SINCE 1952

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

Stock Code: 00081

ANNUAL REPORT 2006

# CONTENTS

# CORPORATE INFORMATION

## DIRECTORS

Mr. Billy K YUNG
*(Group Chairman and Chief Executive)*
Dr. The Hon Leo Tung-Hai LEE,
*GBM, GBS, Cav Gr Cr, 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. Eddie HURIP
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, 2006 amounted to HK$138,833,000. Earnings per share were HK$0.277.

## FINAL DIVIDEND

The Board recommends the payment of a final dividend of HK$0.08 per share (2005: HK$0.08 per share) in respect of the year 2006 to shareholders whose names appear on the Register of Members of the Company on 29th May, 2007. Warrants for the final dividend will be posted on 5th June, 2007.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 23rd May, 2007 to Tuesday, 29th May, 2007, 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 Tuesday, 22nd May, 2007.

## BUSINESS REVIEW

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

Due to severe material price inflation during the year, the Group's ceiling fans business margin dropped compared against the year before. The North America and Europe markets margins were the most affected; the Middle East, Africa and Asia markets maintained profitability. With material prices moderating and selling prices improving this year business shall be stable.

Table fans business results last year were desirable despite continual material price escalations; profits were higher than the prior year. With the 20-year term agreement with the production partner expiring, this business will be downsized next year.

Although material price increases affected profits, the vacuum cleaner contract manufacturing business achieved steady growth during the year. Production of a new product, the rechargeable work light project is expected to start in the second quarter of 2007, and a compact model of the product will be launched in the forth quarter of 2007.

**Optics and Imaging**

During the year the EMS business recorded increases in laser scanner and fuser shipments by 30% and 300% respectively, the growth was attributable to high volumes of low end models production. This trend is expected to continue. Profit margin is expected to decrease due to a higher proportion of low end models contributions in the coming year. However, overall profit will still enjoy handsome growth.

**Electric Wire and Cable**

The Group's 98% owned Guangdong Macro Cable Company reported profit growth for the year. Higher selling prices realized for the company's inventory stock also resulted in higher gross margin for the year. As major materials' prices have receded from high levels since 2006, business is expected to stabilize in 2007.

**Taxi Operation**

The Guangzhou SMC Taxi company had another stable year of operation in 2006 and maintained the number of taxi licenses at 775. The Group is in the process of reorganizing the taxi joint venture company structure to facilitate future expansion. The Group is also acquiring the remaining 5% interest from its joint venture partner and the transaction is anticipated to be completed by mid of 2007.

**Real Estate Investment & Development**

In 2006, the Group's Citic Plaza properties portfolio recorded stable average rental price increases for its office properties. Citic Plaza's retail properties were fully leased and generated double digit income growth. The Group also took advantage of strong market demands for high end office properties and captured profits through the sales of certain office unit holdings.

The long term lease for the hi-tech manufacturing facility in Shenzhen continues to provide stable rental contribution. The Group has commenced study for an expansion development phase for this property to increase its income potential. It is expected that the total GFA of this property can be increased by a maximum of 47,000 $m^2$.

The US property rental market in 2006 was better than expected and the Group's office property complex in Livermore, California was 95% leased. If the conditions are favorable, the Group may consider realizing this investment in 2007.

The Group invested in a 20% interest in a Guangzhou property development project in January 2005. The project includes office and retail facilities with a five-star international hotel comprising total GFA of about 127,000 $m^2$; construction is near completion. The Group entered into a conditional sales and purchase agreement on 2nd March 2007 for the disposal of this 20% equity interest and the related shareholders' loan. The total consideration is about HK$177,000,000. The sale is expected to be completed on or before 10th May 2007 and a gain on disposal of about HK$55,644,000 will result.

In December 2006, the Group increased its interest in China Ever Bright Real Estate Development Limited ("EBRE") from 56% to 70%. The Group continues to develop the company according to the original plans, EBRE's major projects are as follows:

EBRE owns 100% interest in a Beijing commercial property development project comprising three office towers with total GFA of about 148,000 $m^2$ (saleable GFA of about 110,000 $m^2$ ). Installation of equipment has been completed at the end of 2006 and delivery for usage is expected in the second quarter of 2007. Two of the three towers were sold under pre-sale agreements, the relevant sales are expected to be recognized in the first half of 2007. The remaining tower will be held for lease.

EBRE holds 50% interest and the Group holds another 8% interest in the Guangzhou Guangda Huayuan multi-phase residential and retail development project located in Haizhu district in Guangzhou. Phase E of the development project comprises total GFA of 250,000 $m^2$. Over half of the construction of the apartment units in phase E composing saleable GFA of 194,000 $m^2$ was completed, pre-sale percentage had also reached about 60%. The pre-sold units will be delivered in August 2007. Under favorable prevailing market conditions, design features are being upgraded and the average selling prices have also been increasing accordingly. The company is evaluating various design plans for the next phase F2 development which comprises a site area of 129,000 $m^2$ with total GFA of about 360,000 $m^2$, of which the saleable GFA of the residential and retail properties will be about 290,000 $m^2$. The final plan will strive to achieve the best possible profitability results while also meeting the new government policies and market demand expectations.

EBRE owns 100% interest in a multi-purpose development project in Hefei which comprises total GFA of about 110,000 $m^2$ (saleable GFA of about 95,000 $m^2$). The properties were nearly half sold and revenue were recognized in 2006. The remaining properties will be sold subsequently. The remaining land of the project is under construction for a retail commercial and hotel property.

EBRE owns 65% interest in an R & D office development project in the ZhangJiang High-tech Zone in Pudong, Shanghai. The project comprises total GFA of about 17,000 $m^2$ (saleable GFA of about 14,000 $m^2$), installation of equipment was completed at the end of 2006. Delivery for possession is expected to be in the second quarter of 2007. The project is planned to be held for lease.

EBRE owns 100% interest in another development project located in Haizhu district in Guangzhou. The land parcel under the project covers an area of about 43,000 $m^2$ and is connected to an inter-change station of the Guangzhou – Foshan light rail line and a Guangzhou subway line. The development prospect is quite attractive. The total GFA of the project is about 234,000 $m^2$ and a large scale retail complex combined with residential development with estimated saleable GFA of about 150,000 $m^2$ is under plan.

The Guilin project which EBRE owns 49.7% interest has obtained land use rights for 343,000 $m^2$ of land in Guilin. The company plans to develop a high class hotel resort and residential community for the project.

EBRE owns 80% of a land development project company in Hohhot, Inner Mongolia. The project company is obtaining government permission to commence work for the primary development of about 975 mu (about 650,000 $m^2$) of rural land. Income will be generated through auctioning of the resultant saleable land parcels after the infrastructure for the land is completed by the company. Development franchise and permission for the remaining 8,625 mu (about 5,750,000 $m^2$) of land for primary development is anticipated to be obtained gradually over multiple years and stable income will be generated from the development.

EBRE holds 50% interest in an exhibition centre development project company in Guangzhou and disputes have arisen between EBRE and the other 50% shareholder over issues concerning the operations and financing management for the company. EBRE has concerns over the other shareholder's improper management behavior. EBRE is engaging in both negotiation and legal proceedings to settle the disputes in order to protect the Group's interest.

**Technology Investment Projects**

*Internet Automatic Migration Software for Enterprises*

Notwithstanding increase in revenue generation, Appeon continued to make considerable losses during the year. The company's performance has lagged behind budget substantially and its financial targets have repeatedly lapsed. In an effort to end such prolonged losses, the Group took actions to restructure Appeon's operations in early 2007 to result in a leaner organization in the future. The Group has made a provision of HK$393,000 as re-structuring costs for Appeon.

*Super Blade Computing System*
Galactic Computing continued to win government and institutional tenders in the mainland and Hong Kong, including contracts for the installation of Galactic's supercomputing blade system, mid-range computing servers, data storage systems, system management software and associated professional services. The company achieved revenue growth in 2006. To meet rapidly growing data storage market demand, the company has focused on data storage systems and associated software development. The storage products are expected to increase the company revenue and profit margin.

