THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in South China Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

Very Substantial Disposal and Connected Transactions in relation to the indirect disposal by South China Industries Limited of the remaining 49% equity interest in Praise Rich Limited

Very Substantial Acquisition and Connected Transactions in relation to the full conversion of Convertible Notes

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

CAPITAL

CSC Asia Limited

A letter from the Board is set out on pages 8 to 22 of this circular. A letter from the Independent Board Committee is set out on page 23 of this circular, and a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 49 of this circular.

A notice convening an extraordinary general meeting of South China Holdings Limited to be held at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Wednesday, 4 July 2007 at 11:00 a.m. is set out on pages 198 to 199 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are advised to read the notice and requested to complete and return the enclosed proxy form, in accordance with the instructions printed thereon, to the Company's share registrar, Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending, and voting in person, at the extraordinary general meeting or any adjournment thereof should you so wish.

13 June 2007

CONTENTS

In this circular, unless the context otherwise requires, the following terms have the meanings set opposite them below:

"9 January 2007 Agreement"	the amended and restated share purchase agreement dated 9 January 2007 entered into among SCL, the Vendor and SCI in relation to the Previous Transaction. This agreement amended and restated the 20 October 2006 Agreement;
"20 October 2006 Agreement"	an agreement dated 20 October 2006 entered into among the SCI, SCL and the Vendor pursuant to which the Vendor conditionally agreed to sell to SCL the entire issued share capital of Praise Rich as at the date of this agreement and to procure the sale to SCL of a sum at completion representing the total outstanding interest-free debts due from Ever Talent to Able Management Limited at a consideration of HK$800 million. This agreement was subsequently amended and restated by the 9 January 2007 Agreement;
"Agreement"	the share purchase agreement dated 30 April 2007 entered into among SCL, the Vendor and SCI in relation to the Transaction;
"associate(s)"	has the meaning ascribed to it in the Listing Rules and the GEM Listing Rules;
"Bank"	China Construction Bank Corporation;
"Bannock"	Bannock Investment Limited, a company incorporated in the Republic of Liberia with limited liability and a wholly-owned subsidiary of Earntrade, which is in turn owned as to 60% by Mr. Ng, 20% by Ms. Cheung and the remaining 20% by Mr. Gorges, further details of which are described in the section headed "Relationship between Mr. Ng and his associates" of this circular;
"Board"	the board of Directors;
"Business Day"	a day (other than a Saturday) on which banks are open for business in Hong Kong;
"Company"	South China Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange;
"Completion"	completion of the Transaction pursuant to the Agreement;
"connected person(s)"	has the meaning ascribed to it under the Listing Rules and the GEM Listing Rules;

"Consideration"	HK$392 million, being consideration for the Sale Shares and the Sale Debt;
"Continuing Guarantee"	a guarantee provided and to be continued by SCI in favour of the Bank to secure the liabilities of Ever Talent in respect of a loan facility of HK$80,000,000 under the Loan Agreement;
"Convertible Note I"	a non-interest bearing convertible note issued on 12 March 2007 to Skychance in the principal amount of HK$408 million due 2012 carrying a right to subscribe for the SCL Shares at HK$0.075 per SCL Share on any Business Day prior to five Business Days prior to the date of final maturity;
"Convertible Note II"	a non-interest bearing convertible note in the principal amount of HK$392 million due 2012 carrying a right to subscribe for the SCL Shares at HK$0.075 per SCL Share on any Business Day prior to five Business Days prior to the date of final maturity;
"Convertible Notes"	the Convertible Note I and Convertible Note II;
"CSC Asia" or "Independent Financial Adviser"	CSC Asia Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO;
"Directors"	the directors (including the independent non-executive directors) of the Company;
"Earntrade"	Earntrade Investments Limited, a company incorporated in Hong Kong with limited liability which is owned as to 60% by Mr. Ng, as to 20% by Ms. Cheung and as to the remaining 20% by Mr. Gorges, further details of which are described in the section headed "Relationship between Mr. Ng and his associates" of this circular;
"EGM"	the extraordinary general meeting of the Company to be held on 4 July 2007 to approve, among other things, the Transaction, the Convertible Note II and the subsequent conversion and/or redemption of the Convertible Notes pursuant to the terms thereof;
"Enlarged Group"	the Company and its subsidiaries upon full conversion of the Convertible Notes including SCL Group and Praisc Rich Group;
"Ever Talent"	Ever Talent Limited, a company incorporated in Hong Kong with limited liability, being a wholly-owned subsidiary of Praise Rich and the 80% foreign investor in Liaoning Dafa;

"Fung Shing"	Fung Shing Group Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by Mr. Ng, further details of which are described in the section headed "Relationship between Mr. Ng and his associates" of this circular;
"GEM"	the Growth Enterprise Market of the Stock Exchange;
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM;
"Greenearn"	Greenearn Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company, further details of which are described in the section headed "Relationship between Mr. Ng and his associates" of this Circular;
"Group"	the Company and its subsidiaries before Completion;
"Guarantee"	a guarantee to be provided by SCI in favour of an Independent Third Party pursuant to a letter agreement dated 9 January 2007 between SCI and SCL to secure the Proposed Facility and no such guarantee has been provided by SCI as at the Latest Practicable Date;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"Independent Board Committee"	an independent committee of the Board established to advise the Independent Shareholders on the Transaction and the full conversion of the Convertible Notes;
"Independent Shareholders"	holders of the Shares other than SCL, Parkfield, Fung Shing, Ronastar, Earntrade, Bannock and their respective ultimate beneficial owners and their respective associates;
"Independent Third Party(ies)"	third party(ies) independent of, and not connected with the Company, SCI and SCL, their subsidiaries and their respective connected persons as defined under the Listing Rules and GEM Listing Rules;
"Latest Practicable Date"	8 June 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular;
"Liaoning Dafa"	遼寧大發房地產有限責任公司 (Liaoning Dafa Real Estate Co., Ltd.), a company incorporated with limited liability under the laws of the PRC and being indirectly owned as to 80% by Ever Talent;

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Loan Agreement"	an agreement dated 14 June 2006 entered into between Ever Talent and the Bank, whereby the Bank agreed to grant a loan facility of HK$80,000,000 to Ever Talent for a period of three years from the date of the Loan Agreement;
"Mr. Gorges"	Mr. Richard Howard Gorges, a director of the Company and SCI;
"Mr. Ng"	Mr. Ng Hung Sang, a director of the Company, SCI and SCL;
"Ms. Cheung"	Ms. Cheung Choi Ngor, a director of the Company and SCI;
"Parkfield"	Parkfield Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and being wholly-owned by Mr. Ng, further details of which are described in the section headed "Relationship between Mr. Ng and his associates" of this circular;
"Praise Rich"	Praise Rich Limited, a company incorporated in the British Virgin Islands with limited liability and owned as to 51% by SCL and as to 49% by the Vendor;
"Praise Rich Group"	Praise Rich and its subsidiaries;
"PRC"	the People's Republic of China, excluding Hong Kong, Macau and Taiwan;
"Previous Sale Debt"	HK$47,671,184.49 representing 51% of the total outstanding interest-free loans due from Ever Talent to Able Management Limited as at 12 March 2007;
"Previous Sale Shares"	51 shares of US$1.00 each in the share capital of Praise Rich, representing 51% of the entire issued share capital of Praise Rich;
"Previous Transaction"	the acquisition of the Previous Sale Shares and Previous Sale Debt by SCL from the Vendor pursuant to the 9 January 2007 Agreement;
"Project"	the development of the Property as described in the section headed "Information on the Praise Rich Group" of this circular;
"Property"	a site at Zhaoyang Street in the Shenhe District of Shenyang, the PRC (中國瀋陽市沈河區朝陽街);

"Proposed Facility"	the proposed loan facility of up to an aggregate principal amount of HK$500 million proposed to be borrowed by any member of the Praise Rich Group from Independent Third Parties for not more than three years on commercially reasonable terms at market interest rate to finance the development cost of the Project;
"Remaining Group"	the Company and its subsidiaries upon Completion (excluding Praise Rich Group);
"Ronastar"	Ronastar Investments Limited, a company incorporated in the British Virgin Islands with limited liability and being wholly owned by Mr. Ng, further details of which are described in the section headed "Relationship between Mr. Ng and his associates" of this circular;
"Sale Debt"	a sum at Completion representing the total outstanding interest-free debts due from Ever Talent to Able Management Limited which is a wholly-owned subsidiary of SCI;
"Sale Shares"	49 shares of US$1.00 each in the share capital of Praise Rich, representing 49% of the entire issued share capital of Praise Rich;
"SCI"	South China Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability and a subsidiary of the Company, the shares of which are listed on the Main Board of the Stock Exchange;
"SCI Board"	the board of SCI Directors;
"SCI Directors"	the directors (including the independent non-executive directors) of SCI;
"SCI EGM"	the extraordinary general meeting of SCI to be held on 4 July 2007 to approve, among other things, the Transaction, the Convertible Note II and the subsequent conversion and/or redemption of the Convertible Notes pursuant to the terms thereof;
"SCI Independent Shareholders"	holders of SCI Shares other than SCL, Super Giant, Worldunity, Greenearn and their respective ultimate beneficial owners and their respective associates;
"SCI Shareholders"	holders of SCI Shares;
"SCI Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of SCI;

"SCL"	South China Land Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM;
"SCL Board"	the board of SCL Directors;
"SCL Directors"	the directors (including the independent non-executive directors) of SCL;
"SCL EGM"	the extraordinary general meeting of SCL to be held on 4 July 2007 to approve, among other things, the Transaction and the issue of the Convertible Note II and the issue of SCL Shares upon exercise of the conversion rights attached to the Convertible Note II;
"SCL Group"	SCL and its subsidiaries;
"SCL Independent Shareholders"	holders of SCL Shares other than the Vendor and its ultimate beneficial owners and their respective associates;
"SCL Shareholders"	holders of SCL Shares;
"SCL Share(s)"	ordinary share(s) of HK$0.01 each in the capital of SCL;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Share(s)"	ordinary share(s) of HK$0.025 each in the share capital of the Company;
"Shareholders"	holders of the Shares;
"Skychance"	Skychance Group Limited, a company incorporated in the British Virgin Islands with limited liability which is wholly-owned by SCI and has been nominated by the Vendor to hold the Convertible Note I and the Convertible Note II;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Super Giant"	Super Giant Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, further details of which are described in the section headed "Relationship between Mr. Ng and his associates" of this circular;

"Takeovers Code"	The Codes on Takeovers and Mergers and Share Repurchases;
"Transaction"	the proposed disposal of the Sale Shares and the Sale Debt by the Vendor to SCL;
"Vendor"	WTS International (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and being beneficially owned as to 100% by SCI which is beneficially owned as to approximately 74.79% by the Company;
"Worldunity"	Worldunity Investments Limited, a company incorporated in Hong Kong with limited liability and being a wholly-owned subsidiary of the Company, further details of which are described in the section headed "Relationship between Mr. Ng and his associates" of this circular;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"RMB"	Renminbi, the lawful currency of the PRC;
"sq.m."	square meters; and
"%"	per cent.

Unless otherwise specified in this circular, amounts denominated in RMB have been translated, for the purpose of illustration only, into HK$ at an exchange rate of HK$1.00 = RMB1.00.

SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

Executive Directors:
Mr. Ng Hung Sang *(Chairman)*
Mr. Richard Howard Gorges
Ms. Cheung Choi Ngor
Mr. Ng Yuk Fung, Peter

Non-executive Directors:
Mr. David Michael Norman
Ms. Ng Yuk Mui, Jessica

Independent Non-executive Directors:
Mr. David John Blackett
Mrs. Tse Wong Siu Yin, Elizabeth
Mr. Cheng Hong Kei

Registered office:
Offshore Incorporations
(Cayman) Limited
Scotia Centre
4th Floor
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

Head Office and Principal Place of Business in Hong Kong:
28/F., Bank of China Tower
1 Garden Road, Central
Hong Kong

13 June 2007

To the Shareholders

Dear Sir or Madam,

Very Substantial Disposal and Connected Transactions in relation to the indirect disposal by South China Industries Limited of the remaining 49% equity interest in Praise Rich Limited

Very Substantial Acquisition and Connected Transactions in relation to the full conversion of Convertible Notes

I. INTRODUCTION

On 9 January 2007, SCL, the Vendor and SCI entered into the 9 January 2007 Agreement pursuant to which the Vendor sold the Previous Sale Shares and procured the sale of the Previous Sale Debt and SCL purchased such Previous Sale Shares and such Previous Sale Debt, and SCI had guaranteed the due performance of the Vendor's obligations thereunder, in each case upon and subject to the terms and conditions set out therein. Details of the Previous Transaction were set out in the joint announcement dated 10 January 2007 and the respective circulars of the Company, SCI and SCL dated 12 February 2007. The completion of the sale and purchase of the Previous Sale Shares and the Previous Sale Debt took place on 12 March 2007. Accordingly, the Vendor transferred the Previous Sale Shares and procured the assignment of the Previous Sale Debt to SCL and SCL issued the Convertible Note I to Skychance, a company nominated by the Vendor to hold the Convertible Notes.

On 30 April 2007, the Company, SCI and SCL jointly announced that SCL, the Vendor and SCI entered into the Agreement pursuant to which the Vendor has conditionally agreed to sell the Sale Shares and procure the sale of the Sale Debt to SCL at a consideration of HK$392 million. The Consideration is to be satisfied by SCL issuing to Skychance the Convertible Note II.

The Continuing Guarantee and the Guarantee for the principal amounts of HK$80 million and HK$500 million respectively were approved by both the Independent Shareholders and SCI Independent Shareholders at the extraordinary general meetings of the Company and SCI both held on 8 March 2007. As at the Latest Practicable Date, the Continuing Guarantee and the Guarantee remain existing and valid. Upon Completion, Praise Rich will become a wholly-owned subsidiary of SCL. Upon the full conversion of the Convertible Notes, SCL will become a subsidiary of the Company and SCI; while Praise Rich will become an indirect subsidiary of the Company and SCI and the results of Praise Rich Group will be consolidated in the Company and SCI. As such, the Directors and SCI Directors considered the Continuing Guarantee and the Guarantee is required to be remained unchanged.

The purpose of this circular is to provide you with (i) further information regarding the Transaction and the Convertible Note II; (ii) the recommendation from the Independent Board Committee; (iii) the recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) an accountants' report on the Group; (v) unaudited pro forma financial information on the Remaining Group and the Enlarged Group; (vi) a property valuation report relating to the Project; and (vii) a notice convening the EGM.

II. THE AGREEMENT

Date:	30 April 2007
Vendor:	WTS International (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability, is beneficially owned as to 100% by SCI which is in turn beneficially owned as to approximately 74.79% by the Company. The Vendor is principally engaged in investment holding and its subsidiaries are principally engaged in the manufacturing and trading of toys, shoes and electronic toy products, securities trading and investment, property development and investment.
Purchaser:	SCL, being a company beneficially owned as to approximately 68.45% by Mr. Ng and his associates.
Guarantor:	SCI, being a company beneficially owned as to approximately 74.79% by the Company.

Subject matter and principal terms of the Transaction:	The Vendor has agreed conditionally to sell the Sale Shares and procure the sale of the Sale Debt to SCL at the Consideration. SCI has unconditionally and irrevocably agreed to guarantee the due performance of the Vendor's obligations under the Agreement. Pursuant to the Agreement, SCI and the Vendor have agreed to indemnify Praise Rich Group against any appreciation tax that may become payable by Praise Rich Group under the PRC laws and regulations in respect of the Property. Based on the estimated deferred tax liabilities of HK$153.2 million, SCI and the Vendor are to indemnify the tax amount of HK$62.5 million and HK$60 million under the 9 January 2007 Agreement and the Agreement respectively by their internal resources.
Consideration:	The total consideration for the sale and purchase of the Sale Shares and the Sale Debt shall be HK$392 million, which comprises (i) the total face value of the Sale Debt at Completion; and (ii) the purchase price for the Sale Shares, being the difference between HK$392 million and the total face value of the Sale Debt. As at the date of the Agreement and also the Latest Practicable Date, approximately HK$45.8 million represents the Sale Debt and approximately HK$346.2 million represents the purchase price for the Sale Shares. The Consideration will be satisfied by SCL issuing the Convertible Note II to Skychance on Completion. In the event that Skychance does not convert the Convertible Note II in full into SCL Shares before the maturity of the Convertible Note II, upon presentation on the maturity date of the original of the Convertible Note II to SCL, the Convertible Note II shall be redeemed by SCL at its principal amount outstanding. Assuming that the conversion rights attached to the Convertible Note II have been fully exercised, 5,226,666,666 SCL Shares will be issued at the agreed issue price of HK$0.075 per SCL Share. The market value of the 5,226,666,666 SCL Shares (based on the closing price per SCL Share of HK$0.45 as at the Latest Practicable Date) is approximately HK$2,352.0 million. The Consideration was determined after arm's length negotiation between SCL and SCI with reference to, among other things, (i) the face value of the Sale Debt as at the date of the Agreement, being HK$45.8 million, (ii) the audited consolidated net liabilities attributable to the equity holders of Praise Rich as at 31 December 2006 of approximately HK$3 million before re-valuation of the Property; and (iii) the valuation of the Property as a development site of RMB650 million as at 30 November 2006 provided by Jones Lang LaSalle, an independent professional property valuer, subject to various good title and development proposal approval assumptions. The capital value of the proposed development

(assuming completion as at the date of valuation) of the Property would be in the region of RMB1,750 million on an estimated total gross floor area of 120,000 sq.m. The value as just mentioned represents 100% interest of the Property and the proposed development thereof respectively. Details of the valuation of the Property comprising a site area of 18,841.5 sq.m. as at 30 November 2006 were set out in the respective circulars of the Company, SCI and SCL dated 12 February 2007. The state-owned land use rights certificate pertaining to the Property comprising a site area of 18,841.5 sq.m. was issued on 9 February 2007. Such Property was valued at RMB560,000,000 as at 31 March 2007. Subject to the payment of the land premium of RMB8,900,000 and the grant of the state-owned land use rights certificate in respect of an additional site area of 3.052 sq.m., the consolidated total site area of the Property would be increased to 21,893.5 sq.m. and the market value of the Property would be in the region of RMB650,000,000 as at 31 March 2007. Further details of the Property are described in the "Property Valuation Report" as set out in Appendix V to this circular.

Conditions Precedent: Completion is conditional upon the fulfilment (or waiver of certain conditions, inter alia, the condition precedent enumerated (e) below, as the case may be) of the following conditions, among others:

(a) the acquisition of the Sale Shares and the Sale Debt, the transactions contemplated under the Agreement, and the issue of the Convertible Note II all having been approved by resolutions of the SCL Shareholders (or such of them as are not required to abstain from voting under the GEM Listing Rules) in the SCL EGM taken by way of poll;

(b) the disposal of the Sale Shares and the Sale Debt, and the transactions contemplated under the Agreement all having been approved by resolutions of the SCI Shareholders (or such of them as are not required to abstain from voting under the Listing Rules) in the SCI EGM taken by way of poll;

(c) the disposal of the Sale Shares and the Sale Debt, and the transactions contemplated under the Agreement all having been approved by resolutions of the Shareholders (or such of them as are not required to abstain from voting under the Listing Rules) in the EGM taken by way of poll;

(d) the listing of, and permission to deal in, the SCL Shares to be issued upon the exercise of the conversion rights attached to the Convertible Note II having been granted by the Stock Exchange and not having been revoked prior to Completion; and

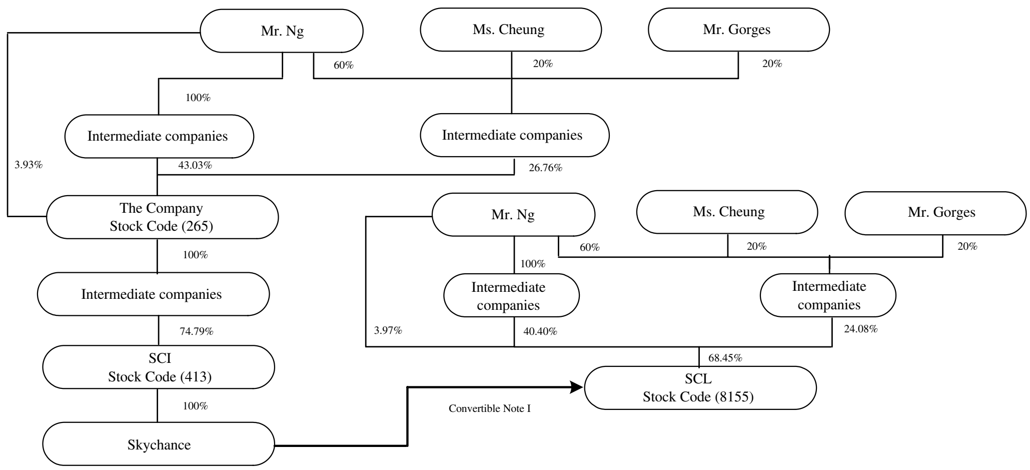
(e) written consent of the Bank in respect of the sale of the Sale Shares having been obtained.

The conditions precedent are required to be fulfilled on or before 30 June 2007. If the conditions precedent have not been satisfied or waived (as the case may be) on or before the date aforesaid, SCL shall be entitled to treat the Agreement as terminated, provided that the rights and liabilities of the contracting parties to the Agreement which have accrued prior to termination shall subsist. As at the Latest Practicable Date, no condition precedent has been fulfilled or waived.

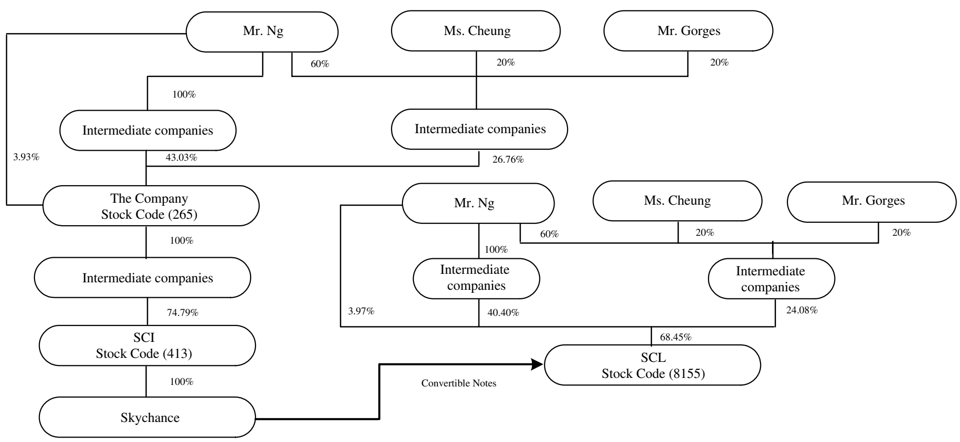
Completion: Completion shall take place on the second Business Day after the day on which the last of the conditions precedent is fulfilled or waived or such other date as SCL, the Vendor and SCI may agree, subject to the conditions precedent being fulfilled or waived in accordance with the Agreement.

The following diagrams illustrate the shareholding structure of the Company, SCI and SCL immediately before Completion, and immediately after Completion and before and after full conversion of the Convertible Notes:

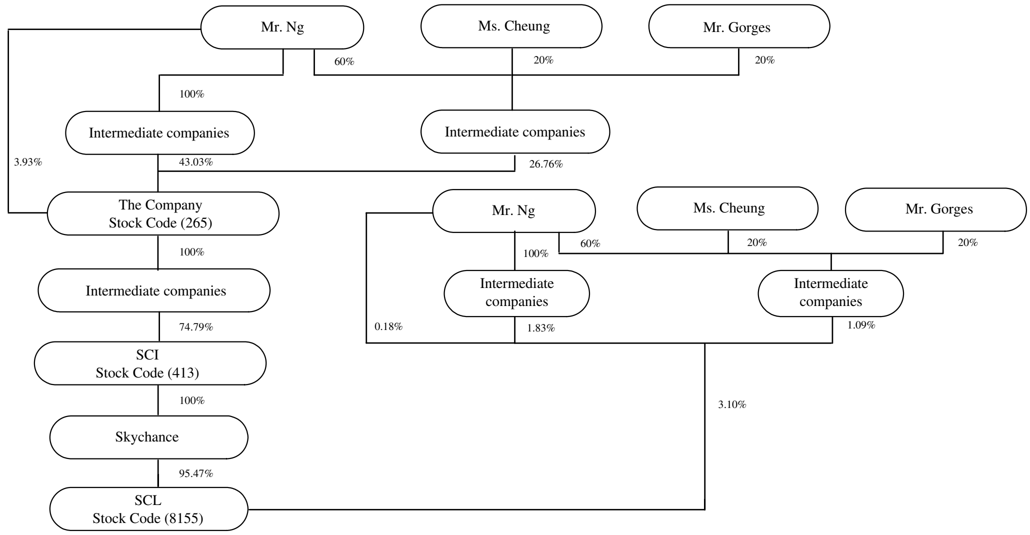
The shareholding structure of the Company, SCI and SCL immediately before Completion



The shareholding structure of the Company, SCI and SCL immediately after Completion and before full conversion of the Convertible Notes



The shareholding structure of the Company, SCI and SCL immediately after Completion and after full conversion of the Convertible Notes



III. PRINCIPAL TERMS OF THE CONVERTIBLE NOTES

(a) Convertible Note I

Principal amount:	HK$408 million
Interest:	The Convertible Note I does not bear any interest.
Maturity:	The fifth anniversary of the date of issue of the Convertible Note I.
Conversion rights:	Skychance will have the right to convert, on any Business Day prior to five Business Days before the maturity date, the whole or any part(s) of the principal amount of the Convertible Note I into SCL Shares at the conversion price.
Conversion price:	HK$0.075 per SCL Share The conversion price is subject to adjustments in the event of share consolidation or sub-division, capitalisation of profits or reserves, capital distribution, rights issue and other dilutive events.

Status of SCL Shares:	The SCL Shares to be issued under the Convertible Note I will rank pari passu in all respects with the SCL Shares in issue as at the date of exercise of the conversion rights attached to the Convertible Note I. Based on the conversion price of HK$0.075 per SCL Share, a maximum of 5,440,000,000 SCL Shares will fall to be allotted and issued upon full conversion of the Convertible Note I, representing approximately 10.74 times of the existing issued share capital of SCL or approximately 91.48% of the enlarged issued share capital of SCL upon full conversion of the Convertible Note I.
Application for listing:	An application had been made by SCL to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in SCL Shares which may be issued under the Convertible Note I. However, no application will be made for the listing of the Convertible Note on the Stock Exchange or any other stock exchange.
Transferability:	The Convertible Note I or any part(s) thereof may be assigned or transferred to any third party subject to (a) the approval of the Stock Exchange; (b) the compliance of the conditions under the approval for listing in respect of the SCL Shares to be issued under the Convertible Note I; and (c) all applicable laws and regulations.
Early Redemption:	Skychance has the option to request SCL to redeem the whole or part of the outstanding principal amount of the Convertible Note I after the third anniversary of the date of its issue till the maturity date of the Convertible Note I.

(b) Convertible Note II

Principal amount:	HK$392 million
Interest:	The Convertible Note II does not bear any interest.
Maturity:	The fifth anniversary of the date of issue of the Convertible Note II.
Conversion rights:	Skychance will have the right to convert, on any Business Day prior to five Business Days before the maturity date, the whole or any part(s) of the principal amount of the Convertible Note II into SCL Shares at the conversion price.
Conversion price:	HK$0.075 per SCL Share The conversion price is subject to adjustments in the event of share consolidation or sub-division, capitalisation of profits or reserves, capital distribution, rights issue and other dilutive events. The conversion price was determined after arm's length negotiation taking into account (i) the 5-year tenor of the Convertible Note II; (ii) the potential dilution effect on the shareholding structure of SCL; (iii) the carrying value/intrinsic value of the existing underlying business attributed to the stakeholders of SCL per SCL Shares; (iv) low liquidity of the SCL shares; and (v) the closing price of SCL Shares on the date of the Agreement. The conversion price represents (i) a discount of approximately 83.3% to the closing price of SCL Shares of HK$0.45 as at the Latest Practicable Date; (ii) a discount of approximately 76.56% to the closing price of the SCL Shares of HK$0.32 on 30 April 2007, being the date of the Agreement; (iii) a discount of approximately 75.96% to the average closing price of the SCL Shares of HK$0.312 on the Stock Exchange for the 5 trading days immediately before 30 April 2007; and (iv) a premium of approximately 36.5 times over the net asset value per SCL Share of approximately HK$0.002, based on the audited consolidated accounts of SCL as at 31 December 2006 and the number of the SCL Shares in issue.
Status of SCL Shares:	The SCL Shares to be issued under the Convertible Note II will rank pari passu in all respects with the SCL Shares in issue as at the date of exercise of the conversion rights attached to the Convertible Note II.

Based on the conversion price of HK$0.075 per SCL Share, a maximum of 5,226,666,666 SCL Shares will fall to be allotted and issued upon full conversion of the Convertible Note II, representing approximately 10.32 times of the existing issued share capital of SCL or approximately 46.78% of the enlarged issued share capital of SCL upon full conversion of the Convertible Notes.

Application for listing:	Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the SCL Shares which may be issued under the Convertible Note II. However, no application will be made for the listing of the Convertible Note II on the Stock Exchange or any other stock exchange.
Transferability:	The Convertible Note II or any part(s) thereof may be assigned or transferred to any third party subject to (a) the approval of the Stock Exchange; (b) the compliance of the conditions under the approval for listing in respect of the SCL Shares to be issued under the Convertible Note II; and (c) all applicable laws and regulations.
Early Redemption:	Skychance has the option to request SCL to redeem the whole or part of the outstanding principal amount of the Convertible Note II after the third anniversary of the date of its issue till the maturity date of the Convertible Note II.

The Directors (excluding the independent non-executive directors) consider that the terms of the Convertible Note II are fair and reasonable.

The total number of the SCL Shares to be issued under full conversation of the Convertible Notes will be 10,666,666,666, representing 21.06 times of the existing issued share capital of SCL and 95.47% of the enlarged issued share capital of SCL, assuming no further SCL Shares will be issued from the Latest Practicable Date until such conversion. The market value of the 10,666,666,666 SCL Shares (based on the closing price per SCL Share of HK$0.45 as at the Latest Practicable Date) is approximately HK$4,800.0 million.

The Company previously considered that it would be inappropriate to hold the interest in the Project by two separate entities in the Group if the Convertible Note I was converted. Upon the full conversion of the Convertible Notes, the Project would be held indirectly by SCI through SCL, a separate listed vehicle principally engaged in property development business. It is the intention of the Company and SCI to procure Skychance to convert the Convertible Notes to the extent that the public float of SCL will not be less than 25% immediately after such conversion.

IV. INFORMATION ON THE PRAISE RICH GROUP

Overview

SCL will acquire from the Vendor the Sale Shares and the Sale Debt, and indirectly acquire further the interest in Liaoning Dafa.

Praise Rich, which is an investment holding company holding all of the shares of Ever Talent, is owned as to 51% by SCL and 49% by the Vendor. Ever Talent is a company incorporated in Hong Kong and in turn is the foreign investor holding an equity interest of 80% in a PRC equity joint venture, namely, Liaoning Dafa. Liaoning Dafa is a limited liability company, which was incorporated in the PRC and registered on 25 September 2000 with two PRC investors, namely Mr. Wen Heyi (溫和義) ("Mr. Wen") and Ms. Wen Meixia (溫美霞) ("Ms. Wen"). The total capital contributions from Ever Talent, Mr. Wen and Ms. Wen in Liaoning Dafa are RMB161.6 million, RMB30.3 million and RMB10.1 million respectively as of the Latest Practicable Date. Liaoning Dafa currently owns the Property. According to the state-owned land use rights certificate pertaining to the Property issued on 9 February 2007, the site area of the Property is 18,841.5 sq.m. Liaoning Dafa has applied for an additional area of afforestation of 3,052 sq.m. at a consideration of approximately RMB8.9 million. Upon approval, the total site area will be enlarged to 21,893.5 sq.m. The Property is proposed to be developed into a seven-storey shopping mall with a latest proposed aggregate gross floor area of approximately 117,200 sq.m. As at the Latest Practicable Date, the estimated outstanding development and construction costs and resettlement cost were approximately RMB470 million and RMB10 million respectively. The estimated construction and resettlement costs will be funded by investors' equity and internal resources of Liaoning Dafa as well as bank loans. Investors' equity of Liaoning Dafa refers to the existing equity of Liaoning Dafa and any additional capital injection by the shareholders of Liaoning Dafa or shareholders' loan to Liaoning Dafa, if any, that may exist before completion. Given the inconsistency between the development conditions stipulated in the Stated-owned Land Use Rights Grant Contract and the Construction Land Use Planning Permit in respect of revision in plot ratio, the payment of additional land premium would be required but cannot be ascertained at the moment. The Directors consider that the SCL Group and Praise Rich Group would be able to finance part of the building construction costs any potential land premium, and consideration for additional area of afforestation from its internal resources which mainly come from idle funds and expected receipts from arrangement on leasing the Property shortly before the completion of the Project. It is expected that the construction of the shopping mall will be completed in 2008.

At the Latest Practicable Date, the state-owned land use rights certificate in respect of the additional area of afforestation of 3,052 sq.m. has not been granted. The valuation of the Property with a site area of 18,841.5 sq.m. as set out in Appendix V of this circular is RMB560,000,000. Subject to the payment of the land premium of RMB8,900,000 and the grant of the state-owned land use rights certificate in respect of an additional site area of 3,052 sq.m., the consolidated total site area of the Property would be increased to 21,893.5 sq.m. and the market value of the Property would be in the region of RMB650,000,000 as at 31 March 2007.

Save as disclosed above, Mr. Wen and Ms. Wen are independent of and unrelated to the Vendor, the Company, SCI, SCL, Mr. Ng and their respective associates. To the best knowledge of the Directors, SCI Directors and SCL Directors, Mr. Wen and Ms. Wen do not hold any Shares, SCI Shares and SCL Shares as at the Latest Practicable Date.

Financial Information

Praise Rich was incorporated in the British Virgin Islands with limited liability on 23 May 2005. The audited consolidated loss before and after taxation and extraordinary items of Praise Rich Group for the period from 23 May 2005 (date of incorporation) to 31 December 2005 and for the year ended 31 December 2006 were approximately HK$1.8 million and HK$7.6 million respectively. No turnover was reported in the books of Praise Rich Group as the Project was at the stage of relocation of original occupants at the Property. Praise Rich will cease to be an associated company of the Company immediately upon Completion. The audited consolidated net liabilities attributable to the equity holders of Praise Rich as at 31 December 2006 were approximately HK$3 million. Upon Completion, Praise Rich will become a wholly-owned subsidiary of SCL.

V. CHANGES TO THE SHAREHOLDING IN SCL AS A RESULT OF THE TRANSACTION AND CONVERSION OF THE CONVERTIBLE NOTES

The following table sets out the shareholding structure of SCL (based on information received by SCL and notified pursuant to Part XV of the SFO as at the Latest Practicable Date) immediately before and after Completion and full conversion of the Convertible Note I and the Convertible Note II (assuming that there are no changes other than those contemplated in the Agreement):

	Immediately before Completion		**After Completion, assuming no conversion rights attached to the Convertible Notes have been exercised by Skychance**		**After Completion, assuming the conversion rights attached to the Convertible Note I have been fully exercised by Skychance**		**After Completion, assuming the conversion rights attached to the Convertible Notes have been fully exercised by Skychance**	
	No. of SCL Shares	*Approximate %*	*No. of SCL Shares*	*Approximate %*	*No. of SCL Shares*	*Approximate %*	*No. of SCL Shares*	*Approximate %*
Mr. Ng and his associates (other than Skychance)	346,709,203	68.45	346,709,203	68.45	346,709,203	5.83	346,709,203	3.10
SCI through Skychance	–	–	–	–	5,440,000,000	91.48	10,666,666,666	95.47
Public	159,789,141	31.55	159,789,141	31.55	159,789,141	2.69	159,789,141	1.43
Total	**506,498,344**	**100.00**	**506,498,344**	**100.00**	**5,946,498,344**	**100.00**	**11,173,165,010**	**100.00**

Under the terms of the Convertible Notes, Skychance shall exercise the rights of conversion to the extent that the public float of SCL will not be less than 25% immediately after such conversion.

Skychance is a wholly-owned subsidiary of SCI, which is in turn beneficially owned as to approximately 74.79% by the Company. As Mr. Ng and his associates are the existing controlling group of shareholders in the Company, SCI and SCL, the full conversion of the Convertible Notes will not result in a change in control (as defined in the Takeovers Code).

VI. INFORMATION ON THE COMPANY

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the trading and manufacturing, securities, bullion and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory services and underwriting services, information technology related businesses, property investment and development, implementation and marketing of software applications, magazines publishing and printing businesses, marketing and promotional services, agricultural production, sale of air tickets and the provision of other related services.

VII. INFORMATION ON SCI

SCI is an investment holding company. Its subsidiaries and associates are principally engaged in the manufacturing and trading of toys, compressors, shoes, electronic toys products, leather products, motors, machinery, capacitors, clothing, securities trading and investment, property investment and development, agriculture, information technology and travel related businesses. The Company beneficially holds approximately 74.79% of the total issued share capital of SCI.

VIII. INFORMATION ON SCL

SCL is an investment holding company. Its subsidiaries are principally engaged in publication and marketing of monthly Chinese financial and economic magazines, namely "資本雜誌 Capital", "資本才俊 Capital CEO" and "資本企業家 Capital Entrepreneur" as well as property investment and development in the PRC.

SCL is owned as to 20.02% by Parkfield, 19.55% by Fung Shing, 0.83% by Ronastar, 12.37% by Earntrade and 11.71% by Bannock and 3.97% by Mr. Ng. Each of Parkfield, Fung Shing and Ronastar is wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade and Earntrade is owned as to 60% by Mr. Ng, as to 20% by Ms. Cheung and as to the remaining 20% by Mr. Gorges. Each of Parkfield, Fung Shing, Ronastar, Earntrade and Bannock is an associate of Mr. Ng within the meaning of the GEM Listing Rules and a connected person of SCL within the meaning of the GEM Listing Rules.

The audited consolidated net asset value of SCL for the year ended 31 December 2006 was HK$996,000. SCL had a loss of HK$1,950,000 and a profit of HK$153,000 attributable to the equity holders of SCL for the years ended 31 December 2005 and 31 December 2006 respectively. Financial information for the years ended 31 December 2006 and 2005 together with the corresponding figures in 2004 of SCL Group are set out in the Appendix III to this circular.

IX. RELATIONSHIP BETWEEN MR. NG AND HIS ASSOCIATES

The Company is owned as to 20.39% by Parkfield, 21.72% by Fung Shing, 0.92% by Ronastar, 13.75% by Earntrade and 13.01% by Bannock and 3.93% by Mr. Ng. Each of Parkfield, Fung Shing and Ronastar is wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, as to 20% by Ms. Cheung and as to the remaining 20% by Mr. Gorges. Each of Parkfield, Fung Shing, Ronastar, Earntrade and Bannock is an associate of Mr. Ng within the meaning of the Listing Rules and a connected person of the Company within the meaning of the Listing Rules. To the best knowledge of the Directors, the remaining shareholdings of the Company are owned by the Independent third Parties.

SCI is owned as to 51.59% by Super Giant, 18.51% by Worldunity and 4.69% by Greenearn. Each of Super Giant, Worldunity and Greenearn is wholly-owned by the Company through its wholly-owned subsidiaries, South China (BVI) Limited and Tek Lee Finance and Investment Corporation Limited. Mr. Ng is the controlling shareholder of the Company and each of Super Giant, Worldunity and Greenearn is an associate of Mr. Ng within the meaning of the Listing Rules and a connected person of SCI within the meaning of the Listing Rules.

X. REASONS FOR THE TRANSACTION AND FULL CONVERSION OF THE CONVERTIBLE NOTES

Given the diversified portfolio in SCI, the Directors and SCI Directors consider that Completion of the Transaction can segregate the property development portfolio from manufacturing business so that the different businesses can be more clearly delineated. Completion of the Transaction will put SCI's major property development project in the PRC into a listed vehicle. Such restructuring will give investors a clearer picture on the SCI group's business strategy and create a platform for SCI to foster its property development business through SCL. Further, the Directors and SCI Directors expect that such segregation can attract different investors with different investment criteria. SCI intends to transact future property acquisitions in the PRC through the vehicle of SCL. Completion of the Transaction will also allow the existing SCI management to focus on its core manufacturing business. Furthermore, the full conversion of the Convertible Notes will enable SCI to hold the interest in the Project indirectly and still benefit from the potential capital appreciation of the Project in the future.

The Directors concur with the view of the SCI Directors and believe that the terms of the Agreement and the full conversion of the Convertible Notes are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

XI. GAIN ON DISPOSAL OF THE SALE SHARES AND THE SALE DEBT BY THE VENDOR

Immediately after Completion but before full conversion of the Convertible Note II by Skychance

As set out in the Unaudited Pro-forma Financial Information on the Remaining and the Enlarged Group in Appendix IV to this circular, if the Transaction had been completed on 31 Decembers 2006, the Group would receive the Convertible Note II from SCL. Accordingly, the total assets of the Group would be increased by the amount of the fair value of the Convertible Note II amounting to HK$1,835 million. The liabilities of the Group would be increased by the value of tax indemnity amounting to HK$60 million and estimated professional charge of the Transaction amounting to HK$2 million. If the Transaction had been completed on 1 January 2006, the profit for the year of the Group would be increased by HK$1,742 million due to the gain on disposal of 49% interest in Praise Rich Group of HK$1,731 million and the accrual of imputed interest income of the Convertible Notes II amounting to HK$13 million net of the accrual of estimated professional charge of the Transaction amounting to HK$2 million.

The gain on disposal of Praise Rich Group is calculated by the fair value of the Convertible Note II of HK$1,835 million, less tax indemnified by SCI of HK$60 million, less the face value of Sale Debt of HK$46 million, add the 49% net liabilities attributable to the equity holder of Praise Rich Group of HK$2 million. For illustrative purpose, these values are referenced to the value on the date of the Agreement.

Immediately after Completion and full conversion of the Convertible Notes

Immediately upon Completion and full conversion of the Convertible Notes (assuming that there will be no change in the issued share capital of SCL from the date of the Agreement and up to Completion, save for the issue of the SCL Shares pursuant to the conversion of the Convertible Notes), SCL will become a 95.47% subsidiary of SCI. All gains or losses described above will be eliminated in full in the consolidated financial accounts of the Company and SCI as SCL will be put under the same group of the Company and the full conversion of the Convertible Notes will not have any material effect on the earnings of the Group.

However, under the terms of the Convertible Notes, Skychance shall exercise the rights of conversion to the extent that the public float of SCL will not be less than 25% immediately after such conversion. Therefore, the Group will not hold more than 75% in SCL.

As set out in the Unaudited Pro-forma Financial Information on the Remaining and the Enlarged Group in the Appendix IV to this circular, if the full conversion of the Convertible Notes had been completed on 31 Decembers 2006, SCL would become a subsidiary of SCI. Accordingly, the total assets and liabilities of the Group would be increased by HK$8 million and HK$7 million respectively due to the inclusion of SCL assets and liabilities.

XII. GENERAL

Praise Rich, an indirect associate of SCI and a direct subsidiary of SCL, is an investment holding company holding all the shares of Ever Talent which in turn is the foreign investor holding an equity interest of 80% in Liaoning Dafa. Immediately upon Completion, Praise Rich, holding an equity interest of 80% in Liaoning Dafa, will be a wholly-owned subsidiary of SCL.

Immediately upon Completion and full conversion of the Convertible Notes (assuming no further SCL Shares will be issued from the Latest Practicable Date until such conversion), SCI, through Skychance, will become the controlling shareholder of SCL interested in 95.47% of SCL's enlarged issued share capital. However, under the terms of the Convertible Notes, Skychance shall exercise the rights of conversion to the extent that the public float of SCL will not be less than 25% immediately after such conversion. Therefore, the Group will not hold more than 75% in SCL.

As the percentage ratio of the consideration test for the Transaction when aggregated with the Previous Transaction is over 75% and Mr. Ng and his associates are the existing controlling group of shareholders in the Company, SCI and SCL, the Transaction will constitute a very substantial disposal and connected transaction for the Company under the Listing Rules. As the percentage ratio under the consideration test is over 100% for the full conversion of the Convertible Notes, it will constitute a very substantial acquisition and connected transactions for the Company.

The Transaction and all other transactions contemplated under the Agreement and the full conversion of the Convertible Notes are conditional upon, among other things, the approval of the Independent Shareholders at the EGM. Voting on the above will be conducted by way of poll by the Independent Shareholders. As mentioned in the section headed "Relationship between Mr. Ng and his associates" of this circular, the approximate percentage of beneficial interests of Mr. Ng and that of Parkfield, Fung

Shing, Ronastar, Earntrade and Bannock, all being associates of Mr. Ng, in the shares of the Company are altogether 73.72%. Accordingly, they are required to abstain from voting in respect of the resolutions to approve the Transaction and the full conversion of the Convertible Notes at the EGM. Mr. Ng and his associates can control and are entitled to exercise control over the voting rights in respect of their respective Shares.

