808 sq.m.	40%	100%
Eastern side of Linhezhong Road at its junction with Tianrun Road in Tianhe District, Guangzhou City, Guangdong Province, the PRC	Commercial Complex	127,000 sq.m.	20%	26%

## (E) PROPERTIES HELD BY JOINTLY CONTROLLED ENTITIES

Name/location	Type	Site Area	Effective % held	Stage of Completion	Lease terms
Guangzhou Guan Da Hua Yuan, Gong Yie Road, Hai Zhu District, Guangzhou City, the PRC	Residential and commercial premises	430,000 sq.m.	28%	50%	Medium
Lot No. PZB11 at Pa Zhou Island, Hai Zhu District, Guangzhou City, the PRC	Commercial premises	102,879 sq.m.	28%	50%	Medium