*System Integration and Software Development*
The Group owns 26.66% of MDCL-Frontline (China) Limited. The company's low end hardware trading business was stable and its enterprise services business recorded desirable growth. As profits from the latter business is relatively higher, the company maintained profitability in 2006 and its turnover has grown slightly as per the unaudited accounts of the company.

*Electronic Integrated Rectifier Chips*
APD entered into an agreement with an independent buyer in October 2006 and has sold substantially all its assets including its intellectual property, outstanding orders and customer accounts portfolio. It is a cash installment sale composed of initial payments and deferred payments based on revenue earn-outs for the 2007 and 2008 calendar years. Following the assets sale, APD will liquidate its remaining assets and distribute periodic payments to its shareholders as the assets sale installment payments are received. Since completion of the assets sale, SMC has received US$5,254,000.

**Financial Investment**
During the year, the world's major stock markets had a weighted average rise of about 19%. For the year ended 31st December 2006, the Group's financial investment activities recorded profit of approximately HK$59,101,000 and the market value of the Group's financial investment holdings amounted to HK$187,948,000.

By Order of the Board
**BILLY K YUNG**
*Chairman*

Hong Kong, 26th April, 2007

**Revenue and Operating Results**

For the period ended 31st December, 2006 the Group recorded a revenue from continuing operations of HK$1,553,063,000 representing an increase of HK$234,895,000 or 17.8% over HK$1,318,168,000 in the same period last year. The increase in the revenue mainly came from the business of property development in the PRC and increase in sales of EMS business.

Profit attributable to equity holders for the period ended 31st December, 2006 went down to HK$138,833,000 from HK$157,171,000 for the same period in 2005 as a result of (i) the effect of provision for loss resulting from loan and guarantee granted to certain related parties by a jointly controlled entity together with (ii) higher production costs of ceiling fans following the upsurge of costs of raw materials, partly offset by (iii) profits from investment in securities.

**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. Other than the upsurge in receiving orders in the EMS business for the second half of 2006 partly offset by the pull-out of a major customer for the Table Fan division as from 1st July, 2006, 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$140,000,000 advanced to an independent third party in 2004 was fully repaid in August 2006.

During the period under review, the Group obtained two bank loans totalling RMB160,000,000 to finance its property development project in the PRC.

Most of the banking facilities of the Group were subject to floating interest rates. Other than the U.S. and PRC term loans of approximately US$14,078,000 and RMB405,000,000 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, 2005.

**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 conducted its sales, receivables and payables, bank borrowings and expenditures in Renminbi for its PRC property development business, 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, 2006, the Group recorded a gearing ratio, expressed as a percentage of total bank borrowings net of cash to shareholders' funds of 18.4% (31st December, 2005: 12.67%). During the period under review, the Group obtained two bank loans totalling Rmb160,000,000 to finance a property development project in the PRC. As a result, both the total bank borrowings net of cash and the Group's gearing ratio went up considerably.

**Significant Acquisitions and Disposals**

In August 2006, the Group entered into an acquisition agreement with an independent third party to purchase 51% equity interest in Beijing Jin Hua Xing Properties Company Limited ("Jin Hua Xing") with cash consideration of around RMB125 million. The 70% owned subsidiary of Jin Hua Xing is the holder of the right to develop a piece of land located in Beijing into a residential and commercial building/complex.

On 22nd December, 2006, the Group acquired 20% equity interest of Jodrell Investments Limited ("Jodrell"), a non-wholly owned subsidiary of the Group, at an aggregate consideration of approximately HK$134,126,000.

On 2nd March, 2007, the Group entered into a sales and purchases agreement in relation to a proposed disposal of its 20% interest in a property project in Guangzhou, the PRC, comprising a five-star "Westin" hotel in one tower, an office tower and a shopping mall covering a total gross floor area of about 127,000 sq.m. The consideration is approximately HK$177,300,000. Details of this disposal are set out in the Circular to shareholders dated 28th March, 2007.

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

**Capital Commitments and Contingent Liabilities**

There was no significant change in capital commitments and contingent liabilities compared to the position as at 31st December, 2005.

**Capital Expenditure and Charges on Assets**

The Group had a total capital expenditure amounting to HK$27,818,000 during the period under review.

Based on certain real estate in Mainland China, the Group secured two mortgage loans totalling RMB160,000,000 from a PRC 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, 2006 compared to the position as at 31st December, 2005.

**Employees**

As at 31st December, 2006, the Group has approximately 2,200 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 3,800 people.

## EXECUTIVE DIRECTORS

**Mr. Billy K Yung**, aged 53, eldest son of the late Dr. Yung Yau, is the Group Chairman and Chief Executive 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 30 years.

**Madam Yung Ho Wun Ching**, aged 75, 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 60, 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 61, 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.

**Mr. Eddie Hurip**, aged 48, joined the Group in 1994 as Deputy General Manager and was appointed Executive Director in 2006. He holds a Bachelor's degree in Electrical Engineering and Computer Science from the University of California, Berkeley. Mr. Hurip had served as Vice President of Merrill Lynch & Co. in USA. He has been involved in corporate restructuring and business development for local and international corporations in China for the past 9 years.

## NON-EXECUTIVE DIRECTOR

**Mr. Simon Yung Kwok Choi**, aged 50, 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. The Hon. Leo Lee Tung Hai, GBM, GBS, LLD, JP**, aged 85, has been an independent non-executive director of the Company since 1998. Dr. Lee is the Chairman of the 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 Vice President of the China Overseas Friendship Association, Chairman of Friends of Hong Kong Association, Adviser of the Advisory Board of the Tung Wah Group of Hospitals and Chairman of the Association of Chairmen of the Tung Wah Group of Hospitals. Dr. Lee served as a Standing Committee Member of the eighth and ninth National Committees 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 Selection Committee for the First Government of the HKSAR. He has been honoured with awards by different governments, which include Cavaliere di Gran Croce of Italy, O.B.E. of Great Britain, Chevalier Legion d'Honneur of France, Commandeur de I'Ordre de Leopold II of Belgium and Gold Bauhinia Star of the Government of the HKSAR in 1999. Dr. Lee was awarded the highest honour of the Grand Bauhinia Medal in July 2006 by the Government of the HKSAR. Dr. Lee has over 40 years of experience in business management.

**Mr. Shiu-Kit Ngai, SBS, OBE, JP**, aged 82, was appointed as an independent non-executive director since 1998. Mr. Ngai, a Deputy of the 9th National People's 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 Hong Kong Special Administrative Region. He served as an Adviser on Hong Kong Affairs to The People's Republic of China; and a member of 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 57, 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 55, 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 42, 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 42, joined China EverBright Real Estate Development Limited, 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 Vice President and as Executive Director/General Manager respectively.

**Mr. Yau Kin Hing, Henry**, aged 52, 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. Chu Ka Loy**, aged 58, 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 46, 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 52, 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. Wong Yat Sheung, Nelson**, aged 34, 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 31st December, 2006.

## 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 51 to note 53 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, 2006 are set out in the consolidated income statement on page 21.

An interim dividend of HK$0.04 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 HK$0.08 per share to the shareholders on the register of members on 29th May, 2006, thus giving rise to a final dividend distribution amounting to HK$42,039,000 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 38 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 39 to the financial statements.

## DIVIDEND RESERVE

Dividend reserve of the Company at 31st December, 2006, calculated under section 79B of the Companies Ordinance amounted to HK$42,039,000 (2005: HK$40,039,000).

## DONATIONS

During the year, the Group made charitable and other donations totalling HK$2,848,000.