To the best knowledge and belief of the Directors, save as disclosed above, none of the Shareholders have a material interest in the Transaction and full conversion of the Convertible Notes and will therefore be required to abstain from voting at the EGM.

The Directors consider that the terms of the Agreement (including the Transaction) and the full conversion of the Convertible Notes are on normal commercial terms and are fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee comprising Mr. Cheng Hong Kei and Mr. David John Blackett has made recommendations to the Independent Shareholders in relation to the terms of the Agreement (including the Transaction) and the full conversion of the Convertible Notes. Mrs. Tse Wong Siu Yin, Elizabeth, who is an independent non-executive Director of both the Company and SCI, is therefore required to abstain from acting as a member of the Independent Board Committee. CSC Asia was appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the Agreement (including the Transaction) and the full conversion of the Convertible Notes.

RECOMMENDATION

Set out on pages 198 to 199 of this circular is a notice convening the EGM which will be held at 28/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong on Wednesday, 4 July 2007 at 11:00 a.m. in which ordinary resolutions will be proposed to approve, among other things, the Transaction, the Convertible II and the subsequent conversion and/or redemption of the Convertible Notes pursuant to the terms thereof. The Board considers that the terms of the Agreement (including the Transaction) and the full conversion of the Convertible Notes are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Independent Shareholders to vote in favour of the relevant ordinary resolutions to be proposed in the EGM to approve the Transaction and the full conversion of the Convertible Notes.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Cheung Choi Ngor
Director

SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

13 June 2007

To the Independent Shareholders

Dear Sir or Madam,

Very Substantial Disposal and Connected Transactions in relation to the indirect disposal by South China Industries Limited of the remaining 49% equity interest in Praise Rich Limited

Very Substantial Acquisition and Connected Transactions in relation to the full conversion of Convertible Notes

As members of the Independent Board Committee, we have been appointed to advise you in connection with the terms of the Agreement (including the Transaction) and the full conversion of the Convertible Notes, details of which are set out in the letter from the Board contained in this circular to the Shareholders dated 13 June 2007 of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Agreement (including the Transaction) and the full conversion of the Convertible Notes and the advice of the Independent Financial Adviser in relation thereto as set out on pages 24 to 49 of this circular, we are of the opinion that the terms of the Agreement (including the Transaction) and the full conversion of the Convertible Notes are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the resolutions to be proposed in the EGM to approve the terms of the Agreement (including the Transaction) and the full conversion of the Convertible Notes.

Yours faithfully,
For and on behalf of the
Independent Board Committee
David John Blackett **Cheng Hong Kei**

The following is the text of a letter of advice from CSC Asia which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transaction and the full conversion of the Convertible Notes.

CSC Asia Limited
Units 3204-07, 32/F
Cosco Tower
183 Queen's Road Central
Hong Kong

13 June 2007

To: The independent board committee and
the independent shareholders of South China Holdings Limited

Dear Sirs,

Very Substantial Disposal and Connected Transactions
in relation to indirect disposal by South China Industries Limited of
the remaining 49% equity interest in Praise Rich Limited

Very Substantial Acquisition and Connected Transactions
in relation to the full conversion of the Convertible Notes

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Transaction and the full conversion of the Convertible Notes (the "Convertible Notes Conversion") are (i) on normal commercial terms; (ii) fair and reasonable; and (iii) in the interests of the Company and the Shareholders as a whole, and whether or not the Independent Shareholders should vote in favour of the resolutions to approve the Transaction and the Convertible Notes Conversion at the EGM. Details of the Transaction and the Convertible Notes Conversion are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company to the Shareholders dated 13 June 2007 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

The completion of the sale and purchase of the Previous Sale Shares and the Previous Sale Debt took place on 12 March 2007. Accordingly, the Vendor transferred the Previous Sale Shares and procured the assignment of the Previous Sale Debt to SCL and SCL issued the Convertible Note I to Skychance, a company nominated by the Vendor to hold the Convertible Notes. Subsequently, on 30 April 2007, SCL, the Vendor and SCI entered into the Agreement pursuant to which the Vendor has conditionally agreed to sell the Sale Shares and procure the sale of the Sale Debt to SCL at a consideration of HK$392 million which is to be satisfied by SCL issuing to Skychance the Convertible Note II.

It is the intention of the Company and SCI to procure Skychance to convert the Convertible Notes to the extent that the public float of SCL will not be less than 25% immediately after such conversion. The issue of the Convertible Note I by SCL to Skychance has been approved by the Independent Shareholders and SCI Independent Shareholders at the extraordinary general meetings of the Company and SCI both held on 8 March 2007. As for the issue of the Convertible Note II by SCL to Skychance, it will be subject to the approval of the Independent Shareholders to be held at the EGM on 4 July 2007. As at the Latest Practicable Date, Skychance has not exercised the Convertible Note I.

Mr. Ng and his associates are the existing controlling group of shareholders in SCL, SCI and the Company, accordingly, Mr. Ng and his associates are connected persons of the Company as defined in the Listing Rules. Given that the percentage ratio under the consideration test of the Transaction when aggregated with the Previous Transaction is over 75% and the percentage ratio of the Convertible Notes Conversion under the consideration test is over 100%, the Transaction therefore will constitute very substantial disposal and connected transactions for the Company and the Convertible Notes Conversion will constitute very substantial acquisition and connected transactions for the Company under the Listing Rules and are therefore subject to the approval of the Independent Shareholders at the EGM by way of a poll.

Mr. Ng and his associates will abstain from voting on the ordinary resolutions at the EGM to approve the Transaction and the Convertible Notes Conversion.

The Independent Board Committee comprising Mr. Cheng Hong Kei and Mr. David John Blackett, has been formed to consider and advise the Independent Shareholders as to the terms of the Transaction and the Convertible Notes Conversion and to make recommendations to the Independent Shareholders whether the Independent Shareholders should vote in favour of the relevant resolutions to be proposed at the EGM to approve the Transaction and the Convertible Notes Conversion. We, CSC Asia Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

CSC Asia Limited is independent from, and not connected with, the Company or any of its substantial shareholders, directors or chief executive, or any of their respective associates, and is accordingly qualified to give independent advice to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our recommendations, we have relied on the information and facts supplied by the Company and the representations of, the Directors and management of the Company, including those set out in the Circular. We have assumed that all the information and representations so supplied by the Company and/or the Directors and all information and representations referred to or contained in the Circular, for which the Company and the Directors are solely and wholly responsible, were true, accurate and complete at the time they were made and continue to be so as the date hereof. No representation or warranty, expressed or implied, is made by us on the accuracy of such information or representation. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Circular misleading.

We have also reviewed the independent valuation report dated 13 June 2007 prepared by Jones Lang LaSalle Limited (the "Valuer") in respect of the Property as set out in Appendix V to the Circular (the "Valuation Report") and have discussed with the Valuer regarding the valuation of the Property prepared by it.

We consider that we have reviewed sufficient information and documents to reach an informed view to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendations. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Directors and management of the Company. We have not, however, conducted any independent investigation into the businesses or affairs or assets and liabilities or future prospects of the Company or any of its associates or other parties involved in the Transaction or the Convertible Notes Conversion.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the terms of the Transaction and the Convertible Notes Conversion, we have taken the following principal factors and reasons into consideration:

(A) The TRANSACTION

1. Background of and reasons for the Transaction

The Company through its intermediate companies is interested in approximately 74.79% in SCI. SCI has been accounted for as a subsidiary of the Company and the results of which have been consolidated in the accounts of the Company.

On 9 January 2007, SCI and the Vendor entered into the 9 January 2007 Agreement with SCL to dispose 51% equity interest of Praise Rich to SCL in order to delineate active participation of SCI and its subsidiaries (the "SCI Group") in property development of SCI. Details of the Previous Transaction were set out in the circular sent to the Shareholders on 12 February 2007. As stated in the Letter from the Board, completion of the Previous Transaction took place on 12 March 2007 and accordingly the Convertible Note I was issued by SCL to Skychance, a company nominated by the Vendor to hold the Convertible Notes. Following completion of the Previous Transaction, the Vendor's equity interest in Praise Rich is reduced from 100% to 49%.

On 30 April 2007, SCL, the Vendor and SCI entered into the Agreement, pursuant to which the Vendor conditionally agreed to dispose of the remaining 49% equity interest in Praise Rich to SCL by selling the Sale Shares and procuring the sale of the Sale Debt to SCL for a total consideration of HK$392 million, which will be satisfied by SCL by way of issuance of the Convertible Note II. Upon Completion, Vendor's remaining 49% equity interest in Praise Rich will be transferred to SCL and both SCI and the Company will cease to have any equity interest in Praise Rich.

(i) Information of the Praise Rich Group

Praise Rich, an investment holding company, through Ever Talent (a wholly-owned subsidiary of Praise Rich) indirectly holds 80% interest in Liaoning Dafa which in turn holds the Property. As at the Latest Practicable Date, Praise Rich, an associated company of SCI, is owned as to 49% by the Vendor and 51% by SCL. According to the audited financial statements of Praise Rich for the period from 23 May 2005 (date of incorporation) to 31 December 2005 and the year ended 31 December 2006, it recorded audited consolidated net loss before and after taxation, and extraordinary items excluding minority interests of approximately HK$1.5 million and HK$6.5 million respectively. Praise Rich's audited consolidated net liabilities attributable to the equity holders as at 31 December 2006 amounted to approximately HK$3.0 million. No turnover was recorded by Praise Rich since 23 May 2005 (date of incorporation) to the year ended 31 December 2006 as the Project was at the stage of relocation of original occupants of the Property.

Liaoning Dafa, a Sino-foreign joint venture company, is held as to 80% by Ever Talent (a Hong Kong incorporated company) and remaining 20% by PRC investors namely, Mr. Wen Heyi (溫和義) and Ms. Wen Meixia (溫美霞). The principal asset of Liaoning Dafa is the Property.

In respect to the Property, according to the land use rights certificate pertaining to the Property dated 9 February 2007, the land use rights of a site area of 18,841.5 sq.m. was granted to Liaoning Dafa. According to the Letter from the Board and the Valuation Report, Liaoning Dafa has applied for an additional site area of 3,052 sq.m. (the "Additional Site Area"). Upon approval, the total site area of the Property will be enlarged to 21,893.5 sq.m. (the "Enlarged Site Area").

The Property, currently known as South China Land Plaza is located at the western side of Zhaoyang Street in Shenhe District of Shenyang, Liaoning Province, the PRC (中國瀋陽市沈河區朝陽街). According to the Valuation Report, the Property will be developed into a seven storey shopping mall (with three basement levels and four above-ground levels) with a proposed aggregate gross floor area ("GFA") of approximately 117,200 sq.m. which is subject to the approval by relevant government authorities.

As stated in the Letter from the Board, the construction of the Project is expected to be completed in 2008. As advised by the Directors, total estimated construction costs of the Project is estimated to be approximately RMB470 million (equivalent to approximately HK$470 million).

(ii) Reasons for and benefits of the Transaction

The Group has a diversified business portfolio and is principally engaged in following major business areas: trading and manufacturing, securities and financial services, information technology business, property investment and development, media and publication, agricultural production and travel related services. SCI is held as to 74.79% by the Company.

The SCI Group is principally engaged in the manufacturing and trading, property investment and development, agriculture, information technology and travel related businesses.

We have enquired into and have been advised by the Directors and the SCI Directors that as part of the Group's and the SCI Group's corporate restructuring, the Group and the SCI Group adopted business development strategies and completed the Previous Transaction on 12 March 2007 by creating a platform for SCI to foster the SCI Group's property development business, in particular, its major property development project in the PRC, namely the Project, in SCL with the aim of clearly streamlining the SCI Group's business. As at the Latest Practicable Date, SCL is interested in 51% equity interest of Praise Rich while the SCI Group holds the remaining 49% equity interest in Praise Rich.

As advised by the Directors and the SCI Directors, following completion of the Previous Transaction, given the diversified portfolio of SCI, the Transaction represents a major strategic move towards further implementing the Company's and SCI's corporate restructuring by segregating the SCI Group's property development business from its manufacturing business so that the SCI Group's different businesses can be more clearly delineated and will provide investors a clearer picture on the SCI Group's business strategy.

Upon Completion and assuming no conversion of the Convertible Notes, SCI and the Company will cease to retain any equity interest in Praise Rich. Upon Completion and full conversion of the Convertible Notes, SCI will be interested in approximately 95.47% shareholding of SCL and the Company will indirectly hold approximately 71.60% interest in SCL through its effective interest of approximately 74.79% in SCI. As stated in the Letter from the Board, it is the intention of the Company and SCI to procure Skychance to convert the Convertible Notes to the extent that the public float of SCL will not be less than 25% immediately after such conversion. As such, upon Completion and full conversion of the Convertible Notes, SCL will become a subsidiary of both the Company and SCI and will enable the Company via SCI to hold interests in the Project indirectly and benefit from the potential capital appreciation of the Project in the future.

Taking into account that the Transaction (i) is consistent with the Company's and SCI's strategies; (ii) is a step taken further by the Company and SCI following the completion of the Previous Transaction to segregate the SCI Group's property development portfolio from its core manufacturing business and strengthen SCI's focus on such core business; (iii) will enhance the positioning of SCI in the market and the segmentation of SCI's business will be more distinct; and (iv) represents a major strategic move towards reinforcing the creation of a platform to foster the SCI Group's major property development project in the PRC in a separate listed vehicle, namely, SCL, and SCL as a separate listed vehicle can raise capital fund in the open market, we consider that there are sound commercial and strategic reasons for the Transaction and is in line with the overall strategy of SCI and the Company, and is in the interests of the Company and the Shareholders as a whole.

2. Principal terms of the Agreement

(i) Consideration

Basis of Consideration

Pursuant to the Agreement, total consideration for the sale of the Sale Shares and the Sale Debt by the Vendor to SCL shall be HK$392 million which comprises of (i) the total face value of the Sale Debt at Completion; and (ii) the purchase price of the Sale Shares, being the difference between HK$392 million and the total face value of the Sale Debt. As at the date of the Agreement and the Latest Practicable Date, the face value of the Sale Debt was approximately HK$45.8 million. Accordingly, approximately HK$346.2 million represents the purchase price for the Sale Shares (the "Sale Shares Consideration").

The Consideration was determined after arm's length negotiation between SCL and SCI with reference to, among other things, (i) the face value of the Sale Debt of approximately HK$45.8 million as at the date of the Agreement; (ii) the audited consolidated net liabilities attributable to the equity holders of Praise Rich as at 31 December 2006 of approximately HK$3 million before re-valuation of the Property; and (iii) the valuation of the Property as a development site being RMB650 million (equivalent to approximately HK$650 million) as at 30 November 2006 (subject to various assumptions of good title and development proposal approvals) as appraised by the Valuer.

In considering whether the Consideration is fair and reasonable, we have considered the factors set out below.

Sale Debt

Given that the consideration for the Sale Debt (being approximately HK$45.8 million as at the date of the Agreement and the Latest Practicable Date) equals to the face value of the Sale Debt, as such the consideration is determined on a dollar-for-dollar basis and is considered to be fair and reasonable.

Sale Shares

As stated in the Letter from the Board, Praise Rich is an investment holding company and has not recorded any revenue since its incorporation. Given that Praise Rich is an investment holding company and has no other material assets or business except for its investment in Ever Talent which in turn is interested in 80% of Liaoning Dafa holding the Property, we consider that it is fair and reasonable to include the net worth of Praise Rich being net liabilities as well as independent valuation of the Property as reference in the determination of the Consideration.

According to the Valuation Report, the capital value of the proposed development (assuming completion as at the date of valuation) would be in the region of RMB1,700 million (equivalent to approximately HK$1,700 million) on an estimated total GFA of approximately 117,200 sq.m.. Given that the construction of the Property is still underway and the ultimate principal asset of Praise Rich is in fact the Property, we are of the view that referring to the valuation of the Property as a development site rather than the assessed capital value of the proposed development of the Property will provide a clearer, justifiable and more appropriate indicator in performing our analysis regarding the consideration of the Sale Shares. As such, our analysis below will principally be referring to the valuation of the Property.

In this connection, we have (i) reviewed the Valuation Report; and (ii) compared the Sale Shares Consideration with the fair value of Praise Rich. Given that Praise Rich had been making losses for the year ended 31 December 2006, the use of price-earnings multiple as reference for assessing the Sale Shares Consideration is not applicable, we therefore, do not apply price-earnings multiple as part of our analysis.

a) Comparing with independent property valuation

As set out in the Valuation Report, the market value of the Property as at 31 March 2007 has been assessed by the Valuer at RMB560 million (equivalent to approximately HK$560 million) (the "Valuation") and the Property based on the Enlarged Site Area (assuming the land use rights certificate for the Additional Site Area has been obtained) as at 31 March 2007 has been assessed by the Valuer in the region of RMB650 million (equivalent to approximately HK$650 million) (the "Enlarged Site Valuation").

According to Ever Talent's PRC legal adviser (the "PRC Legal Adviser"), the PRC Legal Adviser is of the opinion that Liaoning Dafa would have no legal impediment to obtain good land use title of the Additional Site Area upon full settlement of the land premium and through proper registration procedures. Based on the above, we consider that in reference to both of the valuations will provide justifiable analysis in the event the land use rights certificate for the entire Enlarged Site Area has been obtained.

We have discussed with the Valuer and reviewed the methodology, bases, considerations and key assumptions employed in the valuation of the Property as contained in the Valuation Report. As stated in the Valuation Report, the valuation of the Property was made on the market value basis applying the direct comparison approach. We have been advised by the Valuer that by adopting the direct comparison approach, it has valued the Property by assuming the sale of the Property in its existing state and by making reference based on comparing the land sales evidence available in the market. The Valuer has also advised that the principal bases, considerations and key assumptions underlying the Valuation and the Enlarged Site Valuation (collectively, the "Valuations") are based on the recent land price for land sites in Shenyang which are comparable to the Property.

In view of the above discussion with the Valuer, we are of the view that the valuation methodology adopted by the Valuer is generally consistent with market practices and we are not aware of any reasons to doubt the fairness and appropriateness of the bases, considerations and key assumptions adopted by the Valuer in arriving at the Valuations.

Based on the Valuation of RMB560 million (equivalent to approximately HK$560 million), 49% equity interest of Praise Rich's 80% attributable interest in the Property is equivalent to approximately RMB219.52 million (equivalent to approximately HK$219.52 million). Accordingly, the Sale Shares Consideration of approximately HK$346.2 million for 49% equity interest of Praise Rich's 80% attributable interest in Liaoning Dafa represents a premium of approximately 57.71% over the Valuation.

Based on the Enlarged Site Valuation of RMB650 million (equivalent to approximately HK$650 million), 49% equity interest of Praise Rich's 80% attributable interest in the Property is equivalent to approximately RMB254.8 million (equivalent to approximately HK$254.8 million). Accordingly, the Sale Shares Consideration of approximately HK$346.2 million for 49% equity interest of Praise Rich's 80% attributable interest in Liaoning Dafa represents a premium of approximately 35.87 % over the Enlarged Site Valuation.

Further, as set out in the circular dated 12 February 2007 in relation to the Previous Transaction (the "Previous Circular"), the consideration of the Previous Sale Shares of HK$360.3 million for 51% equity interest of Praise Rich's 80% attributable interest in Liaoning Dafa as at 6 February 2007, being the latest practicable date prior to the printing of the Previous Circular, (the "Previous Sale Shares Consideration") represented a premium of approximately 35.86% over the valuation of the Property as at 30 November 2006.

b) Comparing with the fair value of Praise Rich

We note that the Sale Shares Consideration was determined with reference, among other things, to Praise Rich's net liabilities before re-valuation of the Property. However, we consider applying 49% equity interest of the fair value of Praise Rich taking into account the valuation of the Property (the "Fair Value") as our analysis will provide a clearer picture on the value of Praise Rich. Based on the latest available audited financial information of Praise Rich, the audited consolidated net liabilities attributable to equity holders of Praise Rich as at 31 December 2006 amounted to approximately HK$3 million. 49% equity interest of the Fair Value amounted to approximately HK$120.4 million and composed of the following elements (the following computations are for illustrative purposes only):

	HK$ million	*HK$ million*
Audited consolidated net liabilities of Praise Rich attributable to Praise Rich's equity holders as at 31 December 2006		(3.0)
Excess of valuation over the carrying value of the Property based on the Enlarged Site Valuation which is subject to various assumptions of good title and development proposal approvals (as extracted from point 3 under section 5 headed "Notes to unaudited pro forma financial information of the Remaining Group and the Enlarged Group" ("Point 3") of the unaudited pro forma financial information of the Remaining Group and the Enlarged Group as set out in Appendix IV to the Circular (the "Unaudited Pro Forma Financial Information") in respect to the unaudited pro forma consolidated balance sheet (the "Unaudited Pro Forma Consolidated Balance Sheet"))	464.1	
Less: Deferred tax liabilities (as extracted from Point 3 of the Unaudited Pro Forma Consolidated Balance Sheet of the Unaudited Pro Forma Financial Information)	153.2	
Excess of valuation over the carrying value of the Property in Praise Rich net of deferred tax liabilities	310.9	
Add: Excess of valuation over the carrying value of the Property in Praise Rich net of deferred tax liabilities attributable to Praise Rich of 80% interest		248.7
Fair Value		245.7
49% equity interest in the Fair Value		120.4

The Sale Shares Consideration of approximately HK$346.2 million represents a premium over 49% equity interest of Praise Rich's net worth as at 31 December 2006 being net liabilities, and a premium of approximately 187.54% over 49% equity interest of the Fair Value.

As set out in the Previous Circular, the Previous Sales Share Consideration represented a premium over 51% equity interest of Praise Rich's net worth as at 31 December 2006 and a premium of approximately 187.54% over 51% equity interest in the fair value of Praise Rich.

Taking into consideration that the Sale Shares Consideration (i) represents a premium of approximately 57.71% over the Valuation attributable to Praise Rich; (ii) represents a premium of approximately 35.87% over the Enlarged Site Valuation attributable to Praise Rich; (iii) represents a premium of approximately 187.54% over 49% of the equity interest of the Fair Value; and (iv) being comparable to the representation of the Previous Sale Shares Consideration to the Previous Transaction's attributable valuation and fair value, we are of the view that the Sale Shares Consideration is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In summary, we are of the view that the Consideration of HK$392 million under the Agreement for the Sale Debt and the Sale Shares is on normal commercial terms and is fair and reasonable so far as the interest of the Independent Shareholders are concerned.

(ii) Convertible Note II

The consideration of HK$392 million will be satisfied by the issue of the Convertible Note II by SCL to Skychance. The principal terms of the Convertible Note II are stated in the Letter from the Board. In particular, the Convertible Note II with a conversion price of HK$0.075 per SCL Share will be for a term of five years, bearing no interest and will not be listed. In addition, Skychance has the option to request SCL to redeem the Convertible Note II after the third anniversary of the date of its issue till the maturity date of the Convertible Note II.

Assuming full conversion of the Convertible Note II at the conversion price of HK$0.075 per SCL Share (the "Conversion Price"), a total of 5,226,666,666 SCL Shares will be issued, representing approximately 10.32 times of the existing issued share capital of SCL as at the Latest Practicable Date and approximately 91.17% of the then issued share capital of SCL as enlarged by the issue of 5,226,666,666 SCL Shares upon full conversion of the Convertible Note II without taking into account the conversion of the Convertible Note I.

a) Conversion Price

As advised by the Directors and the SCI Directors, the Conversion Price was determined after arm's length negotiations between the parties taking the following into account: (i) the five-year term of the Convertible Note II; (ii) the potential dilution effect on the shareholding structure of SCL; (iii) the intrinsic value of SCL Shares; and (iv) the closing price of SCL Shares on the date of the Agreement.

The conversion price of HK$0.075 per SCL Share represents:

(a) a discount of approximately 76.56% to the closing price of HK$0.320 per SCL Share as quoted on the Stock Exchange on 30 April 2007, being the date of the Agreement and the Announcement;

(b) a discount of approximately 75.00% to the average closing price of HK$0.300 per SCL Share as quoted on the Stock Exchange for the five consecutive trading days up to and including the date of the Agreement and the Announcement;

(c) a discount of approximately 76.11% to the average closing price of HK$0.314 per SCL Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including the date of the Agreement and the Announcement;

(d) a discount of approximately 83.33% to the closing price of HK$0.450 per SCL Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(e) a premium of approximately 36.5 times over the audited NAV per SCL Share of approximately HK$0.002 as at 31 December 2006.

Review on share prices of SCL

In our analysis, in order to demonstrate the trend of the market value of the SCL Shares, we consider it to be reasonable to make reference to the prevailing market price of SCL by referencing to the share price performance in a longer period, being the 12-month period commencing 2 May 2006 (being one year preceding the date of the Agreement and the Announcement) and up to and including the Latest Practicable Date (the "Review Period").

The highest and lowest closing prices and the average daily closing price of the SCL Shares as quoted on the Stock Exchange in each month during the Review Period are shown as follows:

Month	**Highest closing price** *(HK$)*	**Lowest closing price** *(HK$)*	**Average daily closing price** *(HK$)*	**Discount of the Conversion Price to the average daily closing price** *(%)*
2006				
May	0.150	0.120	0.135	44.44
June	0.120	0.120	0.120	37.50
July	0.120	0.120	0.120	37.50
August	0.120	0.120	0.120	37.50
September	0.120	0.043	0.111	32.43
October *(Note 1)*	0.320	0.050	0.120	37.50
November	0.265	0.190	0.219	65.75
December	0.200	0.100	0.179	58.10
2007				
January *(Note 2)*	0.220	0.070	0.142	47.18
February	0.214	0.150	0.187	59.89
March	0.290	0.190	0.225	66.67
April	0.430	0.280	0.364	79.40
May	0.465	0.290	0.370	79.73
June (up to and including the Latest Practicable Date)	0.450	0.400	0.417	82.01
Review Period	0.465	0.043	0.189	60.32

Source: www.hkex.com.hk

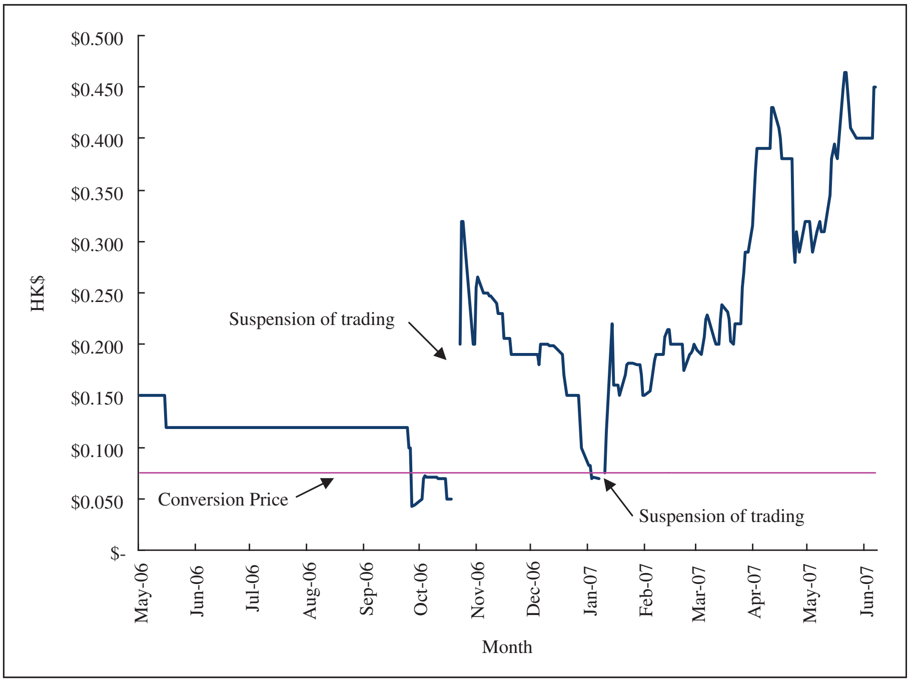
Notes:

1. Trading in the SCL Shares was suspended from 20 October 2006 to 23 October 2006.

2. Trading in the SCL Shares was suspended on both dates being 9 January 2007 and 10 January 2007.

Set out below is the chart indicating the historical closing prices of the SCL Shares as quoted on the Stock Exchange and the Conversion Price during the Review Period.

Chart: Closing prices of the SCL Shares and the Conversion Price during the Review Period



Source: www.hkex.com.hk

As set out in the chart above, during the Review Period, the closing prices of the SCL Shares were above the Conversion Price on most of the trading days. Furthermore, out of a total of 271 trading days during the Review Period, 252 trading days of the daily closing price of the SCL Shares were above the Conversion Price. Moreover, we note that following the publication of the announcement dated 10 January 2007 in relation to the Previous Transaction, the closing price of the SCL Shares was, in general, in an upward trend.

Immediately following the publication of the Announcement and up to and including the Latest Practicable Date, the daily closing price of SCL Shares, was above the Conversion Price at all of the trading days.

During the Review Period, the highest and lowest closing prices per SCL Share were HK$0.465 (recorded on 22 May 2007) and HK$0.043 (recorded on 28 September 2006), respectively. The Conversion Price of HK$0.075 per SCL Share represents a discount of approximately 83.87% to such highest closing price and a premium of approximately 74.42% over such lowest closing price.

Comparison with market comparables

Given that the Conversion Price was determined after arm's length negotiation taking into account, among other things, the five-year tenor of the Convertible Note II and, the Skychance is entitled to request SCL to redeem the Convertible Note II after the third anniversary of the date of its issue till the maturity date of the Convertible Note II, we have reviewed transactions announced during the period from 2 May 2006 (being one year preceding the date of the Agreement and the Announcement) to the date of the Agreement and the Announcement by companies listed in Hong Kong which involve issue of unlisted three to five-year term convertible notes/bonds with fixed initial conversion price and fixed interest rate to the relevant vendors to satisfy all or part of the consideration for acquisition (the "Comparable Notes").

In this regards, we have identified, on a best effort basis, a total of 17 Comparable Notes during the period under review.

Set out below is a table of the key terms of the Comparable Notes.

Table: Terms of the Comparable Notes

Date of announcement	Issuer (stock code)	Principal amount *(HK$ million)*	Life *(years)*	Coupon	Premium/ (discount) of conversion price over / (to) closing price immediately before suspension of trading in the shares pending for release of the respective announcement/ date of announcement
12 May 2006	PYI Corporation Limited (498)	116.5	3	0%	30.8%
7 June 2006	Daido Group Limited (544)	104.4	5	0%	(3.3)%
4 July 2006	Everbest Century Holdings Limited (now known as Everbest Energy Holdings Limited) (578)	20.0	3	1%	27.3%
13 July 2006	Yanion International Holdings Limited (now known as VODone Limited) (82)	66.3	3	0%	(30.0)%
22 August 2006	Wing Shan International Limited (570)	282.4	3.5	3%	6.3%
19 October 2006	139 Holdings Limited (139)	110.0	4	0%	54.9%
19 December 2006	Asia Standard Hotel Group Limited (292)	300.0	4	0%	10.5%
21 December 2006	Far East Consortium International Limited (35)	331.4	5	0%	15.0%
9 January 2007	China Primary Resources Holdings Limited (8117)	230.0	5	0%	(4.2)%
9 January 2007 (terms amended on 27 April 2007)	Sino Union Petroleum & Chemical International Limited (346)	400.0	5	0%	(20.0)%
26 January 2007	Kanstar Environmental Paper Products Holdings Limited (8011)	287.1	3	3%	(3.4)%

Date of announcement	Issuer (stock code)	Principal amount	Life	Coupon	Premium/ (discount) of conversion price over / (to) closing price immediately before suspension of trading in the shares pending for release of the respective announcement/ date of announcement
		(HK$ million)	*(years)*		
7 February 2007	New World Cyberbase Limited (now known as Mongolia Energy Corporation Limited) (276)	142.5	3	3%	5.6%
5 March 2007	China Special Steel Holdings Company Limited (2889)	316.1	3	0%	(16.8)%
19 March 2007 (terms amended on 3 April 2007)	Golden Dragon Group (Holdings) Limited (329)	1,120.0	3	2.5%	26.8%
29 March 2007	China Rich Holdings Limited (1191)	256.0	5	0%	(29.8)%
30 March 2007	EVI Education Asia Limited (8090)	540.0	5	1%	(53.3)%
18 April 2007	Maxitech International Holdings Limited (8136)	456.0	5	1%	11.1%
			Maximum	**3.0%**	**54.9%**
			Minimum	**0%**	**(53.3)%**
			Mean		**1.6%**
			Median		**5.6%**
The Convertible Note II		**392.0**	**5**	**0%**	**(76.6)%**

Source: www.hkex.com.hk

As illustrated in the above table, the conversion prices of the Comparable Notes to their respective share prices as at the last trading day immediately preceding the relevant announcement dates ranged from a discount of approximately 53.3% to a premium of approximately 54.9% (the "CN Trading Price Range") with mean premium of approximately 1.6% and median premium of approximately 5.6%.

The Conversion Price, being a discount of approximately 76.6% to the closing price of HK$0.32 per SCL Share as quoted on the Stock Exchange on 30 April 2007, being the date of the Agreement and the Announcement, is above the maximum discount of 53.3% of the CN Trading Price Range and out of the CN Trading Price Range. The greater discount of the conversion price to the market price of the underlying shares of the corresponding convertible note/bond, the holder of the convertible note/bond will be able to acquire the underlying shares of the corresponding convertible note/bond at a lower cost. Accordingly, after taken into account the CN Trading Price Range and the discount of the Conversion Price to the current market price of the SCL Shares, we consider that the Conversion Price is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

b) Interest rate

We note that the annual interest rates of the Comparable Notes range from zero to 3%. There are a total of 10 out of the 17 Comparable Notes that carry interest rate of zero per annum. Having regard (i) over 50% of the Comparable Notes carry interest rate of zero per annum and that it is not uncommon for listed companies to issue zero coupon convertible notes/ bonds; (ii) the reasons for entering into of the Transaction as discussed in the above section headed "Background of and reasons for the Transaction" in particular, the Transaction (a) is a step taken further by the Company and SCI following the completion of the Previous Transaction to segregate the SCI Group's property development portfolio from its manufacturing business and strengthen SCI's focus on its core manufacturing business; and (b) represents a major strategic move towards reinforcing the creation of a platform to foster the SCI Group's major property development project in the PRC in a separate listed vehicle and enabling the Group via SCI to benefit from the potential capital appreciation of the Project in the future through the conversion of the Convertible Notes; and (iii) other principal terms to the Convertible Note II such as the Conversion Price, maturity and transferability, we consider that zero interest rate is justifiable.

c) Maturity

Having considered that the tenor of the Convertible Note II to be five years and with an option to require SCL to redeem after the third anniversary of the date of its issue till the maturity date of the Convertible Note II, we are of the view that the tenor of the Convertible Note II provide time allowance for the Company to consider whether to exercise the conversion rights attached to the Convertible Note II or not.

d) Transferability

The Convertible Note II may be assigned or transferred to any third party, subject to the approval of the Stock Exchange, accordingly it provides flexibility to SCI to exit in the event that SCI chooses to liquidate part of its investment in the Project and such feature, is in the interests of the Company and the Shareholders as a whole.

In view of the above analysis, we consider that the terms of the Convertible Note II are fair and reasonable and on normal commercial terms so far as the Company and the Independent Shareholders are concerned.

In summary, the Convertible Note II will provide the Company via SCI with greater flexibility to adopt a wait-and-see approach in investing in a listed vehicle by procuring Skychance to convert the Convertible Note II at a relatively low cost. In the event that SCI is not satisfied with the performance of the business of SCL, SCI can simply exit by transferring the Convertible Note II to third parties or demand full repayment from SCL upon maturity or after the third anniversary date of the issue of the Convertible Note II. Accordingly, we consider the Consideration to be satisfied in the form of the Convertible Note II provides the Company via SCI with an option with flexibility to acquire stakes in SCL at the time the Directors consider it is in the interest of the Company as a whole and therefore it is commercially justifiable for the Company to receive the Consideration in the form of the Convertible Note II.

3. Financial effects of the Transaction

The Company is the holding company of SCI holding approximately 74.79% of the shareholding of SCI.

(i) Earnings

The effect of the Transaction on the earnings will vary according to how the value of the Convertible Note II being accounted for by the SCI Group.

The Group's audited net profit attributable to equity holders of the Company amounted to approximately HK$205.3 million for the year ended 31 December 2006. As referred to the Unaudited Pro Forma Financial Information, on the assumption that the Transaction had been completed on 1 January 2006, the earnings of the Remaining Group attributable to equity holders of the Company would increase by approximately HK$1,303.1 million (excluding minority interests of approximately HK$439.3 million) due to the gain on disposal of 49% interest in the Praise Rich Group of approximately HK$1,730.7 million and accrual of imputed interest income of the Convertible Note II amounting to approximately HK$13.3 million net of estimated professional charges on the Transaction amounting to approximately HK$1.7 million.

(ii) Net asset value

The audited NAV of the Group attributable to equity holders of the Company as at 31 December 2006 was approximately HK$1,193.9 million.

As set out in the Unaudited Pro Forma Consolidated Balance Sheet of the Unaudited Pro Forma Financial Information, assuming the Transaction had been completed on 31 December 2006, the Remaining Group's NAV will increase by approximately HK$1,292.7 million (excluding minority interests of approximately HK$436.3 million) due to the adjustment on the status of Praise Rich as an associate of the Group of approximately HK$1.5 million and recognition of the Convertible Note II at fair value amounting to approximately HK1,835.1 million, and net of the increase of liabilities by the value of tax indemnity amount of approximately HK$60.0 million, estimated professional charge of the Transaction amounting to approximately HK$1.7 million and assignment of the Sale Debt of approximately HK$45.8 million.

(iii) Gearing

The net debt of the Group (being bank borrowings, amount due to related companies, advances from shareholders, advances from minority shareholders of subsidiaries and less cash and bank balances) as at 31 December 2006 was approximately HK$476.7 million. The gearing ratio of the Group (being net debt divided by total equity) as at 31 December 2006 was approximately 27.47%. Upon Completion, the gearing ratio of the Remaining Group will be reduced as a result of the expected increase of the Remaining Group's NAV as discussed above.

Overall

As stated in the Letter from the Board, the Company intends to procure conversion of the Convertible Notes. Upon full conversion of the Convertible Notes, the Company will be interested in approximately 71.40% shareholding in SCL, accordingly SCL will be accounted as a subsidiary of the Company. As a result, all gains or losses arising from the Transaction will be eliminated in full in the consolidated financial accounts of the Company. Details of the financial effects in relation to the Convertible Notes Conversion are discussed in the below section headed "The Convertible Notes Conversion". In summary, based on the above analysis assuming no conversion of the Convertible Notes, we consider that the Transaction will have positive financial impacts on the Group and are in the interests of the Company and the Shareholders as a whole.

(B) THE CONVERTIBLE NOTES CONVERSION

1. Background of and reasons for the Convertible Notes Conversion

(i) Background of the Convertible Notes Conversion

As discussed in the above section headed "The Transaction", the Company and SCI are implementing their corporate restructuring by fostering the Property in SCL so as to segregate the property development portfolio from manufacturing business to clearly delineate SCI's different businesses.

As considerations for the Previous Transaction and the Transaction, the Convertible Note I with a principal amount of HK$408 million has been issued and the Convertible Note II with a principal amount of HK$392 million will be issued upon Completion by SCL to Skychance. Pursuant to the terms of the Convertible Notes, Skychance has the rights to convert the Convertible Notes into a total of 10,666,666,666 SCL Shares at a conversion price of HK$0.075 per SCL Share.

The Directors and the SCI Directors have advised that the Convertible Note I has not been converted from the date of issue, i.e. 12 March 2007, to the Latest Practicable Date. The maturity dates of both of the Convertible Note I and Convertible Note II are the fifth anniversary of their respective dates of issue. Upon full conversion of the Convertible Notes, SCI will be interested in approximately 95.47% shareholding in SCL and the Company will be indirectly interested in approximately 71.40% shareholding in SCL through the Company's effective interest of approximately 74.79% in SCI. As stated in the Letter from the Board, the Company and SCI express an intention to procure conversion of the Convertible Notes to the extent that the public float of SCL will not be less than 25% immediately after such conversion.

(ii) Information of SCL

The SCL Group is principally engaged in publication and marketing of monthly Chinese financial and economic magazines as well as property investment and development in the PRC. Set out below is the summary of the financial information of SCL as extracted from its annual report for the year ended 31 December 2006:

	Year ended 31 December	
	2006	**2005**
	Audited	**Audited**
	HK$ million	*HK$ million*
Turnover	23.91	25.14
Profit/ (loss) attributable to equity holders of SCL	0.15	(1.95)

	31 December	**31 December**
As at	**2006**	**2005**
	Audited	**Audited**
	HK$ million	*HK$ million*
Total assets	8.31	9.13
Total liabilities	7.32	8.29
Net current assets/ (liabilities)	0.28	(0.25)
Bank borrowings	–	–
Bank balances and cash	1.39	1.33
NAV attributable to equity holders of SCL	1.00	0.84

The above financial performance and position of SCL has not reflected the financials in relation to the Previous Transaction, i.e. its newly acquired 51% equity interest in the Praise Rich Group.

(iii) Reasons for and benefits of the Convertible Notes Conversion

As the Company and SCI intend to maintain a minimum public float of 25% in SCL, the Directors and the SCI Directors expect that the full conversion of the Convertible Notes will be conducted in several periods, in any case before the maturity of the Convertible Notes. The Directors and the SCI Directors consider that it would be impracticable, costly and time consuming to obtain prior approval from the Independent Shareholders and SCI Independent Shareholders, as required by the Listing Rules for each conversion of the Convertible Notes. Therefore, in order to save administrative costs, avoid delay and provide greater flexibility in determining the timing to each conversion, the Directors would like to obtain prior approval from the Independent Shareholders for the Convertible Notes Conversion.

We have enquired into the reasons for the Convertible Notes Conversion and have been advised by the Directors and the SCI Directors that in the event that the capital appreciation in value of the Property is extremely large, SCI may procure Skychance to fully or partly convert the Convertible Notes so as to enable the Group and the SCI Group to enhance the net assets and/or profitability of the Group and the SCI Group at any time before maturity of the Convertible Notes when the Board thinks fit.

Furthermore, we have looked into the prospect of the property development market in Shenyang City. According to the Liaoning Bureau of Statistics, property sales of Liaoning Province for the period from 2001 to 2005 recorded (i) an increase in total revenue of approximately 188% from approximately RMB25 billion to approximately RMB72 billion; and (ii) a rise in average selling price per sq.m. from approximately RMB2,126 per sq.m. to approximately RMB2,798 per sq.m., represented an increase of approximately 32%. In view of the upward trend of the property market of Liaoning Province as indicated from the growth of property sales and rise in average selling price per sq.m., the outlook of enhancement in the capital value of Property seems promising.

Notwithstanding the corporate restructuring of the Group and the SCI Group by segregating the SCI Group's property development business from its core manufacturing business, the Convertible Notes Conversion represents an opportunity for the Company via SCI to obtain controlling stakes in SCL resulting an additional fund raising platform for both the Company and SCI and crystallise the Company's and SCI's business strategies in fostering the Property in another listed vehicle.

In addition, as stated in the Letter from the Board, the Continuing Guarantee and the Guarantee for the principal amounts of HK$80 million and HK$500 million respectively were approved by the Independent Shareholders at the extraordinary general meeting held on 9 March 2007 and would remain existing and valid as at the Latest Practicable Date. Upon Completion and assuming no conversion of the Convertible Notes, SCI will cease to have any interest in the Praise Rich Group. Hence, SCI will be providing the Continuing Guarantee and the Guarantee to an entity of which SCI has no interests. Accordingly, upon completion of the Transaction and the Convertible Notes Conversion, as a controlling shareholder of SCL, SCI will be able to monitor the use of the loan proceeds by the Praise Rich Group under the Continuing Guarantee and the Guarantee for the purpose of financing of the Project.

Based on the above reasons and benefits, we are of the view that the Convertible Notes Conversion is fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders taken as a whole.