## 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 89.

## 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 88.

## 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 Chief Executive)*
Madam YUNG HO Wun Ching
Mr. LEUNG Chun Wah
Mr. Plato POON Chak Sang
Mr. Eddie HURIP *(Appointed on 1st November, 2006)*

**Non-executive director**
Mr. Simon YUNG Kwok Choi

**Independent non-executive directors**
Dr. The Hon Leo Tung-Hai LEE, *GBM, GBS, Cav Gr Cr, 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, Mr. Billy K Yung, Mr. Simon Yung Kwok Choi, Mr. Peter Wong Chung On and Mr. Peter Lam shall retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 94 of the Company's Articles of Association, Mr. Eddie Hurip shall retire at the forthcoming annual general meeting and, being eligible, offers himself 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, 2006, 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 Directors | Capacity | Nature of Interests | Number of ordinary shares held | Aggregate long position | Percentage of aggregate long position in shares to the issued share capital of the Company |
|---|---|---|---|---|---|
| Mr Billy K Yung | Beneficial Owner | Personal | 26,098,000 | 227,427,084 | 43.28% |
| | Interst of child under 18 or spouse *(Note 1)* | Other | 191,329,084 | | |
| | Interest held jointly with another person *(Note 2)* | Other | 10,000,000 | | |
| Dr Leo Tung-Hai Lee | Beneficial Owner | Personal | 5,306,382 | 5,306,382 | 1.01% |
| Mr Peter Lam | Beneficiary of a trust *(Note 3)* | Other | 1,300,000 | 1,300,000 | 0.25% |
| Madam Yung Ho Wun Ching | Beneficial Owner | Personal | 53,196,300 | 63,196,300 | 12.03% |
| | Interest of Spouse *(Note 4)* | Family | 10,000,000 | | |
| Mr Leung Chun Wah | Beneficial Owner | Personal | 1,799,400 | 1,799,400 | 0.34% |
| Mr Plato Poon Chak Sang | Beneficial Owner | Personal | 739,200 | 739,200 | 0.14% |
| Mr Simon Yung Kwok Choi | Beneficial Owner | Personal | 39,147,911 | 43,677,351 | 8.31% |
| | Interest of controlled corporation *(Note 5)* | Corporate | 3,529,440 | | |
| | Interest of spouse *(Note 6)* | 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 jointly with his wife, Madam Hsu Vivian.

(3) These shares are held by a trust for the benefit of Mr. Peter Lam.

(4) This interest represents the holding of Shares held by the late Dr. Yung Yau.

(5) These shares are held by Konvex Enterprises Limited, which is wholly-owned by Mr. Simon Yung Kwok Choi.

(6) 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 Appeon Corporation and Galactic Computing Corporation are set out in note 38 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, 2006, 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$2,700 for the year ended 31st December, 2006 (2005: HK$27,000).

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, 2006.

## SUBSTANTIAL SHAREHOLDERS

At 31st December, 2006, 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 held | Aggregate long position | Percentage of ordinary shares held to the issued share capital of the Company |
|---|---|---|---|---|---|
| UBS Trustee (BVI) Limited | Trustee of a Trust *(Note 1)* | Other | 199,437,334 | 199,437,334 | 37.95% |
| Diamond Key Enterprises Inc. | Beneficial Owner *(Note 1)* | Beneficial | 118,612,287 | 118,612,287 | 22.57% |
| On Fat Profits Corporation | Beneficial Owner *(Note 1)* | Beneficial | 72,716,797 | 72,716,797 | 13.84% |
| Madam Chiu Man | Beneficial Owner<br>Interest of spouse *(Note 2)* | Personal<br>Family | 1,000,000<br>42,677,351 | 43,677,351 | 8.31% |
| Madam Hsu Vivian | Interest of spouse<br>Interest held jointly with another person *(Note 3)* | Family<br>Other | 26,098,000<br>10,000,000 | 36,098,000 | 6.87% |
| Madam Margaret Yung Siu Chee *(Note 4)* | Beneficial Owner | Personal | 28,154,604 | 28,154,604 | 5.36% |

*Notes:*

(1) 118,612,287 shares and 72,716,797 shares form part of the 199,437,334 shares held by UBS Trustee (BVI) Limited. Of which, the aggregate of 118,612,287 shares and 72,716,797 shares (i.e.191,329,084 shares) are disclosed in the section headed "DIRECTORS' INTERESTS" above as being held under a trust with Mr. Billy K Yung's family as the beneficiaries. None of the directors are directors or employees of On Fat Profits Corporation and Diamond Key Enterprises Inc.

(2) Madam Chiu Man's shares held 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' INTERESTS" above.

(3) Madam Hsu Vivian's shares held under family interest and other interest are in fact the same block of shares already disclosed respectively under personal interest and other interests of her husband, Mr. Billy K Yung as disclosed in the section headed "DIRECTORS' INTERESTS" above.

(4) Madam Yung Siu Chee Margaret is daughter of Madam Yung Ho Wun Ching. She is also a sister of Mr. Billy K Yung and Mr. Simon Yung Kwok Choi.

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 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 38 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.

## CONNECTED TRANSACTION

On 22nd December, 2006, a wholly owned subsidiary of the Company acquired from Richwood Trading Limited its 20% interest in Jodrell Investments Limited ("Jodrell"), a non-wholly owned subsidiary of the Company, and its shareholder loan to Jodrell at an aggregate consideration of HK$134,126,000. Details of this transaction are set out in the circular to the shareholders of the Company dated 20th December, 2006.

On 3rd November, 2006, the Group advanced approximately HK$44,203,000 to 深圳市光大策略投資有限公司 which is wholly owned by a director of one of the Company's subsidiaries to facilitate future acquisition of the remaining equity interest of a jointly controlled entity by the Group. The advance is unsecured, interest-free and repayable on demand.

## MAJOR SUPPLIERS AND CUSTOMERS

For the financial year ended 31st December, 2006, the five largest suppliers of the Group accounted for approximately 48% of the total purchases of the Group, of which 16% was attributable to the largest supplier and the five largest customers accounted for approximately 68% of the total sales of the Group's turnover, of which 32% 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

In accordance with the requirements under Rule 13.16 of the Listing Rules, the directors of the Company reported that as at 31st December, 2006, the Group had provided the following financial assistance and guarantees to certain affiliated companies, which, in aggregate, exceeded 8% of the total assets of the Group as at 31st December, 2006:

| **Name of affiliated companies** | **Attributable interest held by the Group as at 31/12/2006** | **Amount as at 31/12/2006** *HK$'000* | *NOTES* | **Nature** |
|---|---|---|---|---|
| Hong Kong Construction SMC Development Limited | 20% | 45,829 | *1* | Financial assistance |
| China Dynasty Development Limited | 40% | 119,145 | *1* | Financial assistance |
| MDCL-Frontline (China) Limited | 26.66% | 49,380 | *2* | Guarantee |
| Yue Tian Development Limited | 20% | 119,800 | *1* | Financial assistance |
| Guangzhou Cheng Jian Tian Yu Real Estate Development Company Limited | 20% | 80,000 | *2* | Guarantee |
| 廣州市環博展覽有限公司 | 35% | 75,643 | *1* | Financial assistance |
| 廣西光大旅遊投資有限公司 | 52.9% | 4,180 | *1* | Financial assistance |
| 廣西桂林光大立元生態家園開發建設有限公司 | 37.03% | 6 | *1* | Financial assistance |
| 北京中順超科房地產開發有限公司 | 24.99% | 160,521 | *1* | Financial assistance |
| 上海金鶴數碼科技發展有限公司 | 45.5% | 44,789 | *2* | Guarantee |
| | | 699,293 | | |

*Notes:*

1. Such financial assistance was unsecured, interest-free and have no fixed terms of repayment.

2. As at 31st December, 2006, the guarantee utilized by MDCL-Frontline (China) Limited, Guangzhou Cheng Jian Tian Yu Real Estate Development Limited and上海金鶴數碼科技發展有限公司were HK$46,239,000, HK$80,000,000 and HK$44,789,000 respectively.

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, 2006 (the latest practicable date) is presented below:

| | **Combined Total** *HK$'000* | **Interest attributable to the Group** *HK$'000* |
|---|---|---|
| Non-current assets | 3,474 | 1,347 |
| Current assets | 2,275,281 | 1,101,101 |
| Current liabilities | (1,171,522) | (590,873) |
| Non-current liabilities | (393,991) | (186,800) |
| Minority Interest | (1,769) | (885) |
| | 711,473 | 323,890 |

*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, 2006.

## 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

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Grant Thornton as auditors of the Company.

On behalf of the Board

**BILLY K YUNG**
*Chairman*
Hong Kong, 26th April, 2007

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, 2006, 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 Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business and decision making processes are regulated in proper and prudent manner.

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, 2006.

## 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, 2006.

## BOARD OF DIRECTORS

The Board of Directors (the "Board") comprises of ten members, of which five 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.

Under the code provision D.1.1, management should report back and obtain prior approval from the board of the Company before making decisions or entering into any commitments on behalf of the Company whenever notifiable and/or connected transactions are involved. On 3rd August, 2006, an indirectly owned subsidiary of the Company entered into certain agreements with certain independent third parties to purchase in aggregate 51% equity interest in Beijing Jin Hua Xing Properties Company Limited ("Jin Hua Xing") for a total consideration of RMB125,000,000 coupled with a financial assistance for RMB10,000,000 to a 70% owned subsidiary of Jin Hua Xing for its general working capital (the "Acquisition"). The Acquisition constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Due to delays in the communication between the Group's staff in the P.R.C. and in Hong Kong, the Company is unable, within a reasonable time, to gather and to ascertain certain required information before it can publish a separate announcement. The Company's board of directors, however, has ratified on 21st September, 2006 and has announced on 9th November, 2006 the transactions contemplated under the Acquisition.

## 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 Group Chairman and the Chief Executive 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 | 2/2 | 1/1 |
| Dr. Leo Tung-Hai Lee | 5/5 | 2/2 | N/A |
| Mr. Shiu-Kit Ngai | 5/5 | 2/2 | N/A |
| Madam Yung Ho Wun Ching | 2/5 | N/A | N/A |
| Mr. Leung Chun Wah | 5/5 | N/A | N/A |
| Mr. Plato Poon Chak Sang | 5/5 | N/A | N/A |
| Mr. Eddie Hurip (appointed on 1st November, 2006) | 1/5 | N/A | N/A |
| Mr. Simon Yung Kwok Choi | 5/5 | N/A | N/A |
| Mr. Peter Wong Chung On | 5/5 | 2/2 | 1/1 |
| Mr. Peter Lam | 4/5 | 2/2 | 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. Mr. Billy K Yung, Mr. Simon Yung Kwok Choi, Mr. Peter Wong Chung On and, Mr. Peter Lam shall retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with Article 94 of the Company's Article of Association, Mr. Eddie Hurip, who was appointed as an addition to the Board on 1st November, 2006, shall retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

None of the independent non-executive Directors has been appointed for a term of more than three years.

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.

Mr. Billy K Yung is the brother of Mr. Simon Yung Kwok Choi. Both of them are the sons of Madam Yung Ho Wun Ching. Save as disclosed above, during the year, none of the other directors has or maintained any financial, business, family or other material, relevant relationship with any of the other directors.

## 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 20.

## 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 is comprised of 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

The Audit Committee has reviewed with management and 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, 2006.

The amount of audit fee for the year ended 31st December, 2006 was HK$3,220,000 (2005: HK$2,543,000). The amount of non-audit fees payable to the auditors of the Company for the year ended 31st December, 2006 was HK$44,000 (2005: HK$533,000). 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. The Company's internal audit department is responsible for monitoring adherence to policies on the safekeeping of assets and effectiveness and efficiency of operational procedures. Periodical audit plan is prepared in determining the audit focus and frequencies.

The Board has conducted a review of the effectiveness of the system of internal control. The Board considers that the Group's internal control system is satisfactory but there is still some room for improvement.

**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**
**蜆壳電器工業(集團)有限公司**
*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Shell Electric Mfg. (Holdings) Company Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 21 to 87, which comprise the consolidated and company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

## OPINION

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

**Grant Thornton**
*Certified Public Accountants*
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

26th April 2007

**For the year ended 31st December, 2006**

| | NOTES | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Continuing operations:** | | | |
| Revenue | 5 | **1,553,063** | 1,318,168 |
| Cost of sales | | **(1,227,227)** | (1,081,369) |
| Gross profit | | **325,836** | 236,799 |
| Other income | 7 | **68,433** | 77,373 |
| Distribution and selling expenses | | **(38,918)** | (38,146) |
| Administrative expenses | | **(188,415)** | (156,362) |
| Other operating expenses | | **(42,867)** | (61,507) |
| Other gains/(losses) | | | |
| Fair value gain on investment properties | | **126,659** | 45,826 |
| Fair value loss on share-based payment | | **(1,000)** | (4,000) |
| Fair value gain on investments held for trading | | **54,034** | 34,193 |
| Excess of interest in fair values of identifiable net assets of subsidiaries acquired | | **–** | 15,446 |
| Impairment losses on goodwill | 18 | **(1,473)** | (7,731) |
| Impairment losses on non-current assets | | **(6,949)** | (6,531) |
| Others | | **1,036** | 10,320 |
| Operating profit | | **296,376** | 145,680 |
| Finance costs | 8(a) | **(31,867)** | (24,764) |
| Share of results of associates | | **53,336** | 14,048 |
| Share of results of jointly controlled entities | | **(145,350)** | 23,604 |
| Excess of interest in fair value of identifiable net assets of an associate acquired | | **–** | 1,491 |
| Gain on disposal of interest in a jointly controlled entity | | **–** | 5,437 |
| **Profit before income tax** | 8 | **172,495** | 165,496 |
| Income tax expense | 10 | **(86,100)** | (7,561) |
| Profit for the year from continuing operations | | **86,395** | 157,935 |
| **Discontinued operations:** | | | |
| Profit for the year from discontinued operations | 9 | **–** | 13,006 |
| **Profit for the year** | | **86,395** | 170,941 |
| Attributable to: | | | |
| Equity holders of the Company | 11 | **138,833** | 157,171 |
| Minority interests | | **(52,438)** | 13,770 |
| | | **86,395** | 170,941 |
| Dividends | 12 | **62,058** | 60,058 |
| | | ***HK Cents*** | *HK Cents* |
| Earnings per share – Basic | 13 | | |
| From continuing and discontinued operations | | **27.70** | 33.07 |
| From continuing operations | | **27.70** | 30.33 |
| Earning per share – Diluted | 13 | **N/A** | N/A |

# CONSOLIDATED BALANCE SHEET

**As at 31st December, 2006**

| | NOTES | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 15 | **708,118** | 594,377 |
| Property, plant and equipment | 16 | **139,024** | 135,724 |
| Prepaid lease rental on land | 17 | **16,621** | 16,426 |
| Goodwill | 18 | **66,643** | 26,402 |
| Other intangible assets | 19 | **219,100** | 215,421 |
| Interests in associates | 21 | **454,357** | 577,562 |
| Interests in jointly controlled entities | 22 | **377,189** | 483,248 |
| Available-for-sale financial assets | 23 | **2,920** | 15,940 |
| Loans receivable | 24 | **1,831** | 7,439 |
| Other receivable | | **502** | – |
| Deferred tax assets | 41 | **–** | 584 |
| Deposit paid for acquisition of interest in a jointly controlled entity | | **–** | 14,997 |
| Deposit paid for acquisition of other investment | 25 | **10,139** | – |
| | | **1,996,444** | 2,088,120 |
| **Current assets** | | | |
| Inventory of properties | 26 | **1,946,909** | 1,419,094 |
| Other inventories | 27 | **99,266** | 88,764 |
| Trade and other receivables | 28 | **471,021** | 295,168 |
| Prepaid lease rental on land | 17 | **390** | 428 |
| Loans receivable | 24 | **17,787** | 143,112 |
| Amounts due from associates | 30(a) | **1,075** | 18,760 |
| Amounts due from jointly controlled entities | 30(a) | **240,349** | 73,044 |
| Amounts due from investees | 30(a) | **12,013** | 6,750 |
| Amount due from a related party | 30(b) | **44,203** | – |
| Investments held for trading | 23 | **187,952** | 106,832 |
| Derivative financial instruments | 31 | **1,292** | – |
| Bank balances and cash | 32 | **488,753** | 376,581 |
| | | **3,511,010** | 2,528,533 |
| Assets classified as held for sale | 33 | **156,504** | 50,005 |
| | | **3,667,514** | 2,578,538 |
| **Current liabilities** | | | |
| Trade and other payables | 34 | **915,669** | 955,282 |
| Sales deposits received | | **433,230** | 59,763 |
| Amounts due to associates | 35 | **101** | 101 |
| Amounts due to jointly controlled entities | 35 | **302,576** | 2,018 |
| Consideration payable on acquisition of a jointly controlled entity | 22 | **4,977** | – |
| Amounts due to minority shareholders | 35 | **50,760** | 17,599 |
| Provisions | 36 | **23,478** | 23,478 |
| Taxation liabilities | | **88,421** | 32,457 |
| Liability for share-based payment | | **–** | 6,000 |
| Bank and other borrowings | 37 | **832,434** | 334,501 |
| | | **2,651,646** | 1,431,199 |
| **Net current assets** | | **1,015,868** | 1,147,339 |
| **Total assets less current liabilities** | | **3,012,312** | 3,235,459 |