2. Effects of the Convertible Notes Conversion

(i) Shareholding interests in SCL upon full conversion of the Convertible Notes

The following table sets out SCI's shareholding interests in SCL immediately before and after the Convertible Notes Conversion:

	As at the Latest Practicable Date		**Upon Completion and full conversion of the Convertible Notes**	
	No. of	*No. of*		
	No. of		*No. of*	
	SCL Shares	*%*	*SCL Shares*	*%*
Mr. Ng and his associates (other than Skychance)	346,709,203	68.45	346,709,203	3.10
SCI through Skychance	–	–	10,666,666,666	95.47
Mr. Ng and his associates and Skychance	346,709,203	68.45	11,103,375,869	98.57
Public	159,789,141	31.55	159,789,141	1.43
Total	506,498,344	100.00	11,173,165,010	100.00

As at the Latest Practicable Date, the Group and the SCI Group did not have any shareholding interest in SCL. Assuming no additional SCL Shares will be issued before the conversion of the Convertible Notes, upon full conversion of the Convertible Notes by Skychance at the conversion price of HK$0.075 per SCL Share, Skychance will be issued 10,666,666,666 SCL Shares, representing approximately 95.47% of the issued share capital of SCL as enlarged by the Convertible Notes Conversion Accordingly, upon full conversion of the Convertible Notes, SCL will become an approximately 95.47% subsidiary of SCI and the Company will have an effective interest of approximately 71.40% in SCL via the Company's controlling stake of approximately 74.79% in SCI, SCI will be able to achieve its strategy of fostering the Property under another listed vehicle, namely SCL. The above hypothetic shareholding interest has not taken into account the public float requirement for the SCL Shares of 25% from time to time.

(ii) Financial effects to the Group

Upon Completion and the full conversion of the Convertible Notes (assuming no further SCL Shares will be issued until such conversion), SCL will become a 95.47% subsidiary of SCI and effectively a 71.40% subsidiary of the Company (the Company has an effective interest of approximately 74.79% in SCI). SCL will be accounted for as a subsidiary of the Company and the financial performance of SCL will be consolidated into the accounts of the Company accordingly. However, under the terms of the Convertible Notes, it is stated that Skychance can only exercise the conversion rights to the extent that the public float of SCL will not be less than 25% immediately after such conversion.

The following analysis, for illustration purposes only, is referred to the Unaudited Pro Forma Financial Information as set out in Appendix IV to the Circular:

a) Earnings

As compared to the Group's audited consolidated net profit attributable to equity holders of approximately HK$205.3 million for the year ended 31 December 2006, SCL recorded insignificant net profit of approximately HK$0.15 million for the year ended 31 December 2006. As referred to the unaudited consolidated income statement of the Unaudited Pro Forma Financial Information, assuming the Previous Transaction, the Transaction and the Convertible Notes Conversion had been completed as at 1 January 2006, the Enlarged Group's net profit will be approximately HK$203.0 million. The slight decrease in the Enlarged Group's net profit is mainly attributable to the accrual of estimated professional charges of the Previous Transaction and the Transaction which aggregated to approximately HK$3.4 million and offset by the excess over cost of business combinations and acquisition of minority interest of approximately HK$1.0 million.

b) Net asset value

As at 31 December 2006, the Group recorded an audited consolidated NAV attributable to equity holders of the Company of approximately HK$1,193.9 million, equivalent to approximately HK$0.65 per Share as at 31 December 2006 (based on 1,823,401,376 Shares in issue as at the Latest Practicable Date). SCL's audited consolidated NAV attributable to equity holders amounted to approximately HK$1.0 million as at 31 December 2006. As referred to the Unaudited Pro Forma Consolidated Balance Sheet of the Unaudited Pro Forma Financial Information, assuming the Previous Transaction, the Transaction and the Convertible Notes Conversion had been completed as at 31 December 2006, the Enlarged Group's NAV of approximately HK$1,191.6 million would be recorded and NAV per Share would translate to approximately HK$0.65 per Share. The slight decrease in NAV is mainly attributable to the accrual of total estimated professional charges of approximately HK$3.4 million of the Previous Transaction and the Transaction.

c) Gearing

The net debt of the Group (being bank borrowings, amount due to related companies, advances from shareholders, advances from minority shareholders of subsidiaries and less cash and bank balances) as at 31 December 2006 was approximately HK$476.7 million. The gearing ratio of the Group (being net debt divided by total equity) as at 31 December 2006 was approximately 27.47%. As at 31 December 2006, SCL has net cash of approximately HK$1.39 million. As referred to the Unaudited Pro Forma Consolidated Balance Sheet of the Unaudited Pro Forma Financial Information, assuming the Previous Transaction, the Transaction and the Convertible Notes Conversion had been completed as at 31 December 2006, the net debt (being bank borrowings, due to related companies, advances from shareholders, advances from minority shareholders of subsidiaries and less cash and bank balances) and the gearing ratio of the Enlarged Group would slightly improve to approximately HK$475.5 million and 27.44% respectively.

Overall

Although the Convertible Notes Conversion has immaterial effect to the overall financial position of the Group, on a pro forma basis, the Company and SCI through the Convertible Notes Conversion will be able to achieve their strategies of fostering the Property under another listed vehicle, namely SCL, we are of the view that the Convertible Notes Conversion is beneficial to the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors and reasons in respect to the Transaction and the Convertible Notes Conversion, in particular,

- the Transaction (i) is consistent with Company's and SCI's strategies; (ii) is a step taken further by the Group and the SCI Group to segregate the SCI Group's property development portfolio from its core manufacturing business and strengthen SCI's focus on such core business; (iii) will enhance the position of SCI in the market and the segmentation of SCI's business will be more distinct; and (iv) represents a strategic move towards reinforcing the creation of a platform to foster the SCI Group's major property development project in the PRC in a separate listed vehicle;

- the consideration for the Sale Debt is an amount equal to the face value of the Sale Debt which is on a dollar-for-dollar basis;

- the Sale Shares Consideration represents premium over the Valuations attributable to Praise Rich and 49% equity interest of the Fair Value respectively;

- SCI to receive the Consideration in the form of the Convertible Note II being justifiable given that it provides SCI via Skychance an option with flexibility to acquire stakes in SCL;

- the Conversion Price, in general represents a discount to the closing prices of the SCL Shares at most of the trading days during the Review Period and being a discount of approximately 76.6% to the closing price of the SCL Share as quoted as at the date of the Agreement and the Announcement is above the maximum discount of 53.3% of the CN Trading Price Range;

- the Group will realize a gain arising from the Transaction assuming no conversion of the Convertible Notes;

- although the Convertible Note II carries zero interest rate, (i) it is not uncommon for listed companies to issue zero coupon convertible notes/ bonds; and (ii) the Convertible Note II will provide the Company via SCI with greater flexibility to adopt a wait-and-see approach in investing in a listed vehicle;

- the Convertible Notes Conversion will (i) enable the Group and the SCI Group to crystallise their business strategies in fostering of SCI's major property development project in the PRC in a separate listed vehicle while focusing on the SCI Group's core manufacturing business; (ii) provide an opportunity for the Company via SCI to enjoy any enhancement of net assets and/or profitability arising from SCL; (iii) enable the Company via SCI to obtain controlling stakes in a listed vehicle; (iv) provide the Company and SCI an additional fund raising platform; and (v) enable SCI to monitor use of the loan proceeds by the Praise Rich Group under the Continuing Guarantee and the Guarantee for the purpose of financing the Project; and

- although the Convertible Notes Conversion has immaterial effect to the overall financial position of the Group, on a pro forma basis, the Company and SCI through the Convertible Notes Conversion will be able to achieve their strategies of fostering the Property under another listed vehicle, namely SCL,

we are of the view that the terms of the Agreement and the Convertible Notes Conversion are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Agreement and the Convertible Notes Conversion are in the ordinary and usual course of business and in the interests of the Company and the Shareholders as a whole. Accordingly, we would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions to approve the Transaction and the Convertible Notes Conversion at the EGM.

Yours faithfully,
For and on behalf of
CSC Asia Limited

Andrew Chiu	**Patra Lee**
Managing Director	*Director*

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong:

ERNST & YOUNG
安永會計師事務所

13 June 2007

The Directors
South China Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding South China Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods") prepared on the basis set out in note 2.1 below, for inclusion in the circular (the 'Circular') of the Company dated 13 June 2007 in connection with the proposed indirect disposal by South China Industries Limited of the remaining 49% equity interest in Praise Rich Limited and the full conversion of Convertible Notes.

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 30 April 1992 under the Companies Law of the Cayman Islands, for the purpose of acting as the holding company of the subsidiaries set out in note 54 below.

During the Relevant Periods, the principal activities of the Group were the trading and manufacturing, securities, bullion and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory and underwriting services, information technology related businesses, property investment and development, implementation and marketing of software applications, magazines publishing and printing businesses, marketing and promotional services, agricultural production, sale of air tickets and the provision of other related services. The principal activity of the Company is investment holding.

The Group has adopted 31 December as its financial year end date for statutory reporting purposes.

The financial statements of the Group for the year ended 31 December 2004 was audited by Deloitte Touche Tohmatsu and those of the years ended 31 December 2005 and 2006 were audited by us in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants ("HKICPA").

We have not audited any financial statements of the Company, its subsidiaries or the group in respect of any period subsequent to 31 December 2006.

The financial information set out on pages 51 to 117 ("Financial Information") has been prepared based on the audited consolidated financial statements of the Group for each of the Relevant Periods (the "Underlying Financial Statements"), which are prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. no adjustment was considered necessary to restate the Underlying Financial Statements to conform with Hong Kong Financial Reporting Standards and the disclosure requirements of the Rules Governing the listing of Securities on the Stock Exchange of Hong Kong Limited.

For the purpose of this report, we have carried out additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectus and the reporting accountants" as recommended by the HKICPA.

The consolidated income statements and consolidated cash flow statements of the Group for each of the Relevant Periods and consolidated balance sheets as at 31 December 2004, 2005 and 2006 as set out in this report have been prepared based on the Underlying Financial Statements for the Relevant Periods for the purpose of preparing our report for inclusion in the Circular.

The Underlying Financial Statements are the responsibility of the Directors of the Company who approve their issue. The Directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information give, for the purpose of this report, a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004, 2005 and 2006 and of the consolidated profits and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION

A. Consolidated Income Statement

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
REVENUE	5	4,444,372	4,305,120	3,785,632
Cost of sales		(3,939,691)	(3,806,504)	(3,326,867)
Gross profit		504,681	498,616	458,765
Interest income		4,296	3,074	2,571
Other operating income		31,064	21,039	22,639
Fair value gains on investment properties		66,304	144,948	77,528
Gain on disposal of investment properties		5,280	–	–
Fair value gains/(losses) on biological assets	14	3,664	(5,588)	123
Excess over the cost of business combinations and acquisition of minority interest	45	241,308	15,071	15,665
Impairment of trade and loans receivables		(13,990)	(14,719)	(792)
Write-back of provision for advances to associates		–	20,657	57,918
Selling and distribution costs		(103,083)	(103,523)	(90,033)
Administrative expenses		(431,153)	(398,103)	(336,013)
Gain/(loss) on disposal of available-for-sale financial assets		1,045	28,827	(87)
(Impairment)/reversal of impairment of available-for-sale financial assets		–	(553)	3,220
Fair value gains/(losses) on financial assets at fair value through profit or loss		1,261	(16,046)	11,445
Impairment of land pending development		–	–	(5,000)
Interest expense for margin financing and money lending operations		(16,717)	(6,636)	(4,118)
Reversal of impairment of property, plant and equipment		11,620	110	–
Finance costs	7	(34,608)	(20,622)	(10,408)
Share of profits and losses of associates		35,772	46,099	(10,056)
PROFIT BEFORE TAX	6	306,744	212,651	193,367
Tax	10	(24,648)	(31,796)	(7,432)
PROFIT FOR THE YEAR		282,096	180,855	185,935
Attributable to:				
Equity holders of the Company	11	205,318	96,574	124,201
Minority interests		76,778	84,281	61,734
		282,096	180,855	185,935
DIVIDEND	12	–	–	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY				
Basic	13	HK11.3 cents	HK5.3 cents	HK6.8 cents

B. Consolidated Balance Sheet

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS				
Biological assets	14	65,000	62,000	68,000
Property, plant and equipment	15	364,321	324,830	317,014
Investment properties	16	950,618	497,483	327,255
Prepaid land lease payments	17	30,955	18,070	15,201
Construction in progress	18	208,737	97,162	–
Land pending development	19	–	–	13,402
Loans receivable	20	5,979	6,401	5,228
Interests in associates	22	310,762	376,576	400,718
Goodwill	23	21,445	7,872	8,497
Intangible assets	24	836	836	836
Available-for-sale financial assets	25	60,202	41,328	63,036
Other non-current assets	26	47,458	45,740	45,226
Deferred tax assets	41	9,776	14,021	2,792
Total non-current assets		2,076,089	1,492,319	1,267,205
CURRENT ASSETS				
Inventories	27	361,283	352,370	329,555
Property held for sale		–	–	19,221
Trade and other receivables	29	521,019	440,959	379,503
Loans receivable	20	207,726	152,404	174,442
Financial assets at fair value through profit or loss	30	132,496	59,925	68,775
Due from related companies	31	306	561	182
Advance to minority shareholders of subsidiaries	39	14,403	–	–
Tax recoverable		12,960	14,965	6,684
Pledged bank deposits	32	17,630	20,980	19,950
Cash held on behalf of clients	33	363,372	236,463	334,288
Cash and cash equivalents	32	365,891	256,575	173,381
		1,997,086	1,535,202	1,505,981
Non-current assets held for sale	28	53,300	–	–
Total current assets		2,050,386	1,535,202	1,505,981
CURRENT LIABILITIES				
Client deposits	34	359,586	225,467	294,993
Trade and other payables	35	980,840	759,580	637,156
Interest-bearing bank and other borrowings	36	578,798	280,636	343,026
Advances from minority shareholders of subsidiaries	39	–	11,537	–
Due to related companies	31	62	985	1,396
Tax payable		35,785	28,682	8,210
Total current liabilities		1,955,071	1,306,887	1,284,781
NET CURRENT ASSETS		95,315	228,315	221,200
TOTAL ASSETS LESS CURRENT LIABILITIES		2,171,404	1,720,634	1,488,405

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	36	188,539	112,495	84,220
Advances from shareholders	38	21,896	26,913	9,018
Advances from minority shareholders of subsidiaries	39	53,249	24,951	25,403
Provision for severance payment	40	32,601	–	–
Deferred tax liabilities	41	139,755	15,782	1,744
Total non-current liabilities		436,040	180,141	120,385
Net assets		1,735,364	1,540,493	1,368,020
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	42	45,584	45,584	45,584
Reserves	44(a)	1,148,310	926,845	826,819
		1,193,894	972,429	872,403
Minority interests		541,470	568,064	495,617
Total equity		1,735,364	1,540,493	1,368,020

C. Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company													
	Share capital	Share premium account	Capital redemption reserve	Merger reserve	Asset revaluation reserve	Available-for-sale financial asset revaluation reserve	PRC statutory reserves	Goodwill reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	45,584	253,234	56	136,648	8,652	15,700	4,055	1,238	(55)	282,900	10,029	758,041	478,751	1,236,792
Changes in fair value of available-for-sale financial assets	–	–	–	–	–	269	–	–	–	–	–	269	(1,091)	(822)
Exchange realignment	–	–	–	–	–	–	–	–	64	–	–	64	23	87
Total income and expense for the year recognised directly in equity	–	–	–	–	–	269	–	–	64	–	–	333	(1,068)	(735)
Transfer to income statement on disposal of available-for-sale financial assets	–	–	–	–	–	(143)	–	–	–	–	–	(143)	–	(143)
Profit for the year	–	–	–	–	–	–	–	–	–	124,201	–	124,201	61,734	185,935
Total income and expense for the year	–	–	–	–	–	126	–	–	64	124,201	–	124,391	60,666	185,057
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	3,109	3,109
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(37,796)	(37,796)
Repurchase of shares in a subsidiary from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(405)	(405)
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(8,708)	(8,708)
Transfer from retained profits	–	–	–	–	–	–	189	–	–	(189)	–	–	–	–
Final 2003 dividend paid	–	–	–	–	–	–	–	–	–	–	(10,029)	(10,029)	–	(10,029)
Balance at 31 December 2004	45,584	253,234#	56#	136,648#	8,652#	15,826#	4,244#	1,238#	9#	406,912#	–	872,403	495,617	1,368,020

	Attributable to equity holders of the Company													
	Issued capital	Share premium account	Capital redemption reserve	Merger reserve	Other reserve	Asset revaluation reserve	Available-for-sale financial asset revaluation reserve	PRC statutory reserves	Goodwill reserve	Exchange fluctuation reserve	Retained profits	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	45,584	253,234	56	136,648	–	8,652	15,826	4,244	1,238	9	406,912	872,403	495,617	1,368,020
Changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	(2,678)	–	–	–	–	(2,678)	(1,798)	(4,476)
Transfer to income statement on disposal of available-for-sale financial assets	–	–	–	–	–	–	2,061	–	–	–	–	2,061	2,398	4,459
Exchange realignment	–	–	–	–	–	–	–	–	–	2,690	–	2,690	2,166	4,856
Total income and expense for the year recognised directly in equity	–	–	–	–	–	–	(617)	–	–	2,690	–	2,073	2,766	4,839
Profit for the year	–	–	–	–	–	–	–	–	–	–	96,574	96,574	84,281	180,855
Total income and expense for the year	–	–	–	–	–	–	(617)	–	–	2,690	96,574	98,647	87,047	185,694
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	–	–	(27,653)	(27,653)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	21,635	21,635
Issue of warrants	–	–	–	–	1,379	–	–	–	–	–	–	1,379	6,411	7,790
Transfer to retained profits	–	–	–	–	–	–	–	–	(1,238)	–	1,238	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	366	–	–	(366)	–	–	–
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(14,993)	(14,993)
Balance at 31 December 2005	45,584	253,234*	56*	136,648*	1,379*	8,652*	15,209*	4,610*	–*	2,699*	504,358*	972,429	568,064	1,540,493

	Attributable to equity holders of the Company												
	Issued capital HK$'000	Share premium account HK$'000	Capital redemption reserve HK$'000	Merger reserve HK$'000	Other reserve HK$'000	Asset revaluation reserve HK$'000	Available-for-sale financial asset revaluation reserve HK$'000	PRC statutory reserves HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006	45,584	253,234	56	136,648	1,379	8,652	15,209	4,610	2,699	504,358	972,429	568,064	1,540,493
Surplus on revaluation on land and building	–	–	–	–	–	1,317	–	–	–	–	1,317	143	1,460
Changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	3,410	–	–	–	3,410	2,091	5,501
Transfer to the income statement on disposal of available-for-sale financial assets	–	–	–	–	–	–	(604)	–	–	–	(604)	(218)	(822)
Exchange realignment	–	–	–	–	–	–	–	–	7,143	–	7,143	5,406	12,549
Total income and expense for the year recognised directly in equity	–	–	–	–	–	1,317	2,806	–	7,143	–	11,266	7,422	18,688
Profit for the year	–	–	–	–	–	–	–	–	–	205,318	205,318	76,778	282,096
Total income and expense for the year	–	–	–	–	–	1,317	2,806	–	7,143	205,318	216,584	84,200	300,784
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	–	–	(166,056)	(166,056)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	30,350	30,350
Capital contribution from minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	29,072	29,072
Transfer to retained profits	–	–	–	–	(1,379)	(564)	–	–	–	1,943	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	740	–	(740)	–	–	–
Equity-settled share option arrangements	–	–	–	–	4,881	–	–	–	–	–	4,881	1,830	6,711
Dividends paid to minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	(5,990)	(5,990)
Balance at 31 December 2006	45,584	253,234*	56*	136,648*	4,881*	9,405*	18,015*	5,350*	9,842*	710,879*	1,193,894	541,470	1,735,364

The merger reserve represents the difference between the share capital and share premium account of a subsidiary and the nominal value of the Company's shares issued in exchange thereof at the time of the group reorganisation in 1992, less a transfer of HK$200,000,000 to retained profits in 2001.

The Group's PRC statutory reserves represent reserves required to be appropriated from profit after taxation of the Company's PRC subsidiaries under the PRC laws and regulations. The amount of the appropriation is at the discretion of the PRC subsidiaries' boards of directors.

The retained profits and exchange fluctuation reserve of the Group included HK$60,467,000, HK$28,966,000 and HK$17,133,000 and a debit balance of HK$499,000, HK$877,000 and HK$792,000, respectively, retained by the associates of the Group as at 31 December 2006, 2005 and 2004.

* *These reserve accounts comprise the consolidated reserves of HK$1,148,310,000, HK$926,845,000 and HK$826,819,000 in the consolidated balance sheet as at 31 December 2006, 2005 and 2004.*

D. Consolidated Cashflow Statement

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		306,744	212,651	193,367
Adjustments for:				
Write-back of provision for advances to associates		–	(20,657)	(57,918)
Impairment of trade and loans receivables		13,990	14,719	792
Provision against obsolete inventories	6	12,863	19,472	40,605
Decrease in biological assets due to harvest		664	412	123
Depreciation	6	59,258	45,019	49,921
Dividend income from listed investments	6	(2,192)	(1,367)	(687)
Dividend income from associates	6	–	(268)	–
(Gain)/loss on disposal of available-for-sale financial assets		(1,045)	(28,827)	87
Impairment of land pending development		–	–	5,000
Excess over the cost of business combinations and acquisition of minority interest		(241,308)	(15,071)	(15,665)
Dilution gain on a subsidiary	6	(3,555)	–	–
Finance costs	7	34,608	20,622	10,408
Interest income		(4,296)	(3,074)	(2,571)
Fair value gains on investment properties		(66,304)	(144,948)	(77,528)
Gain on disposal of investment properties		(5,280)	–	–
Fair value (gains)/losses on biological assets		(3,664)	5,588	(123)
Amortisation of intangible asset	6	–	–	162
Recognition of prepaid land lease payments	6	750	363	362
Fair value (gains)/losses of financial assets at fair value through profit or loss		(1,261)	16,046	(11,445)
Impairment loss/(reversal of impairment loss) of available-for-sale financial assets		–	553	(3,220)
Impairment of goodwill	6	–	625	–
Reversal of impairment of property, plant and equipment		(11,620)	(110)	–
Loss/(gain) on disposal of property, plant and equipment	6	53	(961)	1,225
Equity settled share option expenses		6,711	–	–
Share of profits and losses of associates		(35,772)	(46,099)	10,056
Operating cash flow before working capital changes		59,344	74,688	142,951
Increase in inventories		(5,277)	(42,287)	(90,951)
(Increase)/decrease in trade and other receivables		(48,022)	(76,175)	65,273
(Increase)/decrease in loans receivables		(54,900)	20,865	13,031
(Increase)/decrease in financial assets at fair value through profit or loss		(70,950)	(24,625)	3,484
Decrease/(increase) in amounts due from related companies		255	(790)	(306)
(Increase)/decrease in cash held on behalf of clients		(126,909)	97,825	(59,224)
Increase/(decrease) in client deposits		134,119	(69,526)	48,460
Increase/(decrease) in trade and other payables		113,384	91,656	(24,196)
Cash generated from operations		1,044	71,631	98,522
Hong Kong profits tax paid		(2,075)	(12,475)	(11,546)
Mainland China tax paid		(2,908)	(4,321)	(827)
Net cash (outflow)/inflow from operating activities		(3,939)	54,835	86,149

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(33,140)	(32,538)	(38,222)
Additions to construction in progress	18	(96,372)	(56,777)	–
Additions to prepaid land lease payments	17	(64)	(3,232)	–
Purchases of available-for-sale investments		(16,965)	(78,068)	(11,541)
Acquisition of subsidiaries	45	(71,723)	(7,213)	1,364
Advances to associates, net		(1,359)	90,898	(3,490)
Acquisition of minority interests		(78,752)	(12,572)	(22,131)
Proceeds from disposal of available-for-sale financial assets		7,603	128,033	35,727
Interest received		4,296	3,074	2,571
Proceeds from disposal of items of property, plant and equipment		7,435	5,145	7,049
Dividends received from associates		–	268	–
Dividends received from listed investments		2,192	1,367	687
Proceeds from (acquisition)/disposal of other non-current assets		(1,718)	85	(5)
Proceeds from disposal of investment properties		39,160	–	–
Net cash (outflow)/inflow from investing activities		(239,407)	38,470	(27,991)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of bank loans		(180,731)	(187,792)	(220,171)
Increase/(decrease) in trust receipt loans		21,463	(7,549)	21,830
(Repayment to)/advance from shareholders		(5,017)	17,895	9,018
Advances from/(repayment to) minority shareholders		2,358	30,314	(488)
Interest paid		(34,608)	(20,622)	(10,740)
Dividend paid		–	–	(10,029)
Dividends paid to minority shareholders of subsidiaries		(5,990)	(14,993)	(8,708)
Repurchase of shares in a subsidiary from minority shareholders		–	(10)	(405)
Capital element of finance lease rental payments		(6,028)	(13,163)	(8,378)
New bank loans		449,432	183,984	173,543
Proceeds from issue of warrants by a subsidiary		–	25,220	–
Capital contribution from minority shareholders of subsidiaries		32,627	–	–
Net cash inflow/(outflow) from financing activities		273,506	13,284	(54,528)
NET INCREASE IN CASH AND CASH EQUIVALENTS		30,160	106,589	3,630
Cash and cash equivalents at beginning of year		251,863	142,163	138,450
Effect of foreign exchange rate changes, net		3,742	3,111	83
CASH AND CASH EQUIVALENTS AT END OF YEAR		285,765	251,863	142,163
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	32	365,891	256,575	173,381
Time deposits with original maturity of less than three months when acquired	32	17,630	20,980	19,950
Bank overdrafts		(97,756)	(25,692)	(51,168)
		285,765	251,863	142,163

E. Balance sheet

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS				
Interests in subsidiaries	21	842,297	816,716	805,420
CURRENT ASSETS				
Cash and bank balances	32	67	68	144
CURRENT LIABILITIES				
Other payables and accruals		16,941	18	18
Interest-bearing bank borrowings	36	38,507	10,901	8,034
Total current liabilities		55,448	10,919	8,052
NET CURRENT LIABILITIES		(55,381)	(10,851)	(7,908)
TOTAL ASSETS LESS CURRENT LIABILITIES		786,916	805,865	797,512
NON-CURRENT LIABILITIES				
Interest-bearing bank borrowings	36	7,000	8,500	–
Net assets		779,916	797,365	797,512
EQUITY				
Issued capital	42	45,584	45,584	45,584
Reserves	44(b)	734,332	751,781	751,928
Total equity		779,916	797,365	797,512

II. NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

South China Holdings Limited is incorporated in the Cayman Islands as an exempted limited company. The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, the Cayman Islands. Its shares are listed on the Mainboard of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in trading and manufacturing, securities, bullion and commodities brokerage and trading, margin financing, money lending, provision of corporate advisory and underwriting services, information technology related businesses, property investment and development, implementation and marketing of software applications, magazines publishing and printing businesses, marketing and promotional services, agricultural production, sale of air tickets and the provision of other related services.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments, certain leasehold land and buildings, equity investments at fair value through profit or loss, non-current assets held for sale and biological assets, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand ("HK$'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006, 2005 and 2004. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and 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 represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. 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 or excess over the cost of business combination, whichever being appropriate.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following standards, which are relevant to the Group and generally effective for accounting periods beginning on or after 1 January 2005 or 2006, have been early adopted by the Group as at the beginning of the Relevant Periods for the purpose of preparing the Consolidated Financial Information:

- HKAS 1 "Presentation of Financial Statements"
- HKAS 2 "Inventories"
- HKAS 7 "Cash Flow Statements"
- HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- HKAS 10 "Events after the Balance Sheet Date"
- HKAS 11 "Construction Contracts"
- HKAS 12 "Income Taxes"
- HKAS 14 "Segment Reporting"
- HKAS 16 "Property, Plant and Equipment"
- HKAS 17 "Leases"
- HKAS 18 "Revenue"
- HKAS 19 "Employee Benefits"
- HKAS 19 Amendment "Actuarial Gains and Losses, Group Plans and Disclosures"
- HKAS 20 "Accounting for Government Grants and Disclosure of Government Assistance"
- HKAS 21 "The Effects of Changes in Foreign Exchange Rates"
- HKAS 23 "Borrowing Costs"
- HKAS 24 "Related Party Disclosures"
- HKAS 27 "Consolidated and Separate Financial Statements"
- HKAS 31 "Interests in Joint Ventures"
- HKAS 32 "Financial Instruments: Disclosure and Presentation"
- HKAS 36 "Impairment of Assets"
- HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"

• HKAS 38	"Intangible Assets"
• HKAS 39	"Financial Instruments: Recognition and Measurement"
• HKFRS 3	"Business Combinations"
• HKAS-Int 13	"Jointly Controlled Entities – Non-Monetary Contributions by Venturers"
• HKAS-Int 15	"Operating Leases - Incentives"
• HKAS-Int 27	"Evaluating the Substance of Transactions Involving the Legal Form of a Lease"
• HKAS 39 & HKFRS 4 Amendments	"Financial Guarantee Contracts"
• HK(IFRIC)-Int 4	"Determining whether an Arrangement contains a Lease"

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard 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.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard 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 from the Group's major customers. This standard will supersede HKAS 14 Segment Reporting.

HK(IFRIC)-Int 8 and HK(IFRIC)-Int 11 shall be applied for annual periods beginning on or after 1 May 2006 and 1 March 2007, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(c) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Associates

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.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against consolidated retained profits

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

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 subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, non-current assets held for sale, biological assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

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

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

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

(e) 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 (c) or (d).

Property, plant and equipment and depreciation

Property, plant and equipment, other than certain land and buildings and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its 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 clearly 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.

Certain land and buildings are stated in the balance sheet at amounts based on revaluations performed prior to 30 September 1995, less any subsequent accumulated depreciation and amortisation and impairment losses.

In accordance with the transitional provisions in paragraph 80A of HKAS 16 "Property, plant and equipment", the Group's land and buildings which carried at revalued amounts in the financial statements relating to periods ended before 30 September 1995 are not required to make regular revaluations. Accordingly, no revaluation of land and buildings is carried out subsequent to 30 September 1995. In previous years, the revaluation increase arising on the revaluation of these assets was credited to the asset revaluation reserve. Any future decrease in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	2% to 10%, not exceeding the lease terms
Furniture and leasehold improvements	10% to 25%, not exceeding the lease terms
Machinery and equipment	10% to 25%
Moulds and tools	20% to 25%
Motor vehicles and vessels	20% to 33.3%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the 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 on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents mainly resettlement costs incurred for a piece of land, which is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) 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 purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" 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 as movement in the land and building revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. On disposal of a revalued asset, the relevant portion of the land and building revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

Non-current assets held for sale are investment properties measured at fair value.

Biological assets

Biological assets are fruit trees and are measured on initial recognition and at each balance sheet date at their fair value less estimated point-of-sale costs. The fair value of fruit trees is determined based on the present value of expected net cash flows from the fruit trees discounted at a current market-determined pre-tax rate. Fruit trees are perennial plants which have growth cycles of more than one year.

A gain or loss arising on initial recognition of a biological asset at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset shall be included in the income statement for the period in which it arises.

Agricultural produce

Agricultural produce comprises litchi and longan fruits of fruit trees.

Litchi and longan fruits harvested from fruit trees are measured at their fair value less estimated point-of-sale costs at the time of harvest. The fair value of litchi and longan fruits is determined based on market prices in the local area. Such measurement is the cost at that date when applying HKAS 2 "Inventories".

A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs shall be included in the income statement for the period in which it arises.

Fair value represents the estimated purchase cost that the Group has to procure such inventories in the market on an arm's length basis.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. 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.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. 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.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. 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 costs. 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.

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 of the other two categories (financial assets at fair value through profit or loss and loans and receivables). After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses 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 available-for-sale investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) 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.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

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 carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a 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. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

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 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.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured 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 discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss 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 debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required 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.

The Group established a provision for severance payment in accordance with the relevant regulations in the Mainland China. Compensation payable to employees upon termination of the employment contracts therewith are charged to the provision when incurred.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) income from sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) service income, when the service has been rendered;

(c) commission and brokerage income, accrued on all broking transactions on a trade date basis;

(d) profit or loss on the trading of securities, bullion and future contracts, on a trade date accrual basis;

(e) dividend income, when the shareholders' right to receive payment has been established;

(f) income from sale of magazines, when the magazines have been delivered and title has been passed;

(g) rental income, on a time proportion basis over the lease terms; and

(h) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("Equity-settled Transactions").

The cost of Equity-settled Transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model, further details of which are given in note 43. In valuing Equity-settled Transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("Market Conditions"), if applicable.

The cost of Equity-settled Transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "Vesting Date"). The cumulative expense recognised for Equity-settled Transactions at each balance sheet date until the Vesting Date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Pension schemes

The Group operates a defined contribution staff retirement scheme registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") for its employees (including certain directors), the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates another defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a 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.

Employees who joined the Group before 1 December 2000 had the option to join either of the schemes. Employees who joined the Group on or after 1 December 2000 are only eligible to join the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage 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.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. 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. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

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 could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an 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 made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill at 31 December 2006, 2005 and 2004 were HK$21,445,000, HK$7,872,000 and HK$8,497,000. More details are given in note 23 to the financial statements.

Estimates regarding the realisability of deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses were HK$19,118,000, HK$23,023,000 and HK$2,819,000 as at 31 December 2006, 2005 and 2004. The amounts of unrecognised tax losses were HK$1,517,466,000, HK$1,512,351,000 and HK$1,352,797,000 as at 31 December 2006, 2005 and 2004. Further details are contained in note 41 to the financial statements.

Estimation of fair value of biological assets

In the absence of current prices in an active market for the Group's biological assets, litchi and longan fruit trees, the Group considers information from a variety of sources, including:

(a) current prices in an active market for fruit trees of a different age or location, adjusted to reflect those differences;

(b) recent prices of similar fruit trees on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by external evidence such as current market prices for related agricultural produce in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market prices for similar fruit trees in the same location and condition, appropriate discount rates, expected future market prices and future yields.

The carrying amounts of biological assets at 31 December 2006, 2005 and 2004 were HK$65,000,000, HK$62,000,000 and HK$68,000,000 (note 14).

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to a different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The principal assumptions for the Group's estimation of the fair value include those related to current market rents for similar properties in the same location and condition, appropriate discount rates, expected future market rents and future maintenance costs.

The carrying amounts of investment properties at 31 December 2006, 2005 and 2004 were HK$950,618,000, HK$497,483,000 and HK$327,255,000 (note 16).

Impairment allowances on loans receivable

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amounts of loans receivable at 31 December 2006, 2005 and 2004 were HK$213,705,000, HK$158,805,000 and HK$179,670,000 (note 20).

Impairment of available-for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. Such determination of what is significant or prolonged decline requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, as well as changes in technology, and operational and financing cash flows.

The carrying amounts of available-for-sale financial assets at 31 December 2006, 2005 and 2004 were HK$60,202,000, HK$41,328,000 and HK$43,817,000 (note 25).

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the trading and manufacturing segment involves the trading and manufacturing of merchandise including toys, compressors, shoes, metal tooling, leather products, motor, machinery, capacitors, jewellery and clothing;

(b) the securities and financial services segment engages in securities, bullion and commodities brokerage and margin financing, money lending, securities trading, the provision of corporate advisory and underwriting services;

(c) the travel and related services segment involves in the sale of air-tickets and travel-related products;

(d) the property development segment engages in property development and investment;

(e) the media and publications segment engages in the publishing and printing business, advertising and promotional services;

(f) the information technology segment engages in information technology related business;

(g) the agricultural produce segment engages in the cultivation of fruit trees and sales of fruits; and

(h) the investment holding segment comprises the Group's management services and other investments holding.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006, 2005 and 2004.

Group

	Trading and manufacturing	Securities and financial services	Travel and related services	Property development	Media and publications	Information technology	Agricultural produce	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2006:									
Segment revenue:									
External sales	2,081,985	159,240	1,908,586	23,432	197,815	72,050	1,264	–	4,444,372
Segment results before unrealised/ realised gains/(losses)	83,427	32,030	27,018	11,598	(59,680)	1,577	(4,504)	(43,120)	48,346
Depreciation	(49,518)	(2,078)	(1,548)	(18)	(4,337)	(1,075)	(681)	(3)	(59,258)
Excess over the cost of business combinations and acquisition of minority interest	–	–	–	–	–	–	–	241,308	241,308
Gain on disposal of available-for-sale financial assets	–	–	–	–	–	–	–	1,045	1,045
Gain on disposal of investment properties	–	–	–	5,280	–	–	–	–	5,280
Fair value gains on financial assets at fair value through profit or loss	–	1,261	–	–	–	–	–	–	1,261
Fair value gains on investment properties	–	–	–	66,304	–	–	–	–	66,304
Fair value gains on biological assets	–	–	–	–	–	–	3,664	–	3,664
Reversal of impairment/(impairment) of trade and loans receivables	(91)	(11,290)	(43)	(16)	(1,929)	(1,296)	–	675	(13,990)
Reversal of impairment of property, plant and equipment	11,620	–	–	–	–	–	–	–	11,620
Segment results	45,438	19,923	25,427	83,148	(65,946)	(794)	(1,521)	199,905	305,580
Finance costs									(34,608)
Share of profits and losses of associates	(10,843)	–	–	46,547	–	68	–	–	35,772
Profit before tax									306.744
Tax									(24,648)
Profit for the year									282,096

Group

	Trading and manufacturing	Securities and financial services	Travel and related services	Property development	Media and publications	Information technology	Agricultural produce	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005:									
Segment revenue:									
External sales	2,254,878	113,845	1,629,861	12,765	210,059	82,406	1,306	–	4,305,120
Segment results before unrealised gains/(losses)	125,646	9,573	13,716	9,171	(49,079)	914	(4,882)	(44,838)	60,221
Depreciation and amortisation	(35,209)	(2,624)	(1,548)	(24)	(3,800)	(963)	(681)	(170)	(45,019)
Impairment of goodwill	–	–	–	–	–	–	–	(625)	(625)
Excess over the cost of business combinations and acquisition of minority interest	–	–	–	–	–	–	–	15,071	15,071
Gain on disposal of available-for-sale financial assets	–	–	–	–	–	–	–	28,827	28,827
Fair value losses on financial assets at fair value through profit or loss	–	(16,046)	–	–	–	–	–	–	(16,046)
Fair value gains on investment properties	–	–	–	144,948	–	–	–	–	144,948
Fair value losses on biological assets	–	–	–	–	–	–	(5,588)	–	(5,588)
Reversal of impairment/(impairment) of trade and loans receivables	(319)	(14,285)	–	–	(1,497)	–	–	1,382	(14,719)
Impairment of available-for-sale financial assets	–	–	–	–	–	–	–	(553)	(553)
Segment results	90,118	(23,382)	12,168	154,095	(54,376)	(49)	(11,151)	(906)	166,517
Write-back of provision for advances to associates	–	–	–	20,657	–	–	–	–	20,657
Finance costs									(20,622)
Share of profits and losses of associates	(42,486)	–	–	88,597	–	(12)	–	–	46,099
Profit before tax									212,651
Tax									(31,796)
Profit for the year									180,855

	Trade and manufacturing	Securities and financial services	Travel and related services	Property development	Media and publications	Information technology	Agriculture produce	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004:									
Segment revenue:									
External sales	1,939,636	128,110	1,461,904	14,014	176,646	64,195	1,127	–	3,785,632
Segment results before unrealised/realised gain/(loss)	60,930	33,670	18,720	9,798	(10,235)	690	(3,989)	(5,690)	103,894
Depreciation and amortisation	(38,284)	(4,293)	(1,023)	(446)	(4,040)	(974)	(769)	(254)	(50,083)
Excess over the cost of a business combination	–	–	–	–	–	–	–	15,665	15,665
Loss on disposal of available-for-sale financial assets	–	–	–	–	–	–	–	(87)	(87)
Fair value gains on financial asset at fair value through profit or loss	–	11,445	–	–	–	–	–	–	11,445
Impairment of land pending development	–	–	–	(5,000)	–	–	–	–	(5,000)
Fair value gains on investment properties	–	–	–	77,528	–	–	–	–	77,528
Fair value gain on biological assets	–	–	–	–	–	–	123	–	123
Write-back of/(provision for) bad and doubtful debts	8,019	(7,428)	–	–	(2,457)	–	–	1,074	(792)
Reversal of impairment of available-for-sale financial assets	–	–	–	–	–	–	–	3,220	3,220
Segment results	30,665	33,394	17,697	81,880	(16,732)	(284)	(4,635)	13,928	155,913
Finance costs									(10,408)
Write-back of provision for advances to associates	–	–	–	57,918	–	–	–	–	57,918
Share of profits and losses of associates	(12,319)	–	–	2,991	–	(728)	–	–	(10,056)
Profit before tax									193,367
Tax									(7,432)
Profit for the year									185,935

Group

	Trading and manufacturing *HK$'000*	Securities and financial services *HK$'000*	Travel and related services *HK$'000*	Property development *HK$'000*	Media and publications *HK$'000*	Information technology *HK$'000*	Agricultural produce *HK$'000*	Investment holding *HK$'000*	Consolidated *HK$'000*
At 31 December 2006:									
Segments assets	1,032,005	866,223	202,501	1,282,454	97,815	54,276	70,008	134,395	3,739,677
Interests in associates	10,183	–	–	298,792	–	1,787	–	–	310,762
Non-current assets held for sale	–	–	–	53,300	–	–	–	–	53,300
Unallocated corporate assets									22,736
Total assets									4,126,475
Segments liabilities	592,198	366,869	163,788	135,217	156,937	22,349	3,364	83,372	1,524,094
Unallocated corporate liabilities									867,017
Total liabilities									2,391,111
At 31 December 2005:									
Segments assets	895,168	598,460	179,419	699,192	43,209	65,775	68,031	72,705	2,621,959
Interests in associates	73,693	–	–	302,169	–	714	–	–	376,576
Unallocated corporate assets									28,986
Total assets									3,027,521
Segments liabilities	411,676	218,319	149,104	82,139	149,930	37,172	2,204	20,076	1,070,620
Unallocated corporate liabilities									416,408
Total liabilities									1,487,028
At 31 December 2004:									
Segments assets	875,659	704,300	102,204	433,777	50,634	56,637	76,996	65,577	2,365,784
Interests in associates	126,686	–	–	272,278	–	1,754	–	–	400,718
Unallocated corporate assets									6,684
Total assets									2,773,186
Segments liabilities	346,081	314,009	60,039	163,702	95,879	34,957	2,023	13,117	1,029,807
Unallocated corporate liabilities									375,359
Total liabilities									1,405,166

Group

	Trading and manufacturing	Securities and financial services	Travel and related services	Property development	Media and publications	Information technology	Agricultural produce	Investment holding	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2006:									
Other segment information:									
Capital expenditures	121,805	1,260	684	2,770	1,971	481	603	2	129,576
Provision against obsolete inventories	12,361	–	–	–	–	502	–	–	12,863
Year ended 31 December 2005:									
Other segment information:									
Capital expenditures	32,784	2,068	2,318	54,635	9,410	6,473	714	26	108,428
Provision against obsolete inventories	19,472	–	–	–	–	–	–	–	19,472
Year ended 31 December 2004:									
Other segment information:									
Capital expenditures	31,477	2,389	1,146	12	11,717	7,702	498	–	54,941
Provision for obsolete inventories	40,605	–	–	–	–	–	–	–	40,605

(b) Geographical segments

The following table provides an analysis of the Group's sales and results by geographical segment, irrespective of the origins of the goods/services:

	Sales revenue by geographical segment			Segment results by geographical segment		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
PRC, including Hong Kong and Macau	2,528,062	2,210,943	2,009,088	218,350	91,871	125,621
The United States of America	1,271,311	1,293,659	1,162,240	73,742	52,631	24,433
Europe	471,780	515,504	463,511	12,086	13,685	3,950
Japan	18,087	34,168	20,027	239	947	163
Others	155,132	250,846	130,766	1,163	7,383	1,746
	4,444,372	4,305,120	3,785,632	305,580	166,517	155,913

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

	Segment assets by geographical market			Capital expenditure by geographical market		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	2,139,414	1,679,182	1,486,186	5,448	22,148	18,994
Other regions of Mainland China	1,576,037	942,088	878,736	124,110	86,272	35,511
Macau	369	689	862	–	8	436
Others	23,857	–	–	18	–	–
	3,739,677	2,621,959	2,365,784	129,576	108,428	54,941

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; commission and brokerage income, profit and loss on the trading of securities, interest income from financial services, and gross rental income received and receivable from investment properties during the year.