**As at 31st December, 2006**

| | NOTES | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | *38* | **262,742** | 250,242 |
| Share premium and reserves | *39* | **2,180,789** | 2,020,700 |
| Equity attributable to equity holders of the Company | | **2,443,531** | 2,270,942 |
| Minority interests | | **270,762** | 410,385 |
| **Total equity** | | **2,714,293** | 2,681,327 |
| **Non-current liabilities** | | | |
| Bank and other borrowings | *37* | **106,576** | 378,893 |
| Loan from a minority shareholder | *40* | **2,639** | 2,366 |
| Deferred tax liabilities | *41* | **188,804** | 172,873 |
| | | **298,019** | 554,132 |
| | | **3,012,312** | 3,235,459 |

**LEUNG CHUN WAH**
*Director*

**PLATO POON CHAK SANG**
*Director*

# BALANCE SHEET

**As at 31st December, 2006**

| | NOTES | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 15 | **18,970** | 14,200 |
| Property, plant and equipment | 16 | **12,164** | 9,129 |
| Interests in subsidiaries | 20 | **115** | 323,075 |
| Interest in an associate | 21 | **101** | 101 |
| Available-for-sale financial assets | 23 | **2,920** | 15,940 |
| Loan receivable | 24 | **–** | 5,971 |
| Deposit paid for acquisition of other investment | 25 | **10,139** | – |
| | | **44,409** | 368,416 |
| **Current assets** | | | |
| Other inventories | 27 | **2,848** | 2,392 |
| Trade and other receivables | 28 | **32,512** | 33,027 |
| Amounts due from subsidiaries | 29 | **2,423,107** | 1,980,612 |
| Amounts due from investees | 30 | **5,332** | 3,956 |
| Tax prepaid | | **–** | 149 |
| Bank balances and cash | 32 | **44,741** | 27,206 |
| | | **2,508,540** | 2,047,342 |
| **Current liabilities** | | | |
| Trade and other payables | 34 | **39,000** | 45,506 |
| Amounts due to subsidiaries | 29 | **33,324** | 31,800 |
| Amounts due to associates | 35 | **101** | 101 |
| Bank and other borrowings | 37 | **372,948** | 242,000 |
| | | **445,373** | 319,407 |
| **Net current assets** | | **2,063,167** | 1,727,935 |
| **Total assets less current liabilities** | | **2,107,576** | 2,096,351 |
| **Capital and reserves** | | | |
| Share capital | 38 | **262,742** | 250,242 |
| Share premium and reserves | 39 | **1,841,368** | 1,844,126 |
| | | **2,104,110** | 2,094,368 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 41 | **3,466** | 1,983 |
| | | **2,107,576** | 2,096,351 |

**LEUNG CHUN WAH**
*Director*

**PLATO POON CHAK SANG**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**For the year ended 31st December, 2006**

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Capital redemption reserve *HK$'000* | Available-for-sale financial assets revaluation reserve *HK$'000* | Translation reserve *HK$'000* | Property revaluation reserve *HK$'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, 2005 | 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 | – | – | – | – | (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 |
| Acquisition of 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 and at 1st January, 2006 | 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 |
| Exchange difference arising on translation of overseas operations | – | – | – | – | 29,527 | 53 | – | – | – | 29,580 | 4,525 | 34,105 |
| Exchange difference arising on translation of financial statements of associates and jointly controlled entities | – | – | – | – | 5,719 | – | – | – | – | 5,719 | – | 5,719 |
| Share of reserve of jointly controlled entities | – | – | – | – | – | – | – | 2,522 | – | 2,522 | 1,982 | 4,504 |
| Fair value changes on available-for-sale financial assets | – | – | – | (13,020) | – | – | – | – | – | (13,020) | – | (13,020) |
| Exchange effect on deferred tax | – | – | – | – | (123) | – | – | – | – | (123) | – | (123) |
| Net income (expense) recognised directly in equity | – | – | – | (13,020) | 35,123 | 53 | – | 2,522 | – | 24,678 | 6,507 | 31,185 |
| Net profit for the year | – | – | – | – | – | – | – | – | 138,833 | 138,833 | (52,438) | 86,395 |
| Total recognised income and expense for the year | – | – | – | (13,020) | 35,123 | 53 | – | 2,522 | 138,833 | 163,511 | (45,931) | 117,580 |
| Acquisition of additional interest of subsidiaries | – | – | – | – | – | – | – | – | – | – | (95,806) | (95,806) |
| Interim dividend declared | – | – | – | – | – | – | 20,019 | – | (20,019) | – | – | – |
| Dividends paid | – | – | – | – | – | – | (60,058) | – | – | (60,058) | – | (60,058) |
| Final dividend proposed | – | – | – | – | – | – | 42,039 | – | (42,039) | – | – | – |
| New shares issued on acquisition of additional interest of subsidiaries | 12,500 | 58,750 | – | – | – | – | – | – | – | 71,250 | – | 71,250 |
| Appropriations | – | – | – | – | – | – | – | 2,739 | (4,853) | (2,114) | 2,114 | – |
| At 31st December, 2006 | 262,742 | 640,099 | 43,822 | – | 49,271 | 1,534 | 42,039 | 8,525 | 1,395,499 | 2,443,531 | 270,762 | 2,714,293 |

# CONSOLIDATED CASH FLOW STATEMENT

**For the year ended 31st December, 2006**

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| **Operating activities** | | |
| Profit before income tax, including profit from discontinued operation | **172,495** | 178,502 |
| Adjustments for: | | |
| Share of result of associates | **(53,336)** | (14,048) |
| Share of result of jointly controlled entities | **145,350** | (23,604) |
| Depreciation and amortisation | **18,535** | 20,001 |
| Reversal of unutilised provision | **–** | (8,970) |
| Allowance for doubtful debts | **13,299** | 25,368 |
| Fair value gain on investments held for trading | **(13,480)** | (5,179) |
| Interest income | **(29,710)** | (37,955) |
| Finance costs | **31,867** | 24,764 |
| Impairment loss on goodwill | **1,473** | 7,731 |
| Impairment loss on other non-current assets | **6,949** | 6,531 |
| Loss on disposal of property, plant and equipment | **103** | 74 |
| Gain on disposal of discontinued operations | **–** | (14,750) |
| 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 | **576** | 870 |
| Exchange difference | **12,259** | (1,587) |
| Fair value gain on investment properties | **(126,659)** | (45,826) |
| Fair value loss on shared-based payment | **1,000** | 4,000 |
| Operating cash flows before movements in working capital | **180,721** | 93,548 |
| Increase in inventory of properties | **(637,998)** | (350,386) |
| (Increase)/decrease in other inventories | **(10,502)** | 4,183 |
| Increase in trade and other receivables | **(78,088)** | (3,257) |
| Decrease/(increase) in amount due from an associate | **17,685** | (16,984) |
| Increase in amounts due from jointly controlled entities | **(167,305)** | (3,968) |
| Increase in amount due from a related party | **(44,203)** | (6,448) |
| (Increase)/decrease in amounts due from investees | **(5,263)** | 4,262 |
| (Increase)/decrease in investments held for trading | **(68,932)** | 112,218 |
| (Decrease)/increase in trade and other payables | **(19,972)** | 20,546 |
| Increase in sales deposits received | **373,467** | 59,763 |
| Decrease in amounts due to minority shareholders | **(16,080)** | – |
| Decrease in amounts due to associates | **–** | (126) |
| Increase/(decrease) in amounts due to jointly controlled entities | **300,558** | (40,649) |
| | **(356,633)** | (220,846) |
| **Cash used in operations** | **(175,912)** | (127,298) |
| Income tax paid | **(14,138)** | (7,926) |
| Tax refund | **–** | – |
| | **(14,138)** | (7,926) |
| **Net cash used in operating activities** | **(190,050)** | (135,224) |