An analysis of revenue is as follows:

	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*
Revenue			
Sales of merchandise from manufacturing and trading business	2,081,985	2,254,878	1,940,159
Sales of travel-related products	1,908,586	1,629,861	1,461,904
Income from publishing and printing and the provision of related services	197,815	210,058	175,986
Income from securities and finance business	159,240	113,846	129,116
Service income from information and technology related business	72,050	82,406	64,332
Rental income	23,432	12,765	13,008
Sales of agricultural produce	1,264	1,306	1,127
	4,444,372	4,305,120	3,785,632

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
Cost of inventories sold		1,850,622	1,972,444	1,776,101
Cost of services provided		42,304	26,709	24,812
Depreciation	15	59,258	45,019	49,921
Auditors' remuneration		5,539	3,809	2,678
Employee benefits expense (including directors' remuneration (note 8)):				
Pension scheme contributions		13,341	19,362	25,631
Less: Forfeited contributions		(521)	(104)	(711)
Net pension scheme contributions		12,820	19,258	24,920
Wages and salaries and other benefits		660,461	625,160	506,230
Equity-settled share option expense		6,711	–	–
Total employee benefits expense		679,992	644,418	531,150
Minimum lease payments under operating leases in respect of land and buildings		18,806	15,125	18,898
Gross rental income		(23,432)	(12,765)	(13,008)
Less: Direct operating expenses		4,175	2,641	1,317
Net rental income		(19,257)	(10,124)	(11,691)
Interest income from margin financing and money lending operations		(46,834)	(34,388)	(30,317)
Provision against obsolete inventories (included in cost of sales)*		12,863	19,472	40,605
Loss/(gain) on disposal of property, plant and equipment, net		53	(961)	1,225
Dilution gain on a subsidiary		(3,555)	–	–
Gain from securities, bullion and commodities trading, net		(22,588)	(5,855)	(18,556)
Bank interest income		(3,231)	(1,638)	(2,013)
Interest income on advances to associates		(1,065)	(1,436)	(1,457)
Dividend income from listed investments		(2,192)	(1,367)	(687)
Dividend income from associates		–	(268)	–
Administrative fees received from related companies		(1,620)	(720)	(1,966)
Amortisation of intangible assets		–	–	162
Recognition of prepaid land lease payments	17	750	363	362
Impairment of goodwill	23	–	625	–

* *The amount represents a write-down of inventories to their estimated net realisable values.*

At 31 December 2006, 2005 and 2004 the Group had forfeited contributions of HK$Nil, HK$240,000 and HK$306,000 available to reduce its contributions to the pension schemes in future years.

7. FINANCE COSTS

	Group		
	2006 HK$'000	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts	33,363	19,538	9,801
Interest on finance leases	1,245	1,084	607
	34,608	20,622	10,408

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Fees	540	510	415
Other emoluments:			
Salaries, allowances and benefits in kind	5,760	6,000	5,799
Discretionary bonuses	–	18,000	50
Share option benefits	3,102	–	–
Pension scheme contributions	279	282	266
	9,681	24,792	6,530

During the year ended 31 December 2006, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 43 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Mr. David John Blackett	100	70	70
Mr. Cheng Hong Kei	50	50	13
Ms. Wong Siu Yin, Elizabeth	60	60	30
Mr. David Michael Norman	–	–	87
	210	180	200

There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2006, 2005 and 2004.

(b) Executive directors and non-executive directors

	Fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Share option benefits**	**Pension scheme contributions**	**Total remuneration**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006						
Executive directors:						
Mr. Ng Hung Sang	30	1,920	–	–	96	2,046
Ms. Cheung Choi Ngor	30	1,740	–	849	87	2,706
Mr. Richard Howard Gorges	30	1,740	–	849	87	2,706
Mr. Ng Yuk Fung, Peter	20	360	–	1,404	9	1,793
	110	5,760	–	3,102	279	9,251
Non-executive directors:						
Mr. David Michael Norman	120	–	–	–	–	120
Ms. Ng Yuk Mui, Jessica	100	–	–	–	–	100
	220	–	–	–	–	220
	330	5,760	–	3,102	279	9,471

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005					
Executive directors:					
Mr. Ng Hung Sang	40	1,920	7,000	96	9,056
Ms. Cheung Choi Ngor	40	1,740	5,500	87	7,367
Mr. Richard Howard Gorges	40	1,740	5,500	87	7,367
Ms. Ng Yuk Mui, Jessica *	10	–	–	–	10
Mr. Ng Yuk Fung, Peter	30	600	–	12	642
	160	6,000	18,000	282	24,442
Non-executive directors:					
Mr. David Michael Norman	120	–	–	–	120
Ms. Ng Yuk Mui, Jessica *	50	–	–	–	50
	170	–	–	–	170
	330	6,000	18,000	282	24,612

* *Redesignated as a non-executive director during the year.*

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Total remuneration
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2004					
Executive directors:					
Mr. Ng Hung Sang	40	1,800	–	90	1,930
Ms. Cheung Choi Ngor	40	1,640	–	82	1,762
Mr. Richard Howard Gorges	40	1,759	–	82	1,881
Ms. Ng Yuk Mui, Jessica	20	–	–	–	20
Mr. Ng Yuk Fung, Peter	30	600	50	12	692
	170	5,799	50	266	6,285
Non-executive directors:					
Mr. David Michael Norman	33	–	–	–	33
Mr. Yuen Kam Tim, Francis	5	–	–	–	5
Mr. Tan Boon Seng	7	–	–	–	7
	45	–	–	–	45
	215	5,799	50	266	6,330

There was no arrangement under which a director waived or agreed to waive any remuneration during the year ended 31 December 2006, 2005 and 2004.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year ended 31 December 2006, 2005 and 2004 included three, three and two directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two, two and three non-director, highest paid employees for the year ended 31 December 2006, 2005 and 2004 are as follows:

	Group		
	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	4,265	4,901	7,490
Pension scheme contributions	100	105	426
	4,365	5,006	7,916

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees		
	2006	**2005**	**2004**
HK$2,000,001 to HK$2,500,000	2	1	1
HK$2,500,001 to HK$3,000,000	–	1	2
	2	2	3

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the three years ended 31 December 2006. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Group:			
Current – Hong Kong			
Charge for the year	4,764	4,767	5,575
Underprovision/(overprovision) in prior years	3,494	12,983	(1,604)
Current – Elsewhere			
Charge for the year	3,797	8,235	1,270
Underprovision in prior years	90	3,002	–
Deferred (note 41)	12,503	2,809	2,191
Total tax charge for the year	24,648	31,796	7,432

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	306,744	212,651	193,367
Tax at the statutory tax rate	53,680	37,214	33,839
Effect of different tax rates of operations in other jurisdictions	(2,073)	4,821	729
Profits and losses attributable to associates	(6,260)	(8,046)	1,760
Expenses not deductible for tax	27,746	4,732	4,822
Income not subject to tax	(72,052)	(33,091)	(30,505)
Tax losses utilised from previous periods	(8,429)	(8,598)	(12,176)
Tax losses not recognised	26,584	33,246	10,567
Adjustments in respect of current tax of previous periods	3,584	15,985	(1,604)
Tax losses arising from previous periods recognised	(448)	(14,467)	–
Others	2,316	–	–
Total tax charge for the year	24,648	31,796	7,432

The share of tax attributable to associates amounting to HK$8,184,000, HK$28,060,000 and tax credit of HK$553,000 is included in "Share of profits and losses of associates" on the face of the consolidated income statement for the year ended 31 December 2006, 2005 and 2004.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006, 2005 and 2004 includes a loss of HK$17,449,000, HK$147,000 and HK$340,000 which has been dealt with in the financial statements of the Company (note 44(b)).

12. DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2006, 2005 and 2004.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company of approximately HK$205,318,000, HK$96,574,000 and HK$124,201,000 and 1,823,401,000 ordinary shares in issue during the year ended 31 December 2006, 2005 and 2004.

Diluted earnings per share amounts for the years ended 31 December 2006, 2005 and 2004 have not been disclosed as no diluting events existed during these years.

14. BIOLOGICAL ASSETS

		Group	
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Litchi trees:			
Carrying amount at 1 January	46,774	51,300	51,300
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	2,887	(4,185)	115
Decrease due to harvest	(624)	(341)	(115)
Carrying amount at 31 December	49,037	46,774	51,300
Longan trees:			
Carrying amount at 1 January	15,226	16,700	16,700
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	777	(1,403)	8
Decrease due to harvest	(40)	(71)	(8)
Carrying amount at 31 December	15,963	15,226	16,700
Total carrying amount at 31 December	65,000	62,000	68,000

Quantities of fruit trees:

	Number of trees	**Number of trees**	**Number of trees**
	'000	*'000*	*'000*
Litchi fruit trees	333	333	333
Longan fruit trees	108	108	108
	441	441	441

Fair value and saleable output of litchis and longans at the point of harvest are analysed as follows:

		Group	
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Fair value less estimated point-of-sale costs:			
Litchis	624	341	115
Longans	40	71	8
	664	412	123
	Tons	*Tons*	*Tons*
Saleable output:			
Litchis	178	139	76
Longans	10	32	3
	188	171	79

Significant assumptions made in determining the fair value of the biological assets are as follows:

(a) the fruit trees will continue to be competently managed and remain free from irremediable disease in their remaining estimated useful lives;

(b) the expected prices of litchi and longan fruits are based on the past actual average district prices; and

(c) the future cash flows have been discounted at the target rate of return on equity of the agricultural produce segment.

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Leasehold land and buildings	Furniture and leasehold improvements	Machinery and equipment	Moulds and tools	Motor vehicles and vessels	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2006						
At 31 December 2005 and at 1 January 2006:						
Cost or valuation	245,750	289,886	258,390	12,719	29,298	836,043
Accumulated depreciation and impairment	(41,300)	(245,119)	(191,590)	(9,443)	(23,761)	(511,213)
Net carrying amount	204,450	44,767	66,800	3,276	5,537	324,830
At 1 January 2006, net of accumulated depreciation and impairment	204,450	44,767	66,800	3,276	5,537	324,830
Additions	–	13,173	18,452	369	1,146	33,140
Acquisition of subsidiaries (note 45)	47,674	5,329	14,671	10,028	814	78,516
Disposals	(2,203)	(3,636)	(1,171)	(285)	(304)	(7,599)
Reclassification	(432)	432	–	–	–	–
Depreciation provided during the year	(13,143)	(17,348)	(21,458)	(4,760)	(2,549)	(59,258)
Transfer from construction in progress (note 18)	3,208	–	–	–	–	3,208
Transfer to investment properties, net (note 16)	(25,368)	–	–	–	–	(25,368)
Fair value adjustment	1,571	–	–	–	–	1,571
Write-back of impairment	11,620	–	–	–	–	11,620
Exchange realignment	2,260	244	1,129	–	28	3,661
At 31 December 2006, net of accumulated depreciation and impairment	229,637	42,961	78,423	8,628	4,672	364,321
At 31 December 2006:						
Cost or valuation	251,784	269,774	252,940	20,085	27,578	822,161
Accumulated depreciation and impairment	(22,147)	(226,813)	(174,517)	(11,457)	(22,906)	(457,840)
Net carrying amount	229,637	42,961	78,423	8,628	4,672	364,321
Analysis of cost or valuation:						
At cost	204,275	269,774	252,940	20,085	27,578	774,652
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	251,784	269,774	252,940	20,085	27,578	822,161

	Group					
	Leasehold land and buildings	**Furniture and leasehold improvements**	**Machinery and equipment**	**Moulds and tools**	**Motor vehicles and vessels**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2005						
At 31 December 2004 and at 1 January 2005:						
Cost or valuation	278,967	281,594	283,328	27,066	34,618	905,573
Accumulated depreciation and impairment	(77,504)	(231,952)	(231,841)	(20,786)	(26,476)	(588,559)
Net carrying amount	201,463	49,642	51,487	6,280	8,142	317,014
At 1 January 2005, net of accumulated depreciation and impairment	201,463	49,642	51,487	6,280	8,142	317,014
Additions	5,057	13,734	26,765	1,720	1,143	48,419
Disposals	(984)	(314)	(2,089)	(2)	(795)	(4,184)
Depreciation provided during the year	(7,698)	(17,594)	(15,408)	(1,333)	(2,986)	(45,019)
Reclassification	(3,685)	750	5,964	(3,029)	–	–
Transfer from investment properties, net (note 16)	7,420	–	–	–	–	7,420
Write back of impairment/ (impairment)	2,409	(1,477)	(462)	(360)	–	110
Exchange realignment	468	26	543	–	33	1,070
At 31 December 2005, net of accumulated depreciation and impairment	204,450	44,767	66,800	3,276	5,537	324,830
At 31 December 2005:						
Cost or valuation	245,750	289,886	258,390	12,719	29,298	836,043
Accumulated depreciation and impairment	(41,300)	(245,119)	(191,590)	(9,443)	(23,761)	(511,213)
Net carrying amount	204,450	44,767	66,800	3,276	5,537	324,830
Analysis of cost or valuation:						
At cost	198,241	289,886	258,390	12,719	29,298	788,534
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	245,750	289,886	258,390	12,719	29,298	836,043

	Group					
	Owner-occupied properties *HK$'000* (Restated)	**Furniture and leasehold improvements** *HK$'000*	**Machinery and equipment** *HK$'000*	**Moulds and tools** *HK$'000*	**Motor vehicles and vessels** *HK$'000*	**Total** *HK$'000* (Restated)
31 December 2004						
At 31 December 2003 and at 1 January 2004:						
Cost or valuation	290,834	264,362	281,327	31,903	33,130	901,556
Accumulated depreciation and impairment	(83,917)	(213,534)	(231,079)	(26,125)	(24,937)	(579,592)
Net carrying amount	206,917	50,828	50,248	5,778	8,193	321,964
At 1 January 2004, net of accumulated depreciation and impairment	206,917	50,828	50,248	5,778	8,193	321,964
Additions	3,146	23,543	18,449	2,972	3,327	51,437
Acquisition of subsidiaries (note 45)	2,422	503	303	871	41	4,140
Disposals	–	(3,366)	(3,862)	(348)	(698)	(8,274)
Depreciation provided during the year	(8,685)	(21,871)	(13,651)	(2,993)	(2,721)	(49,921)
Exchange realignment	–	5	–	–	–	5
Transfer to investment properties, net (note 16)	(2,337)	–	–	–	–	(2,337)
At 31 December 2004, net of accumulated depreciation and impairment	201,463	49,642	51,487	6,280	8,142	317,014
At 31 December 2004:						
Cost or valuation	278,967	281,594	283,328	27,066	34,618	905,573
Accumulated depreciation and impairment	(77,504)	(231,952)	(231,841)	(20,786)	(26,476)	(588,559)
Net carrying amount	201,463	49,642	51,487	6,280	8,142	317,014
Analysis of cost or valuation:						
At cost	231,458	281,594	283,328	27,066	34,618	858,064
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	278,967	281,594	283,328	27,066	34,618	905,573

The Group's land and buildings are situated in Hong Kong, Taiwan and Mainland China and are held under the following lease terms:

		Group	
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong			
Medium-term leases	88,556	89,566	79,875
Long-term leases	16,107	16,457	16,807
Mainland China			
Medium-term land use rights	92,368	72,911	78,618
In the process of applying land use rights*	31,446	25,516	26,163
Taiwan			
Freehold	1,160	–	–
	229,637	204,450	201,463

* *As at 31 December 2006, 2005 and 2004, the Group had not obtained land use right certificates in respect of the Group's certain leasehold properties amounting to approximately HK$31,446,000, HK$25,516,000 and HK$26,163,000.*

The net book value of the Group's machinery and equipment and motor vehicles held under finance leases and hire purchase contracts included in the total amount of machinery and equipment and motor vehicles at 31 December 2006, 2005 and 2004 amounted to HK$29,726,000, HK$33,352,000 and HK$25,372,000.

Certain of the Group's land and buildings were revalued on and before 31 December 1994. The land and buildings were revalued at open market value, based on their existing use. Since 1995, no further revaluations of the Group's land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16, from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time.

Had all land and buildings been carried at cost less accumulated depreciation and impairment losses, the net book value of the Group's land and buildings as at 31 December 2006, 2005 and 2004 would have been approximately HK$226,187,000, HK$201,000,000 and HK$198,000,000.

At 31 December 2006, 2005 and 2004 certain of the Group's leasehold land and buildings and machinery and equipment with a net book value of approximately HK$98,054,000, HK$94,607,000 and HK$138,172,000, were pledged to secure banking facilities granted to the Group (note 36).

16. INVESTMENT PROPERTIES

		Group	
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount at 1 January	497,483	327,255	247,390
Acquisition of subsidiaries (note 45)	449,771	–	–
Disposals	(35,257)	–	–
Net profit from a fair value adjustment	66,304	144,948	77,528
Transfer from/(to) leasehold land and buildings, net (note 15)	25,368	(7,420)	2,337
Transfer from properties held for sale	–	19,221	–
Transfer to non-current assets held for sale (note 28)	(53,300)	–	–
Transfer from land pending development (note 19)	–	13,402	–
Exchange realignment	249	77	–
Carrying amount at 31 December	950,618	497,483	327,255

The Group's investment properties are situated in Hong Kong, Taiwan and Mainland China, and are held under the following lease terms:

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Hong Kong			
Medium-term leases	304,779	301,548	188,895
Long-term lease	166,100	159,100	128,700
	470,879	460,648	317,595
Mainland China			
Medium-term leases	457,739	36,835	9,660
Taiwan			
Freehold	22,000	–	–
	950,618	497,483	327,255

The Group's investment properties were revalued on 31 December 2006 by BMI Appraisals Limited, independent professionally qualified valuers, at HK$950,618,000 (2005: HK$497,483,000) on an open market, existing use basis. Certain investment properties are leased to third parties under operating leases, further summary details of which are included in note 49(a) to the financial statements.

At 31 December 2006, 2005 and 2004, the Group's investment properties with a value of HK$392,344,000, HK$427,567,000 and HK$298,575,000 were pledged to secure general banking facilities granted to the Group (note 36).

As at 31 December 2006, 2005 and 2004, the Group was in the process of applying the land use rights certificates in respect of the Group's certain investment properties located in Mainland China of approximately HK$445,574,000, HK$Nil and HK$Nil.

17. PREPAID LAND LEASE PAYMENTS

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount at 1 January	18,433	15,564	15,926
Additions	64	3,232	–
Acquisition of subsidiaries (note 45)	14,226	–	–
Recognised during the year	(750)	(363)	(362)
Carrying amount at 31 December	31,973	18,433	15,564
Current portion included in prepayments, deposits and other receivables	(1,018)	(363)	(363)
Non-current portion	30,955	18,070	15,201

The leasehold land is held under medium term leases and is situated in Hong Kong and Mainland China.

18. CONSTRUCTION IN PROGRESS

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount at 1 January	97,162	–	–
Exchange realignment	4,658	–	–
Acquisition of subsidiaries (note 45)	13,753	40,385	–
Additions	96,372	56,777	–
Transfer to property, plant and equipment (note 15)	(3,208)	–	–
Carrying amount at 31 December	208,737	97,162	–

19. LAND PENDING DEVELOPMENT

	Group 2006 HK$'000	2005 HK$'000	2004 HK$'000
At 1 January	–	13,402	18,402
Transfer to investment properties (note 16)	–	(13,402)	–
Written off during the year	–	–	(5,000)
At 31 December	–	–	13,402

20. LOANS RECEIVABLE

The Group's loans receivable arose from margin financing and money lending operations.

The Group allows a credit period mutually agreed with the contracting parties. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding loans receivable and has a credit control department to minimise the credit risk. Loans for margin financing are secured by the pledge of customers' securities as collateral. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's loans and advances relate to a large number of diversified customers, there is no significant concentration of credit risk. Loans receivable are interest-bearing at the rate mutually agreed with the contracting parties.

	Group 2006 HK$'000	2005 HK$'000	2004 HK$'000
Loans receivable	353,512	289,772	304,027
Impairment	(139,807)	(130,967)	(124,357)
	213,705	158,805	179,670
Market value of collateral at 31 December	933,550	656,388	779,664

At 31 December 2006, 2005 and 2004, certain equity securities as collateral provided by certain subsidiaries and clients of approximately of HK$158,294,000, HK$128,737,000 and HK$292,956,000 were pledged to banks to secure banking facilities granted to the Group (note 36).

The carrying amounts of the Group's loans receivable approximate to their fair values.

The maturity profile of loans receivable at the balance sheet date is analysed into the remaining periods to their contractual maturity dates as follows:

	Group 2006 HK$'000	2005 HK$'000	2004 HK$'000
Repayable:			
On demand	184,578	124,170	147,094
Within 3 months	8,243	10,443	7,736
3 months to 1 year	14,905	17,791	19,612
1 year to 5 years	5,979	6,401	5,228
	213,705	158,805	179,670
Portion classified as current assets	(207,726)	(152,404)	(174,442)
Portion classified as non-current assets	5,979	6,401	5,228

21. INTERESTS IN SUBSIDIARIES

	Group 2006 HK$'000	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	527,702	527,702	527,702
Due from subsidiaries	314,595	289,014	277,718
	842,297	816,716	805,420

Except for an amount of HK$45,507,000, HK$19,401,000 and HK$8,034,000 due from a subsidiary which bears interest at the Hong Kong Dollar Prime Rate plus 3% as at 31 December 2006, 2005 and 2004, the amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinions of the directors, the amounts due from subsidiaries are not repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current. In the opinion of the directors, the amounts due from subsidiaries approximate to their fair values.

During the year ended 31 December 2006, the Group, through wholly-owned subsidiaries of South China Industries Limited ("SCI") acquired an 87% interest in 南京微分電機有限公司 ("Weifen") and an additional 52.8% interest in Nority International Group Limited ("Nority"), a former 42.5% owned associate (both as defined in note 45 to the financial statements). Further details of these acquisitions are included in note 45 to the financial statements.

During the year ended 31 December 2005, the Group acquired Liaoning Da Fa Real Estate Company Limited ("Liaoning Da Fa") from an independent third party. Further details of this acquisition are included in note 45 to the financial statements.

22. INTERESTS IN ASSOCIATES

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Share of net assets:			
Listed associate in Hong Kong	–	60,305	86,224
Unlisted associates	93,589	103,957	42,215
	93,589	164,262	128,439
Advances to associates	217,950	214,059	293,632
Amounts due to associates	(77)	(1,039)	–
Provision for impairment	(700)	(706)	(21,353)
	217,173	212,314	272,279
	310,762	376,576	400,718
Market value of the listed associate	–	29,670	57,059

During the year ended 31 December 2006, the Group, through a wholly-owned subsidiary of SCI, acquired an additional 52.8% interest in Nority, a former 42.5% owned listed associate in Hong Kong. Subsequent to the acquisition, Nority is an indirectly-owned subsidiary of the Company. Further details of the acquisition are included in note 45 to the financial statements.

During the year ended 31 December 2006, the Group, through a wholly-owned subsidiary of SCI, acquired an additional 42.6% interest in Nanjing South China Dafang Electric Co., Ltd. ("Dafang"), a then 51% owned associate of the Group, indirectly through the acquisition of an 87% interest in Weifen. Subsequent to the acquisition, Dafang is an indirectly-owned subsidiary of the Company. Further details of the acquisition are included in note 45 to the financial statements.

Except for the advances to Firm Wise Investment Limited ("FWIL") of HK$213,651,000, HK$213,354,000 and HK$292,917,000 which bears interest at 0.5% per annum as at 31 December 2006, 2005 and 2004, the amounts with associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts are not repayable within twelve months from the balance sheet date and are classified in the balance sheet as non-current accordingly. The carrying amounts of the balances with associate approximate to their fair value.

As at 31 December 2006, 2005 and 2004 the Group has given guarantees with a total amount of HK$210,000,000, HK$210,000,000 and HK$174,000,000 to secure banking facilities granted to FWIL, out of which HK$203,100,000, HK$210,000,000 and HK$139,922,000 was utilised. The banking facilities are due to be mature in November 2010. The advances to FWIL and guarantees given were used to finance a property project in Hong Kong.

Provision for advances to associates of approximately HK$20,647,000 and HK$58,627,000 were written back during the year ended 31 December 2005 and 2004 with reference to the valuation of the properties held by an associate performed by an independent professionally qualified valuers, BMI Appraisals Limited, at 31 December 2005 and 2004.

The following table illustrates the summarised financial information of FWIL, extracted from its management accounts as adjusted for the fair value of the investment properties based on the valuation performed by BMI Appraisals Limited.

	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Assets	1,790,219	1,623,824	1,428,998
Liabilities	1,506,416	1,495,640	1,498,993
Turnover	87,267	72,243	59,548
Profit	155,617	198,180	258,171

The following table illustrates the summarised financial information of the Group's other associates extracted from their management accounts and financial statements as adjusted for the fair value of the investment property based on the valuation performed by BMI Appraisals Limited where appropriate.

	Other associates 2006 HK$'000	2005 HK$'000	2004 HK$'000
Assets	108,197	367,031	281,453
Liabilities	86,204	119,636	71,691
Turnover	16,210	297,638	259,472
Loss	(7,382)	(51,974)	(29,625)

23. GOODWILL

	Group 2006 HK$'000	2005 HK$'000	2004 HK$'000
At 1 January:			
Cost	8,497	8,497	4,993
Accumulated impairment	(625)	–	–
Net carrying amount	7,872	8,497	4,993
Carrying amount at 1 January	7,872	8,497	4,993
Acquisition of subsidiaries (note 45)	13,573	–	3,504
Impairment during the year	–	(625)	–
Carrying amount at 31 December	21,445	7,872	8,497
At 31 December:			
Cost	22,070	8,497	8,497
Accumulated impairment	(625)	(625)	–
Net carrying amount	21,445	7,872	8,497

The amount of goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, was HK$1,238,000 as at 31 December 2006, 2005 and 2004.

Impairment testing of goodwill

Goodwill acquired through business combinations have been allocated to the following cash generating units, which are reportable segments, for impairment testing:

- Toy and footwear products cash-generating unit;
- Travel business cash-generating unit; and
- Information technology business cash-generating unit.

Toy and footwear products cash-generating unit

The recoverable amount of the toy and footwear products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 17.3%,17.7% and 12.5% and cash flows beyond the five-year period are extrapolated using a growth rate of 7.2%, 7.6% and 7.3% for the year ended 31 December 2006, 2005 and 2004, which is the same as the long term average growth rate of the toy and footwear products industry.

Travel business cash-generating unit

The recoverable amount of the travel business cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.5%, 10.9% and 10.7% for the year ended 31 December 2006, 2005 and 2004. The growth rate used to extrapolate the cash flows of the travel business unit beyond the five-year period is 3.6%, 4.0% and 4.0% for the year ended 31 December 2006, 2005 and 2004, which is the same as the long term average growth rate of the travel business industry.

Information technology business cash-generating unit

The recoverable amount of the information technology business cash-generating unit is also determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 10.5%, 10.9% and 10.7% for the year ended 31 December 2006, 2005 and 2004. The growth rate used to extrapolate the cash flows of the information technology business unit beyond the five-year period is 3.6%, 4.0% and 4.0% for the year ended 31 December 2006, 2005 and 2004, which is the same as the long term average growth rate of the information technology business industry.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*
Cash-generating unit:			
Toy and footwear products	14,947	1,374	1,374
Travel business	2,994	2,994	2,994
Information technology business	3,504	3,504	4,129
	21,445	7,872	8,497

Key assumptions were used in the value in use calculation of the toy and footwear products, travel business and information technology business cash-generating units for 31 December 2006, 2005 and 2004. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

24. INTANGIBLE ASSETS

	Group		
	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*
Cost at 1 January and at 31 December, net of accumulated amortisation	836	836	836
At 31 December:			
Cost	1,619	1,619	1,619
Accumulated amortisation	(783)	(783)	(783)
Net carrying amount	836	836	836

Intangible assets are Trading Rights that have no expiry date and, in the opinion of directors, are having indefinite useful life.

Pursuant to the restructuring of the Stock Exchange and the Hong Kong Futures Exchange Limited (the "Futures Exchange"), effective on 6 March 2000, the Group received four Stock Exchange Trading Rights, the five Futures Exchange Trading Rights and 10,187,500 ordinary shares of HK$1 each in Hong Kong Exchanges and Clearing Limited (the "HKEC Shares") in exchange for its four shares previously held in the Stock Exchange and five shares previously held in the Futures Exchange.

The carrying costs of the previously held shares in the Stock Exchange and the Futures Exchange have been apportioned to the Stock Exchange Trading Rights, the Futures Exchange Trading Rights and the HKEC Shares on the basis of the respective estimated fair values on 6 March 2000.

The Stock Exchange Trading Rights and the Futures Exchange Trading Rights have been classified as intangible assets as disclosed above and have been treated under the accounting policy as set out in note 2.4 to the financial statements.

25. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Listed equity securities in Hong Kong, at fair value	39,089	22,662	43,817
Club debentures and memberships	18,968	18,666	19,219
Unlisted equity investment, at cost	2,145	–	–
	60,202	41,328	63,036

During the year ended 31 December 2006, 2005 and 2004, the fair value gain of the Group's listed equity securities recognised directly in equity amounted to HK$3,410,000, loss of HK$2,678,000 and HK$269,000 of which HK$604,000, loss of HK$2,061,000 and HK$143,000 were removed from equity and recognised in the income statement and impairment of the Group's debentures of HK$Nil, HK$553,000 and HK$Nil was recognised in the income statement.

The above investments consist of investments in equity securities, club debentures and memberships which have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices. The directors consider that the fair value of the unlisted equity investments cannot be measured reliably given the absence of market information for companies of similar nature and scale and the probabilities of the various estimates to be used in estimating fair value cannot be reasonably assessed. As such, the unlisted equity investments are carried at cost.

The market value of the Group's listed equity investments at the date of approval of the financial statements of the Group for the year ended 31 December 2006 was approximately HK$122,832,000.

26. OTHER NON-CURRENT ASSETS

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Membership in Chinese Gold and Silver Exchange	1,280	1,280	1,280
Statutory deposits in respect of securities and commodities dealings	5,276	4,235	4,320
Deposit for acquisition of properties	6,622	6,622	6,622
Land development costs	17,614	16,937	16,338
Berths	16,666	16,666	16,666
	47,458	45,740	45,226

Berths owned by the Group are valued at cost less impairment, at HK$16,666,000 as at 31 December 2006, 2005 and 2004.

27. INVENTORIES

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	218,446	222,699	199,242
Work in progress	136,467	128,895	118,725
Finished goods	91,285	72,828	84,967
	446,198	424,422	402,934
Provision against obsolete inventories	(84,915)	(72,052)	(73,379)
	361,283	352,370	329,555

At 31 December 2006, 2005 and 2004 the Group's inventories with a value of HK$102,688,000, HK$81,225,000 and HK$88,773,000 were pledged to secure general banking facilities granted to the Group (note 36).

28. NON-CURRENT ASSETS HELD FOR SALE

The Group committed to a plan to sell certain of its investment properties in Hong Kong and Mainland China (the ''Disposable Assets'') which generate minimal profits to the Group, so that the Group can more focus on its property development business in Mainland China, which the Group considered to be more profitable. The disposal of the Disposable Assets is expected to be due in the coming year. The Disposable Assets were classified as non-current assets held for sale and are presented in property development segment in note 4(a) to the financial statements.

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Investment properties, at fair value	53,300	–	–

At 31 December 2006, the Group's non-current assets classified as held for sale with a value of HK$28,000,000 were pledged and mortgaged to secure general banking facilities and bank loans granted to the Group (note 36).

29. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables of the Group are trade receivables of HK$379,024,000, HK$322,202,000 and HK$286,655,000 as at 31 December 2006, 2005 and 2004. The Group's trading terms with its customers are on credit with credit period ranging from period of two days to three months, depends on a number of factors including trade practices, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has credit control departments to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

At 31 December 2006, 2005 and 2004 trade receivables with a carrying value of HK$26,496,000, HK$Nil and HK$Nil were pledged to secure general banking facilities granted to the Group (note 36).

An aged analysis of trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Within 90 days	346,375	303,164	266,289
91 to 180 days	24,179	17,599	14,023
181 to 365 days	5,154	664	6,343
Over 1 year	3,316	775	–
	379,024	322,202	286,655

The carrying amounts of the trade and other receivables approximate to their fair value.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Listed equity investments, at market value:			
Hong Kong	132,496	59,925	68,746
Elsewhere	–	–	29
	132,496	59,925	68,775

The above financial assets at 31 December 2006 were classified as held for trading, of which approximately HK$49,839,000, HK$33,611,000 and HK$40,423,000 were pledged to banks to secure banking facilities granted to the Group as at 31 December 2006, 2005 and 2004.

The market values of the Group's listed equity investments at the date of approval of the financial statements of the Group for the year ended 31 December 2006 were approximately HK$141,375,000.

31. DUE FROM/TO RELATED COMPANIES

The amounts due from/to related companies of the Group, in which certain directors have beneficial interests are unsecured, interest-free and repayable on demand. The carrying values of the amounts due from/to related companies approximate to their fair value.

32. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

		Group			Company		
		2006	**2005**	**2004**	**2006**	**2005**	**2004**
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances		365,891	256,575	173,381	67	68	144
Time deposits		17,630	20,980	19,950	–	–	–
		383,521	277,555	193,331	67	68	144
Less: Pledged time deposits: Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for commodities dealings		(5,000)	(5,000)	(5,000)	–	–	–
Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for securities dealings		(500)	(500)	(500)	–	–	–
Pledged for bank overdraft facilities	*36*	(12,130)	(15,480)	(14,450)	–	–	–
		(17,630)	(20,980)	(19,950)	–	–	–
Cash and cash equivalents		365,891	256,575	173,381	67	68	144

As at 31 December 2006, 2005 and 2004 the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$67,341,000, HK$84,103,000 and HK$62,349,000. The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

33. CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated trust accounts with licensed banks to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of clients under the current assets section of the balance sheet and recognised the corresponding accounts payable to respective clients on grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

34. CLIENT DEPOSITS

The Group's client deposits arose from securities, bullion and commodities dealings.

The client deposits are unsecured, bear interest at bank deposit saving rate and are repayable on demand.

Included in client deposits are deposits from directors of the Group of HK$7,176,000, HK$4,891,000 and HK$4,237,000 as at 31 December 2006, 2005 and 2004 respectively. Included in client deposits are deposits from directors of the subsidiary of HK$44,000, HK$2,555,000 and HK$ Nil as at 31 December 2006, 2005 and 2004 respectively. They are subject to similar terms to those offered by the Group to its major clients.

The carrying amounts of the Group's client deposits approximate to their fair values.

35. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK$684,948,000 (2005: HK$536,082,000, 2004: HK$471,445,000) and their aged analysis based on the invoice date is as follows:

	Group		
	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*
Within 90 days	563,608	453,139	349,207
91 to 180 days	64,737	50,929	93,539
181 to 365 days	35,861	17,684	15,892
Over 365 days	20,742	14,330	12,807
	684,948	536,082	471,445

The trade payables are non-interest-bearing and are normally settled on 2 to 210 day terms. The trade payables related to securities, bullion and commodities dealings are non-interest bearing and payable on the settlement dates of the relevant trades or upon demand of customers. The carrying amounts of the trade and other payables approximate to their fair values.

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate	Maturity	Group			Company		
			2006	2005	2004	2006	2005	2004
	(%)		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current								
Finance lease payables (note 37)	1.7-9.0	2007	9,519	13,056	10,626	–	–	–
Bank overdrafts – unsecured	5.9-10.3	On demand	61,968	16,065	15,026	–	–	–
Bank overdrafts – secured	7.8-8.3	On demand	35,788	9,627	36,142	30,007	9,401	7,000
Bank loans – unsecured	6.0-14.6	2007	57,680	52,755	50,441	–	–	–
Bank loans – secured	4.1-6.9	2007	311,155	107,908	142,017	8,500	1,500	1,034
Trust receipt loans	4.9-7.1	2007	102,688	81,225	88,774	–	–	–
			578,798	280,636	343,026	38,507	10,901	8,034
Non-current								
Finance lease payables (note 37)	1.7-9.0	2008-2010	6,862	9,353	9,065	–	–	–
Bank loans – unsecured	6.0-6.6	2008-2010	1,339	2,080	3,766	–	–	–
Bank loans – secured	4.6-5.9	2008-2014	180,338	101,062	71,389	7,000	8,500	–
			188,539	112,495	84,220	7,000	8,500	–
			767,337	393,131	427,246	45,507	19,401	8,034

	Group			Company		
	2006	2005	2004	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Analysed into:						
Bank loans and overdrafts repayable:						
Within one year or on demand	569,279	267,580	332,400	38,507	10,901	8,034
In the second year	56,445	17,505	18,584	1,500	1,500	–
In the third to fifth years, inclusive	98,296	46,099	31,140	4,500	4,500	–
Over five years	26,936	39,538	25,431	1,000	2,500	–
	750,956	370,722	407,555	45,507	19,401	8,034
Other borrowings repayable:						
Within one year or on demand	9,519	13,056	10,626	–	–	–
In the second year	5,282	7,739	8,746	–	–	–
In the third to fifth years, inclusive	1,580	1,614	319	–	–	–
	16,381	22,409	19,691	–	–	–
	767,337	393,131	427,246	45,507	19,401	8,034

Notes:

(a) As at 31 December 2006, 2005 and 2004, the Group's overdraft facilities amounting to approximately HK$186,688,000, HK$143,000,000 and HK$106,000,000 and bank loans facilities amounting to approximately HK$1,086,075,000, HK$515,751,000 and HK$585,942,000 are secured by:

(i) charge over the Group's investment properties situated in Hong Kong and Mainland China, which had an aggregate carrying value at the balance sheet date of approximately HK$392,344,000, HK$427,567,000 and HK$298,575,000 (note 16);

(ii) pledges over the Group's inventories which had an aggregate carrying value at the balance sheet date of approximately HK$102,688,000, HK$81,225,000 and HK$88,773,000 (note 27);

(iii) charge over the Group's certain leasehold land and buildings and machinery and equipment which had an aggregate carrying value at the balance sheet date of approximately HK$98,054,000, HK$94,607,000 and HK$138,172,000 (note 15);

(iv) the pledge of certain of the Group's time deposits amounting to HK$12,130,000, HK$15,480,000 and HK$14,450,000 (note 32);

(v) the pledge of certain of the Group's trade receivable amounting to HK$26,496,000, HK$Nil and HK$Nil. (note 29);

(vi) the pledge of the Group's non-current assets held for sale which had an aggregate carrying value at the balance sheet date of approximately HK$28,000,000, HK$Nil and HK$Nil. (note 28); and

(vii) listed equity investments belonging to the Group and clients totalling approximately HK$208,133,000, HK$162,348,000 and HK$333,379,000.

(b) As at 31 December 2006, 2005 and 2004, all other borrowings are in Hong Kong dollars, except:

(i) secured bank loans of HK$9,370,000, HK$7,115,000 and HK$5,745,000 and unsecured bank loans of HK$Nil HK$1,702,000 and HK$1,662,000 are denominated in Renminbi; and

(ii) bank loans of HK$80,579,000, HK$Nil and HK$Nil which are denominated in US dollars.

Other interest rate information:

	Group					
	2006		**2005**		**2004**	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**	**Fixed rate**	**Floating rate**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Finance lease payables	7,794	8,587	14,267	8,142	7,210	12,481
Bank overdrafts – unsecured	–	61,968	–	16,065	–	15,026
Bank overdrafts – secured	–	35,788	–	9,627	–	36,142
Bank loans – unsecured	–	59,019	2,279	52,556	5,172	49,035
Bank loans – secured	9,370	482,123	7,115	201,855	2,699	210,707
Trust receipt loans	–	102,688	–	81,225	–	88,774

	Company					
	2006		**2005**		**2004**	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**	**Fixed rate**	**Floating rate**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank overdraft – secured	–	30,007	–	9,401	–	7,000
Bank loans – secured	–	15,500	–	10,000	–	1,034

The carrying amount of the Group's bank and other borrowings approximates to their fair values. The fair value of bank and other borrowings is the present value of estimated future cash flows, discounted at prevailing interest rates at 31 December 2006, 2005 and 2004.

37. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery and motor vehicle for its magazine publishing, manufacturing and travel businesses. These leases are classified as finance leases and have remaining lease terms ranging from 1 to 4 years.

At 31 December 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2006	2005	2004	Present value of minimum lease payments 2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts payable:						
Within one year	10,273	14,079	11,269	9,519	13,056	10,626
In the second year	5,558	7,998	9,008	5,282	7,739	8,746
In the third year to fifth years, inclusive	1,622	1,722	338	1,580	1,614	319
Total minimum finance lease payments	17,453	23,799	20,615	16,381	22,409	19,691
Future finance charges	(1,072)	(1,390)	(924)			
Total net finance lease payables	16,381	22,409	19,691			
Portion classified as current liabilities (note 36)	(9,519)	(13,056)	(10,626)			
Non-current portion (note 36)	6,862	9,353	9,065			

38. ADVANCES FROM SHAREHOLDERS

The advances from shareholders are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current. The carrying amounts of the Group's advances from shareholders approximate to their fair values.

39. ADVANCES FROM/TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

The advances from/to minority shareholders of subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, the advance from minority shareholders of subsidiaries will not be repayable within twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current. The carrying amounts of the Group's advances from/to minority shareholders approximate to their fair values.

40. PROVISION FOR SEVERANCE PAYMENT

Group

	HK$'000
At 1 January 2006	–
Acquisition of subsidiaries (note 45)	32,754
Exchange realignment	(153)
At 31 December 2006	32,601
Portion classified as current liabilities	–
Non-current portion	32,601

The provision for severance payment arose from the acquisition of an 87% interest in Weifen (through a wholly-owned subsidiary of SCI) under the relevant regulations in Mainland China.

41. DEFERRED TAX

The movements of deferred tax liabilities and assets during the year are as follows:

Group

Deferred tax liabilities

	2006			
	Loss available for offset against future taxable profits	Depreciation allowance in excess of related depreciation	Revaluation of properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	(11,790)	9,950	17,622	15,782
Deferred tax debited/(credited) to the income statement during the year (note 10)	(339)	(1,016)	9,613	8,258
Acquisition of a subsidiary (note 45)	–	–	115,869	115,869
Exchange realignment	–	(154)	–	(154)
At 31 December 2006	(12,129)	8,780	143,104	139,755

Deferred tax assets

	2006			
	Loss available for offset against future taxable profits	Provision	Depreciation in excess of related depreciation allowance	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	11,233	2,765	23	14,021
Deferred tax debited to the income statement during the year (note 10)	(4,244)	–	(1)	(4,245)
At 31 December 2006	6,989	2,765	22	9,776

Deferred tax liabilities

	2005			
	Loss available for offset against future taxable profits	Depreciation allowance in excess of related depreciation	Revaluation of properties	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	(2,819)	3,883	680	1,744
Deferred tax debited/(credited) to the income statement during the year (note 10)	(8,971)	6,067	16,942	14,038
At 31 December 2005	(11,790)	9,950	17,622	15,782

Deferred tax assets

	2005			
	Loss available for offset against future taxable profits	**Provision**	**Depreciation in excess of related depreciation allowance**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	–	2,765	27	2,792
Deferred tax credited/(debited) to the income statement during the year (note 10)	11,233	–	(4)	11,229
At 31 December 2005	11,233	2,765	23	14,021

Deferred tax liabilities

	2004			
	Loss available for offset against future taxable profits	**Depreciation allowance in excess of related depreciation**	**Revaluation of properties**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	(1,922)	2,675	–	753
Deferred tax debited/(credited) to the income statement during the year (note 10)	(897)	1,208	680	991
At 31 December 2004	(2,819)	3,883	680	1,744

Deferred tax assets

	2004			
	Loss available for offset against future taxable profits	**Provision**	**Decelerated depreciation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	1,200	2,765	27	3,992
Deferred tax debited to the income statement during the year (note 10)	(1,200)	–	–	(1,200)
At 31 December 2004	–	2,765	27	2,792

As at 31 December 2006, 2005 and 2004, the Group has tax losses of HK$1,626,712,000, HK$1,617,959,000 and HK$1,407,254,000 that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax asset has been recognised in respect of HK$109,246,000 (2005: HK$105,608,000, 2004: HK$54,457,000) of these tax losses. No deferred tax assets have been recognised in respect of the remaining HK$1,517,466,000, HK$1,512,351,000 and HK$1,352,797,000 as they have arisen in companies that have been loss-making for some time.

Deferred tax assets have not been recognised in respect of the following items:

	Group			Company		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Tax losses	1,517,466	1,512,351	1,352,797	5,152	4,626	3,419
Deductible temporary differences	5,536	3,237	3,413	–	–	–
	1,523,002	1,515,588	1,356,210	5,152	4,626	3,419

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

At 31 December 2006, 2005 and 2004, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or joint venture entities as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

42. SHARE CAPITAL

	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Authorised:			
4,000,000,000 ordinary shares of HK$0.025	100,000	100,000	100,000
Issued and fully paid:			
1,823,401,376 ordinary shares of HK$0.025	45,584	45,584	45,584

43. SHARE OPTION SCHEMES

The directors and employees of the Company and its subsidiaries are entitled to participate in share option schemes operated by the Company and its subsidiaries. Details of these schemes are as follows:

The Company, Nority, South China Brokerage Company Limited (name changed to South China Financial Holdings Limited on 26 February 2007) ("SCB") and SCI Share Option Schemes.

(1) Purpose of the Share Option Schemes

In order to provide the Company, Nority, SCB and SCI (collectively the "Companies") with a flexible means of giving incentives or rewards to the participants for their contribution to the Companies and to enable the Companies to attract and retain employees of appropriate qualifications and with necessary experience to work for the Companies and any entity in which any member of the Group holds equity interests (the "Invested Entity"), the shareholders of each of the Company, SCB and SCI approved the adoption of the share option schemes at the respective annual general meetings held on 31 May 2002 while the share option scheme of Nority was approved by the shareholders of Nority on 10 June 2003 (collectively the "Share Option Schemes").

(2) Participants of the Share Option Schemes

According to the Companies' Share Option Schemes, the respective board may, at its absolute discretion, grant options to any person belonging to any of the following classes of participants to subscribe for shares:

(a) For the Share Option Schemes of the Company, SCB and SCI

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the relevant group or any Invested Entity or substantial shareholder;

(ii) any non-executive directors (including any independent non-executive directors) of any member of the relevant group or any Invested Entity or substantial shareholder;

(iii) any individual for the time being seconded to work for any member of the relevant group or any Invested Entity or substantial shareholder;

(iv) any shareholder of any member of the relevant group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the relevant group or any Invested Entity or substantial shareholder;

(v) any business partner, consultant or contractor of any member of the relevant group or any Invested Entity or substantial shareholder;

(vi) any supplier of goods or services to any member of the relevant group or any Invested Entity or substantial shareholder;

(vii) any customer of any member of the relevant group or any Invested Entity or substantial shareholder;

(viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the relevant group or any Invested Entity or substantial shareholder; and

(ix) any company wholly owned by one or more persons belonging to any of the above classes of participants.

(b) *For the Share Option Scheme of Nority and its subsidiaries ("Nority Group")*

The full time employees of the Nority Group (including any directors, whether executive or non-executive and whether independent or not, of Nority or its subsidiaries) and any suppliers, consultants, agents and advisers, whether on a contractual or honorary basis and whether paid or unpaid, who have contributed or will contribute to Nority Group.

(3) Total number of shares available for issue under the Share Option Schemes

As at the Latest Practicable Date, the total number of shares available for issue under the Share Option Schemes of the Companies are as follows:

(i) A total of 182,340,137 shares of the Company are available for issue under the Company's Share Option Scheme, which represents 10% of the issued share capital of the Company as at the Latest Practicable Date.

(ii) A total of 120,693,674 shares of SCF are available for issue under the Company's Share Option Scheme, which represents 2.41% of the issued share capital of the Company as at the Latest Practicable Date.

(iii) A total of 53,033,474 shares of SCI are available for issue under the Company's Share Option Scheme, which represents 10% of the issued share capital of the Company as at the Latest Practicable Date.

Remarks:

Nority ceased to be a subsidiary of the Company on 5 January 2007, hence the disclosure of the total number of shares available for issue under the Nority Share Option Scheme as at the Latest Practicable Date is not applicable.

(4) Maximum entitlement of each participant

No participant shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted under the respective Share Option Scheme (including both exercised and outstanding options) in any 12 month period up to the date of grant to such participant would exceed 1% of the shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed participant and his associates (as defined in the Listing Rules) abstaining from voting.

(5) Period within which the shares must be taken up under an option

The respective board may, at its absolute discretion, determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant. The respective board may also provide restrictions on the exercise of a share option during the period a share option may be exercised.

(6) Minimum period, if any, for which an option must be held before it can be exercised

There is no specific requirement under the respective Share Option Scheme that an option must be held for any minimum period before it can be exercised, but the terms of the respective Share Option Scheme provide that the board has the discretion to impose a minimum period at the time of grant of any particular option.

(7) Amount payable upon acceptance of the option and the period within which payment must be made

(a) *For the Share Option Schemes of the Company, SCB and SCI*

An amount of HK$1 for each lot of share options granted is payable upon acceptance of the options within five business days from the date of offer of grant of share options.

(b) *For the Share Option Scheme of Nority (Refer to subsection (3) above)*

An amount of HK$10 for each lot of share options granted is payable upon acceptance of the options within twenty-eight days from the date of offer of grant of share options.

(8) Basis of determining the exercise price of the option

The exercise price is determined by the respective board, and shall be at least the highest of: (i) the closing price of the company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant, which must be a business day, and; (ii) the average closing price of the respective company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer of grant; and (iii) the nominal value of the respective company's shares.

(9) Remaining Life of the Share Option Schemes

Subject to early termination of the Share Option Schemes pursuant to the terms thereof, the Share Option Schemes for the Company and SCB will be valid and effective for a period of 10 years commencing on the date on which they became unconditional on 28 June 2002 while the SCI Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became unconditional on 18 June 2002 and the Nority Share Option Scheme will be valid for a period of 10 years commencing on the date of adoption on 10 June 2003.

The following share options of SCB were outstanding under the Share Option Scheme during the year:

	Number of share options									Price of the SCB's shares ***	
Name or category of participant	Outstanding as at 01/01/2006	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Outstanding as at 31/12/2006	Date of grant of share options* *(DD/MM/YY)*	Exercise period of share options *(DD/MM/YY)*	Subscription price per share ** *HK$*	Immediately preceding the grant date of share options *HK$ per share*	Immediately preceding the exercise date of share options *HK$ per share*
Directors of the Company											
Ms. Cheung Choi Ngor	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2007 to 15/03/2009	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2008 to 15/03/2010	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2009 to 15/03/2011	0.128	0.104	N/A
Mr. Richard Howard Gorges	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2007 to 15/03/2009	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2008 to 15/03/2010	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2009 to 15/03/2011	0.128	0.104	N/A
Mr. Ng Yuk Fung, Peter	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2007 to 15/03/2009	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2008 to 15/03/2010	0.128	0.104	N/A
	–	10,000,000	–	–	–	10,000,000	16/03/2006	16/03/2009 to 15/03/2011	0.128	0.104	N/A
	–	6,666,667	–	–	–	6,666,667	26/04/2006	26/04/2007 to 25/04/2009	0.128	0.110	N/A
	–	6,666,667	–	–	–	6,666,667	26/04/2006	26/04/2008 to 25/04/2010	0.128	0.110	N/A
	–	6,666,666	–	–	–	6,666,666	26/04/2006	26/04/2009 to 25/04/2011	0.128	0.110	N/A
Sub-total	–	110,000,000	–	–	–	110,000,000					
Employees of the Group#											
	–	36,000,000	–	–	–	36,000,000	16/03/2006	16/03/2007 to 15/03/2009	0.128	0.104	N/A
	–	36,000,000	–	–	–	36,000,000	16/03/2006	16/03/2008 to 15/03/2010	0.128	0.104	N/A
	–	36,000,000	–	–	–	36,000,000	16/03/2006	16/03/2009 to 15/03/2011	0.128	0.104	N/A
	–	6,666,667	–	–	–	6,666,667	26/04/2006	26/04/2007 to 25/04/2009	0.128	0.110	N/A
	–	6,666,667	–	–	–	6,666,667	26/04/2006	26/04/2008 to 25/04/2010	0.128	0.110	N/A
	–	6,666,666	–	–	–	6,666,666	26/04/2006	26/04/2009 to 25/04/2011	0.128	0.110	N/A
Sub-total	–	128,000,000	–	–	–	128,000,000					
Total	–	238,000,000	–	–	–	238,000,000					

Notes:

* All share options granted are subject to a vesting period and becoming exercisable in the following manner:

From the date of grant of share options	Exercisable percentage %
Within 12 months	Nil
13th month – 36th month	33 $^{1}/_{3}$
25th month – 48th month	33 $^{1}/_{3}$
37th month – 60th month	33 $^{1}/_{3}$

The unexercised share options of each exercise period shall lapse at the end of the respective exercise period.

** The subscription price of the share options of SCB is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of SCB.

*** The price of SCB's shares disclosed as immediately preceding the grant date of the share options is the closing price of the shares on the Stock Exchange on the trading day immediately prior to the date of the grant of the share options. The price of SCB's shares disclosed immediately preceding the exercise date of the share options is the weighted average of the closing prices of the shares on the Stock Exchange immediately before the date on which the options were exercised.

\# Subsequent to the balance sheet date, 27,000,000 share options of SCB granted to employees during the year were lapsed after their resignation.

The fair value of the share options granted during the year was HK$14,886,000 of which the Group recognised a share option expense of HK$6,711,000 during the year ended 31 December 2006.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Date of grant	16 March 2006	26 April 2006
Dividend yield (%)	0.00	0.00
Average expected volatility (%)	85.32	85.54
Average historical volatility (%)	85.32	85.54
Average risk-free interest rate (%)	4.27	4.49
Expected life of option (year)	3 – 5	3 – 5
Closing share price (HK$)	0.103	0.115

The expected life of the share options is based on the contractual life and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

44. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 26 to 27 of the financial statements.

(b) Company

	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2004	253,234	56	286,429	222,578	762,297
Loss for the year	–	–	–	(340)	(340)
Final 2003 dividend paid	–	–	–	(10,029)	(10,029)
At 31 December 2004	253,234	56	286,429	212,209	751,928
Loss for the year	–	–	–	(147)	(147)
At 31 December 2005	253,234	56	286,429	212,062	751,781
Loss for the year	–	–	–	(17,449)	(17,449)
At 31 December 2006	253,234	56	286,429	194,613	734,332

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation in 1992.

The Company's reserves available for distribution represent the share premium account, contributed surplus and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2006, 2005 and 2004 amounted to approximately HK$734,276,000, HK$751,725,000 and HK$751,872,000).

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS

a) The following transactions took place during the year ended 31 December 2006:

On 31 August 2006, the Group, through a wholly-owned subsidiary of SCI acquired an 87% interest in Weifen from the holding company of a joint venture partner of a former associate. Weifen is engaged in property investment. The purchase consideration for the acquisition was in the form of cash, with RMB41,655,000 at the acquisition date. Subsequent to the acquisition, the Group has control on Dafang with an effective interest of 70%.

During the period from 24 March to 16 May 2006, the Group, through a wholly-owned subsidiary of SCI, acquired additional 52.8% interest in Nority, a former associate of the Group listed on the Stock Exchange. Nority is engaged in manufacturing of shoes and footwear products. The purchase consideration for the acquisition was in the form of cash of HK$67,310,000.

The fair values of the identifiable assets and liabilities of Weifen and Nority as at the dates of acquisition and their corresponding carrying amounts immediately before their acquisitions were as follows:

	Fair value recognised on acquisition	Fair value recognised on acquisition	Carrying amount	Carrying amount
	Nority	**Weifen**	**Nority**	**Weifen**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	71,232	7,284	71,232	2,545
Investment properties	4,197	445,574	4,197	94,455
Non current portion of prepaid land lease payments	11,486	2,085	11,486	15,747
Construction in progress	10,410	3,343	10,410	3,343
Available-for-sale investments	1,643	2,145	1,643	2,145
Loans and receivables	1,670	–	1,670	–
Deferred tax asset	–	–	10,656	–
Inventories	16,499	–	16,499	–
Trade receivables	23,769	–	23,769	–
Current portion of prepaid land lease payments	326	329	326	–
Prepayments, deposits and other receivables	2,069	16,488	2,069	16,488
Amounts due from associates	–	3,600	–	3,600
Financial assets at fair value through profit or loss	360	–	360	–
Tax recoverable	409	–	409	–
Cash and bank balances	18,496	17,818	18,496	17,818
Trade and bills payables	(20,255)	(96)	(20,255)	(96)
Other payables and accruals	(21,717)	(27,824)	(21,717)	(27,824)
Amount due to holding company	–	(11,226)	–	(11,226)
Amount due to a minority shareholder	–	(25,835)	–	(25,835)
Interest-bearing bank and other borrowings	–	(17,938)	–	(17,938)
Tax payable	(2,017)	(338)	(2,017)	(338)
Provision for severance payment	–	(32,754)	–	(32,754)
Deferred tax liabilities	–	(115,869)	–	–
Minority interests	(11,514)	(18,836)	(11,514)	(16,186)
	107,063	247,950	117,719	23,944
Goodwill on acquisition (note 23)	13,573	–		
Excess over the cost of business combination	–	(154,005)		
	120,636	93,945		
Satisfied by:				
Cash	67,310	40,727		
Reclassification from interests in associates to interests in subsidiaries	53,326	53,218		
	120,636	93,945		

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the subsidiaries is as follows:

	Fair value recognised on acquisition	Fair value recognised on acquisition
	Nority	**Weifen**
	HK$'000	*HK$'000*
Cash consideration	67,310	40,727
Cash and bank balance acquired	(18,496)	(17,818)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	48,814	22,909

Weifen's investment properties, prepaid land lease payments and leasehold buildings were revalued on 31 August 2006 by BMI Appraisals Limited, on an open market, existing use basis. The value of net assets attributable to the Group acquired, including investment properties, prepaid land lease payments and leasehold buildings, all being at fair value, exceeds the consideration paid for the acquisition, giving rise to an excess over the cost of business combination, which was recognized in the income statement.

During the period from January 2006 to December 2006, the Group, through a wholly-owned subsidiary of SCI, acquired an additional 31.83% interest in Wah Shing International Holding Limited ("Wah Shing"), a subsidiary of the Company listed on the Singapore Exchange Securities Trading Limited, after its approval for the privatisation of Wah Shing in February 2006. Wah Shing then became a 100% wholly owned subsidiary of SCI. Wah Shing is engaged in the trading and manufacturing of toys and footwear, securities investments and property investment and development. The total purchase consideration for the acquisition was in the form of cash, with HK$ 78,361,000 at the acquisition dates and the excess over the cost of acquisition of HK$87,303,000 was recognised in the consolidated income statement.

Since the acquisition on 1 September 2006, Weifen contributed a profit of HK$91,000 to the Group's consolidated profit for the year ended 31 December 2006.

Since the acquisition of the controlling stake in March 2006, Nority contributed a loss of HK$34,105,000 to the Group's consolidated profit for the year ended 31 December 2006. Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK$4,488,814,000 and HK$275,194,000, respectively.

b) The following transaction took place during the year ended 31 December 2005:

In October 2005, the Group acquired a 75% equity interest in Liaoning Da Fa from an independent third party. Liaoning Da Fa is engaged in the real estate development projects. The purchase consideration of HK$7,213,000 for the acquisition was in the form of cash, which was paid at the acquisition date.

	Carrying amounts and fair value 2005 *HK$'000*
NET ASSETS/(LIABILITIES) ACQUIRED:	
Construction in progress	40,385
Trade and other payables	(30,768)
Minority interests	(2,404)
Total consideration	7,213
SATISFIED BY	
Cash	7,213

Net cash outflow from acquisition of subsidiary is as follow:

	2005 *HK$'000*
Bank balances and cash	–
Cash consideration paid	(7,213)
Net outflow of cash and cash equivalents in respect of acquisition of subsidiary	(7,213)

Since its acquisition, Liaoning Da Fa contributed no turnover and a loss of HK$340,000 to the Group's consolidated income statement for the year ended 31 December 2005.

c) The following transaction took place during the year ended 31 December 2004:

On 31 March 2004, the Group acquired the remaining 51% issued share capital of Deep Treasure Investments Limited ("Deep Treasure") for a consideration of HK$5,500,000. Deep Treasure is an investment holding company. Its subsidiaries are principally engaged in the information and technology related services. Details of the acquisition are as follows:

	2004
	HK$'000
NET LIABILITIES ACQUIRED	
Property, plant and equipment	4,140
Interests in associates	835
Inventories	7,730
Trade and other receivables	10,632
Bank balances and cash	1,864
Trade and other payables	(9,426)
Bank borrowings	(6,165)
Amount due to group companies	(10,526)
Amount due to a minority shareholder of a subsidiary	(733)
Minority interests	(3,109)
	(4,758)
Reclassified from interests in associates	6,754
Goodwill on acquisition	3,504
Total consideration	5,500
SATISFIED BY	
Cash	500
Other receivables	5,000
	5,500
Net cash inflow from acquisition of subsidiaries is as follows:	
Bank balances and cash	1,864
Cash consideration paid	(500)
Net inflow of cash and cash equivalents in respect of acquisition of subsidiaries	1,364

The subsidiaries acquired during the year ended 31 December 2004 contributed HK$49,697,000 to the Group's turnover and HK$1,426,000 to the Group's profit from operations.

46. MAJOR NON-CASH TRANSACTIONS

a) During the year ended 31 December 2006, 2005 and 2004, additions to plant and equipment amounting to approximately HK$8,326,000, HK$15,881,000 and HK$18,915,000 were financed by new finance leases.

b) During the year ended 31 December 2005 an amount of HK$19,231,000 in respect of capital contribution from a minority shareholder of a subsidiary was settled against the amount due to the minority shareholder. There was no cash flow impact on this transaction.

47. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Guarantees given to banks in connection with banking facilities granted to an associate, FWIL	210,000	210,000	174,000
Undertaking given to a third party for banking facilities utilised by a former associate	13,526	13,526	13,526
	223,526	223,526	187,526

As at 31 December 2006, 2005 and 2004 the banking facilities guaranteed by the Group to FWIL were utilised to the extent of approximately HK$203,100,000, HK$210,000,000 and HK$139,922,000 (note 22).

At the balance sheet date, the Company had no significant contingent liabilities.

48. PLEDGES OF ASSETS

At the balance sheet date, certain of the Group's assets were pledged to secure the banking facilities granted to the Group and are analysed as follows:

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Net book value of pledged assets:			
Investment properties	392,344	427,567	298,575
Property, plant and machinery	98,054	94,607	138,172
Inventories	102,688	81,225	88,773
Non-current assets held for sale	28,000	–	–
Financial assets at fair value through profit or loss	49,839	33,611	40,423
Bank deposits	12,130	15,480	14,450
Trade receivables	26,496	–	–
Other non-current asset	–	–	16,338
	709,551	652,490	596,731

49. OPERATING LEASES ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2006, 2005 and 2004 the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	28,841	9,862	9,395
In the second to fifth years, inclusive	63,993	7,335	7,892
Over 5 years	30,300	–	–
	123,134	17,197	17,287

(b) As lessee

The Group leases certain of its factory premises and office properties under operating lease arrangements. Leases for these factory premises are negotiated for terms ranging from one to five years, and those for office properties are for terms ranging from one to three years.

At 31 December 2006, 2005 and 2004 the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	20,928	19,040	14,797
In second to fifth years, inclusive	39,739	47,167	29,021
Over five years	66,747	74,259	77,924
	127,414	140,466	121,742

50. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 49(b) above, the Group had the following capital commitments at the balance sheet date:

	Group 2006	2005	2004
	HK$'000	HK$'000	HK$'000
Contracted but not provided for:			
Property, plant and equipment	8,624	5,825	3,984
Land use rights	2,730	7,386	6,724
	11,354	13,211	10,708
Authorised but not contracted for:			
Property, plant and equipment	6,816	–	–

As at 31 December 2006, 2005 and 2004, the Company did not have any significant capital commitments.

51. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

Name of related party	Nature of transaction	Notes	2006 HK$'000	2005 HK$'000	2004 HK$'000
Associates	Management fee income	*(i)*	–	(492)	–
	Interest income	*(ii)*	(1,065)	(1,436)	(1,457)
Jessica Management Limited *	Administrative fee income received	*(i)*	(720)	(720)	(984)
	Colour separation and photo processing income received	*(i)*	(783)	(733)	(874)
	Marketing services fee received		–	–	(17)
	Photo taking service fees received		–	–	(488)
	Rental income received	*(i)*	(283)	(273)	(241)
	Subscription of magazines paid	*(i)*	–	11	11
Capital Publishing Management Limited *	Administrative fee income received		–	–	(982)
	Colour separation and photo processing income received	*(i)*	(202)	(270)	(757)
	Rental income received	*(i)*	(132)	(266)	(240)
Directors and companies in which certain directors have beneficial interests	Commission, interest and brokerage income received from directors and companies in which certain directors have beneficial interests	*(iii)*	(2,883)	(1,301)	(809)
	Management fee income	*(i)*	(900)	–	–

* Mr. Ng Hung Sang, a director of the Company, is also a director and substantial shareholder of these companies

Notes:

(i) These transactions were carried out on terms determined and agreed by both parties.

(ii) Interest was charged at a rate of 0.5% per annum on the outstanding advances to an associate.

(iii) Commission and brokerage income relates to the Group's securities broking business and was calculated by the reference to commission and brokerage charged to third party clients. Interest income relates to the Group's margin financing business and was calculated at 4% over the Hong Kong Dollar Prime Rate.

(b) Other transactions with related parties:

Details of a guarantee given by the Group to an associate are set out in note 47(a) to the financial statements.

(c) Outstanding balances with related parties:

Details of the balances with related parties at the balance sheet date are included in notes 20, 31, 34, 38 and 39 to the financial statements.

(d) Compensation of key management personnel of the Group:

The executive directors and the non-executive directors are the key management personnel to the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, other interest-bearing loans, equity securities, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk, liquidity risk and equity instrument price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The directors expect that the interest rates will be relatively stable in 2007 and accordingly, the interest rate risk is considered limited.

Foreign currency risk

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in Mainland China operations. The directors consider that the rates of Hong Kong dollars against Renminbi and United States dollars in the foreseeable future are expected to be relatively stable and the appreciation in Renminbi against Hong Kong dollars is expected to be mild, therefore, there is no significant exposure to fluctuation in foreign exchange rates and any related hedges.

The Group has certain investments in Mainland China operations, whose net assets are exposed to translation risk. Management does not expect any material adverse impact on the foreign exchange fluctuation, as an expected mild appreciation in Renminbi will further benefit the Group's net assets position in Mainland China.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts due from cash clients and loans due from margin clients with collateral shortfalls. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical location arises mainly in Hong Kong. The Group has no significant concentration of credit risk by a single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and the directors of the Company consider the credit risk for such is minimal.

Liquidity risk

Internally generated cash flow and bank borrowings are the general sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating rate and are renewable annually. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations. The Group aims to maintain flexibility in funding by keeping committed credit lines available and sufficient bank deposits to meet its short term cash requirements. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources.

Equity instrument price risk

Equity instrument price risk represents the possibilities of changes in fair value or future cash flows due to changes in market prices. The Group is exposed to equity security price risk through its investment classified as available-for-sale financial assets and financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. Management monitors this exposure by maintaining a portfolio of investments with different risk profiles and the Investment Committee meets on an ad hoc basis to review the investments held by the Group in order to minimise the equity instrument price risk.

53. POST BALANCE SHEET EVENTS

(a) On 6 November 2006, Micon Limited ("Micon", a wholly-owned subsidiary of SCI) entered into agreements with an independent third party relating to the sale and purchase of 255,885,561 shares of Nority beneficially owned by Micon at an aggregate consideration of approximately HK$105 million. The transaction was approved at an extraordinary general meeting of Nority on 3 January 2007 and completed on 5 January 2007. Nority ceased to be a subsidiary of the Group upon completion. Details of which are disclosed in the circular of the Company dated 18 December 2006.

(b) On 9 January 2007, WTS International (BVI) Limited ("WTS"), a wholly owned subsidiary of SCI, entered into an agreement with South China Land Limited (formerly known as Capital Publications Limited) ("SCL") in relation to the disposal of 51% equity interest in Praise Rich Limited ("Praise Rich") at a consideration of HK$408 million by way of issuance of convertible note of SCL, entitling the convertible noteholders to convert into a maximum of 5,440,000,000 shares of SCL at a conversion price of HK$0.075. The transaction was approved at an extraordinary general meeting on 8 March 2007 and completed on 12 March 2007. Praise Rich ceased to be a subsidiary of the Group and would be accounted for as an associate of the Group upon completion. Details of which are disclosed in the circular of the Company dated 12 February 2007.

Subsequently, on 30 April 2007, WTS entered into an agreement with SCL in relation to the disposal of the remaining 49% equity interest in Praise Rich at a consideration of HK$392 million by way of issuance of convertibles note of SCL, entitling the convertible noteholder, Skychance, to convert into a maximum of 5,226,666,666 shares of SCL at a conversion price of HK$0.075.

54. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Buji Soft Toys Company (BVI) Limited	British Virgin Islands/Mainland China	US$1,000	74.8%	Manufacturing of toys
Buji Soft Toys Company Limited	Hong Kong	HK$20 HK$6,000,000 Non-voting deferred (note b)	74.8%	Trading of toys
Chongqing Fortuna Information Technology Co. Ltd. (note d)	The PRC/ Mainland China	RMB3,330,000	60.4%	Information technology related business
Chongqing South China Incyber Opti. & Info. Co. Ltd (note d)	The PRC/ Mainland China	RMB3,500,000	48.6%	Information technology related business
Chongqing South China Zenith Information Technology Co. Ltd. (note d)	The PRC/ Mainland China	RMB20,000,000	44.9%	Information technology related business

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Copthorne Holdings Corp.	Republic of Panama/ Hong Kong	US$200	74.8%	Property investment
Glad Light Investments Limited	Hong Kong	HK$10,000	100%	Property investment
Guangdong Huaxing Fruit Development Co. Ltd (note c)	The PRC/ Mainland China	USD7,193,599	74.8%	Fruit plantation
Hong Kong Four Seas Tours Limited	Hong Kong	HK$20,800,000 HK$1,200,000 Non-voting deferred (note b)	74.8%	Sale of air tickets and provision of travel related services
Jadeland Investments Limited	Hong Kong	HK$2	100%	Property investment
Liaoning Da Fa Real Estate Company Limited* (note d)	The PRC/ Mainland China	RMB202,000,000	59.8%	Real estate development
Man Wah Trading Limited	Hong Kong	HK$10,000	74.8%	Investment in securities
Micon Limited	Hong Kong	HK$2	74.8%	Investment holding
Nanjing South China Dafang Electric Co., Ltd (note d)	The PRC/ Mainland China	RMB77,550,000	70.0%	Property investment
Nanjing Weifen Machinery Company Limited (note d)	The PRC/ Mainland China	RMB29,035,500	62.1%	Property investment
Nority Development Limited*	British Virgin Islands/ Hong Kong	US$2	71.3%	Property investment
Nority International Group Ltd (Listed on the Stock Exchange of Hong Kong Limited)*	Cayman Islands/ Hong Kong	HK$26,837,263	71.3%	Investment holding
Nority Limited*	Hong Kong	HK$65 HK$12,000,000 Non-voting deferred (note b)	71.3%	Manufacturing and export of footwear
Shenyang Shenglian Electronics Science & Technology Ltd. (note d)	The PRC/ Mainland China	RMB4,000,000	52.3%	Information technology related business
Shineway Footwear Limited	Hong Kong	HK$500,000	74.8%	Trading of shoes
South China Financial Holdings Limited (Listed on The Stock Exchange of Hong Kong Limited)	Hong Kong	HK$125,122,274	72.8%	Investment holding
South China Capital Limited	Hong Kong	HK$10,000,000	72.8%	Provision of corporate advisory services

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
South China Commodities Limited	Hong Kong	HK$10,000,000	72.8%	Commodities broking
South China Finance And Management Limited	Hong Kong	HK$2	72.8%	Share dealings and provision of management services
South China Financial Credits Limited	Hong Kong	HK$42,125,000	71.6%	Money lending
South China Garments Company Limited	Hong Kong	HK$500,000	74.8%	Trading of garments
South China Industries Limited (Listed on The Stock Exchange of Hong Kong Limited)	Cayman Islands/ Hong Kong	HK$53,033,474	74.8%	Investment holding
South China Industries (BVI) Limited	British Virgin Islands/Hong Kong	US$1,000	74.8%	Investment holding
South China Leesheng Sporting Goods Co., Limited	Hong Kong	HK$2	74.8%	Trading of sports products
South China Media Limited	Hong Kong	HK$2	100%	Provision of publishing, marketing and promotional services
South China Research Limited	Hong Kong	HK$600,000	72.8%	Research publications
South China Securities Limited	Hong Kong	HK$10,000,000	72.8%	Securities broking, margin financing and provision of underwriting services
South China Securities (UK) Limited	United Kingdom	GBP200,000	72.8%	Securities broking
South China Shoes Products Company Limited	Hong Kong	HK$500,000	74.8%	Trading of shoes
South China Strategic Limited	Hong Kong	HK$308,594,000	74.8%	Investment holding
South China Strategic Property Development Limited	Hong Kong	HK$5,000,000	74.8%	Property development and investment holding
Strategic Finance Limited	Hong Kong	HK$2	74.8%	Provision of financing services
Tek Lee Finance and Investment Corporation Limited	Hong Kong	HK$287,498,818	100%	Investment holding
The Express News Limited	Hong Kong	HK$100,000	70.0%	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Tianjin South China Real Estate Development Co. Ltd. (note d)	The PRC/ Mainland China	RMB43,000,000	51.0%	Property development
Tianjin South China Leather Chemical Products Co. Ltd (note d)	The PRC/ Mainland China	RMB19,681,600	59.8%	Manufacturing of leather products
Tianjin South China Li Sheng Sports Wears Co. Ltd. (note d)	The PRC/ Mainland China	RMB9,940,167	59.8%	Manufacturing of sports products
Tianjin South China Shoes Products Co. Ltd (note d)	The PRC/ Mainland China	RMB36,100,200	59.8%	Manufacturing of leather footwear products
Wah Shing Electronics Company Limited	Hong Kong/ Mainland China	HK$571,500	52.4%	Manufacturing of toys
Wah Shing International Holdings Limited	Bermuda/ Hong Kong	HK$54,432,000	74.8%	Investment holding
Wah Shing Toys Company Limited	Hong Kong	HK$2 HK$3,020,002 Non-voting deferred (note b)	74.8%	Trading of toys and investment holding
Winfound Investments Limited	Hong Kong	HK$2	100%	Property investment

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

Notes:

(a) The above principal subsidiaries are all held indirectly by the Company.

(b) The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.

(c) This is a wholly-foreign-owned equity enterprise established in the PRC.

(d) These are Sino-foreign equity joint ventures established in the PRC.

The above summary lists only the subsidiaries of the Company which, in the opinion of the Company's directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

55. PARTICULARS OF A PRINCIPAL ASSOCIATE

Particulars of the Group's principal associate at 31 December 2006 are as follows:

Name of associates	Place of incorporation and operations	Class of share held	Percentage of equity interest indirectly held by the Group	Principal activity
FWIL*	Hong Kong	Ordinary	30%	Property development

In determining whether an investment should be classified as an associate, the directors have also considered whether the Group is in a position to exercise significant influence over the investment even though its interest therein is less than 20% or whether the Group can exercise control over the investment even though its interest therein is more than 50%.

The financial year end date of FWIL is on 30 June. The consolidated financial statements are adjusted for the material transactions between FWIL and Group companies between 1 January and 30 June. FWIL uses 30 June as its reporting date to conform with its holding company's reporting date.

The Group's shareholdings in the associates all comprise equity shares held through subsidiaries of the Company.

The above summary lists only the associates of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of the other associates would, in the opinion of the directors, result in particulars of excessive length.

* *Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.*

56. FINANCIAL INFORMATION OF PRAISE RICH GROUP

On 9 January 2007, WTS, a wholly owned subsidiary of SCI entered into an agreement with SCL in respect of the disposal of 51% equity interest in Praise Rich at a consideration of HK$408 million by way of issuance of convertible note of SCL, entitling the convertible noteholders to convert into a maximum of 5,440,000,000 shares of SCL at a conversion price of HK$0.075. The transaction was approved at the extraordinary general meeting on 8 March 2007 and completed on 12 March 2007.

Subsequently, on 30 April 2007, WTS entered into an agreement with SCL in relation to the disposal of the remaining 49% equity interest in Praise Rich at a consideration of HK$392 million by way of issuance of convertible note of SCL, entitling the convertible noteholders, Skychance, to convert into a maximum of 5,226,666,666 shares of SCL at a conversion price of HK$0.075. Priase Rich was a wholly owned subsidiary of SCI as at 31 December 2005 and 31 December 2006 and the financial results of Praise Rich Group were consolidated into the Company's financial statement for the year ended 31 December 2005 and 31 December 2006.

The following table summaries the consolidated income statements, the consolidated balance sheet and the consolidated cash flow statement of Praise Rich Group for the period form 23 May 2005 (being date of incorporation of Praise Rich) to 31 December 2005 and year ended 31 December 2006 which are also included in the accountants' report of Praise Rich Group as set out in Appendix III of the published SCL Group circular dated 12 February 2007.

A. Consolidated Income Statements

	Period from 23 May 2005 (date of incorporation) to 31 December 2005 *HK$*	**Year ended 31 December 2006** *HK$*
Revenue	–	–
Other income	9,725	146,149
Administrative expenses	(1,825,287)	(5,109,438)
Operating loss	(1,815,562)	(4,963,289)
Finance costs	–	(2,667,735)
Loss before income tax	(1,815,562)	(7,631,024)
Income tax expense	–	–
Loss for the period/year	(1,815,562)	(7,631,024)
Attributable to:		
Equity holders of Praise Rich	(1,532,180)	(6,465,644)
Minority interest	(283,382)	(1,165,380)
Loss for the period/year	(1,815,562)	(7,631,024)

B. Consolidated Balance Sheets

	As at 31 December 2005 *HK$*	As at 31 December 2006 *HK$*
ASSETS AND LIABILITIES		
Non-current assets		
Construction in progress	94,661,415	188,324,248
Property, plant and equipment	316,944	233,724
	94,978,359	188,557,972
Current assets		
Prepayments and other receivables	202,545	1,574,411
Amounts due from fellow subsidiaries	2,833,178	11,500,000
Amount due from a minority shareholder of a subsidiary	–	12,962,792
Bank balances and cash	6,186,302	5,276,010
	9,222,025	31,313,213
Current liabilities		
Other payables and accruals	25,327	1,001,935
Amount due to immediate holding company	2,947,600	964
Amount due to a minority shareholder of a subsidiary	11,248,558	–
Amounts due to fellow subsidiaries	70,003,598	102,517,218
	84,225,083	103,520,117
Net current liabilities	(75,003,058)	(72,206,904)
Total assets less current liabilities	19,975,301	116,351,068
Non-current liabilities		
Bank loan	–	80,000,000
Net assets	19,975,301	36,351,068
EQUITY		
Share capital	8	8
Exchange reserve	156,239	4,972,599
Accumulated losses	(1,532,180)	(7,997,824)
Equity attributable to equity holders of Praise Rich	(1,375,933)	(3,025,217)
Minority interest	21,351,234	39,376,285
Total equity	19,975,301	36,351,068

C. Consolidated Cash Flow Statements

	Period from 23 May 2005 (date of incorporation) to 31 December 2005	Year ended 31 December 2006
	HK$	*HK$*
Cash flows from operating activities		
Loss before income tax	(1,815,562)	(7,631,024)
Adjustments for:		
Interest income	(9,725)	(125,788)
Interest expenses	–	1,964,774
Depreciation	2,869	190,373
Gain on disposal of a subsidiary	–	(20,361)
Operating loss before working capital changes	(1,822,418)	(5,622,026)
Increase in prepayments and other receivables	(202,545)	(1,447,338)
Increase in other payables and accruals	25,327	396,136
Increase in amounts due from fellow subsidiaries	(2,833,178)	(11,500,000)
Increase in amount due from a minority shareholder of a subsidiary	–	(24,211,350)
Increase in amount due to a minority shareholder of a subsidiary	(19,520,673)	–
Increase/(decrease) in amount due to immediate holding company	2,947,600	(2,946,636)
Net cash used in operating activities	(21,405,887)	(45,331,214)
Cash flows from investing activities		
Interest received	9,725	125,788
Purchase of property, plant and equipment	(319,813)	(95,314)
Expenditure in construction in progress	(54,276,800)	(89,503,327)
Acquisition of a subsidiary	(7,211,538)	–
Disposal of a subsidiary	–	(18,596)
Net cash used in investing activities	(61,798,426)	(89,491,449)
Cash flows from financing activities		
Interest paid	–	(1,384,302)
Drawdown of bank loan	–	80,000,000
Increase in amounts due to fellow subsidiaries	70,003,598	35,461,227
Issue of shares	8	–
Capital contributions from minority shareholders of a subsidiary	19,230,770	19,190,431
Net cash generated from financing activities	89,234,376	133,267,356
Net increase/(decrease) in cash and cash equivalents	6,030,063	(1,555,307)
Effect of foreign exchange rate changes	156,239	645,015
Cash and cash equivalents at the beginning of the period/year	–	6,186,302
Cash and cash equivalents at the end of the period/year	6,186,302	5,276,010
Analysis of the cash and cash equivalents		
– Bank balances and cash	6,186,302	5,276,010

1. WORKING CAPITAL

The Directors are of the opinion that, taking into account of the internal resources and banking facilities available to the Enlarged Group, the Enlarged Group will have sufficient working capital for at least twelve months from the date of this circular.

2. MATERIAL ADVERSE CHANGES

Up to the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31 December 2006, being the date to which the latest audited consolidated financial statements of the Group were made up.

3. INDEBTEDNESS

As at the close of business on 30 April 2007, the Enlarged Group had unsecured and secured bank borrowings of HK$169.8 million and HK$574.2 million respectively including unsecured and secured bank overdrafts of approximately HK$25.0 million and HK$0.6 million. The bank borrowings were secured by mortgage and other charges of properties, plant and equipment, inventories, trade receivables listed securities and bank deposits of the Enlarged Group and certain listed securities of the clients in Hong Kong with aggregate net book value of HK$1,005.7 million. All banking facilities were guaranteed either by the Company or its subsidiaries. As at 30 April 2007, the Enlarged Group had hire purchase commitments of HK$12.3 million and the advances from shareholders and minority shareholders of subsidiaries were amounted to HK$17.1 million and HK$54.6 million respectively. Save for the above, the Enlarged Group did not have any other outstanding bank borrowings, mortgage, charge or any other borrowings, liabilities under acceptances or acceptance credits or hire purchase commitments.

The Enlarged Group had provided guarantees to banks for banking facilities granted or to be granted to Firm Wise Investment Limited (an associated company of SCI) of HK$210 million and an undertaking given to Independent Third Party for banking facilities utilised by an associate of HK$13.5 million. Save for the above, the Enlarged Group did not have any other material contingent liabilities.

As at the close of business on 30 April 2007, the Enlarged Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, and term loans.

The Directors are not aware of any material adverse changes in the Enlarged Group's indebtedness position and contingent liabilities since 30 April 2007.

4. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS OF THE ENLARGED GROUP

(A) Management discussion and analysis of the results of the Group

The following is the management and discussion analysis extracted from the annual report for the Group for the years ended 31 December 2004, 2005 and 2006.

(i) For the year ended 31 December 2006

The Group recorded turnover of HK$4.4 billion and profit attributable to the equity holders of the Company of HK$205.3 million for the year ended 31 December 2006, representing an increase of 3% in turnover and an increase of 1.1 times in profit as compared to 2005.

Trading and Manufacturing

The segment recorded a 7.7% drop in turnover to HK$2.1 billion and a profit of HK$45.4 million in 2006, a decrease of 49.6% as compared to 2005.

Our diversified industrial operations in the PRC faced similar harsh macroeconomic factors, namely increased worker wages, appreciation of the Renminbi, and rising raw material prices. Profit performance suffered relatively minor setbacks, with the major impact on the profit performance from the consolidation of the loss attributable to the footwear manufacturing operation of Nority International Group Limited ("Nority").

2006 was a year of corporate restructuring for our manufacturing segment with two major accomplishments: the privatization of Wah Shing International Holdings Limited ("Wah Shing"), previously listed on the Singapore Exchange, and the acquisition of an additional interest in Nority. By grouping our various manufacturing units under one umbrella, we plan to streamline our operations in the long-term.

Property Investment and Development

Our property portfolio reported a rental profit of HK$11.6 million and a revaluation gain of HK$66.3 million. During the year, we disposed of certain Hong Kong properties at aggregate cash proceeds of HK$39.2 million, and recorded a gain on disposal of HK$5.3 million.

This year, our Group expanded our property interests in the PRC by increasing our controlling stake in a joint venture that holds a sizeable site within the central retail district in Nanjing ("the Nanjing retail site"), the provincial capital city of Jiangsu. We now hold a 87% interest in the Nanjing retail site, which involves retail floor area in excess of 50,000 square metres and is held primarily for rental purposes.

Our Hong Kong rental portfolio performed satisfactorily.

Travel and Related Services

Hong Kong Four Seas Tours Limited ("Fourseas") recorded a 17.1% increase in turnover to HK$1.9 billion and almost doubled operating profit to HK$25.4 million in the year 2006. Fourseas benefited from a strong increase in passenger volume in the market and further strengthened its position in the ticketing wholesale market.

Securities and Financial Services

Our securities and financial services segment reported an increase in turnover to HK$159.2 million and a profit of HK$19.9 million for the year 2006, representing a 39.9% increase in turnover.

Commission income from securities and commodities broking benefited from increases in stock turnover and income from margin financing activities rose substantially due to a number of sizeable initial public offers launched during last year.

Media and Publications

Our media arm achieved a turnover of HK$197.8 million, a decrease of 5.8% year-on-year, while recording a loss of HK$65.9 million, as compared with a loss of HK$54.4 million in 2005. The significant underperformance of this segment resulted in management decision to divest several loss making magazines in both Hong Kong and PRC market.

Information and Technology

For our IT segment, the turnover decreased from HK$82.4 million in 2005 to HK$72.1 million in 2006 and operating loss increased from HK$49,000 in 2005 to HK$794,000 in 2006. The increased loss was largely due to increase in administrative expenses.

Agriculture

The agricultural business units reported a loss of HK$5.2 million in this year as compared with a loss of HK$5.6 million in 2005 before gain or loss on fair value of biological assets. We benefited from some cost savings made in our Guangzhou lychee farm operations but the business unit continues to be in its investment period due to our expanding winter dates project in Hebei.

As at 31 December 2006, the Group had a current ratio of 1.05 and a gearing ratio of 10.5%. The gearing ratio is computed on comparing the Group's total long-term bank borrowings of HK$181.7 million to the Group's equity of HK$1,735.4 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings.

During the year, the Group raised some purpose-specific bank borrowings for the privatisation of Wah Shing and the acquisition of an additional interest in a property joint venture in Nanjing. The Group's non-current assets rose substantially but net current assets (current assets less current liabilities) reduced as a result. The increased non-current assets are mostly income generating assets and therefore will benefit the Group in terms of its coming revenue, profit and cash flow. The reduced net current assets is only a temporary situation, and the Directors believe that the Group has sufficient banking facilities and working capital for its operations.

As at 31 December 2006, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

For the year ended 31 December 2006, the Group raised its available-for-sale equity investments and financial assets at fair value through profit or loss by HK$18.9 million and HK$72.6 million respectively, after accounting for the increase in fair values of HK$3.4 million and HK$1.3 million for available-for-sale equity investments and financial assets at fair value through profit or loss respectively by the end of the year.

The Group had no other debt securities or capital instruments as at 31 December 2006.

During the year,

(1) the Group completed the privatisation of Wah Shing.

(2) the Group increased its controlling stakes in Nority from 42.5% to 95.4%. Furthermore, the Group entered into agreements to disposal of its entire equity interest in Nority in late 2006.

(3) the Group acquired 87% equity interest in a joint venture in Nanjing at a consideration of approximately RMB41.7 million.

Save as disclosed above, there were no material acquisitions and disposals during the year.

As at 31 December 2006, a significant portion of the short-term borrowings was for normal trading purposes with the level of borrowings depending on the level of trading activities. Certain of the property, plant and equipment and a significant portion of investment properties of the Group secured the long term banking facilities.

During the year ended 31 December 2006, the sales to the Group's five largest customers accounted for 35% of the total sales and sales to the largest customers included therein amounted to 13%. Purchases from the Group's five largest suppliers accounted for 32% of the total purchases and purchase from largest supplier included therein accounted for 23% of the total purchase for the year.

None of the Directors or any of their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers and suppliers.

As at 31 December 2006, the total number of employees of the Group was approximately 24,900. Employees' cost (including directors' emoluments) was amounted to HK$680 million for the year.

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidised training programmes are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme which came into effect on 28 June 2002.

(ii) For the year ended 31 December 2005

The Group recorded turnover of HK$4.3 billion and profit attributable to the equity holders of the Company of HK$96.6 million for the year ended 31 December 2005, representing an increase of 14% in turnover and a decrease in profit of 22% as compared to 2004.

Trading and Manufacturing

The trading and manufacturing operations of the Group recorded a 16% increase in turnover to HK$2.3 billion and a segment profit of HK$81.5 million in 2005 which is a significant improvement over the 2004 results (HK$1.9 billion and HK$30.7 million respectively).

Our footwear manufacturing operation continued to achieve outstanding performance in 2005. It was again awarded "International Supplier of the Year 2005" by Wal-Mart, a major customer of the footwear manufacturing operation, in three consecutive years.

Property Investment and Development

Our property portfolio reported rental income of HK$12.8 million and a revaluation of HK$144.9 million for the year 2005 (HK$14.0 million and HK$77.5 million respectively for the year 2004). A slight decease in this segment result before accounting for depreciation and amortisation and fair value gains by HK$0.6 million was caused by the increase in areas occupied by the Group companies. During the year, the Group acquired 75%, equity interest in Liaoning Dafa, which is engaged in the real estate development projects.