For the year ended 31st December, 2006

| | NOTES | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Proceeds on disposal of subsidiaries, associates and jointed controlled entities | | – | 15,172 |
| Loan repayment from associates | | 61,359 | 49,543 |
| Deposit paid for investment in convertible and non-convertible notes | | (10,139) | – |
| Deposit for additional interest in jointly controlled entities | | – | (14,997) |
| Proceeds on disposal of property, plant and equipment | | 1,384 | 36,710 |
| Interest received | | 30,018 | 36,887 |
| Proceed on disposal of assets held for sales | | 31,420 | – |
| Increase in long term loan receivable | | (17,431) | (7,440) |
| Additions to intangible assets | | – | (8) |
| Deposit received from an associate | | 1,045 | – |
| Additions to property, plant and equipment | | (21,550) | (16,158) |
| Additions to investment properties | | (6,268) | (17,754) |
| Acquisition of a subsidiary | | – | (260,060) |
| Increase in investments in subsidiaries | 43 | (66,270) | (14,894) |
| Increase in investments in associates | | – | (6,271) |
| Increase in investments in jointly controlled entities | | (9,953) | (2,106) |
| Loan to an associate | | (8,000) | (125,229) |
| Minority shareholders injection | | – | 23,066 |
| Repayment of long term loan receivables | | 140,387 | 98,739 |
| **Net cash generated from/(used in) investing activities** | | 126,002 | (204,800) |
| **Financing activities** | | | |
| New bank and other borrowings | | 1,348,927 | 1,466,293 |
| Repayment of bank borrowings | | (1,084,715) | (1,133,035) |
| Payment made to redeem cash-settled options | | (7,000) | – |
| Dividends paid | | (60,058) | (38,115) |
| Interest paid | | (31,625) | (24,442) |
| **Net cash generated from financing activities** | | 165,529 | 270,701 |
| **Net increase/(decrease) in cash and cash equivalents** | | 101,481 | (69,323) |
| **Cash and cash equivalents at 1st January** | | 376,581 | 439,342 |
| **Effect of foreign exchange rate change** | | 10,691 | 6,562 |
| **Cash and cash equivalents at 31st December** | | 488,753 | 376,581 |
| **Analysis of the balance of cash and cash equivalents** | | | |
| Bank balances and cash | | 488,753 | 376,581 |

**For the year ended 31st December, 2006**

## 1. GENERAL INFORMATION

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

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

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

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

## 2. ADOPTION OF NEW AND REVISED HKFRSS

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

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

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

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

*(ii)* *HKAS 27 Amendment – Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005*
The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 3 "Summary of significant accounting policies" in Year 2006 Annual Report.

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

*(iv)* *HKAS 39 Amendment – The Fair Value Option*
This amendment has changed the definition of a financial instrument at fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement.

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

### 2.1 Impact of new and revised HKFRSs which are effective during the year *(Continued)*

*(v)* *HKAS 39 & HKFRS 4 Amendments - Financial Guarantee Contracts*

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

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

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

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

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

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

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures[1] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) – Int 8 | Scope of HKFRS 2[3] |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives[4] |
| HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment[5] |

[1] Effective for annual periods beginning on or after 1st January, 2007
[2] Effective for annual periods beginning on or after 1st January, 2009
[3] Effective for annual periods beginning on or after 1st May, 2006
[4] Effective for annual periods beginning on or after 1st June, 2006
[5] Effective for annual periods beginning on or after 1st November, 2006

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

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

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

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

For the year ended 31st December, 2006

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Basis of preparation**

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

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

**Basis of consolidation**

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

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

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

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

**Subsidiaries**

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

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

**Associates and jointly controlled entities**

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

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

**Associates and jointly controlled entities** *(Continued)*

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

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

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

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

**Goodwill**

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

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

**Excess over the cost of business combinations**

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

**Investment properties**

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

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

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

For the year ended 31st December, 2006

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

**Property, plant and equipment**

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

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

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

| *Category of property, plant and equipment* | *Annual rates* |
|---|---|
| Buildings | 2% to 5% |
| Plant, machinery, tools, moulds and equipment | 10% to 20% |
| Furniture, fixtures and office equipment | 10% to 33.33% |
| Motor vehicles | 20% to 33.33% |

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

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

**Non-current assets and disposal group held for sale**

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

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

**Intangible assets (Other than goodwill)**

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

*Research and development expenditures*

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

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

**Intangible assets (Other than goodwill)** *(Continued)*

*Taxi licences*

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

*Shopping mall operating right*

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

**Operating Leases**

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

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

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

**Impairment of non-financial assets**

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

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

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

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

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

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

**Investments and other financial assets**

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

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

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

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

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

*Financial assets at fair value through profit or loss*

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

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

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

*Loans and receivables*

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

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

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

*Available-for-sale financial assets*

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

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

**Impairment of financial assets**

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

*(i)* *Financial assets carried at amortised cost*

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

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

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

*(ii)* *Available-for-sale financial assets*

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

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

*(iii)* *Financial assets carried at cost*

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

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

**Inventory of properties**

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

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

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

**Other inventories**

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

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

**Foreign currencies**

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

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

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

**Cash and cash equivalents**

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

**Income tax**

Income tax comprises current tax and deferred tax.

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

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

**Income tax** *(Continued)*

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

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

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

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

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

**Borrowing costs**

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

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

**Financial liabilities**

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

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

*Borrowings*

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

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

*Trade and other payables*

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

**For the year ended 31st December, 2006**

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

**Financial liabilities** *(Continued)*

*Financial liabilities at fair value through profit or loss*

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

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

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

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

**Financial guarantee contracts**

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

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

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

**Share-based payment transactions**

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

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

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

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

**Share-based payment transactions** *(Continued)*

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

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

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

**Provisions and contingent liabilities**

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

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

**Equity instruments**

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

**Revenue recognition**

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

(i) Sales of goods are recognised when goods are delivered and title has passed.

(ii) Revenue from sale of properties in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

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

**For the year ended 31st December, 2006**

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

**Revenue recognition** *(Continued)*

(iv) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(v) Rental from investment properties is recognised on a straight-line basis over the periods of the respective tenancies.

(vi) Licence fee income is recognised when the licence holders' rights to receive payment have been established.

(vii) Building management and service fee income is recognised on an appropriate basis over the relevant period in which the services are rendered.