Travel and Related Services

Four Seas, our travel business division achieved a 11% increase in turnover to HK$1.6 billion and recorded an operating profit of HK$12.2 million for the year 2005. 2005 has been another year of expansion as our core ticketing services continue to increase market share in a competitive environment. Our travel business suffered cut throat competition in the second quarter of 2005 that caused a decrease in operating profit as compared to the previous year.

Securities and Financial Services

During the year 2005, performance of the Group's broking business dropped substantially, which was, attributed to the low market stock turnover during the first half of the year. The stock market remained difficult for local brokerage firms as the statutory regulations continued to favour banks and sizable international firms. The segment results from the securities and financial services turned from profit of HK$33.4 million in 2004 to a loss of HK$23.4 million. The turnaround to loss was mainly related to an unrealized holding loss of equity investments of HK$16.0 million and a provision for bad and doubtful debts of HK$14.3 million.

Media and Publications

Our media and publications achieved a 19% year-on-year increase in turnover to HK$210.1 million for the year 2005. The year has been a high investment period for the Group as we sought to maintain or enlarge market share by aggressively expanding our magazine portfolio. On top of launching two new weekly titles (namely "Friday" and "完全女人手冊") and one monthly title, we also launched four new titles in the market of The People's Republic of China (the "PRC") .

Information and Technology

Our portfolio of information technology business units in the PRC recorded a 28% year-on-year increase in turnover to HK$82.4 million and a minor loss of approximately HK$49,000.

Agriculture

Our agricultural business continues to be in the investment period. Our acreage expansion program has been focused on Hebei province in 2005.

Share of profits and losses of associates

The share of profits and losses of associates included share of loss from Nority, and share of profits and appreciation in fair value of investment properties from associates in Hong Kong and in the PRC.

As at 31 December 2005, the Group had a current ratio of 1.17 and a gearing ratio of 6.7%. The gearing ratio is computed on comparing the Group's total non-current bank borrowings of HK$103.1 million to the Group's equity of HK$1,540.5 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings. The Directors believe that the Group has sufficient banking facilities and working capital for its operations.

As at 31 December 2005, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

For the year ended 31 December 2005, the Group reduced its available-for-sale equity investments and financial assets at fair value through profit or loss by HK$21.1 million and HK$8.9 million respectively, after accounting for the decreases in fair values of HK$2.7 million and HK$16.0 million for available-for-sale equity investments and financial assets at fair value through profit or loss respectively by the end of the year.

At as the balance sheet date, South China Finance Holdings Limited ("SCF") (formerly known as "South China Brokerage Company Limited") had 970,000,000 outstanding warrants ("SCF Warrants"). Except for 142,900,000 SCF Warrants had been exercised by the warrant holders in March 2006, all remaining SCF Warrants had been expired.

Save as disclosed above, the Group had no other debt securities or capital instruments as at 31 December 2005 and up to the date of this Annual Report.

During the year ended 31 December 2005, the Group acquired further an approximately 5.8% equity interests of Wah Shing for successive considerations of HK$12.6 million in connection with the proposed privatisation of Wah Shing.

Save as disclosed above, there were no material acquisitions and disposals during the year.

As at 31 December 2005, a significant portion of the short-term borrowings was for normal trading purposes with the level of borrowings depending on the level of trading activities. Certain of the property, plant and equipment and a significant portion of investment properties of the Group secured the long term banking facilities.

During the year ended 31 December 2005, the sales to the Group's five largest customers accounted for 39% of the total sales and sales to the largest customers included therein amounted to 18.5%. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the Directors of the Company or any of their associates or any shareholders (which to the best knowledge of the Directors, owned more than 5% of the Company's issued share capital) had a material interest in the Group's five largest customers and suppliers.

As at 31 December 2005, the total number of employees of the Group was approximately 20,600. Employees' cost (including directors' emolument) was amounted to HK$644 million for the year.

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidised training programmes are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme which came into effect on 28 June 2002.

(iii) For the year ended 31 December 2004

Building on the recovery of local and global economies, the Group was able to achieve another good year of result in 2004. The Group recorded turnover HK$3.8 billion and profit attributable to shareholders of HK$124.2 million for the year ended 31 December 2004, representing increases of 11% and 33% in turnover and profit respectively over the last year.

SCF benefited from the high daily trading volume and high market capitalisation in the local stock market in 2004 and recorded double-digit growth in both turnover and net profit. The toy manufacturing business under SCI was however affected by the substantial rise in raw material costs, in particular plastic, driven up by the surging oil prices. This directly reduced the Group's overall gross profit margin and indirectly raised our distribution costs. Administrative expenses were further reduced by our continuing efforts in bringing down costs at the operating level which helped to offset some of the adverse impacts from rising direct costs. Our travel business attained impressive growth with a profit increase to almost double the previous year. The rebound of prices of investment properties and gain on securities trading also contributed to the overall improvement in result.

As at 31 December 2004, the Group reported an unrealized gain of HK$11.4 million on holdings of trading securities and a surplus on revaluation of our investment property portfolio of HK$77.5 million. In addition, there was a write-back of allowance for advances to a principal associate of HK$57.9 million due to the significant appreciation in the underlying property value of our 30% owned Grade-A commercial building, "The Centrium" in Central, as compared to a write-back of HK$41.1 million in 2003.

During the year, the Group acquired additional equity interest in a subsidiary, Wah Shing, and recognized a discount on acquisition of HK$15.7 million.

Trading and Manufacturing

The Group's toy OEM business carried out through Wah Shing Toys Company Limited ("WST") and Wah Shing Electronics Company Limited ("WSE") under Wah Shing performed differently in the last year. WST's result was far below expectation and reported a drop of 78% from HK$58 million to HK$13 million due to a substantial decrease in sales and significant increase in write-down of inventories. WST also faced the surging raw material prices and labour costs in the Mainland. The continuing fierce market competition made it difficult for WST to pass on the increased material costs to customers.

WSE was able to turn around its result from a loss of HK$7.9 million in 2003 to a profit of HK$9.3 million principally attributable to the significant increase in demand for electronic toys resulting in a sharp jump in turnover by 1.2 times over 2003.

The performance of the footwear operation under Wah Shing was satisfactory. In March 2004, it won Wal-Mart's "International Supplier of the Year 2003" award in recognition of its outstanding quality and logistics. Sales orders from Wal-Mart surged in 2004. Its turnover in 2004 increased by 32% over 2003 and it reported a profit of HK$6.3 million.

The other leather products and garment operations made a positive contribution, though insignificant, to the Group during the year. The aggregated operating profit from the trading and manufacturing segment was HK$30.7 million for the year 2004.

The Group's associate Nority which engages in the manufacture and export of athletic-style leisure footwear, reported a net loss of HK$29.5 million for the year 2004.

Securities and Financial Services

The average daily stock market turnover leaped from HK$10.3 billion in 2003 to HK$15.9 billion in 2004. Our income from securities and futures broking increased by 19% to HK$74.0 million for the year 2004 as compared with 2003. In August 2004, the trading of Hang Seng Index Futures contracts was newly launched on the existing online trading platform. Both the trading volume and the number of clients for online securities trading continued to grow. The result from the broking operation turned from loss of HK$11.9 million in 2003 to a profit of HK$6.2 million in 2004.

The size of the loan and advances portfolio for margin financing and personal loans dropped slightly by 7% to HK$179.7 million. In line with this decline, the overall income from this operation dropped moderately to HK$30.3 million. However, the provision for bad and doubtful debts was substantially reduced by 49% to HK$7.4 million in 2004 due to our tight credit monitoring measures to control the quality of our loan portfolio.

Our corporate advisory division was not profitable amid the intense competition in obtaining corporate advisory business. However, it did well to reduce the operating loss from HK$9.8 million in 2003 to HK$1.6 million in 2004.

For the year under review, SCF's turnover and profit attributable to shareholders increased by 12% to HK$132.0 million and by 1.1 times to HK$68.6 million respectively. The gains on holdings of trading and non-trading securities helped to contribute to the satisfactory results in addition to its improvement in operating activities.

Travel and Related Services

Fourseas, our travel business division sustained its impressive growth for another year in 2004. It achieved a 36% increase in turnover to HK$1.5 billion and a 96% increase in operating profit to HK$17.7 million. During the year, Fourseas established consolidated agent status for more major airlines in Hong Kong so as to increase its competitive advantage in the wholesale ticketing business. During the year, student travel packages and corporate sales business with higher profit margin grew steadily. At the same time, more marketing and services product developments were made to strengthen and broaden the client base.

Property Investment and Development

The property market improved considerably throughout the year. Our property arm recorded a 33% increase in gross rental income and a net operating profit of HK$9.4 million and an unrealised gain on revaluation of HK$77.5 million, as a result of increased rental revenues from higher property occupancy rates, a reviving commercial sector and better renewal terms during the year. The most significant appreciation in property value was recorded as a write-back of allowance for advances to an associate in respect of the 30% owned Grade-A commercial building, "The Centrium" in Central. Over 97% of the gross floor area was leased out at the end of 2004, generating very satisfactory revenue.

Media and Publications

The media group overall made progress in terms of the market position and market penetration of our magazines, and considerable investment was made into the launch and nurturing of young and new titles. During the second half of last year, the media business launched two new magazines, namely "Friday Weekly", a weekly trends and style magazine targeted at the youth market and "Capital Femme", a women's lifestyle and finance monthly magazine. Individual mature magazines experienced significant growth in advertising revenues, with extensions of titles launched, to further strengthen the brand names of these titles, and to provide a wider base for growth in advertising and circulation revenues in the future. By the end of 2004, the media group had launched pilot testing titles in Beijing to prepare for the establishment of our publishing titles in the PRC market.

Information and Technology

The Group revitalised its IT business in 2004. The turnover of the IT business soared by 72% to HK$64.2 million with a reduced loss of HK$0.3 million when compared to a loss of HK$4.5 million incurred in the previous year. In 2004, the Group consolidated its business platform and increased its interest in certain profitable PRC IT joint ventures with perceived good potential for growth in the foreseeable future.

Agricultural Business

The agricultural business reported a loss of HK$4.8 million for the year 2004 as compared with a loss HK$8.2 million for the year 2003. Operations continue to focus on product diversification and cost control methods at our Guangzhou fruit plantation and Nanjing fish rearing projects, while our Hebei province fruit plantation project continues to expand in acreage as we enter into our second year of investment.

As at 31 December 2004, the Group had a current ratio of 1.17 and a gearing ratio of 8.6%. The gearing ratio is computed on comparing the Group's total long-term bank borrowings of HK$75.2 million to the Group's shareholders' fund of HK$872.4 million. The Group's operations and investments continue to be financed by internal resources and bank borrowings. The Directors believe that the Group has sufficient banking facilities and working capital for its operations.

As at 31 December 2004, the Group had no significant exposure to fluctuations in foreign exchange rates and any related hedges.

For the year ended 31 December 2004, the Group reduced and increased its non-trading and trading securities portfolios by HK$25.2 million and HK$3.5 million respectively, after accounting for the increase in fair values of HK$3.2 million and HK$11.4 million for non-trading and trading securities respectively by the end of the year.

Subsequent to the balance sheet date, on 22 February 2005, SCF, a subsidiary of the Company, placed 970,000,000 warrants of HK$0.026 each (the "Warrants") to independent investors. The Warrants entitle the holders to subscribe in cash for ordinary shares of HK$0.025 each in SCF at a subscription price of HK$0.1012 per share (subject to adjustment) and are exercisable on or before 2 March 2006. The net proceeds under the warrant placing of approximately HK$25 million will be used as working capital of the Group.

Save as disclosed above, the Group had no other debt securities or capital instruments as at 31 December 2004.

During the year ended 31 December 2004, the Group acquired a further approximately 9% equity interests of Wah Shing for successive considerations of HK$22 million.

On 31 March 2004, the Group acquired the remaining 51% equity interest in information and technology business from Geely Automobile Holdings Limited (formerly known as Guorun Holdings Limited) ("Geely") for an aggregate consideration of HK$5.5 million of which HK$0.5 million was satisfied in cash and the remaining HK$5 million was satisfied by a set-off against an equivalent amount owed from Geely to the Group.

As at 31 December 2004, a significant portion of the short-term borrowings was for normal trading purposes with the level of borrowings depending on the level of trading activities. The property, plant and equipment and the development and investment properties of the Group mostly secured the long term banking facilities.

During the year ended 31 December 2004, the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases while the five largest customers of the Group accounted for approximately 40% of the Group's total turnover. In addition, the largest customer of the Group accounted for approximately 20% of the Group's turnover. None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or suppliers.

As at 31 December 2004, the total number of employees of the Group was approximately 27,600. Employees' cost (including directors' emoluments) was amounted to HK$531 million for the year.

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidised training programmes are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. The Company adopted an employee share option scheme which came into effect on 28 June 2002.

(B) Management discussion and analysis of the results of the SCL Group

The following is the management and discussion analysis extracted from the annual report for SCL Group for the years ended 31 December 2004, 2005 and 2006.

(i) For the year ended 31 December 2006

For the year ended 31 December 2006, the SCL Group's turnover decreased by 5% to HK$23.9 million as compared with HK$25.1 million in 2005. The slight decrease in turnover was mainly attributable to the World Cup event when many advertisers decided to direct the majority of the marketing promotions to media of World Cup.

SCL Group however recorded a significant decrease in operating costs. This was a result of a decrease in printing costs and the streamlining of operations. Total operating cost was reduced to HK$23.9 million from HK$27.1 million.

Despite the drop in advertising revenue, SCL Group still managed to record a small profit of HK$0.15 million compared with a loss of HK$1.95 million in 2005 as a result of the large cost savings. The three titles continued to expand and solidify their status in their respective areas. Capital hosted the "Capital Leaders of Excellance 2006" and "The 1st Capital Outstanding China Enterprise Awards" for the first time this year. Capital CEO conducted a large promotional event by Tourism Australia that was targeted at the affluent executives in Hong Kong whilst Capital Entrepreneur continued their series of awards such as Hong Kong Distinguished Enterprise Pilgrimage 2006 and Macau Distinguished Enterprise Pilgrimage 2006 for upcoming successful enterprises.

As at 31 December 2006, SCL Group had net current assets of HK$279,000.

As at 31 December 2006 (i) SCL Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) SCL Group had no charges on its assets; (iii) SCL Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; and (iv) SCL Group did not have any contingent liabilities.

As SCL Group had no bank borrowings, no gearing ratio is presented for 2006.

Except the Previous Transaction, as at 31 December 2006, SCL Group did not have any significant investment plans.

During the year, SCL Group did not made any material acquisitions, disposals and investment.

As at 31 December 2006, the total number of employees of SCL Group was 50. Employees' cost (including directors' emoluments) amounted to HK$11.2 million for the year.

In addition to salary, other fringe benefits such as medical subsidies, life insurance and provident fund are offered to all employees of the SCL Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. An employee share option scheme was adopted by SCL on 24 June 2002 and became effective on 18 July 2002.

(ii) For the year ended 31 December 2005

For the year ended 31 December 2005, SCL Group's turnover increased by 60% to HK$25.1 million (compared with HK$15.7 million in 2004). The surge in turnover was attributable to the continued success of "資本雜誌 Capital" magazine and the rapid growing acceptance of "資本企業家 Capital Entrepreneur" and "資本才俊 Capital CEO".

Each of the magazines has strengthened its grip within its individual niche markets. "資本雜誌 Capital" appeals to the large successful corporate giants with an added emphasis on politics and macroeconomics. "資本才俊 Capital CEO" attracts those working executives and the leaders of second generation in the business world. "資本企業家 Capital Entrepreneur" targets to those becoming proprietors of successful enterprise.

The individuality and acceptance of each magazine can be seen in the year ending events of each magazine. "資本雜誌 Capital" hosted its traditional "Outstanding Enterprise Award" ceremony this year with an increase of up to seventeen distinguished enterprises being awarded these prestigious titles. "資本才俊 Capital CEO" toasted its success by inviting twelve very promising second generation CEO's at "The Most Sophisticated CEO Awards" and "資本企業家 Capital Entrepreneur" hosted its own version of Entrepreneurial Spirit Awards 2005.

The running of two additional magazines in late 2004 resulted in an increase in operating costs for SCL Group for the year ended 2005 when compared with that for 2004. However, the acceleration in advertising revenue and the positive attributes generated by the three individual titles are regarded successful and have been lifting the "資本雜誌 Capital" brand to a higher level.

The loss for the year had been reduced significantly by 45% from a loss of HK$3.6 million in 2004 to a loss of HK$2.0 million. It was mainly attributable to the improvement in circulation and advertising incomes with a well-received readership in 2005 for the two fresh magazines, "資本才俊 Capital CEO" and "資本企業家 Capital Entrepreneur".

As at 31 December 2005, SCL Group had net current liabilities of HK$253,000.

As at 31 December 2005 (i) SCL Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) SCL Group had no charges on its assets; (iii) SCL Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; and (iv) SCL Group did not have any contingent liabilities.

As SCL Group had no bank borrowings, no gearing ratio is presented for 2005.

As at 31 December 2005, SCL Group did not have any significant investment plans.

During the year, SCL Group did not made any material acquisitions, disposals and investment.

As at 31 December 2005, the total number of employees of SCL Group was 52. Employees' cost (including directors' emoluments) amounted to HK$11.9 million for the year.

In addition to salary, other fringe benefits such as medical subsidies, life insurance and provident fund are offered to all employees of the SCL Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. An employee share option scheme was adopted by SCL on 24 June 2002 and became effective on 18 July 2002.

(iii) For the year ended 31 December 2004

For the year ended 31 December 2004, SCL Group's turnover increased by 62% to HK$15.7 million (compared with HK$9.7 million in 2003). The significant improvement was due to the increase in advertising revenue and corporate services income of "資本雜誌Capital" Magazine. In addition, the launch of our two new extended titles "資本才俊 Capital CEO" and "資本企業家 Capital Entrepreneur" also recorded satisfactory performances.

"資本雜誌 Capital" magazine continued to build upon its reputable brand name and increasing advertiser and consumer confidence with a 37% increase in advertising revenue and a 220% increase in corporate services income. SCL Group opened up new sources of revenue through the organization of seminars and events such as Capital's "Best of the Best for Executives 2004" and the year end climax of "The 5th Capital Outstanding Enterprise Award".

"資本才俊 Capital CEO" was launched in June and has become the most readily accepted financial magazine with a rapidly increasing reader base and strong prominent brand name. It strives to appeal to the mass in terms of a financial magazine but with added emphasis on good taste and luxury living. The success of the magazine was reflected in "The Most Sophisticated CEO Awards" arranged in December 2004 where the magazine played host to a variety of youthful energetic CEO's of the future.

"資本企業家 Capital Entrepreneur" also gained considerable success in its initial launch and is expected to follow in the steps of "資本雜誌 Capital" and "資本才俊 Capital CEO". "資本伊人 Capital Femme" was conducted through a licensing arrangement in October 2004 which did not have material financial impact to SCL Group.

The launching of the two new magazines did however result in accelerated operating costs for the year.

As at 31 December, 2004, SCL Group had net current assets of HK$1,611,000.

As at 31 December, 2004 (i) SCL Group had no significant exposure to fluctuations in exchange rates and any related hedges; (ii) SCL Group had no charges on its assets; (iii) SCL Group had no loan arrangements with or had not obtained any credit facilities from any financial institutions; and (iv) SCL Group did not have any contingent liabilities.

As SCL Group had no bank borrowings, no gearing ratio is presented for 2004.

As at 31 December, 2004, SCL Group did not have any significant investment plans other than those set out in the section headed "Statement of Business Objectives" in the Prospectus.

During the year, SCL Group did not made any material acquisitions, disposals and investment other than those set out in the prospectus of the Company dated 10th July, 2002 (the "Prospectus") (Appendix V under "Reorganisation").

As at 31 December, 2004, the total number of employees of SCL Group was 48. Employees' cost (including directors' emoluments) amounted to HK$8.5 million for the year.

In addition to salary, other fringe benefits such as medical subsidies, life insurance and provident fund are offered to all employees of the SCL Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on performance. An employee share option scheme was adopted by SCL on 24 June 2002 and became effective on 18 July 2002.

5. FINANCIAL AND TRADING PROSPECTS

Trading and Manufacturing

Our toys operation is faced with a tough operating environment for the near future, as there is no short-term solution for the adverse trends in currency, material prices, and wage rates. Nevertheless, our management believes that if we re-focus our efforts on efficiency and continue to broaden our customer base, in the long run we will stay ahead of competitors.

Our shoes operation was again awarded "International Supplier of the Year 2006" by Wal-Mart, a major customer of the footwear manufacturing operation. This is the fourth consecutive year we received this award. The operation is on track to deliver record turnover for 2007 as our previous enlargements and improvements to our factory base are being reflected in increased output.

Property Investment and Development

Subsequent to the increase in stake in the joint venture that owns the Nanjing retail site, a prime retail site in Yunan North Road, Gulou District, the main shopping district of Nanjing city, we are putting in greater efforts to tap its full development potential and to upgrade its current rental mix. We expect to see improving rental income from the joint venture in the coming years.

We are now in the process of increasing our controlling stake in a few other joint ventures that own sizeable and valuable land bank in Nanjing that possess high potential for commercial or residential development. We anticipate concluding the acquisitions in 2007.

In addition to holding the Shenyang property development project, SCL has recently entered two property projects in the Mainland China. The first project, in which SCL will have a 70% interest, involves 400,000 square metres of site area in the commercial centre of the coastal economic development region of Tianjin-Bohai (天津渤海臨港經濟技術開發區). There is a contractual agreement with the aforementioned development region whereby SCL is responsible for the re-location and redevelopment of the commercial district. The joint venture company has not yet been incorporated and no capital contribution, guarantee nor capital commitment was incurred by SCL Group at the current stage. The second project, in which SCL will have a 49% interest, involves 20 square kilometers of site area in the Huanghua Port Development Zone. This is a joint development project with Cangzhou Port Investment and Development Company Limited (滄州港口投資開發有限公司) to reclaim and redevelop land adjacent to the Huanghua Port for residential and industrial use. Up to the Latest Practicables Date, the capital contribution to this joint venture is RMB9.8 million. No guarantee nor capital commitment has incurred by SCL Group at the current stage.

In August 2006, the State Council passed the National Plan for Coastal Port Layout, the highest-level national port plan of the PRC. Of the five large-scale ports, Bohai Sea Area is to be developed into a large modern port group, consisting of Liaoning, Tianjin-Hebei (Cangzhou), and Shandong Coastal Ports, to service the social and economic development of Beijing, Tianjin, the north coastal areas and inland areas of the PRC. The facilities of Tianjin-Hebei coastal port will include coal shipping ports, large-scale transfer, warehousing and transportation for large quantity bulk cargo, including oil, natural gases, iron ore and foods, and facilities for passenger transportation and commercial car transfer.

Given the Group's long term presence and investment in the Tianjin-Tanggu (天津－塘沽) region over the last 15 years, the senior management of the Group has built very extensive knowledge and understanding of the recent development in the Tianjin-Bohai (天津－渤海) region. As a result, the Group is well positioned to participate in the rapid development of the region.

It is the strategy of the Group to fully and extensively engage in development and restructuring of land parcels as well as development and construction of industrial, commercial and residential properties in the region to service the expected rapid growth of the Tianjin-Hebei Coastal Port and Cangzhou Bohai New Zone.

Travel and Related Services

Fourseas seeks to build upon the success of last year to further increase its market share. During the first quarter of 2007, we set up a project team to investigate and negotiate potential joint venture deals in the PRC. Progress so far is very promising, and management believes we can make good use of Fourseas' outbound market share to develop new revenue models.

We will continue to look for expansion possibilities within Mainland China either in the form of joint venture with a local partner, or chartered flights or local tourism related projects. Management believes that Fourseas' outbound market share will assist in developing new revenue models.

Securities and Financial Services

In March 2007, the Group's principal listed subsidiary engaging in financial related services officially changed its company name to South China Financial Holdings Limited (formerly known as South China Brokerage Company Limited) to reflect its commitment for expansion and diversification strategies. We will continue to focus on growing the securities broking arm and capturing the influx of Mainland China related IPOs. To fortify our position amongst our competitors, the Group will develop more valuable features on our online trading platform to improve services to clients.

For the money lending business, the Group plans to open one more branch that will create a new channel for target marketing. The Group will continue to expand its lending business through more aggressive promotions and marketing activities to a wider spectrum including SME customers in Hong Kong.

In the PRC, the Group has long established a number of footholds through its joint ventures or representative offices in the Mainland China to strengthen its investment banking and corporate finance activities in various regions. Management believes that this established platform should be fully exploited to further expand our business in the PRC in the near future. Our plan is to grow by direct investments into related financial industries, as well as to extend our financial services beyond corporate finance in the region.

Media and Publications

Management focus for this year will be to turn the magazine business around, by aiming to achieve profitability both in Hong Kong and in the PRC markets.

Information and Technology

The information and technology operation will further expand in the provision of services and software development.

Management will streamline operations and aim to be profitable.

Agriculture

As of first quarter 2007, we have added acreage in Chongqing for our agricultural arm for the purposes of forestry and fruit tree plantation. We are still looking to expand acreage in Jiangsu and Hebei as rental cost is still relatively low in the region, and on top of our recent Chongqing expansion we are also considering other Northern provinces of the PRC. On the business side, apart from developing the forestry plantation in Chongqing, management is looking into agricultural wholesale markets as a new revenue source and has already negotiated with the government in Hebei for suitable land.

A. Set out below are the unaudited financial statements together with the relevant notes to the financial statements of SCL Group as extracted from the quarterly report of SCL Group for the three months ended 31 March 2007

QUARTERLY RESULTS

The board of directors (the "Board") of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2007, together with the comparative unaudited figures for the corresponding period in 2006, as follows:

CONSOLIDATED INCOME STATEMENT – UNAUDITED

		Three months ended 31 March	
		2007	**2006**
	Notes	*HK$'000*	*HK$'000*
Revenue	*2*	6,670	5,664
Direct operating expenses		(4,149)	(3,771)
Other operating income		7	5
Selling and distribution costs		(2,460)	(1,638)
Administrative expenses		(754)	(416)
Loss before tax	*3*	(686)	(156)
Income tax expense	*4*	–	–
Net loss for the period		(686)	(156)
Loss per share	*6*		
– Basic		HK(0.14) cents	HK(0.03) cents
– Diluted		N/A	N/A

Notes:

1 **BASIS OF PRESENTATION**

The unaudited consolidated income statement for the three months ended 31 March 2007 has not been audited by the Company's auditors but has been reviewed by the Company's audit committee.

These quarterly financial statements should be read in conjunction with the 2006 annual report.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the quarterly financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006.

2 **REVENUE**

Turnover comprises sales of magazines, advertising income and promotion project income.

The Group is principally engaged in magazine publishing and advertising activities in Hong Kong during the period. Accordingly, the directors of the Company consider there is only one business and one geographical segment and no analysis of segmental turnover and results by business and geographical location is presented.

3 LOSS BEFORE INCOME TAX

Loss before income tax for the three months ended 31 March 2007 is arrived at after charging depreciation of approximately HK$96,000 (three months ended 31 March 2006: HK$101,000).

4 TAXATION

No Hong Kong profits tax was provided as the Group had no estimated assessable profit arising in or derived from Hong Kong during the three months ended 31 March 2007 (three months ended 31 March 2006: Nil).

5 DIVIDEND

The Board resolved not to declare the payment of an interim dividend for the three months ended 31 March 2007 (three months ended 31 March 2006: Nil).

6 LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2007 is based on the unaudited loss attributable to shareholders of HK$686,000 (three months ended 31 March 2006: HK$156,000) and on the number of 506,498,344 shares in issue (three months ended 31 March 2006: 506,498,344 shares).

For the three months ended 31 March 2006 and 2007, no diluted loss per share has been presented as it is anti-dilutive.

7 MOVEMENT OF RESERVES

Movements of reserves were:

	Share premium	**Capital reserve**	**Employee compensation reserve**	**Convertible notes reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As 1 January 2006	11,483	6,044	816	–	(22,565)	(4,222)
Loss for the period	–	–	–	–	(156)	(156)
As 31 March 2006	11,483	6,044	816	–	(22,721)	(4,378)
As 1 January 2007	11,483	6,044	–	–	(21,596)	(4,069)
Loss for the period	–	–	–	–	(686)	(686)
Issue of convertible notes	–	–	–	75,594	–	75,594
Employee share-based compensation	–	–	35	–	–	35
As 31 March 2007	11,483	6,044	35	75,594	(22,282)	70,874

B. Set out below are the audited financial statements together with the relevant notes to the financial statements of SCL Group as extracted from the annual report of SCL for the year ended 31 December 2006. The auditors of SCL have given an unqualified opinion on each of SCL Group's financial statements for each of the two years ended 31 December 2006.

Consolidated Income Statement
For the year ended 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
Revenue	*5*	23,912	25,140
Direct operating expenses		(14,708)	(17,255)
Other operating income	*6*	184	15
Selling and distribution costs		(7,234)	(7,111)
Administrative expenses		(2,001)	(2,074)
Other operating expenses		–	(665)
Profit/(loss) before income tax	*8*	153	(1,950)
Income tax expense	*9*	–	–
Profit/(loss) for the year attributable to equity holders of the Company	*10*	153	(1,950)
Earnings/(loss) per share for profit/(loss) attributable to the equity holders of the Company during the year – Basic	*11*	HK 0.03 cent	HK(0.38) cent
– Diluted		N/A	N/A

Consolidated Balance Sheet
As at 31 December 2006

	Notes	**2006** *HK$'000*	**2005** *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	*14*	717	1,096
Current assets			
Trade receivables	*16*	5,501	6,306
Other receivables		705	347
Amount due from a related company	*26(b)*	–	53
Cash and cash equivalents	*17*	1,388	1,330
		7,594	8,036
Current liabilities			
Trade payables	*18*	3,789	5,218
Other payables and accrued expenses		3,118	2,903
Receipts in advance		193	168
Amount due to a related company	*26(b)*	215	–
		7,315	8,289
Net current assets/(liabilities)		279	(253)
Net assets		996	843
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	*19*	5,065	5,065
Reserves		(4,069)	(4,222)
Total equity		996	843

Balance Sheet
As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	*15*	1,108	1,108
Current assets			
Other receivables		1	–
Cash and cash equivalents	*17*	52	36
		53	36
Current liabilities			
Other payables		48	27
		48	27
Net current assets		5	9
Net assets		1,113	1,117
EQUITY			
Share capital	*19*	5,065	5,065
Reserves	*21*	(3,952)	(3,948)
Total equity		1,113	1,117

Consolidated Cash Flow Statement
For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Profit/(loss) before income tax		153	(1,950)
Adjustments for:			
Depreciation	*8*	405	384
Equity settled share-based payment expenses	*12*	–	53
Interest income	*6*	(21)	(9)
Operating profit/(loss) before working capital changes		537	(1,522)
Decrease/(increase) in trade receivables		805	(1,108)
(Increase)/decrease in other receivables		(358)	163
Decrease/(increase) in amount due from a related company		53	(53)
(Decrease)/increase in trade payables		(1,429)	1,326
Increase in other payables and accrued expenses		215	388
Increase/(decrease) in receipts in advance		25	(50)
Increase/(decrease) in amount due to a related company		215	(182)
Net cash generated from/(used in) operating activities		63	(1,038)
Cash flows from investing activities			
Interest received		21	9
Purchases of plant and equipment		(26)	(351)
Net cash used in investing activities		(5)	(342)
Net increase/(decrease) in cash and cash equivalents		58	(1,380)
Cash and cash equivalents at 1 January		1,330	2,710
Cash and cash equivalents at 31 December		1,388	1,330
Analysis of the cash and cash equivalents			
– Cash at bank and in hand	*17*	1,388	1,330

Consolidated Statement of Changes in Equity
For the year ended 31 December 2006

	Equity attributable to equity holders of the Company					
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000*	Employee compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2005, as previously reported	5,065	11,483	6,044	–	(19,852)	2,740
Effect of changes in accounting policy: – initial adoption of HKFRS 2	–	–	–	763	(763)	–
At 1 January 2005, as restated	5,065	11,483	6,044	763	(20,615)	2,740
Loss for the year	–	–	–	–	(1,950)	(1,950)
Total recognised income and expense for the year	–	–	–	–	(1,950)	(1,950)
Equity settled share-based payment expenses	–	–	–	53	–	53
At 31 December 2005 and 1 January 2006	5,065	11,483	6,044	816	(22,565)	843
Profit for the year	–	–	–	–	153	153
Total recognised income and expense for the year	–	–	–	–	153	153
Share options forfeited during the year	–	–	–	(816)	816	–
At 31 December 2006	5,065	11,483	6,044	–	(21,596)	996

Notes to the Financial Statements
For the year ended 31 December 2006

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands. The address of its registered office is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands and its principal place of business is Unit A, 3rd Floor, Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong. The Company's shares are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (together the "Group") are principally engaged in publication of magazines.

The financial statements on pages 21 to 45 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes 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"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

The financial statements for the year ended 31 December 2006 were approved by the board of directors on 13 March 2007.

2. Adoption of New or Amended HKFRSs

From 1 January 2006, the Group has adopted the new and amended standards and interpretations of HKFRSs, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new and amended standards and interpretations did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards did not result in significant changes to the amounts or disclosures in these financial statements.

2.1 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the adoption of these standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures [1]
HKFRS 7	Financial Instruments – Disclosures [1]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC) – Int 8	Scope of HKFRS 2 [3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives [4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment [5]
HK(IFRIC) – Int 11	Group and Treasury Share Transactions [6]

Note:

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

3. Summary of Significant Accounting Policies

3.1 Basis of preparation

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

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

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

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Income and expense recognition

Revenue comprises the fair value from the sale of goods and services, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

– Sale of magazines is recognised when the magazines are delivered and title has been passed, with advance subscription fee received from subscribers recorded as receipts in advance.

– Advertising income is recognised on the date of the relevant publication issue or on time basis by reference to the period in which the advertisement is published.

– Promotion and marketing income is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

– Interest income is recognised on a time-proportion basis using the effective interest method.

Operating expenses are charged to the income statement when incurred.

3.5 Plant and equipment

Plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on plant and equipment is provided to write off the cost less their residue values over their estimated useful lives, using the straight-line method at 20% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.6 Impairment of assets

Plant and equipment, interest in subsidiaries and financial assets are subject to impairment testing.

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.

Individual assets or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. 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.

An impairment loss is reversed if there has been a 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.

3.7 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

<u>Operating lease charges as the lessee</u>

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.8 Financial assets

The Group's financial assets include trade receivables, other receivables, amount due from a related company and cash and cash equivalents.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Receivables are initially recognised at fair value and 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.

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

3.9 Accounting for income taxes

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.

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 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 investment in subsidiaries, 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.

3.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

3.11 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.12 Pension obligations and employee benefits

Defined contribution plan

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 a percentage of the employees' relevant 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 the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. The Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.13 Share-based employee compensation

The Group operates equity-settled share-based compensation plan for 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.

All share-based compensation is recognised as an expense in income statement, with a corresponding increase in employee compensation reserve. If vesting periods or other vesting conditions apply, the expense is recognised 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. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

Upon exercise of share options, the amount previously recognised in employee compensation reserve and 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. When the share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in employee compensation reserve will be transferred to accumulated losses.

3.14 Financial liabilities

The Group's financial liabilities include trade payables, other payables and amount due to a related company. They are included in balance sheet items as "Trade payables", "Other payables and accrued expenses" and "Amount due to a related company".

Financial liabilities 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, cancelled or expires.

Payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3.15 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

When 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.

3.16 Related parties

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

(i) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Company or Group;
- has an interest in the Company that gives it significant influence over the Company or Group;
- has joint control over the Company or Group;

(ii) the party is an associate;

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

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

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

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

4. Critical Accounting Estimates and Judgements

Estimates and judgements 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.

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 risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

(ii) Valuation of share option granted

The fair value of share option granted was calculated using the Black-Scholes valuation model based on the Group's management's significant inputs into calculation including an estimated life of share options granted to be ten years based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted. Furthermore, the calculation assumes nil future dividends.

(iii) Depreciation

The Group depreciates the plant and equipment on a straight-line basis over the estimated useful lives, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's plant and equipment.

5. Revenue

Revenue, which is also the Group's turnover, represents the income generated from the publication of magazines.

6. Other Operating Income

	2006	**2005**
	HK$'000	*HK$'000*
Bank and other interest income	21	9
Write back of impairment of trade receivables	160	–
Sundry income	3	6
	184	15

7. Segment Information

The Group's operation was principally attributable to the publication of magazines in Hong Kong. Accordingly, no analysis on the basis of business and geographical segments is presented.

8. Profit/(Loss) Before Income Tax

	2006	**2005**
	HK$'000	*HK$'000*
Profit/(loss) before income tax is arrived at after charging/(crediting):		
Auditors' remuneration:		
– Provision for current year	220	200
– Under provision in previous year	–	20
	220	220
Depreciation	405	384
Minimum lease payments paid under operating leases in respect of rented premises	225	212
(Write back of)/charge on impairment of trade receivables	(160)	665

9. Income Tax Expense

For the year ended 31 December 2006, no provision for Hong Kong profits tax has been provided in the financial statements as the Group has tax losses brought forward from previous years to offset against the assessable profit for the year.

For the year ended 31 December 2005, no Hong Kong profits tax has been provided as the Group has incurred tax losses for the year.

Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2006	**2005**
	HK$'000	*HK$'000*
Profit/(loss) before income tax	153	(1,950)
Tax at the applicable tax rates of 17.5% (2005: 17.5%)	27	(341)
Tax effect of non-deductible expenses	2	–
Tax effect of non-taxable revenue	(31)	–
Tax effect of utilisation of previously unrecognised tax losses	(684)	(467)
Tax effect of tax losses not recognised	624	689
Tax effect on temporary differences not recognised	62	119
Income tax expense	–	–

10. Profit/(Loss) for the Year

Of the consolidated profit for the year attributable to equity holders of the Company of HK$153,000 (2005: loss of HK$1,950,000), a loss of HK$4,000 (2005: HK$2,169,000) has been dealt with in the financial statements of the Company.

11. Earnings/(Loss) Per Share

The calculation of the basic earnings/(loss) per share is based on the profit attributable to equity holders of the Company of HK$153,000 (2005: loss of HK$1,950,000) and on 506,498,344 (2005: 506,498,344) shares in issue.

Diluted earnings/(loss) per share for both years were not presented because the impact of the exercise of the share options was anti-dilutive.

12. Employee Benefit Expense (Including Directors' Emoluments)

	2006	**2005**
	HK$'000	*HK$'000*
Wages and salaries	10,705	11,323
Equity settled share-based payment expenses	–	53
Pension costs – defined contribution plans *(note 25)*	472	486
	11,177	11,862

Included in staff costs are key management personnel compensation and comprises the following categories:

	2006	**2005**
	HK$'000	*HK$'000*
Basic salaries and housing allowances	2,854	2,380
Equity settled share-based payment expenses	–	53
Pension costs – defined contribution plans	60	60
	2,914	2,493

13. Directors' Remuneration and Senior Management'S Emolument

(a) Directors' emoluments

The emoluments paid or payable to the directors were as follows:

Year ended 31 December 2006

	Fees	Salaries and allowances	Contribution to defined contribution plan	Equity-settled share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
NG Hung Sang	–	–	–	–	–
FUNG Ka Pun *(note i)*	–	–	–	–	–
HUI Ping	–	540	12	–	552
NG Yuk Fung, Peter	–	–	–	–	–
NG Yuk Yeung, Paul	–	–	–	–	–
Non executive director					
NG Yuk Mui, Jessica	10	–	–	–	10
Independent non-executive directors					
LAW Cho Wa, Richard	50	–	–	–	50
LO Wing Yan, William	50	–	–	–	50
CHENG Yuk Wo	40	–	–	–	40
	150	540	12	–	702

Note:

(i) Mr. Fung Ka Pun resigned on 9 November 2006.

Year ended 31 December 2005

	Fees	Salaries and allowances	Contribution to defined contribution plan	Equity-settled share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
NG Hung Sang	–	–	–	–	–
FUNG Ka Pun	–	–	–	53	53
HUI Ping	–	540	12	–	552
NG Yuk Fung, Peter	–	–	–	–	–
NG Yuk Yeung, Paul	–	–	–	–	–
Non executive director					
NG Jessica Yuk Mui, Jessica	–	–	–	–	–
Independent non-executive directors					
LAW Cho Wa, Richard	50	–	–	–	50
LO Wing Yan, William	50	–	–	–	50
CHENG Yuk Wo	40	–	–	–	40
	140	540	12	53	745

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

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the year included one (2005: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2005: four) individuals during the year are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	2,314	1,840
Contributions to pension schemes	48	48
	2,362	1,888

The emoluments fell within the following band:

	Number of individuals	
	2006	**2005**
Emolument band		
HK$nil – HK$1,000,000	4	4

During the year, no amount was paid by the Group to the directors or the four (2005: four) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. Plant and Equipment

Group

	Leasehold improvements	**Furniture and office equipment**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005			
Cost	540	1,110	1,650
Accumulated depreciation	(267)	(254)	(521)
Net book amount	273	856	1,129
Year ended 31 December 2005			
Opening net book amount	273	856	1,129
Additions	1	350	351
Depreciation	(108)	(276)	(384)
Closing net book amount	166	930	1,096
At 31 December 2005			
Cost	541	1,460	2,001
Accumulated depreciation	(375)	(530)	(905)
Net book amount	166	930	1,096
Year ended 31 December 2006			
Opening net book amount	166	930	1,096
Additions	–	26	26
Depreciation	(108)	(297)	(405)
Closing net book amount	58	659	717
At 31 December 2006			
Cost	541	1,486	2,027
Accumulated depreciation	(483)	(827)	(1,310)
Net book amount	58	659	717

15. **Interest in Subsidiaries/Amount Due from a Subsidiary**

Company

	2006 *HK$'000*	2005 *HK$'000*
Unlisted shares, at cost	1,108	1,108
Amount due from a subsidiary	17,593	17,621
Less: Impairment losses recognised	(17,593)	(17,621)
	–	–

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

Name of subsidiary	Place of incorporation and kind of legal entity	Issued and fully paid share capital	Percentage of issued capital held by the Company Directly	Indirectly	Principal activities
Media Bonus Limited	British Virgin Islands, limited liability company	2 ordinary shares of US$1 each	100%	–	Investment holding
Capital Publishing Management Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Provision of employee and personnel services for the Group
Capital Publishing Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Publication of "資本雜誌Capital" magazine
Capital CEO Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Publication of "資本才俊Capital CEO" magazine
Capital Entrepreneur Limited	Hong Kong, limited liability company	1 ordinary shares of HK$1 each	–	100%	Publication of "資本企業家 Capital Entrepreneur" magazine
Watson Century Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	–	100%	Dormant

16. **Trade Receivables**

Group

	2006 *HK$'000*	2005 *HK$'000*
Trade receivables	6,204	7,169
Less: Impairment of trade receivables	(703)	(863)
Trade receivables – net	5,501	6,306

The Group allows a credit period from 30 days to 120 days to its trade customers. The following is the ageing analysis of net trade receivables at the balance sheet date:

	2006 *HK$'000*	2005 *HK$'000*
0 – 30 days	1,933	2,966
31 – 60 days	1,182	1,214
61 – 90 days	1,019	482
91 – 180 days	1,131	1,148
Over 180 days	236	496
	5,501	6,306

17. Cash and Cash Equivalents

Cash and cash equivalents include the following components:

	2006	2005
	HK$'000	*HK$'000*
GROUP		
Cash at bank and in hand	1,388	1,330
COMPANY		
Cash at bank and in hand	52	36

18. Trade Payables

Group

	2006	2005
	HK$'000	*HK$'000*
Trade payables	3,789	5,218

The following is the ageing analysis of trade payables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	590	681
31 – 60 days	546	694
61 – 90 days	722	785
91 – 180 days	1,271	1,840
Over 180 days	660	1,218
	3,789	5,218

19. Share Capital

	2006	2005
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 (2005: 100,000,000,000) ordinary shares of HK$0.01 each	1,000,000	1,000,000
Issued and fully paid:		
506,498,344 (2005:506,498,344) ordinary shares of HK$0.01 each	5,065	5,065

20. Share – Based Employee Compensation

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 24 June 2002 and became effective on 18 July 2002 for the primary purpose of providing incentives to directors and eligible employees and will expire on 17 July 2012. Under the Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

At 31 December 2006, there were no shares in respect of which options were granted under the Scheme (2005: the number of share option granted was 5,064,983, representing approximately 1% of the issued shares of the Company). As at 31 December 2006, the total number of shares available for issue under the Scheme was 50,649,834, representing approximately 10% of the issued share capital of the Company as at 31 December 2006 and the date of this report. Without prior approval from the Company's shareholders, the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the aggregate number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

The consideration payable on the grant of an option is HK$1 per option. Options may be exercised at any time for a period of ten years commencing on the first anniversary of the date of grant. The exercise price of the option shares would be at a price equal to the higher of: (i) the closing price of the shares of the Company on the Stock Exchange on the date of offer of the option; (ii) average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options; and (iii) the nominal value of a share.

The following table discloses the movements in the Scheme during the year:

	Outstanding as at 1 January 2005	Movement during the year	Outstanding as at 31 December 2005 and 1 January 2006	Forfeited during the year	Outstanding as at 31 December 2006
Executive director					
Mr. Fung Ka Pun (resigned on 9 November 2006)	5,064,983	–	5,064,983	(5,064,983)	–

Details of the share options are as follows:

Date of grant	Exercisable period	Exercise price
27 August 2002	27 August 2003 to 17 July 2012	HK$0.27

All share options granted are subject to a vesting period and becoming exercisable in whole or in part, in the following manner:

From the date of grant of share options	Exercisable Percentage
Within 12 months	Nil
13th – 24th month	$33^{1}/_{3}$%
25th – 36th month	$33^{1}/_{3}$%
37th – 48th month	$33^{1}/_{3}$%

No share options were granted during the year and therefore no consideration in respect of the share options was received.

The fair value of options granted under the Scheme on 27 August 2002, measured at the date of grant, was approximately HK$816,000. The following significant assumptions were used to derive the fair value, using the Black-Scholes option pricing model:

Date of grant	27 August 2002
Expected volatility	49%
Expected life (in years)	9.9
Risk-free interest rate	5%
Expected dividend yield	Nil

No employee compensation expense has been included in the consolidated income statement for the year ended 31 December 2006 (2005: HK$53,000) with a corresponding credit in equity.

21. Reserves

(a) Group

The amount of the Group's reserves and the movements therein for the current and previous years are presented in the consolidated statement of changes in equity on page 25 of the financial statements.

(b) Company

	Share premium *HK$'000*	Employee compensation reserve *HK$'000*	Capital reserve *HK$'000*	Accumulated Losses *HK$'000*	Total *HK$'000*
At 1 January 2005, as previously reported	11,483	–	652	(13,967)	(1,832)
Effect of changes in accounting policy: – initial adoption of HKFRS 2	–	763	–	(763)	–
At 1 January 2005, as restated	11,483	763	652	(14,730)	(1,832)
Employee share-based compensation	–	53	–	–	53
Loss for the year	–	–	–	(2,169)	(2,169)
At 31 December 2005 and 1 January 2006	11,483	816	652	(16,899)	(3,948)
Share option forfeited during the year	–	(816)	–	816	–
Loss for the year	–	–	–	(4)	(4)
At 31 December 2006	11,483	–	652	(16,087)	(3,952)

22. Deferred Tax

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The following are the major deferred tax (assets) and liabilities recognised by the Group and movements thereon during the current and previous financial years.

	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 January 2005	119	(119)	–
Charge/(credit) to income statement	147	(147)	–
At 31 December 2005 and 1 January 2006	266	(266)	–
Charge/(credit) to income statement	(181)	181	–
At 31 December 2006	85	(85)	–

No deferred tax liability has been provided in the financial statements of the Group as there are no temporary differences.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31 December 2006, the Group has unused tax losses of HK$16,713,000 (2005: HK$ 17,055,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK$486,000 (2005: HK$1,520,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$16,227,000 (2005: HK$15,535,000) due to the unpredictability of future profit streams. These tax losses have no expiry date.

23. Operating Lease Commitments

Group

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases payable by the Group are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Within one year	–	197
In the second to fifth year inclusive	–	99
	–	296

Company

The Company does not have any significant operating lease commitments (2005: Nil).

24. Other Significant Commitments

On 20 October 2006, the Company and two subsidiaries of South China Holdings Limited ("SCH"), namely WTS International (BVI) Limited ("WTS") and South China Industries Limited ("SCI"), entered into a conditional agreement (the "Agreement") pursuant to which WTS had conditionally agreed to sell to the Company:

i. the entire equity interest in Praise Rich Limited ("Praise Rich"), which is engaged in a property development project in Liaoning, the PRC; and

ii. the total interest-free debts of approximately HK$93.5 million due from Ever Talent Limited ("Ever Talent"), a wholly-owned subsidiary of Praise Rich to subsidiary of WTS (the "Sale Debt").

Praise Rich, an indirect wholly-owned subsidiary of SCI, is an investment holding company holding all of the shares of Ever Talent, which is a company incorporated in Hong Kong and in turn is the 80% foreign investor in a PRC equity joint venture, namely 遼寧大發房地產有限責任公司 (Liaoning Dafa Real Estate Co., Ltd.) ("Liaoning Dafa"). Liaoning Dafa is principally engaged in property development business in Liaoning, the PRC (the "Property Project").

The consideration of the above transaction is HK$800 million (the "Agreement Consideration"). The Agreement Consideration was to be satisfied by the Company issuing to WTS or as it may direct any subsidiary of SCI as nominee (the "Noteholder") a convertible note in the principal amount of HK$800 million, which carrying a right to the Noteholder to convert the whole or part of such principal amount into ordinary shares of HK$0.01 each of the capital of the Company at the initial price of HK$0.075 per share. The convertible note is non-interest bearing. The maturity date of the convertible note is the fifth anniversary of the date of issue.

Subsequent to the balance sheet date, on 9 January 2007, the Company, WTS and SCI entered into an amended and restated agreement (the "Amended Agreement") pursuant to which, inter alia, WTS has conditionally agreed to sell to the Company 51% of the equity interest in Praise Rich, instead of the entire equity interest of Praise Rich as previously agreed, and to procure the sale to the Company of 51% Sale Debt (the "Revised Transaction") at an aggregate consideration of HK$408 million (the "Amended Agreement Consideration"). The Amended Agreement Consideration is to be satisfied by the Company issuing to the Noteholder a convertible note in a reduced principal amount of HK$408 million.

SCI has unconditionally and irrevocably agreed to guarantee the due performance of the WTS's obligations, SCI has also agreed to continue granting the guarantee provided and to be continued by the board of director of SCI to secure the liabilities of Ever Talent in respect of a loan facility of HK$80 million under a loan agreement date 14 June 2006 entered into between Ever Talent and the bank (the "Loan Agreement") without charging for any guarantee fee to secure the due and punctual performance of the obligations of Ever Talent in respect of a loan facility of HK$80 million for a period of three years from the date of the Loan Agreement under the Loan Agreement provided that each of the Loan Agreement and such guarantee has not been terminated on or prior to the completion of the Revised Transaction pursuant to the Amended Agreement (the "Completion").

In addition, SCI has undertaken with the Company to provide the guarantee under the Amended Agreement to be provided by SCI in favour of an independent third party to secure the proposed loan facility of up to an aggregate principal amount of HK$500 million proposed to be borrowed by any member of Praise Rich and its subsidiaries (collectively, the "Acquired Group") from independent third parties on normal commercial terms at market interest rate to finance the development cost of the Property Project (the "Proposed Facility") without charging for any guarantee fee for a period of not exceeding three years from the Completion for securing the due and punctual performance of the full obligation of any member of the Acquired Group under the Proposed Facility of up to HK$500 million.

SCI will also provide such guarantee if required by any independent third parties under the Proposed Facility although it is not obliged to do so under the Amended Agreement.

WTS and SCI have jointly and severally undertaken with the Company that they would render or cause to be rendered to any member of the Acquired Group and/or the Company all such assistance as the Company (for itself and on behalf on the Acquired Group) may reasonably require in connection with obtaining the proper land use right in respect of the Property Project.

Pursuant to the Amended Agreement, SCI and WTS have agreed to indemnify the Acquired Group against any land appreciation tax that may become payable by the Acquired Group under the PRC laws and regulations in respect of the Property Project.

Save and except for the aforementioned, in effect, the other principal terms of the Agreement shall remain unchanged as provided in the Amended Agreement.

Mr. Ng Hung Sang and his associates are the controlling group of shareholders in the Company, SCH and SCI. Under the GEM Listing Rules, the Revised Transaction constitutes a connected transaction and very substantial acquisition for the Company. Further details of the Revised Transaction are set out in the Company's circular dated 12 February 2007.

An extraordinary general meeting of the Company was held on 8 March 2007 and the above transactions were approved by the independent shareholders. Please refer to note 28 for the details of the extraordinary general meeting.

25. Retirement Benefits Scheme

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The retirement benefits cost charged to income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

For members of the MPF Scheme, the Group contributes 5% of the relevant payroll costs to the Scheme, which contribution is matched by the employee. Both the employers' and employees' contributions are subject to maximum of monthly earnings of HK$20,000 per employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary. The employees are entitled to receive their entire contributions and the accrued interest thereon, and 100% of the employer's contributions and the accrued interest thereon upon retirement or leaving the employer after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

There was no significant amount of forfeited contributions available to reduce future contribution payable by the Group as at 31 December 2006 and 2005.

26. Related Party Transactions

Save as disclosed elsewhere in the financial statements, during the year, the Group had significant transactions with companies controlled by, or affiliated with, South China Holdings Limited (collectively referred to as South China Group). A director of the Company, Mr. Ng Hung Sang, is a substantial shareholder and a director of South China Holdings Limited.

(a) Details of these transactions are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
(i) Purchase of services		
– Colour separation and photo processing fees	202	270
(ii) Operating lease expenses	225	212

(b) As disclosed in the consolidated balance sheet, the Group had outstanding payable to a related company of HK$215,000 (2005: receivable of HK$53,000), as at the balance sheet date. The balance is unsecured, interest-free and repayable on demand.

(c) The Group had entered into a mutual agreement with the South China Group that the South China Group has a right to use the title "資本Capital" on publication of various magazines at a nominal value.

(d) During the year and after balance sheet date, the Company has entered into agreements with WTS and SCI in respect of an acquisition of a fellow subsidiary. Please refer to note 24 above for the details of the acquisition.

The above transactions were conducted in accordance with the terms mutually agreed between the Group and South China Group.

27. Risk Management Objectives and Policies

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the Group's management seats periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The Group's financial assets include cash and cash equivalents, trade receivables, other receivables and amount due from a related company. The Group's financial liabilities include trade payables, other payables and accrued expenses and amount due to a related company.

27.1 Credit risk

The carrying amounts of trade receivables and other receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carrying a significant exposure to credit risk. The Group has no significant concentration of credit risk.

27.2 Foreign currency risk

As the Group's operation is principally attributable to the magazine publishing in Hong Kong, the Group has no exposure to foreign currency risk arising from the exposure of various currencies against Hong Kong dollars.

27.3 Cash flow and interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

27.4 Fair values

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values because of the immediate or short-term maturity of these financial instruments. The fair value of non-current liabilities was not disclosed because the carrying value is not materially different from the fair value.

27.5 Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer terms. The liquidity of the Company is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations and to obtain undertaking by SCI and WTS in respect of the Property Project. Please refer to note 24 above for the details of the undertaking by SCI and WTS.

28. Post Balance Sheet Events

Save as those disclosed elsewhere in these financial statements, subsequent to 31 December 2006 the following post balance sheet date events took place:

An extraordinary general meeting of the Company was held on 8 March 2007 and the following resolutions were passed:

i. Approved, confirmed and ratified the amended and restated share purchase agreement dated 9 January 2007 entered into by the Company, WTS and SCI in respect of the acquisition by the Company of 51% equity interest in Praise Rich and 51% of the total interest-free debts due from a subsidiary of Praise Rich to a subsidiary of WTS.

ii. Approved the issue of a non-interest bearing convertible note in the principal amount of HK$408 million due in 2012 carrying a right to convert the whole or part of such principal amount into ordinary shares of HK$0.01 each in the capital of the Company at the initial price of HK$0.075 per share.

iii. Approved the name of the Company be changed from "Capital Publications Limited (Chinese translation being資本出版有限公司, for identification purpose only)" to "South China Land Limited南華置地有限公司".

C. Set out below are the audited financial statements together with the relevant notes to the financial statements of SCL Group as extracted from the 2005 annual report of SCL. The auditors of SCL have given an unqualified opinion on each of SCL Group's financial statements for the years ended 31 December 2004 and 2005.

Consolidated Income Statement
For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Revenue	5	25,140	15,711
Direct operating expenses		(17,255)	(11,204)
Other operating income	6	15	15
Selling and distribution costs		(7,111)	(5,390)
Administrative expenses		(2,074)	(2,525)
Other operating expenses		(665)	(168)
Loss before income tax	8	(1,950)	(3,561)
Income tax expense	9	–	–
Loss for the year attributable to equity holders of the Company	10	(1,950)	(3,561)
Loss per share for loss attributable to the equity holders of the Company during the year	11		
– Basic		HK(0.38) cent	HK(0.70) cent
– Diluted		N/A	N/A

Consolidated Balance Sheet
As at 31 December 2005

	Notes	**2005** *HK$'000*	**2004** *HK$'000* (Restated)
ASSETS AND LIABILITIES			
Non-current assets			
Plant and equipment	*14*	1,096	1,129
Current assets			
Trade receivables	*16*	6,306	5,198
Other receivables		347	510
Amount due from a related company	*26(b)*	53	–
Cash and cash equivalents	*17*	1,330	2,710
		8,036	8,418
Current liabilities			
Trade payables	*18*	5,218	3,892
Other payables and accrued expenses		2,903	2,515
Receipts in advance		168	218
Amount due to a related company	*26(b)*	–	182
		8,289	6,807
Net current (liabilities)/assets		(253)	1,611
Total assets less current liabilities		843	2,740
EQUITY			
Share capital	*19*	5,065	5,065
Reserves		(4,222)	(2,325)
Total equity		843	2,740

Balance Sheet
As at 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
ASSETS AND LIABILITIES			
Non-current assets			
Interest in subsidiaries	15	1,108	1,108
Current assets			
Cash and cash equivalents	17	36	2,125
Current liabilities			
Other payables		27	–
Net current assets		9	2,125
Total assets less current liabilities		1,117	3,233
EQUITY			
Share capital	19	5,065	5,065
Reserves	21	(3,948)	(1,832)
Total equity		1,117	3,233

Consolidated Cash Flow Statement
For the year ended 31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Cash flows from operating activities			
Loss before income tax		(1,950)	(3,561)
Adjustments for:			
Interest income		(9)	(1)
Equity settled share based payment expenses		53	170
Depreciation		384	266
Operating loss before working capital changes		(1,522)	(3,126)
Increase in trade receivables		(1,108)	(2,088)
Decrease/(Increase) in other receivables		163	(336)
Increase in amount due from a related company		(53)	–
Increase in trade payables		1,326	2,563
Increase in other payables and accrued expenses		388	1,058
(Decrease)/Increase in receipts in advance		(50)	25
(Decrease)/Increase in amount due to a related company		(182)	166
Net cash used in operating activities		(1,038)	(1,738)
Cash flows from investing activities			
Interest received		9	1
Purchases of plant and equipment		(351)	(564)
Net cash used in investing activities		(342)	(563)
Net decrease in cash and cash equivalents		(1,380)	(2,301)
Cash and cash equivalents at 1 January		2,710	5,011
Cash and cash equivalents at 31 December	17	1,330	2,710

Consolidated Statement of Changes in Equity
For the year ended 31 December 2005

	Equity attributable to equity holders of the Company					
	Share capital	**Share premium**	**Capital reserve**	**Employee compensation reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004, as previously reported	5,065	11,483	6,044	–	(16,461)	6,131
Effect of changes in accounting policy: – initial adoption of HKFRS 2	–	–	–	593	(593)	–
At 1 January 2004, as restated	5,065	11,483	6,044	593	(17,054)	6,131
Loss for the year	–	–	–	–	(3,561)	(3,561)
Total recognised income and expense for the year	–	–	–	–	(3,561)	(3,561)
Employee share based compensation	–	–	–	170	–	170
At 31 December 2004	5,065	11,483	6,044	763	(20,615)	2,740
At 31 December 2004, as previously reported	5,065	11,483	6,044	–	(19,852)	2,740
Effect of changes in accounting policy: – initial adoption of HKFRS 2	–	–	–	763	(763)	–
At 31 December 2004 and 1 January 2005, as restated	5,065	11,483	6,044	763	(20,615)	2,740
Loss for the year	–	–	–	–	(1,950)	(1,950)
Total recognised income and expense for the year	–	–	–	–	(1,950)	(1,950)
Employee share based compensation	–	–	–	53	–	53
At 31 December 2005	5,065	11,483	6,044	816	(22,565)	843

Notes to the Financial Statements

For the year ended 31 December 2005

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2001 Second Revision) of the Cayman Islands.

The Company acts as an investment holding company. Details of principal activities of its subsidiaries are set out in note 15 to the financial statements.

The financial statements on pages 27 to 61 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The financial statements for the year ended 31 December 2005 were approved by the board of the directors on 14 March 2006.

2. Adoption of New/Revised HKFRS

From 1 January 2005, the Group has adopted the new/revised standards and interpretations of HKFRS, which are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

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

2.1 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 January 2005, equity-settled share-based payment transactions were treated as changes in the entity's equity only upon execution. HKFRS 2 requires all goods and services received in the course of share-based payment transactions to be measured at fair value and recognised in the financial statements with a corresponding credit to equity, unless the transaction is settled in cash. When applied to employee share-based compensation, this leads to the recognition of share options which have been granted and are expected to vest as an expense in the income statement.

The Group applies this HKFRS 2 retrospectively to share options granted before 7 November 2002 as the Group has disclosed publicly the fair value of these equity instruments determined at the measurement date.

2.2 Adoption of HKAS 39

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of retained earnings on 1 January 2005 and the comparative figures have not been restated.

2.3 Other standards adopted

The adoption of HKAS1, 7, 8, 10, 16,17, 24, 27, 32, 33, 36, 37 and HKFRS 3 did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

2.4 *The effect on adoption of HKFRS 2 on consolidated income statement is summarised below:*

	2005	2004
	HK$'000	*HK$'000*
Increase in staff costs	(53)	(170)
Total increase in loss for the year	(53)	(170)
Increase in loss per share		
– Basic	HK(0.01) cent	HK(0.03) cent
– Diluted	N/A	N/A

2.5 *The effect on adoption of HKFRS 2 on consolidated balance sheet is summarised below:*

	2005	2004
	HK$'000	*HK$'000*
Increase/(Decrease) in equity:		
At 1 January		
Employee compensation reserve	763	593
Accumulated losses	(763)	(593)
At 31 December		
Employee compensation reserve	816	763
Accumulated losses	(816)	(763)

2.6 *New standards or interpretations that have been issued but are not yet effective.*

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures [1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures [2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation [2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions [2]
HKAS 39 (Amendment)	The Fair Value Option [2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts [2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources [2]
HKFRS 7	Financial Instruments – Disclosures [1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains A Lease [2]
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds [2]
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment [3]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 January 2006
[3] Effective for annual periods beginning on or after 1 December 2005
[4] Effective for annual periods beginning on or after 1 March 2006

3. Summary of Principal Accounting Policies

3.1 *Basis of presentation*

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities of HK$253,000 as at 31 December 2005. In the opinion of the directors, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements, after taking into consideration an undertaking made by Mr. Ng Hung Sang, Robert, a substantial shareholder of the Company, to provide continuing financial support to the Group so as to enable the Group to continue in business as a going concern and to meet its liabilities and obligations as and when they fall due for the period at least up to 31 December 2006. Accordingly, the financial statements have been prepared on a going concern basis.

3.2 Basis of preparation

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

The financial statements have been prepared on the historical cost basis.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3.4 Subsidiaries

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

In the Company's balance sheet, subsidiaries are carried at cost less impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.5 Income and expense recognition

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

– Sales of magazines are recognised when the magazines are delivered and title has passed, with advance subscription fee received from subscribers recorded as receipts in advance.

– Advertising income is recognised on the date of the relevant publication issue or on time basis by reference to the period in which the advertisement is published.

– Promotion and marketing income is recognised when the services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

– Interest income is recognised on a time-proportion basis using the effective interest method.

Operating expenses are charged to the income statement when incurred.

3.6 Plant and equipment

Plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

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

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

Depreciation on plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives at 20% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.7 Impairment of assets

The plant and equipment and interests in subsidiaries are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed 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 has been recognised.

3.8 Leases

Operating lease payments are recognised as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

3.9 Financial assets

The Group's financial assets include cash and cash equivalents, trade receivables, other receivables and amount due from a related company.

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

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

3.10 Accounting for income taxes

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax 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.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. This applies also to temporary differences associated with shares in subsidiaries if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised to the extent that it is probable that they will be able to be offset against future taxable income. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement.

3.11 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

3.12 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.13 Pension obligations and employee benefits

Pensions to employees are provided through a defined contribution plan. For details of the retirement benefits scheme, please refer to note 25 to the financial statements.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

3.14 Share-based employee compensation

The Group applies this HKFRS retrospectively to share options granted before 7 November 2002 as the Group has disclosed publicly the fair value of these equity instruments determined at the measurement date.

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.

All share-based compensation is recognised as an expense in income statement with a corresponding credit to equity compensation reserve, net of deferred tax where applicable. 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. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

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.

3.15 Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

– controls, is controlled by, or is under common control with, the Group;

– has an interest in the Group that gives it significant influence over the Group;

– has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint-controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) 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 (iv) or (v); or

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

3.16 Financial liabilities

The Group's financial liabilities include trade payables, other payables, accrued expenses and amount due to a related company. They are included in balance sheet line items.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument.

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

4. Critical Accounting Estimates and Judgements

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassess the provision at the balance sheet date.

(ii) Valuation of share options granted

The fair value of share option granted was calculated using the Black-Scholes valuation model based on the Group's management's significant inputs into calculation included an estimated life of share options granted to be ten years based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted. Furthermore, the calculation assumes nil future dividends.

5. Revenue

Revenue, which is also the Group's turnover, which comprises the net amounts received and receivable for magazines sold by the Group to outside customers, less returns and allowances, advertising income and promotion and marketing income for the year, and is analysed as follows:

	2005	**2004**
	HK$'000	*HK$'000*
Sales of magazines	2,243	1,552
Advertising income	17,567	11,210
Promotion and marketing income	5,330	2,949
Revenue/Turnover	25,140	15,711

6. Other Operating Income

	2005	**2004**
	HK$'000	*HK$'000*
Bank interest income	9	1
Sundry income	6	14
	15	15

7. Segment Information

The Group's operation was principally attributable to the magazine publishing and advertising activities in Hong Kong. Accordingly, no analysis on the basis of business and geographical segments is presented.

8. Loss Before Income Tax

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Loss before income tax is arrived at after charging:		
Minimum lease payments paid under operating leases in respect of:		
– Rented premises	212	212
Staff costs including directors' emoluments *(Note 12)*	11,862	8,718
Auditors' remuneration:		
– Provision for current year	200	300
– Under provision for prior year	20	–
Impairment of receivables	665	168
Depreciation	384	266

9. Income Tax Expense

No Hong Kong profits tax has been provided as the Group has incurred tax losses for the year (2004: Nil).

Reconciliation between tax expense and accounting loss at applicable tax rates:

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Loss before income tax	(1,950)	(3,561)
Tax at the applicable tax rates	(341)	(623)
Tax effect of non-deductible expenses	–	33
Tax effect of non-taxable revenue	–	(4)
Tax effect of utilisation of previously unrecognised tax losses	(467)	–
Tax effect of tax losses not recognised	689	641
Tax effect on temporary difference not recognised	119	–
Others	–	(47)
Income tax expense	–	–

10. Loss for the Year Attributable to Equity Holders of the Company

Of the loss for the year attributable to equity holders of the Company of HK$1,950,000 (2004: HK$3,561,000 (Restated)), a loss of HK$2,169,000 (2004: HK$15,645,000 (Restated)) has been dealt with in the financial statements of the Company.

11. Loss Per Share

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company of HK$1,950,000 (2004: HK$3,561,000 (Restated)) and on 506,498,344 (2004: 506,498,344) shares in issue.

No diluted loss per share has been presented because the exercise of the Company's share options will reduce loss per share for both years.

12. Employee Benefit Expense (including directors' emoluments)

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Wages and salaries	11,323	8,241
Share-based payment	53	170
Pension costs – defined contribution plans *(note 25)*	486	307
	11,862	8,718

Included in staff costs are key management personnel compensation and comprises the following categories:

	2005	**2004**
	HK$'000	*HK$'000*
		(Restated)
Basic salaries and housing allowances	2,380	2,331
Share-based payment	53	170
Pension costs – defined contribution plans	60	48
	2,493	2,549

13. Directors' Remuneration and Senior Management's Emolument

(a) Directors' emoluments

The emoluments paid or payable to the directors were as follows:

	Fees	Salaries and allowances	Retirement benefit scheme contribution	Equity-settled share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2005					
Executive directors					
Ng Hung Sang	–	–	–	–	–
Fung Ka Pun	–	–	–	53	53
Hui Ping	–	540	12	–	552
Ng Yuk Fung, Peter	–	–	–	–	–
Ng Yuk Yeung, Paul	–	–	–	–	–
Non-executive director					
Ng Yuk Mui, Jessica	–	–	–	–	–
Independent non-executive directors					
Law Cho Wa, Richard	50	–	–	–	50
Lo Wing Yan, William	50	–	–	–	50
Cheng Yuk Wo	40	–	–	–	40
	140	540	12	53	745

	Fees	Salaries and allowances	Retirement benefit scheme contribution	Equity-settled share-based payment expenses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2004					
Executive directors					
Ng Hung Sang	–	–	–	–	–
Fung Ka Pun	–	–	–	170	170
Hui Ping	–	540	12	–	552
Lau Ho Kit, Ivan*	–	53	1	–	54
Ng Yuk Fung, Peter	–	–	–	–	–
Ng Yuk Yeung, Paul	–	–	–	–	–
Non-executive director					
Ng Yuk Mui, Jessica	–	–	–	–	–
Independent non-executive directors					
Law Cho Wa, Richard	50	–	–	–	50
Lo Wing Yan, William	50	–	–	–	50
Cheng Yuk Wo	12	–	–	–	12
	112	593	13	170	888

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

* *Resigned on 17 January 2004*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2004: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2004: four) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	1,840	1,738
Contributions to pension schemes	48	35
	1,888	1,773

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Emolument band		
HK$nil – HK$1,000,000	4	4

During the year ended 31 December 2005, no amount was paid by the Group to the directors or the four (2004: four) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

14. Plant and Equipment

GROUP

	Leasehold improvements	Furniture and office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2004			
Cost	536	550	1,086
Accumulated depreciation	(160)	(95)	(255)
Net book amount	376	455	831
Year ended 31 December 2004			
Opening net book amount	376	455	831
Additions	4	560	564
Depreciation	(107)	(159)	(266)
Closing net book amount	273	856	1,129
At 31 December 2004			
Cost	540	1,110	1,650
Accumulated depreciation	(267)	(254)	(521)
Net book amount	273	856	1,129
Year ended 31 December 2005			
Opening net book amount	273	856	1,129
Additions	1	350	351
Depreciation	(108)	(276)	(384)
Closing net book amount	166	930	1,096
At 31 December 2005			
Cost	541	1,460	2,001
Accumulated depreciation	(375)	(530)	(905)
Net book amount	166	930	1,096

15. Interest in Subsidiaries/Amount Due from a Subsidiary

COMPANY

	2005	**2004**
	HK$'000	*HK$'000*
Unlisted shares, at cost	1,108	1,108
Amount due from a subsidiary	17,621	15,473
Less: Impairment losses recognised	(17,621)	(15,473)
	–	–

During the year, the directors reviewed the carrying value of the amount due from a subsidiary with reference to the business operated by the subsidiary. Impairment losses of HK$2,148,000 (2004: HK$15,473,000) has been identified and recognised in the Company's income statement.

Particulars of the subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Place of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activity
			Directly	Indirectly	
Media Bonus Limited	British Virgin Islands, limited liability company	2 ordinary shares of US$1 each	100%	–	Investment holding
Capital Publishing Management Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Provision of employee and personnel services for the Group and holding a lease agreement
Capital Publishing Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Publication of "資本雜誌 Capital" magazine
Capital CEO Limited	Hong Kong, limited liability company	2 ordinary shares of HK$1 each	–	100%	Publication of "資本才俊 Capital CEO" magazine
Capital Entrepreneur Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	–	100%	Publication of "資本企業家 Capital Entrepreneur" magazine
Watson Century Limited	Hong Kong, limited liability company	1 ordinary share of HK$1 each	–	100%	Dormant

16. Trade Receivables

GROUP

	2005	**2004**
	HK$'000	*HK$'000*
Trade receivables	7,169	5,396
Less: Impairment of receivables	(863)	(198)
Trade receivables – net	6,306	5,198

The Group allows a credit period from 30 days to 120 days to its trade customers. The following is an aged analysis of net trade receivables at the balance sheet date:

	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	2,966	2,335
31 – 60 days	1,214	1,234
61 – 90 days	482	615
91 to 180 days	1,148	875
Over 180 days	496	139
	6,306	5,198

17. Cash and Cash Equivalents

Cash and cash equivalents include the following components:

	2005	2004
	HK$'000	*HK$'000*
GROUP		
Cash at bank and in hand	1,330	2,710
COMPANY		
Cash at bank and in hand	36	2,125

18. Trade Payables

GROUP

	2005	2004
	HK$'000	*HK$'000*
Trade payables	5,218	3,892

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

	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	681	863
31 – 60 days	694	567
61 – 90 days	785	585
91 – 180 days	1,840	1,497
Over 180 days	1,218	380
	5,218	3,892

19. Share Capital

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
100,000,000,000 (2004: 100,000,000,000) ordinary shares of HK$0.01 each	1,000,000	1,000,000
Issued and fully paid:		
506,498,344 (2004:506,498,344) ordinary shares of HK$0.01 each	5,065	5,065

20. Share-based Employee Compensation

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 24 June 2002 and became effective on 18 July 2002 for the primary purpose of providing incentives to directors and eligible employees and will expire on 17 January 2012. Under the Scheme, the board of directors of the Company may offer to any director or employee of the Company, or any of its subsidiaries, options to subscribe for shares in the Company.

At 31 December 2005, the number of shares in respect of which options were granted under the Scheme was 5,064,983 (2004: 5,064,983), representing 1% (2004: 1%) of the shares of the Company in issue at that date. As at 31 December 2005, the total number of shares available for issue under the Scheme was 45,584,851, representing approximately 9% of the issued share capital of the Company as at 31 December 2005 and the date of this annual report. Without prior approval from the Company shareholders, the total aggregate number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and the aggregate number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

The consideration payable on the grant of an option is HK$1 per option. Options may be exercised at any time for a period of ten years commencing on the first anniversary of the date of grant. The exercise price of the option shares would be at a price equal to the highest of: (i) the closing price of the shares of the Company on the Stock Exchange on the date of offer of the option; (ii) average of the closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options; and (iii) the nominal value of a share.

The following table discloses movements in the Scheme:

	Outstanding as at 1 January 2004	**Lapsed during the year**	**Outstanding as at 31 December 2004 and 1 January 2005**	**Lapsed during the year**	**Outstanding as at 31 December 2005**
Executive director					
Mr. Fung Ka Pun	5,064,983	–	5,064,983	–	5,064,983

Details of the share options are as follows:

Date of grant	**Exercisable period**	**Exercise price**
27 August 2002	27 August 2003 to 17 July 2012	HK$0.27

All share options granted are subject to a vesting period and becoming exercisable in whole or in part in the following manner:

From the date of grant of share options	**Exercisable Percentage**
Within 12 months	Nil
13th – 24th month	$33^1/_3$%
25th – 36th month	$33^1/_3$%
37th – 48th month	$33^1/_3$%

No share options were granted during the year and therefore no consideration in respect of the share options was received.

The fair value of options granted under the Scheme on 27 August 2002, measured at the date of grant, was approximately HK$816,000. The following significant assumptions were used to derive the fair value, using the Black-Scholes option pricing model:

Date of grant	27 August 2002
Expected volatility	49%
Expected life (in years)	9.9
Risk-free interest rate	5%
Expected dividend yield	Nil

In total, HK$53,000 of employee compensation expense has been included in the consolidated income statement for the year ended 31 December 2005 (2004: HK$170,000, after restatement) with a corresponding credit in equity.

21. Reserves

Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 31 of the financial statements.

The capital reserve of the Group represents the difference between the nominal value of the Company's share issued and the net asset value of a subsidiary acquired as part of the group reorganisation.

Company

	Share premium *HK$'000*	Employee compensation reserve *HK$'000*	Capital reserve *HK$'000*	Retained earning/ (Accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2004, as previously reported	11,483	–	652	1,508	13,643
Effect of changes in accounting policy: – initial adoption of HKFRS 2	–	593	–	(593)	–
At 1 January 2004, as restated	11,483	593	652	915	13,643
Loss for the year	–	–	–	(15,645)	(15,645)
Employee share based compensation	–	170	–	–	170
At 31 December 2004	11,483	763	652	(14,730)	(1,832)
At 31 December 2004, as previously reported	11,483	–	652	(13,967)	(1,832)
Effect of changes in accounting policy: – initial adoption of HKFRS 2	–	763	–	(763)	–
At 31 December 2004 and 1 January 2005, as restated	11,483	763	652	(14,730)	(1,832)
Loss for the year	–	–	–	(2,169)	(2,169)
Employee share based compensation	–	53	–	–	53
At 31 December 2005	11,483	816	652	(16,899)	(3,948)

The capital reserve of the Company represents the difference between the nominal value of the Company's shares issued and the net asset value of a subsidiary acquired as part of the group reorganisation.

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Bye-laws and a statutory solvency test. It is provided that a dividend cannot be paid if this would result in the Company being unable to pay its debts as they fall due. In accordance with the Company's Bye-laws, the Company's reserves available for distribution to shareholders represent the accumulated (loss) profit, capital reserve and share premium which in total amounted to a deficit of approximately HK$3,948,000 (2004: a deficit of HK$1,832,000).

22. Deferred Tax

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

The following are the major deferred taxation assets and liabilities recognised by the Group and movements thereon during the current and prior reporting years.

	Accelerated tax depreciation *HK$'000*	Tax losses *HK$'000*	Total *HK$'000*
At 1 January 2004	69	(69)	–
Charge/(Credit) to income statement	50	(50)	–
At 31 December 2004 and 1 January 2005	119	(119)	–
Charge/(Credit) to income statement	147	(147)	–
At 31 December 2005	266	(266)	–

No deferred tax has been provided in the financial statements of the Company as there are no temporary differences.

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$17,055,000 (2004: HK$16,578,000) to carry forward against future taxable income. No deferred tax asset has been recognised due to the unpredictability of future profit streams. This tax loss has no expiry date.

23. Operating Lease Commitments

GROUP

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases payable by the Group are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Within one year	197	176
In the second to fifth years inclusive	99	–
	296	176

The Group leases a number of rented premises under operating leases. The leases run for an initial period of two years, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and respective landlords/lessors. None of the leases include contingent rentals.

COMPANY

The Company does not have any significant operating lease commitments (2004: Nil).

24. Capital Commitments

The Group and the Company do not have any significant capital commitments as at 31 December 2005 and 2004.

25. Retirement Benefits Scheme

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

The retirement benefits cost charged to income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

For members of the MPF Scheme, the Group contributes 5% of the relevant payroll costs to the Scheme, which contribution is matched by the employee. Both the employers' and employees' contributions are subject to maximum of monthly earnings of HK$20,000 per employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary. The employees are entitled to receive their entire contributions and the accrued interest thereon, and 100% of the employer's contributions and the accrued interest thereon upon retirement or leaving the employer after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

There was no significant amount of forfeited contributions available to reduce future contribution payable by the Group as at 31 December 2005 and 2004.

26. Related Party Transactions

Except as disclosed elsewhere in these financial statements, during the year, the Group had the following significant transactions with companies controlled by, or affiliated with, South China Holdings Limited (collectively referred to as the South China Group). A director of the Company, Mr. Ng Hung Sang, is a substantial shareholder and a director of South China Holdings Limited.

(a) Details of these transactions are as follows:

		2005	2004
		HK$'000	*HK$'000*
(i)	Purchase of services		
	– Advertising expenses	–	506
	– Administrative service fees	–	476
	– Marketing service fees	–	6
(ii)	Operating lease expenses	212	212
(iii)	Colour separation and photo processing fees	270	757

(b) As disclosed in the consolidated balance sheet, the Group had outstanding receivable from a related company of HK$53,000 (2004: payable of HK$182,000), as at the balance sheet date. The receivable and the payable are unsecured, interest-free and repayable on demand.

(c) The Group had entered into a mutual agreement with the South China Group that the South China Group has a right to use the title "Capital" on publication of various magazines at a nominal value.

The above transactions were conducted in accordance with the terms mutually agreed between the Group and South China Group.

27. Risk Management Objectives and Policies

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors seats periodically to analyse and formulate strategies to manage the Group's exposure to market risk. The Group's exposure to market risk is kept to a minimum. The Group has not used any derivatives or other instruments for hedging purpose.

The Group's financial assets include cash and cash equivalents, trade receivables, other receivables and amount due from a related company. The Group's financial liabilities include trade payables, other payables and accrued expenses and amount due to a related company.

27.1 Credit risk

The carrying amounts of trade receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. No other financial assets carrying a significant exposure to credit risk. The Group has no significant concentration of credit risk.

27.2 Foreign currency risk

As the Group's operation is principally attributable to the magazine publishing and advertising activities in Hong Kong, the Group has no exposure to foreign currency risk arising from the exposure of various currency against Hong Kong dollars.

27.3 Cash flow and interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

27.4 Fair values

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values because of the immediate or short term maturity of these financial instruments.

1. INTRODUCTION

The following is the unaudited pro forma financial information of the Remaining and the Enlarged Group prepared in accordance with the Main Board Listing Rules for the purpose of illustrating the effect of the disposal of the Previous Sale share and Previous sale Debt, proposed disposal of the Sale Shares and the Sale Debt which together constitute a very substantial disposal transaction in accordance with the Listing Rules, and also the proposed full conversion of Convertible Notes on the financial position of the Group as if the transactions had been completed on 31 December 2006 and the results and cash flows of the Group as if the transactions had been completed on 1 January 2006. As it is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Remaining and the Enlarged Group following completion of the transactions and results and cash flows of the Remaining and the Enlarged Group had the transactions actually occurred as at 1 January 2006 or for any future period.

The unaudited pro forma consolidated balance sheet of the Remaining and the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2006 extracted from the accountants' report of the Group as at 31 December 2006 as set out in Appendix I to this circular as if the transactions had been completed on 31 December 2006.

The unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement of the Remaining and the Enlarged Group are prepared based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 December 2006 extracted from the accountants' report of the Group as of 31 December 2006 as set out in Appendix I to this circular as if the transactions had been completed on 1 January 2006.

The unaudited pro forma financial information of the Remaining and the Enlarged Group is based upon the published audited financial information of the Group after giving effect to the pro forma adjustments described in note 5. These pro forma adjustments of the transactions are (i) directly attributable to the transactions concerned and not relating to future events or decisions; and (ii) factually supportable.

The unaudited pro forma financial information of the Remaining and the Enlarged Group should be read in conjunction with the accountants' report of the Group and other financial information included elsewhere in this circular.

The financial information of Praise Rich Group for the year ended 31 December 2006 is extracted from the accountants' report of Praise Rich Group as set out in Appendix III to SCL circular dated 12 February 2007. The financial information of SCL Group for the year ended 31 December 2006 is extracted from the section "Financial information on SCL Group" as set out in Appendix III of this circular.