**Related parties**

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

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### 4.1 Critical accounting estimates and assumptions

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

*Estimates of fair value of investment properties*

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

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

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

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

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

*Estimates of fair value of investment properties (Continued)*

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

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

*Impairment of assets*

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

*Estimates of current tax and deferred tax*

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

*Allowance for trade and other receivables*

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

*Allowance for inventories*

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

### 4.2 Critical judgements in applying the entity's accounting policies

*Distinction between investment properties and owner-occupied properties*

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

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

**For the year ended 31st December, 2006**

## 5. REVENUE

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

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

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

**Business segments**

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

The principal activities are as follows:

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

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Business segments** *(Continued)*

Segment information about these businesses is presented below:

**2006**

*REVENUE AND RESULTS*

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

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

*FINANCIAL POSITIONS*

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

*OTHER INFORMATION*

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

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

**For the year ended 31st December, 2006**

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Business segments** *(Continued)*

**2005**

*REVENUE AND RESULTS*

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

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

*FINANCIAL POSITIONS*

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

*OTHER INFORMATION*

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

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

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

**Geographical segments**

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

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

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

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

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

## 7. OTHER INCOME

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

**For the year ended 31st December, 2006**

## 8. PROFIT BEFORE INCOME TAX

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

\# *included in "other operating expenses" on the face of the consolidated income statement*
* *excluding depreciation of property, plant and equipment and staff costs*
$^{\Delta}$ *included in "adminstrative expenses" on the face of the consolidated income statement*

**For the year ended 31st December, 2006**

## 8. PROFIT BEFORE INCOME TAX *(Continued)*

*Notes:*

(a) Finance costs

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

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

(b) Staff costs

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

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

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

For the year ended 31st December, 2006

## 9. DISCONTINUED OPERATIONS

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

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Operating loss of the discontinued operations | – | (1,744) |
| Gain on disposal of assets of the discontinued operations | – | 14,750 |
| | – | 13,006 |

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue *(note 5)* | – | 34,504 |
| Cost of sales | – | (30,450) |
| Other income | – | 110 |
| Distribution and selling expenses | – | (2,219) |
| Administrative expenses | – | (1,575) |
| Other operating expenses | – | (2,114) |
| Finance costs | – | – |
| Income tax expenses | – | – |
| Operating loss of the discontinued operations | – | (1,744) |

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Operating activities | – | 12,287 |
| Investing activities | – | 13,151 |
| Financing activities | – | – |
| Net cash inflow | – | 25,438 |

## 10. INCOME TAX EXPENSE

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

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

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

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

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

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

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

**For the year ended 31st December, 2006**

## 12. DIVIDENDS

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Ordinary shares: | | |
| Interim, paid – HK$0.04 (2005: HK$0.04) per share | **20,019** | 20,019 |
| Final, proposed – HK$0.08 (2005: HK$0.08) per share | **42,039** | 40,039 |
| | **62,058** | 60,058 |

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

## 13. EARNINGS PER SHARE

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

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

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

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

## 14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' remuneration

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

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

### (a) Directors' remuneration *(Continued)*

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

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

### (b) Five highest paid individuals

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

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and other benefits | **11,893** | 10,472 |
| Retirement fund contributions | **83** | 96 |
| | **11,976** | 10,568 |

Their emoluments were within the following bands:

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

**For the year ended 31st December, 2006**

## 15. INVESTMENT PROPERTIES

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

*Notes:*

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

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

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

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

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

## 16. PROPERTY, PLANT AND EQUIPMENT

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

For the year ended 31st December, 2006

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

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

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

## 17. PREPAID LEASE RENTAL ON LAND

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

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

## 18. GOODWILL

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

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

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

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

**For the year ended 31st December, 2006**

## 19. OTHER INTANGIBLE ASSETS

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

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

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

## 20. INTERESTS IN SUBSIDIARIES

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

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

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

## 21. INTERESTS IN ASSOCIATE(S)

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

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

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

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

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

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

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

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

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

## 22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

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

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

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

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

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

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

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

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

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

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

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

## 24. LOAN(S) RECEIVABLE

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

*Notes:*

(a) The amount of the loan receivable from the major shareholder of one of the Group's major associates, China Dynasty Development Ltd. ("China Dynasty"), as at 31st December, 2005 was secured, repayable on or before 24th August, 2006 and interest-bearing at 15% per annum. The amount was fully repaid on 24th August, 2006.

(b) The balance as at 31st December, 2006 was unsecured, interest bearing at 4% per annum and repayable on 15th December, 2007. The balance as at 31st December, 2005 was unsecured, interest-bearing at 10% per annum and not repayable within twelve months from the balance sheet date. Impairment loss has been recognised in respect of the balance during the year in view of financial uncertainty of the investee.

(c) The balances as at 31st December, 2006 were unsecured (2005: unsecured) and interest-bearing at 5% – 7% (2005: 5% – 7%) per annum. HK$2,187,000 (2005: HK$983,000) of the balances as at 31st December, 2006 is repayable on demand and is thereby included in current asset and the remaining balance of HK$1,831,000 (2005: HK$1,468,000) is not repayable within twelve months from the balance sheet date and is thereby included in non-current assets.

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

**For the year ended 31st December, 2006**

## 25. DEPOSIT PAID FOR ACQUISITION OF OTHER INVESTMENT

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

## 26. INVENTORY OF PROPERTIES

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

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

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

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

## 27. OTHER INVENTORIES

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

## 28. TRADE AND OTHER RECEIVABLES

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

## 28. TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

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

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

## 29. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

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

(a) The balances are unsecured, interest-free and repayable on demand.

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

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

## 31. DERIVATIVE FINANCIAL INSTRUMENTS

| | THE GROUP | |
|---|---|---|
| | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* |
| **Assets** | | |
| Equity derivatives | **1,292** | – |

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

**For the year ended 31st December, 2006**

## 31. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

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

# *settle on weekly basis*

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

## 32. BANK BALANCES AND CASH

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

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

## 33. ASSETS CLASSIFIED AS HELD FOR SALE

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

(a) As the Group has entered into provisional sale and purchase agreements with independent third parties to dispose of these properties, these properties were revalued as at 31st December, 2006 based on the selling price as stipulated in the provisional sale and purchase agreements and are reclassified as "assets classified as held for sale".

(b) In September 2006, the Group entered into a non-legally binding letter of intent in relation to the proposed disposal of its 20% effective interest in a property development project (the "Development Project").

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

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

## 34. TRADE AND OTHER PAYABLES

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

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

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

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

## 36. PROVISIONS

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

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

**For the year ended 31st December, 2006**

## 37. BANK AND OTHER BORROWINGS

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

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

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

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

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

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

## 38. SHARE CAPITAL

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

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

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

**(c) Share option scheme**

*The Company*

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

*Subsidiaries*

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

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

**For the year ended 31st December, 2006**

## 38. SHARE CAPITAL *(Continued)*

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

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

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

## 38. SHARE CAPITAL *(Continued)*

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

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

## 38. SHARE CAPITAL *(Continued)*

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

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

No option was exercised by the grantees during the year.

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

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

## 38. SHARE CAPITAL *(Continued)*

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

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

For the year ended 31st December, 2006

## 38. SHARE CAPITAL *(Continued)*

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

| Grantee | Date of grant | Period during which options are exercisable | Subscription price per share | Number of share options: As at 1.1.2005 | Cancelled during the year | Granted during the year | As at 31.12.2005 |
|---|---|---|---|---|---|---|---|
| | | | *US$* | | | | |
| Employees *(continued)* | 17.10.2005 | 18.02.2006 – 10.11.2012 | 3.00 | – | – | 1,000 | 1,000 |
| | 17.10.2005 | 18.08.2006 – 10.11.2012 | 3.00 | – | – | 1,000 | 1,000 |
| | 17.10.2005 | 18.02.2007 – 10.11.2012 | 3.00 | – | – | 1,000 | 1,000 |
| | 17.10.2005 | 18.08.2007 – 10.11.2012 | 3.00 | – | – | 1,000 | 1,000 |
| | 17.10.2005 | 18.02.2008 – 10.11.2012 | 3.00 | – | – | 1,000 | 1,000 |
| | 17.10.2005 | 18.08.2008 – 10.11.2012 | 3.00 | – | – | 1,000 | 1,000 |
| | 17.10.2005 | 18.02.2009 – 10.11.2012 | 3.00 | – | – | 1,000 | 1,000 |
| | 17.10.2005 | 18.08.2009 – 10.11.2012 | 3.00 | – | – | 1,000 | 1,000 |
| | | | | 59,500 | (10,000) | 26,000 | 75,500 |
| Consultants of 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.

## 38. SHARE CAPITAL *(Continued)*

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

No option was exercised by the grantees during the year.

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

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

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

**For the year ended 31st December, 2006**

## 38. SHARE CAPITAL *(Continued)*

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

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

No option was exercised by the grantees during the year.

## 38. SHARE CAPITAL *(Continued)*

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

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

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

## 38. SHARE CAPITAL *(Continued)*

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

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

No option was exercised by the grantees during the year.

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

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

## 39. SHARE PREMIUM AND RESERVES

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

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

**For the year ended 31st December, 2006**

## 39. SHARE PREMIUM AND RESERVES *(Continued)*

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

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

## 40. LOAN FROM A MINORITY SHAREHOLDER

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

## 41. DEFERRED TAX

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

### THE GROUP

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

Represented by:

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

## 41. DEFERRED TAX *(Continued)*

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

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

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

**THE COMPANY**

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

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

**For the year ended 31st December, 2006**

## 42. PLEDGE OF ASSETS

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

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

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

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

## 43. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

## 44. ADDITIONAL INTEREST IN A SUBSIDIARY

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

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

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

Further information about the Additional Acquisition is as follows:

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

## 45. RETIREMENT BENEFITS SCHEMES

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

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

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

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

**For the year ended 31st December, 2006**

## 46. CAPITAL COMMITMENTS

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

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

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

## 47. OPERATING LEASE COMMITMENTS

**As lessee**

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

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

**As lessor**

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

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

## 48. GUARANTEES

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

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

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

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

## 49. RELATED PARTY TRANSACTIONS

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

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

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

**For the year ended 31st December, 2006**

## 50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

**Currency risk**

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

**Credit risk**

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

The Group has no significant concentrations of credit risk.

**Interest rate risk**

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

**Price risk**

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

## 51. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

## 51. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

For the year ended 31st December, 2006

## 51. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

## 51. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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

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

*Notes:*

(a) The companies are incorporated in the PRC as sino-foreign equity joint ventures.

(b) The companies are incorporated in the PRC as wholly foreign owned enterprises.

(c) The companies are incorporated in the PRC as limited liability companies.

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

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

**For the year ended 31st December, 2006**

## 52. PARTICULARS OF PRINCIPAL ASSOCIATES

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

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

*Notes:*

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

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

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

## 53. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

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

*Notes:*

(a) The companies are incorporated in the PRC as limited liability companies.

(b) The company is incorporated in the PRC as sino-foreign equity joint venture.

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Revenue | 1,146,747 | 1,340,526 | 1,257,234 | 1,352,672 | **1,553,063** |
| Profit (loss) before income tax | (53,242) | 76,058 | (59,496) | 165,496 | **172,495** |
| Income tax expenses | (11,369) | (5,593) | (14,336) | (7,561) | **(86,100)** |
| Profit (loss) for the year from continuing operations | (64,611) | 70,465 | (73,832) | 157,935 | **86,395** |
| Profit for the year from discontinued operations | – | – | 197,476 | 13,006 | **–** |
| Profit (loss) for the year | (64,611) | 70,465 | 123,644 | 170,941 | **86,395** |
| Attributable to: | | | | | |
| Equity holders of the Company | (68,065) | 87,819 | 137,883 | 157,171 | **138,833** |
| Minority interests | 3,454 | (17,354) | (14,239) | 13,770 | **(52,438)** |
| | (64,611) | 70,465 | 123,644 | 170,941 | **86,395** |
| | *HK$* | *HK$* | *HK$* | *HK$* | ***HK$*** |
| Earnings (loss) per share | | | | | |
| Basic | (14 cents) | 20 cents | 31 cents | 33 cents | **28 cents** |
| Diluted | N/A | 20 cents | N/A | N/A | **N/A** |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 2,491,744 | 2,583,992 | 2,656,636 | 4,666,658 | **5,663,958** |
| Total liabilities | (661,477) | (726,756) | (592,918) | (1,985,331) | **(2,949,665)** |
| | 1,830,267 | 1,857,236 | 2,063,718 | 2,681,327 | **2,714,293** |
| Equity attributable to equity holders of the Company | 1,911,345 | 1,956,800 | 2,059,937 | 2,270,942 | **2,443,531** |
| Minority interests | (81,078) | (99,564) | 3,781 | 410,385 | **270,762** |
| | 1,830,267 | 1,857,236 | 2,063,718 | 2,681,327 | **2,714,293** |

As at 31st December, 2006

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

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

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

**As at 31st December, 2006**

## (B) PROPERTIES HELD FOR INVESTMENT

| Name/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 |
| Office units RM6301-5, RM6308B, RM2401-3, RM2405-6 & RM2417-8 of CITIC Plaza Office Tower 233 Tianhe North Road, Tianhe Ju, Guangzhou Guangdong, PRC | Commercial | 2,849.01 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, Block C, Shanghai China Everbright Convention Centre, No. 70 Caobao Road, Xuhui District, Shanghai City, the PRC | Commercial premises | 269.72 sq.m. | 70% | 100% | Medium |
| Unit No.602 of Block 6 and Unit Nos. 1003 and 1103 of Block 11, Hong Qiao Guang Da Garden, Lane 269, Cheng Jia Qiao Road, Minhang District, Shanghai City, the PRC | Residential | 540.55 sq.m. | 70% | 100% | Long-term |

As at 31st December, 2006

## (C) PROPERTIES HELD AS INVENTORIES

### (a) Properties under development

| Name/location | Type | Site Area | Effective % held | Stage of Completion | Lease terms |
|---|---|---|---|---|---|
| 3 adjoining development sites at No.48 Pin An Li West Avenue, Xi Cheng District, Beijing City, the PRC | Commercial premises | 15,091 sq.m. | 70% | 97% | Medium |
| Area D, Portion of a mixed-use Development at Hefei New Station Comprehensive Development Trial Area in Hefei City, An Hui Province, the PRC | Commercial premises | 7,280 sq.m. | 70% | 41.1% | Medium |

### (b) Properties held for future development

| Name/location | Type | Site Area | Effective % held | Stage of Completion | Lease terms |
|---|---|---|---|---|---|
| A piece of land at the west of Gong Ye Avenue North, Haizhu District, Guangzhou, Guangdong Province, the PRC | Land under development | 43,288 sq.m. | 56% | 0% | Medium |

### (c) Properties held for sale

| Name/location | Type | Gross floor area | Effective % held | Stage of Completion | Lease terms |
|---|---|---|---|---|---|
| Area A & B 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 | 19,193 sq.m. | 70% | 100% | Medium |

**As at 31st December, 2006**

## (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 | 34,802 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 | 38,368.96 sq.m. | 40% | 100% |

## (E) PROPERTIES HELD BY JOINTLY CONTROLLED ENTITIES

| Name/location | Type | Site Area | Effective % held | Stage of Completion | Lease terms |
|---|---|---|---|---|---|
| Lot No. PZB11 at Pa Zhou Island, Hai Zhu District, Guangzhou City, the PRC | Commercial premises | 92,499 sq.m. | 35% | 49% | Medium |
| Portion of Guangzhou Guang Da Garden, No. 122 Gong Ye Avenue, Haizhu District, Guangzhou Province, the PRC | Residential | 434,699 sq.m. | 43% | 72% | Medium |
| A plot of land at Nos. 11-15 Xueyuan South Road, Haidian District, Beijing, the PRC | Land under development | 14,150.51 sq.m. | 24.99% | 0% | Long term |
| A piece of land to the east Guiyang Highway (currently occupied as Liang Feng Farm), Yanshan Town, Yanshan District, Guilin, Guangxi Zhuang Autonomous Region, the PRC. | Land under development | 4,114,524 sq.m. | 37.03% | 0% | Long term |
| 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 | 7,543 sq.m. | 45.5% | 90% | Medium |