2. CONSOLIDATED BALANCE SHEET

			Pro forma adjustments					Pro forma adjustments			
	The Group as at 31 Dec 2006	**Praise Rich Group as at 31 Dec 2006** *(Note 8)*	**Disposal of 51% of Praise Rich Group pursuant to 9 January 2007 Agreement**	**Disposal of 49% of Praise Rich Group pursuant to Agreement**		**Pro forma Remaining Group**	**Praise Rich Group as at 31 Dec 2006** *(Note 8)*	**SCL Group as at 31 Dec 2006** *(Note 8)*	**Upon full conversion of the Convertible Notes**		**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current assets											
Biological assets	65,000	–				65,000	–	–			65,000
Property, plant and equipment	364,321	(234)				364,087	234	717			365,038
Investment properties	950,618	–				950,618	–	–			950,618
Prepaid land lease payments	30,955	–				30,955	–	–			30,955
Construction in progress	208,737	(188,324)				20,413	188,324	–			208,737
Loans receivable	5,979	–				5,979	–	–			5,979
Interest in associates	310,762	–	(1,482)	1,482	*9*	310,762	–	–			310,762
Goodwill	21,445	–				21,445	–	–			21,445
Intangible assets	836	–				836	–	–			836
Available-for-sales financial assets	60,202	–				60,202	–	–			60,202
Held to maturity financial assets	–	–	1,910,006	1,835,095	*1*	3,745,101	–	–	(3,745,101)	*10*	–
Other non-current assets	47,458	–				47,458	–	–			47,458
Deferred tax assets	9,776	–				9,776	–	–			9,776
Total non-current assets	2,076,089	(188,558)				5,632,632	188,558	717			2,076,806
Current assets											
Inventories	361,283	–				361,283	–	–			361,283
Trade and other receivables	521,019	(1,574)				519,445	1,574	6,206			527,225
Loans receivable	207,726	–				207,726	–	–			207,726
Financial assets at fair value through profit and loss	132,496	–				132,496	–	–			132,496
Due from related companies	306	–	9,057		*7*	9,363	–	–	(9,057)	*11*	306
Amount due from fellow subsidiaries	–	(11,500)	11,500		*7*	–	11,500	–	(11,500)	*11*	–
Advance to minority shareholders of subsidiaries	14,403	(12,963)				1,440	12,963	–			14,403
Tax recoverable	12,960	–				12,960	–	–			12,960
Pledged bank deposits	17,630	–				17,630	–	–			17,630
Cash held on behalf of clients	363,372	–				363,372	–	–			363,372
Cash and cash equivalents	365,891	(5,276)				360,615	5,276	1,388			367,279
Non-current assets held for sale	53,300	–				53,300	–	–			53,300
Total current assets	2,050,386	(31,313)				2,039,630	31,313	7,594			2,057,980
Current liabilities											
Client deposits	359,586	–				359,586	–	–			359,586
Trade and other payables	980,840	(1,002)	1,700	1,700	*16*	983,238	1,002	7,100			991,340
Interest-bearing bank and other borrowings	578,798	–				578,798	–	–			578,798
Amount due to immediate holding company	–	(1)	1		*7*	–	1	–	(1)	*11*	–
Amount due to fellow subsidiaries	–	(102,517)	47,671	45,790	*2*						
			9,056		*7*	–	102,517	–	(93,461)	*2*	
									(9,056)	*11*	–
Due to related companies	62	–	11,500		*7*	11,562	–	215	(11,500)	*11*	277
Tax payable	35,785	–				35,785	–	–			35,785
Total current liabilities	1,955,071	(103,520)				1,968,969	103,520	7,315			1,965,786
Net current assets/(liabilities)	95,315	72,207				70,661	(72,207)	279			92,194
Total assets less current liabilities	2,171,404	(116,351)				5,703,293	116,351	996			2,169,000

		Pro forma adjustments					Pro forma adjustments				
	The Group as at 31 Dec 2006	Praise Rich Group as at 31 Dec 2006 (Note 8)	Disposal of 51% of Praise Rich Group pursuant to 9 January 2007 Agreement	Disposal of 49% of Praise Rich Group pursuant to Agreement		Pro forma Remaining Group	Praise Rich Group as at 31 Dec 2006 (Note 8)	SCL Group as at 31 Dec 2006 (Note 8)	Upon full conversion of the Convertible Notes		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Non-current liabilities											
Interest bearing bank borrowings	188,539	(80,000)				108,539	80,000	–			188,539
Advances from shareholders	21,896	–				21,896	–	–			21,896
Advances from minority shareholders of subsidiaries	53,249	–				53,249	–	–			53,249
Provision for severance payment	32,601	–				32,601	–	–			32,601
Amount due to related companies	–	–	62,492	60,041	*3*	122,533	–	–	(122,533)	*11*	–
Deferred tax liabilities	139,755	–				139,755	–	–			139,755
Total non-current liabilities	436,040	(80,000)				478,573	80,000	–			436,040
Net assets	1,735,364	(36,351)				5,224,720	36,351	996			1,732,960
Equity											
Issued capital	45,584	–				45,584	–	5,065	(5,065)	*13*	45,584
Share premium and reserves	1,148,310	3,025	1,345,556	1,292,725	*12*						
			(3,025)		*6*	3,786,591	(3,025)	(4,069)	(2,641,681)	*14.1*	
									3,025	*19*	
									4,069	*13*	
									951	*15*	
									137	*17*	1,145,998
Equity attributable to equity holders of the Company	1,193,894	3,025				3,832,175	(3,025)	996			1,191,582
Minority interests	541,470	(39,376)	454,130	436,321	*12*	1,392,545	39,376		(890,451)	*14.1*	
									45	*15*	
									(137)	*17*	541,378
Total equity	1,735,364	(36,351)				5,224,720	36,351	996			1,732,960

3. CONSOLIDATED INCOME STATEMENT

		Pro forma adjustments					Pro forma adjustments				
	The Group for the year ended 31 Dec 2006 HK$'000	Praise Rich Group for the year ended 31 Dec 2006 *(Note 8)* HK$'000	Disposal of 51% of Praise Rich Group pursuant to 9 January 2007 Agreement HK$'000	Disposal of 49% of Praise Rich Group pursuant to Agreement HK$'000	*Notes*	Pro forma Remaining Group HK$'000	Praise Rich Group for the year ended 31 Dec 2006 *(Note 8)* HK$'000	SCL Group for the year ended 31 Dec 2006 *(Note 8)* HK$'000	Upon full conversion of the Convertible Notes HK$'000	*Notes*	Pro forma Enlarged Group HK$'000
Revenue	4,444,372	–				4,444,372	–	23,912			4,468,284
Cost of sales	(3,939,691)	–				(3,939,691)	–	–			(3,939,691)
Gross profit	504,681	–				504,681	–	23,912			528,593
Interest income	4,296	(126)	13,895	13,349	*5*	31,414	126	21	(27,244)	*14.2*	4,317
Other operating income	31,064	(20)				31,044	20	163			31,227
Fair value gains on investment properties	66,304	–				66,304	–	–			66,304
Gain on disposal of investment properties	5,280	–				5,280	–	–			5,280
Fair value gains on biological assets	3,664	–				3,664	–	–			3,664
Excess over the cost of business combinations and acquisition of minority interest	241,308	–				241,308	–	–	951	*15*	242,259
Impairment of trade and loans receivables	(13,990)	–				(13,990)	–	–			(13,990)
Selling and distribution costs	(103,083)	–				(103,083)	–	(7,234)			(110,317)
Administration expenses	(431,153)	5,109	(1,700)	(1,700)	*16*	(429,444)	(5,109)	(16,709)			(451,262)
Gain on disposal of available-for-sale financial assets	1,045	–				1,045	–	–			1,045
Fair value gain on financial assets at fair value through profit and loss	1,261	–				1,261	–	–			1,261
Interest expense for margin financing and money lending operations	(16,717)	–				(16,717)	–	–			(16,717)
Reversal of impairment of property, plant and equipment	11,620	–				11,620	–	–			11,620
Finance cost	(34,608)	2,668				(31,940)	(2,668)	–			(34,608)
Gain on disposal of subsidiaries	–	–	1,801,386	1,730,746	*4*	3,532,132	–	–	(3,532,132)	*14.1*	–
Share of profits and losses of associates	35,772	–				35,772	–	–			35,772
Profit before tax	306,744	7,631				3,870,351	(7,631)	153			304,448
Tax	(24,648)	–				(24,648)	–	–			(24,648)
Profit for the year	282,096	7,631				3,845,703	(7,631)	153			279,800
Attributable to:											
Equity holders of the Company	205,318	6,466	1,356,378	1,303,137	*18.1*	2,871,299	(6,466)	153	(2,661,964)	*18.2*	203,022
Minority interests	76,778	1,165	457,203	439,258	*18.1*	974,404	(1,165)	–	(896,461)	*18.2*	76,778
	282,096	7,631				3,845,703	(7,631)	153			279,800

4. CONSOLIDATED CASH FLOW STATEMENT

		Pro forma adjustments					Pro forma adjustments				
	The Group for the year ended 31 Dec 2006	Praise Rich Group for the year ended 31 Dec 2006 *(Note 8)*	Disposal of 51% of Praise Rich Group pursuant to 9 January 2007 Agreement	Disposal of 49% of Praise Rich Group pursuant to Agreement		Pro forma Remaining Group	Praise Rich Group for the year ended 31 Dec 2006 *(Note 8)*	SCL Group for the year ended 31 Dec 2006 *(Note 8)*	Upon full conversion of the Convertible Notes		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Cash flow from operating activities											
Profit/(loss) from ordinary activities before taxation	306,744	7,631	1,813,581	1,742,395	*18.1*	3,870,351	(7,631)	153	(3,558,425)	*18.2*	304,448
Adjustments for:											
Impairment of trade and loans receivable	13,990	–				13,990	–	–			13,990
Provision against obsolete inventories	12,863	–				12,863	–	–			12,863
Decrease in biological asset due to harvest	664	–				664	–	–			664
Depreciation	59,258	(190)				59,068	190	405			59,663
Dividend income from listed investment	(2,192)	–				(2,192)	–	–			(2,192)
Gain on disposal of available-for-sale financial assets	(1,045)	–				(1,045)	–	–			(1,045)
Excess over the cost of business combination and acquisition of minority interest	(241,308)	–				(241,308)	–	–	(951)	*15*	(242,259)
Dilution gain on a subsidiary	(3,555)	–				(3,555)	–	–			(3,555)
Finance cost	34,608	(1,965)				32,643	1,965	–			34,608
Interest income	(4,296)	126	(13,895)	(13,349)	*5*	(31,414)	(126)	(21)	27,244	*14.2*	(4,317)
Fair value gain on investment properties	(66,304)	–				(66,304)	–	–			(66,304)
Gain on disposal of investment properties	(5,280)	–				(5,280)	–	–			(5,280)
Fair value gain on biological assets	(3,664)	–				(3,664)	–	–			(3,664)
Recognition of prepaid land lease payments	750	–				750	–	–			750
Fair value gain on financial assets at fair value through profit and loss	(1,261)	–				(1,261)	–	–			(1,261)
Reversal of impairment of property, plant and equipment	(11,620)	–				(11,620)	–	–			(11,620)
Loss on disposal of property, plant and equipment	53	–				53	–	–			53
Equity settled share option expenses	6,711	–				6,711	–	–			6,711
Share of profit of associates	(35,772)	–				(35,772)	–	–			(35,772)
Gain on disposal of subsidiaries	–	20	(1,801,386)	(1,730,746)	*4*	(3,532,112)	(20)	–	3,532,132	*14.1*	–
Operating profit before changes in working capital	59,344	5,622				61,566	(5,622)	537			56,481
Increase in inventory	(5,277)	–				(5,277)	–	–			(5,277)
Increase in trade and other receivable	(48,022)	1,447				(46,575)	(1,447)	447			(47,575)
Increase in amount due from fellow subsidiaries	–	11,500	(11,500)		*7*	–	(11,500)	–	11,500	*11*	–
Increase in loan receivable	(54,900)	–				(54,900)	–	–			(54,900)
Increase in financial assets at fair value through profit and loss	(70,950)	–				(70,950)	–	–			(70,950)
(Increase)/decrease in amount due from related companies	255	–	(9,057)		*7*	(8,802)	–	53	9,057	*11*	308
Increase in cash held on behalf of clients	(126,909)	–				(126,909)	–	–			(126,909)
(Decrease)/increase amount due to minority shareholder of subsidiary	–	–				–	–	–			–
Increase in client deposits	134,119	–				134,119	–	–			134,119
Increase in trade and other payables	113,384	26,762	20,557	–	*7*						
			1,700	1,700	*16*	164,103	(26,762)	(974)	(20,557)	*11*	115,810
Cash generated from operations	1,044	45,331				46,375	(45,331)	63			1,107
Hong Kong profit tax paid	(2,075)	–				(2,075)	–	–			(2,075)
Mainland China tax paid	(2,908)	–				(2,908)	–	–			(2,908)
Net cash (outflow)/inflow from operating activities	(3,939)	45,331				41,392	(45,331)	63			(3,876)

	The Group for the year ended 31 Dec 2006 HK$'000	Pro forma adjustments: Praise Rich Group for the year ended 31 Dec 2006 *(Note 8)* HK$'000	Pro forma adjustments: Disposal of 51% of Praise Rich Group pursuant to 9 January 2007 Agreement HK$'000	Pro forma adjustments: Disposal of 49% of Praise Rich Group pursuant to Agreement HK$'000	*Notes*	Pro forma Remaining Group HK$'000	Pro forma adjustments: Praise Rich Group for the year ended 31 Dec 2006 *(Note 8)* HK$'000	Pro forma adjustments: SCL Group for the year ended 31 Dec 2006 *(Note 8)* HK$'000	Pro forma adjustments: Upon full conversion of the Convertible Notes HK$'000	*Notes*	Pro forma Enlarged Group HK$'000
Cash flow from investing activities											
Purchase of property, plant and equipment	(33,140)	95				(33,045)	(95)	(26)			(33,166)
Addition to construction in progress	(96,372)	89,503				(6,869)	(89,503)	–			(96,372)
Addition to prepaid land lease payment	(64)	–				(64)	–	–			(64)
Purchase of available for sales investment	(16,965)	–				(16,965)	–	–			(16,965)
Acquisition of subsidiaries	(71,723)	–				(71,723)	–	–	7,516	*20*	(64,207)
Advances to associate, net	(1,359)	–				(1,359)	–	–			(1,359)
Acquisition of minority interest	(78,752)	–				(78,752)	–	–			(78,752)
Proceed from disposal of available-for-sale financial assets	7,603	–				7,603	–	–			7,603
Interest income	4,296	(126)				4,170	126	21			4,317
Proceed from disposal of property, plant and equipment	7,435	–				7,435	–	–			7,435
Proceed from disposal of investment properties	39,160	–				39,160	–	–			39,160
Dividend received from listed investments	2,192	–				2,192	–	–			2,192
Proceed from acquisition of other non-current assets	(1,718)	–				(1,718)	–	–			(1,718)
Proceed from disposal of subsidiary	–	19				19	(19)	–			–
Net cash outflow from investing activities	(239,407)	89,491				(149,916)	(89,491)	(5)			(231,896)
Cash flow from financing activities											
Repayment of bank loan	(180,731)	–				(180,731)	–	–			(180,731)
Increase in trust receipt loan	21,463	–				21,463	–	–			21,463
Increase/(decrease) in amounts due to follow subsidiaries	–	(35,461)				(35,461)	35,461	–			–
Advance from shareholders	(5,017)	–				(5,017)	–	–			(5,017)
Advance from/(repayment to) minority shareholders	2,358	–				2,358	–	–			2,358
Finance cost	(34,608)	1,384				(33,224)	(1,384)	–			(34,608)
Dividend paid to minority shareholders of subsidiaries	(5,990)	–				(5,990)	–	–			(5,990)
Capital element of finance lease rental payment	(6,028)	–				(6,028)	–	–			(6,028)
Capital contribution from minority shareholders of a subsidiary	–	(19,190)				(19,190)	19,190	–			–
New bank loan	449,432	(80,000)				369,432	80,000	–			449,432
Capital contribution from minority shareholders of subsidiaries	32,627	–				32,627	–	–			32,627
Net cash inflow from financing activities	273,506	(133,267)				140,239	133,267	–			273,506
Increase in cash equivalents	30,160	1,555				31,715	(1,555)	58			37,734
Effect of exchange rate change	3,742	(645)				3,097	645	–			3,742
Cash and cash equivalents at beginning of year	251,863	(6,186)				245,677	6,186	1,330	(7,516)	*20*	245,677
Cash and cash equivalents at end of year	285,765	(5,276)				280,489	5,276	1,388			287,153
Analysis of balances of cash and cash equivalent											
Cash and bank balances	365,891	(5,276)				360,615	5,276	1,388			367,279
Time deposits with original maturity of less than three months when acquired	17,630	–				17,630	–	–			17,630
Bank overdrafts	(97,756)	–				(97,756)	–	–			(97,756)
	285,765	(5,276)				280,489	5,276	1,388			287,153

5. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP AND THE ENLARGED GROUP

On 9 January 2007, SCL, the Vendor and SCI entered into the 9 January 2007 Agreement pursuant to which the Vendor sold the Previous Sale Shares and procured the sale of the Previous Sale Debt and SCL purchased such Previous Sale Shares and such Previous Sale Debt, and SCI had guaranteed the due performance of the Vendor's obligations thereunder, in each case upon and subject to the terms and conditions set out therein. Details of the Previous Transaction were set out in the joint announcement dated 10 January 2007 and the respective circulars of the Company, SCI and SCL dated 12 February 2007. The completion of the sale and purchase of the Previous Sale Shares and the Previous Sale Debt took place on 12 March 2007. Accordingly, the Vendor transferred the Previous Sale Shares and procured the assignment of the Previous Sale Debt to SCL and SCL issued the Convertible Note I to Skychance, a company nominated by the Vendor to hold the Convertible Notes.

On 30 April 2007, the Company, SCI and SCL jointly announced that SCL, the Vendor and SCI entered into the Agreement pursuant to which the Vendor has conditionally agreed to sell the Sale Shares and procure the sale of the Sale Debt to SCL at a consideration of HK$392 million. The Consideration is to be satisfied by SCL issuing to Skychance the Convertible Note II.

1. The adjustment reflects the effect of recognition of the Convertible Notes on the consolidated balance sheet as of the Group as if the transaction had taken place on 31 December 2006. The Convertible Notes are recognized at fair value after taking into consideration of the discounted present value of the liability portion and the fair value of the convertible options embedded.

2. The adjustment reflects the assignment of Previous Sale Debt and Sale Debt on date of 9 January 2007 Agreement and Agreement respectively.

3. The adjustment reflects the amounts of the tax indemnified by SCI due to the appreciation of Liaoning Property. The carrying value of the Property is adjusted by HK$464.1 million based on the valuation of RMB650 million performed by Jones Lang LaSalle, an independent firm of professional valuers, as at 31 March 2007 at fair value on the assumption that the total site area has been extended to 21,893.5 sq.m. and there would have no legal impediment to obtain good land use title of the extended site area. Deferred tax liabilities of HK$153.2 million arising from Property appreciation are provided by SCL. In accordance with the 9 January 2007 Agreement and Agreement, SCI and the Vendor indemnify SCL against any attributable land appreciation tax that may become payable by SCL and the indemnified tax amount is HK$122.5 million, net of minority interests.

4. The adjustment reflects the gain on disposal of equity interest in Praise Rich Group. The gain on disposal of subsidiaries of the Previous Transaction is calculated by the fair value of the Convertible Note I of HK$1,910.0 million, less tax indemnified by the Company of HK$62.5 million, less the face value of Previous Sale Debt of HK$47.7 million, add the 51% net liabilities attributable to the equity holder of Praise Rich Group of HK$1.5 million. The gain on disposal of subsidiaries of the Transaction is calculated by the fair value of the Convertible Note II of HK$1,835.1 million, less tax indemnified by the Company of HK$60.0 million, less the face value of Sale Debt of HK$45.8 million, add the 49% net liabilities attributable to the equity holder of Praise Rich Group of HK$1.5 million. The adjustment will not have a continuing effect on the Group financial result.

5. The adjustment reflects the imputed interest income of Convertible Note I and II based on an effective interest rate of 4.18% per annum. The adjustment will have a continuing effect on the Group financial result.

6. The adjustment represents the elimination of Praise Rich reserves upon the disposal of subsidiaries.

7. The adjustment reflects the reclassification of intercompany receivable and payable balances upon the disposal of Praise Rich Group. The receivable balance of HK$9.1 million and payable balance of HK$11.5 million due from/to Praise Rich Group before the completion of the Previous Transaction and the Transactions, were eliminated with the relevant intercompany balances during the consolidation of Praise Rich Group into the Group. Upon the disposal of Praise Rich Group, these balances are reclassified as amount due from/to related companies.

8. Upon the completion of the Previous Transaction and the Transaction, Praise Rich Group ceases to be a subsidiaries of the Group and hence, the result of Praise Rich Group is excluded from the Group. Upon full conversion of the Convertible Notes, Praise Rich Group and SCL Group become subsidiaries of the Group and hence, the result of Praise Rich Group and SCL Group are included in the result of the Group.

9. Upon the completion of the Previous Transaction, Praise Rich Group became an associate of the Group and the adjustment reflects the status of Praise Rich Group at this position. With the disposal of the remaining 49% interest in Praise Rich Group through the Transaction, the interest in associate will be zero.

10. The adjustment reflects the elimination of convertible notes payable and receivable upon the full conversion of the Convertible Notes.

11. The adjustment reflects the elimination of intra-group receivable and payable balance upon the acquisition of SCL Group.

12. The reserve adjustment includes gain on disposal of subsidiaries of the Previous Transaction amounting to HK$1,801.4 million net of accruals of estimated professional charges of HK$1.7 million for the Previous Transaction. Amongst this increase in equity, an amount of HK$1,345.6 million is attributable to equity holder of the Company and HK$454.1 million is attributable to minority shareholder of SCI. The reserve adjustment includes gain on disposal of subsidiaries of HK$1,730.7 million of the Transaction net of accruals of estimated professional charges of HK$1.7 million for the Transaction. Amongst this increase in equity, an amount of HK$1,292.7 million is attributable to equity holder of the Company and HK$436.3 million is attributable to minority shareholder of SCI.

13. The adjustment reflects the elimination of SCL issued capital and pre-acquisition reserve upon the full conversion of the Convertible Notes.

14. 14.1 The adjustment represents the reversal of gain on disposal of Praise Rich Group upon the full conversion of Convertible Notes. The adjustment will not have a continuing effect on the Group financial result.

14.2 The adjustment represents the elimination of intra-group imputed interest income relating to the Convertible Notes. The adjustment will have a continuing effect on the Group financial result.

15. The adjustment represents the segregation of SCL net asset value into negative goodwill (retained earnings of the Enlarged Group) and minority interest upon the acquisition 95.47% interest of the SCL Group. The adjustment on excess over the cost of business combinations and acquisition of minority interest amounting to HK$951,000 represents 95.47% of acquired net asset value of SCL of HK$996,000 as at 31 December 2006. This adjustment is for illustrative purpose only. Skychance shall exercise the rights of conversion to the extent that the public float of SCL will not be less than 25% immediately after the conversion. The adjustment will not have a continuing effect on the Group financial result.

16. The adjustment reflects the accruals of estimated professional charges of the Previous Transaction and the Transaction. The adjustment will not have continuing effect on the Group financial result.

17. The adjustment reflects the reclassification of Praise Rich Group's net asset value attributable to equity holder to minority interest upon the acquisition 95.47% interest of SCL Group. This adjustment is for illustrative purpose only. Skychance shall exercise the rights of conversion to the extent that the public float of SCL will not be less than 25% immediately after the conversion.

18. 18.1 The adjustment on the profit for the year represents gain on disposal of subsidiaries of HK$1,801.4 million of the Previous Transaction (of which HK$1,356.4 million attributable to equity holders of the Company and HK$457.2 million attributable to minority shareholders), interest income of Convertible Note I of HK$13.9 million net of accruals for estimated professional charges of HK$1.7 million of the Previous Transaction. The HK$1,742.4 million adjustment on the profit for the year (of which HK$1,303.1 million attributable to the equity holders of the Company and HK$439.3 million attributable to minority shareholders) represents gain on disposal of subsidiaries of HK$1,730.7 million of the Transaction, interest income of Convertible Note II of HK$13.3 million net of accruals for estimated professional charges of HK$1.7 million the Transaction.

18.2 The amount of HK$3,558.4 million adjustment in profit for the year represents the reversal of gain on disposal of subsidiaries of HK$3,532.1 million, elimination of interest income from Convertible Note amounting to HK$27.2 million and the adjustment on excess over the cost of business combinations and acquisition of minority interest of HK$951,000 upon the acquisition of SCL Group through full conversion of the Convertible Note.

19. The adjustment reflects the elimination of Praise Rich Group pre-acquisition reserve upon the full conversion of Convertible Notes.

20. The adjustment represents the net cash flow of cash and cash equivalents arising from the acquisition of SCL Group under the full conversion of the Convertible Notes. As the acquisition was assumed to take place at 1 January 2006, the opening cash balance of SCL Group and Praise Rich Group should be excluded from the Group's opening balance and net off with cash paid out for acquisition of subsidiaries.

6. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP AND THE ENLARGED GROUP

13 June 2007

The Directors
South China Holdings Limited
28/F Bank of China Tower
1 Garden Road
Central
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of the South China Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the disposal of 51% equity interest in Praise Rich Limited (the "Previous Transaction"), the proposed disposal of the remaining 49% equity interest in Praise Rich Limited (the "Transaction") and the full conversion of Convertible Notes of South China Land Limited might have affected the financial information presented, as set out on pages 167 to 176 in Appendix IV "Unaudited Pro Forma Financial Information on the Remaining Group and the Enlarged Group" to the circular dated 13 June 2007 (the "Circular").

The historical financial information used in the preparation of unaudited pro forma financial information is derived from the annual report of the Group for the year ended 31 December 2006 dated 17 April 2007 as included in the Circular. The basis of preparation of the unaudited pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Auditing Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29 of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standards on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the Group's unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2006 or any future date or the results and cash flows of the Group for the year ended 31 December 2006 or any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular and received from Jones Lang LaSalle, an independent professional property valuer, in connection with their valuation as at 31 March 2007 of the Property.

JONES LANG LASALLE® 仲量聯行

Jones Lang LaSalle Limited
Valuation Advisory Services
28/F One Pacific Place 88 Queensway Hong Kong
tel +852 2846 5000 fax +852 2968 0078
Company Licence No.: C-003464

仲量聯行有限公司
物業估價部
香港金鐘道88號太古廣場一期28樓
電話 +852 2846 5000 傳真 +852 2968 0078
牌照號碼C-003464

13 June 2007

The Directors
South China Holdings Limited
28/F Bank of China Tower
No. 1 Garden Road
Central, Hong Kong

The Directors
South China Industries Limited
28/F, Bank of China Tower
No. 1 Garden Road
Central, Hong Kong

The Directors
South China Land Limited
Unit A, 3rd Floor
Wah Shing Centre
5 Fung Yip Street
Chai Wan, Hong Kong

Dear Sirs

Re: A Development Site Located at the Western Side of Zhaoyang Street, Shenhe District, Shenyang, Liaoning Province, the People Republic of China ("the Property")

Instructions and Date of Valuation

In accordance with the joint instructions from South China Holdings Limited ("SCHL"), South China Industries Limited ("SCIL") and South China Land Limited ("SCLL"), we confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we deem necessary to derive our opinion as to the market value of the property interest of the development site (identified as Lot No. 0207027 in the State Owned Land Use Rights Certificate), located at the western side of Zhaoyang Street, Shenhe District, Shenyang, Liaoning Province in the People Republic of China, as at 31 March 2007 ("the date of valuation").

The purpose of this valuation is in relation to a very substantial acquisition and connected transaction for SCLL and a very substantial disposal and connected transaction for SCHL and SCIL. Hereinafter, we refer to these three parties jointly as the Instructing Parties.

We would like to add that we have carried out a valuation of the Property for the Instructing Parties for public disclosure purpose in November 2006.

INTRODUCTION

Basis of Valuation and Assumptions

Our valuation is made on the basis of the market value adopted by the Hong Kong Institute of Surveyors 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 had each acted knowledgeably, prudently and without compulsion".

In preparing the valuation, we have complied with the requirements as set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

According to the Instructing Parties' PRC legal adviser, Liaoning Cheng Ming Law Firm, (遼寧誠銘律師事務所) (the legal adviser), the majority portion of the Property with a site area of approximately 18,841.5m^2 has been granted with land use rights certificate. However, Shenyang Plan and Resources Bureau ("the Bureau") agreed to extend the site area of the Property to a total of 21,893.5m^2 and the land premium demand note for the remaining portion of the site area of 3,052m^2 has been served on Liaoning Dafa Real Estate Co., Ltd. (hereinafter referred as "Liaoning Dafa"). The legal adviser is of the opinion that it would be legitimate for Liaoning Dafa to adjust the total site area to 21,893.5m^2 as it would have good land use title of the additional site area without any legal impediment upon full settlement of the land premium and through proper registration procedures.

Furthermore, the valuation assumes that the owner sells the Property on the market without the benefit of deferred terms contracts, leasebacks, joint venture agreements or any similar arrangements which could serve to affect the value of the Property. No allowance has been made in the valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation that may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature that could affect its value.

Method of Valuation

In valuing the Property which is a development site, we have assessed the value of the Property on the basis that it will be developed and completed in accordance with the latest development proposals provided to us. In the course of our valuation, we have adopted the direct comparison approach by making reference to comparable land sales transactions in the locality.

Source of Information

We have relied to a considerable extent on the information provided by the Instructing Parties and we have no reason to doubt the truth and accuracy of the information provided to us. The Instructing Parties also advised that no material facts have been omitted from the information supplied and we have no reason to suspect that material information has been withheld.

We were provided with copies of site plan, land grant contract, land use rights certificate and the construction planning land use permit relating to the title of the Property. For title matters, we have relied on the opinion provided by the Instructing Parties' legal adviser.

We have accepted advice given to us on such matters as tenure, site area, easement, planning approvals, the proposed development scheme, floor areas, estimated construction cost and timing of the proposed development and all relevant matters supplied by the Instructing Parties. Dimensions, measurements and areas included in the valuation report are based on information contained in copies of documents provided to us and are therefore only approximations. No on site measurements have been taken to verify the correctness of the site area.

Property Inspection

We have inspected the Property and its surrounding areas in May 2007. We were not instructed to carry out any investigations on site in order to determine the suitability of ground conditions and services, nor did we undertake archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory and no extraordinary costs or delays will be incurred during the construction period due to these, or to archaeological or ecological matters. However, should it be established subsequently that contamination, subsidence or other defects exist at the Property or on any neighboring land, or that the Property has been or being put to any contaminative use, we reserve the right to adjust the value reported herein.

Currency

All currency stated herein this report is in Renminbi.

The valuation certificate is attached hereto.

Yours faithfully
For and on behalf of

Jones Lang LaSalle Limited
Rita Wong Sing Ming
Regional Director
Registered Professional Surveyor (GP)
BBus, MHKIS, AAPI, RPS (GP)

Ms Wong is a Registered Professional Surveyor and a Regional Director with the Valuation Advisory Services Department of Jones Lang LaSalle Limited. She has about 14 years of valuation and advisory experience in various key markets in the North Asia Region, including the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value as at 31 March 2007
A development site located at the western side of Zhaoyang Street, Shenhe District, Shenyang, Liaoning Province, the PRC. ("the Property") (Identified as lot No. 0207027 in the State Owned Land Use Rights Certificate)	The Property comprises a roughly rectangular shaped site located at the western side of Zhaoyang Street, close to its junction with Zhong Jie, which is a pedestrianised street. The subject Property comprising a site area of 18,841.5m^2 has been granted with the State Owned Land Use rights Certificate. The acquisition for an additional site area of 3,052m^2 to extend the total site area of the Property to 21,893.5m^2 is pending formal completions *(See Note 2)*. The Property was designated for commercial use with land use term of 40 years, expiring on 31 December 2046. The Property is proposed for a retail development, currently known as South China Land Plaza ("the Proposed Development") with planned gross floor area of approximately 117,200m^2. *(See Note 8)*.	The Property was a vacant site as per recent site inspection.	RMB560,000,000 *(See Notes 6 & 9)*

Notes:

1. According to the copy of the State Owned Land Use Rights Certificate (the "Land Use Rights Certificate") No. Shenyang Guo Yong 2007 Di 0054 dated 9 February 2007, the land use rights of portion of the Property was granted to 遼寧大發房地產有限責任公司 Liaoning Dafa Real Estate Co., Ltd. ("Liaoning Dafa").

2. According to the copy of the Land Use Rights Certificate, the Property currently comprises a site area of 18,841.5m^2 (the "Original Site Area"), which is taken as the subject of this valuation. We have been advised by the Instructing Parties that Liaoning Dafa has recently acquired a further site area of 3,052m^2 (the "Additional Site Area"), subject to the payment of land premium of RMB8,896,580. The consolidated total site area of the Property for the Proposed Development would be 21,893.5m^2.

3. According to the information provided by the Instructing Parties, Liaoning Dafa is a Sino-foreign joint venture company incorporated in the PRC. Praise Rich Limited is an investment holding company holding all of the shares of Ever Talent Limited, which in turn is the 80% foreign investor of Liaoning Dafa. Praise Rich Limited is 51% held by South China Land Limited and 49% by WTS International (BVI) Limited, being beneficially owned as to 100% by South China Industries Limited. South China Industries Limited is held as to 74.79% by South China Holdings Limited.

4. According to the copy of the State-owned Land Use Rights Grant Contract (the "Land Grant Contract") No. Shen Gui Guo Tu Chu He Zi [2006] 0172 signed on 31 December 2006, the Original Site Area of 18,841.5m^2 was granted to Liaoning at a consideration of RMB67,369,535. Liaoning Dafa would be responsible for the demolition and compensation/resettlement costs of the existing on-site structures as well as the urban ancillary facility fees of the site.

   Based on the information provided by the Instructing Parties, the total compensation/resettlement costs for the Property was in the region of RMB 128,000,000.

5. Salient development conditions as stipulated in the Land Grant Contract and Construction Land Use Planning Permit are as follows:

(i)	Site area:	18,841.5m^2
(ii)	Permitted Use:	Commercial
(iii)	Permitted Plot Ratio:	Not to exceed 1
(iv)	Height Restrictions:	Not to exceed 18m
(v)	Land Use Term:	40 years
(vi)	Others:	The grantee should commence construction works within 6 months from the date of obtaining the construction works planning permit and complete the construction works within the time limit set by relevant government departments.

6. The status of title and grant of major approvals and licenses in accordance with the information provided to us by the Instructing Parties and the aforesaid legal opinion are as follows:

(i)	State-owned Land Use Rights Grant Contract	Yes (for site area of 18,841.5m^2)
(ii)	State-owned Land Use Rights Certificate	Yes (for site area of 18,841.5m^2)
(iii)	Construction Land Use Planning Permit	Yes (for site area of 18,841.5m^2)
(iv)	Site Plan	Yes (for site area of 18,841.5m^2)
(v)	Construction Works Planning Permit	No
(vi)	Construction Works Commencement Permit	No
(vii)	Business License for Liaoning Dafa	Yes

7. We have been provided with the Instructing Parties' PRC legal adviser's opinion, which inter-alia, contains the following:

   (i) It would be legitimate and feasible for Liaoning Dafa to apply for increase of plot ratio of the Property from 1.0 as stipulated in the Land Grant Contract and Construction Land Use Planning Permit to an above-ground plot ratio of 2.7, subject to the conditions that the construction land use, planning, design and construction of the Proposed Development would comply with the relevant restrictive documents and regulations issued by the relevant bureau of the state and Shenyang City and payment of land premium.

   (ii) Liaoning Dafa would have no legal impediment to obtain good land use title of the Additional Site Area, subject to the settlement of the land premium and through proper registration procedures.

   (iii) Liaoning Dafa has obtained the Land Use Rights Certificate for the site area of 18,841.5m^2. No any encumbrances were registered in the certificate.

   (iv) Liaoning Dafa has good land use title in respect of the site area of 18,841.5m^2. Liaoning could assign, mortgage and transfer this site area in the open market when the property complied with the relevant law and regulations.

8. As advised by the Instructing Parties, Liaoning Dafa is currently negotiating with the Shenyang Plan and Land Resources Bureau to increase the developable gross floor area. According to the schematic development plans provided, the Proposed Development would comprise a 7-storey (including 3 basement levels and 4 above-ground levels) retail development with total gross floor area of approximately 117,200m^2. We were further advised that there would be underground connections linking to the future mass transit system at the basement levels 1 and 2 of the Proposed Development.

   As at the date of valuation, the proposed developable area of the Proposed Development was not consistent with the development conditions as stipulated in the Land Grant Contract and the Construction Land Use Planning Permit. We were advised that modification of the relevant development conditions and payment of land premium (if any) would be required.

9. We have been instructed to assess the market value of the Property as a development site based on the following as at 31 March 2007:

   (i) the Property and the Proposed Development are free of any encumbrances and could be freely assigned, mortgaged, let and transferred in the market;

   (ii) the land premium (including the extension of site area and modification of the development conditions) and all compensation/resettlement costs have been fully paid and settled;

   (iii) the Proposed Development would be built and complete on schedule and in accordance with the provided development schematic plans and estimated development costs;

   (iv) the Proposed Development with a gross floor area of approximately 117,200m^2 would be approved by relevant government authorities;

10. We have also been instructed to assess the value of the Property with a site area of 21,895.5m^2, assuming the Land Use Rights Certificate of the Additional Site Area has been obtained. The market value of the unencumbered leasehold interest of the Property with site area of 21,893.5m^2, as a site proposed for a 117,200m^2 retail development with the benefit of vacant possession and subject to the above assumptions in note 9 above, would be in the region of RMB650,000,000 as at 31 March 2007. The capital value of the Proposed Development, assuming it was completed as at 31 March 2007, was assessed in the region of RMB1,700,000,000. These values represent 100% interest of the Property and the Proposed Development respectively.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

(a) Long positions in ordinary shares of HK$0.025 each of the Company:

		Number of Shares held, capacity and nature of interest			
Name of Director	***Note***	**Beneficial owner**	**Interest of controlled corporations**	**Total**	**Approximate percentage of the Company's issued share capital**
Mr. Ng	*(a)*	71,652,200	1,272,529,612	1,344,181,812	73.72%
Mr. Gorges	*(a)*	–	487,949,760	487,949,760	26.76%
Ms. Cheung	*(a)*	–	487,949,760	487,949,760	26.76%

(b) Long positions in ordinary shares of associated corporations:

1. Interests in shares

(i) South China Financial Holdings Limited ("SCF") *(Note b)*

Name of Director	*Note*	Number of ordinary shares held	Capacity and nature of interest	Approximate percentage of the associated corporation's issued share capital
Mr. Ng	*(c)*	3,660,502,500	Interest of controlled corporations	73.08%
Mr. Gorges		12,174,000	Beneficial owner	0.24%

(ii) SCI *(Note d)*

Name of Director	*Note*	Number of ordinary shares held	Capacity and nature of interest	Approximate percentage of the associated corporation's issued share capital
Mr. Ng	*(e)*	396,641,357	Interest of controlled corporations	74.79%

(iii) South China Financial Credits Limited ("SCFC") *(Note f)*

Name of Director	**Number of ordinary shares held**	**Capacity and nature of interest**	**Approximate percentage of the associated corporation's issued share capital**
Mr. Ng Yuk Fung, Peter	250,000	Beneficial owner	0.59%

(iv) The Express News Limited ("Express News") *(Note g)*

Name of Director	***Note***	**Number of ordinary shares held**	**Capacity and nature of interest**	**Approximate percentage of the associated corporation's issued share capital**
Mr. Ng	*(h)*	30	Interest of a controlled corporation	30%

2. *Interests in underlying shares of SCF – share options scheme of SCF*

Name of Director	**Capacity**	**Number of underlying shares***	**Approximate percentage of shareholding**
Mr. Gorges	Beneficial owner	30,000,000	0.60%
Ms. Cheung	Beneficial owner	30,000,000	0.60%
Mr. Ng Yuk Fung, Peter	Beneficial owner	50,000,000	1.00%

* *Represents underlying shares subject to share options granted to the Directors, details of which are as follows:*

Name of Director	Date of grant *(DD/MM/YY)*	Subscription price per share *HK$*	No. of share options granted	Exercise period *(DD/MM/YY)*
Mr. Gorges	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Ms. Cheung	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
Mr. Ng Yuk Fung, Peter	16/03/2006	0.128	10,000,000	16/03/2007 – 15/03/2009
			10,000,000	16/03/2008 – 15/03/2010
			10,000,000	16/03/2009 – 15/03/2011
	26/04/2006	0.128	6,666,667	26/04/2007 – 25/04/2009
			6,666,667	26/04/2008 – 25/04/2010
			6,666,666	26/04/2009 – 25/04/2011

Notes:

(a) The 1,272,529,612 Shares held by Mr. Ng through controlled corporations referred to above include 371,864,000 Shares held by Parkfield, 396,050,252 Shares held by Fung Shing, 16,665,600 Shares held by Ronastar, 237,303,360 Shares held by Bannock and 250,646,400 Shares held by Earntrade. Parkfield, Fung Shing and Ronastar are all wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Ms. Cheung and 20% by Mr. Gorges, all of whom are considered as parties to an agreement to which Section 317 of the SFO applies. As such, Mr. Ng, Ms. Cheung and Mr. Gorges are deemed to have an interest in 487,949,760 Shares, which are being held by both Bannock and Earntrade.

(b) The Company owns approximately 73.08% of the issued share capital of SCF.

(c) The 3,660,502,500 shares of SCF are held by certain wholly-owned subsidiaries of the Company. By virtue of the interests in the Shares in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCF under the SFO.

(d) SCI is a 74.79% owned subsidiary of the Company.

(e) The 396,641,357 SCI Shares are held by certain wholly-owned subsidiaries of the Company. By virtue of the interests in the Shares in relation to which Mr. Ng has a duty of disclosure under the SFO in the issued share capital of the Company as described in Note (a) above and as a Director, Mr. Ng is taken to have a duty of disclosure in relation to the said shares of SCI under the SFO.

(f) SCFC is a 98.36% owned subsidiary of SCF.

(g) Express News is a 70% owned subsidiary of the Company.

(h) Mr. Ng and his family, through a company wholly-owned and controlled by them, have interests in 30 shares of Express News.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, those persons, other than Directors or chief executive of the Company, who had an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group and the Enlarged Group and the amount of each such person's interest in such securities, together with particulars of any options in respect of such capital; or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, were as follows:

(a) The Company – Long positions in the Shares

Name of Shareholder	*Notes*	Capacity and nature of interest	Number of ordinary Shares held	Approximate percentage of the Company's issued share capital
Earntrade	*(a)*	Beneficial owner and interest of a controlled corporation	487,949,760	26.76%
Bannock	*(a)*	Beneficial owner	237,303,360	13.01%
Parkfield		Beneficial owner	371,864,000	20.39%
Fung Shing		Beneficial owner	396,050,252	21.72%

Note:

(a) Bannock is a wholly-owned subsidiary of Earntrade. The 487,949,760 Shares held by Earntrade include 237,303,360 Shares held by Bannock directly.

(b) SCL

(i) Long position in SCL Shares

Name of shareholder	Capacity	Number of SCL Shares	Approximate percentage of SCL's issued share capital
Parkfield	Beneficial owner	101,422,000 *(Note a)*	20.02%
Fung Shing	Beneficial owner	99,012,563 *(Note a)*	19.55%
Earntrade	Beneficial owner	62,661,600 *(Note b)*	12.37%
	Interests of controlled corporations	59,325,840 *(Note b)*	11.71%
Bannock	Beneficial owner	59,325,840 *(Note b)*	11.71%

(ii) Long position in underlying SCL Shares

Name of shareholder	Capacity	Number of SCL Shares	Approximate percentage of SCL's issued share capital
SCI	Interests of controlled corporation	10,666,666,666 *(Notes c, d)*	2,105.96%
The Company	Interests of controlled corporation	10,666,666,666 *(Notes c, d)*	2,105.96%

Notes:

(a) Each of Parkfield and Fung Shing was wholly owned by Mr. Ng, the chairman of the Company, SCI and SCL.

(b) Earntrade, which was owned as to 60%, 20% and 20% by Mr. Ng, Ms. Cheung and Mr. Gorges, directors of the Company and SCI, respectively, is the holding company of Bannock. Thus, Earntrade was deemed to be interested in the 59,325,840 SCL Shares held by Bannock.

(c) The Convertible Note I and the Convertible Note II with the rights to convert 5,440,000,000 SCL Shares and 5,226,666,666 SCL Shares respectively at a conversion price of HK$0.075 each was issued and to be issued to Skychance, a subsidiary of SCI.

(d) SCI was a 74.79%-owned subsidiary of the Company. Thus the Company was deemed to be interested in 10,666,666,666 underlying SCL Shares to be issued to Skychance.

As at the Latest Practicable Date, Mr. Ng, the chairman and executive director of the Company, is also a director of each of Parkfield, Fung Shing, Earntrade, Bannock, SCI and SCL. Mr. Ng Yuk Fung, Peter, executive director of the Company, is also an executive director of each of SCI and SCL. Ms. Ng Yuk Mui, Jessica, non-executive director of the Company, is also a non-executive director of each of SCI and SCL.

So far as was known to the Directors and chief executive of the Company, other than the interests and short positions disclosed above, there were no persons (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had notified to the Company any interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or the Enlarged Group; or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

Mr. Ng Hung Sang, an executive director of the Company, SCI and SCL, has entered into a service contract with SCL without remuneration for an initial fixed term of one year commencing from 28 January 2002, which continues thereafter unless and until terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contracts with any member of the Group or the Enlarged Group which is not determinable by any member of the Group or the Enlarged Group within one year without payment of compensation (other than statutory compensation).

5. DIRECTORS' INTERESTS IN ASSETS

Save as and except for Mr. Ng who has material interests in the Previous Transaction and the Transaction, as at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been, since 31 December 2006, being the date to which the latest published audited financial statements of the Group and the Enlarged Group were made up, acquired or disposed of by or leased to any member of the Group and the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Group and the Enlarged Group.

6. DIRECTORS' INTERESTS IN CONTRACTS

Save as and except for Mr. Ng who have material interests in the Previous Transaction and the Transaction, as at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group and the Enlarged Group subsisting.

7. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Ng, being the Chairman of the Company, is also the Chairman of Jessica Publications Limited ("Jessica") and SCL. Mr. Ng, personally and through Parkfield, Fung Shing and Ronastar, has interest in Jessica and SCL. Mr. Ng together with Ms. Cheung and Mr. Gorges, the Directors, have beneficial interests in Earntrade, which directly and indirectly through Bannock holds shares of Jessica and SCL. However, Ms. Cheung and Mr. Gorges are neither directors nor involved in the day-to-day management of Jessica and SCL. As both Jessica and SCL are principally engaged in the publication business, Mr. Ng is regarded as interested in such competing business of the Group. Mr. Ng Yuk Fung, Peter, an executive director and the chief executive officer of Jessica and also an executive director of SCL, is regarded as interested in such competing business of the Group.

The Directors are of the view that the Company can carry on its business independently of and at arm's length from the business of SCL and Jessica as the Group's relevant publication business has its own target reader market and contents which are different from those of Jessica and SCL.

Ms. Ng Yuk Mui, Jessica is a non-executive director of Jessica and SCL. She is not regarded to have any competing business with the Group since she is not involved in the day-to-day business of Jessica and SCL.

Save as disclosed above (including the information of Mr. Ng, Mr. Gorges, Ms. Cheung, Mr. Ng Yuk Fung, Peter and Ms. Ng Yuk Mui, Jessica), as at the Latest Practicable Date, none of the Directors or any of their respective associates had any interest in any business which causes or may cause any competition with the business of the Group or any conflicts with the interests of the Group.

8. RIGHT TO DEMAND A POLL

Pursuant to the Articles of Association of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) voting by way of poll is required by the Listing Rules or a poll is duly demanded. A poll may be demanded by:

(a) the Chairman of the meeting; or

(b) at least five members present in person or by proxy and entitled to vote or who represent in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(c) any member or members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

(d) if required by the Listing Rules, any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary and usual course of business) have been entered into by any member of the Group and the Enlarged Group within the two years immediately preceding the date of this circular, and are or may be material:

1. an agreement dated 10 July 2005 entered into between Ever Talent and Ms. Wen in respect of the acquisition by Ever Talent of 75% equity interest in Liaoning Dafa from Ms. Wen at a consideration of RMB7.5 million (and the supplemental agreements dated 14 July 2005, 29 August 2005, 12 September 2005 and 6 June 2006);

2. an agreement dated 2 March 2006 entered into among Harvest Rise Limited, a wholly-owned subsidiary of SCF, and two PRC individuals (being third parties independent of the Company and SCF and their respective connected persons (the "Two Vendors")). Pursuant to the aforesaid agreement, the Two Vendors agreed to transfer the entire issued share capital of a limited company to be incorporated in the British Virgin Islands ("Newco") to Harvest Rise Limited and Newco would have 51% equity interest in a company established under the laws of the PRC at a consideration of HK$38,250,000 to be satisfied by the allotment and issue of 294,230,000 new shares of SCF to the Two Vendors at an issue price of HK$0.13 per consideration share. Subsequently, a termination agreement dated 15 August 2006 was entered into among the aforesaid contracting parties to terminate the aforesaid agreement;

3. an agreement dated 24 March 2006 entered into among Mr. Guo King Nang, Ms. Kuo Huang Chin Kuan and Mr. Guo Jian Shen as vendors and Micon Limited, a wholly-owned subsidiary of the Company, as purchaser in relation to the sale and purchase of 24,972,500 shares of HK$0.10 each in Nority International Group Limited ("Nority International") at a consideration of HK$11,737,075;

4. an assets transfer contract dated 13 May 2006 entered into between 南京機電產業(集團)有限公司(Nanjing Machinery & Electronics Industrial (Group) Co., Ltd.) and Calming Investments Limited, a wholly-owned subsidiary of the Company, for the acquisition of 87% of the transferred net assets at a consideration of RMB41,655,600;

5. the 20 October 2006 Agreement entered into among SCI, SCL and the Vendor pursuant to which the Vendor conditionally agreed to sell to SCL the entire issued share capital of Praise Rich as at the date of the aforesaid agreement and to procure the sale to SCL of a sum at completion representing the total outstanding interest-free debts due from Ever Talent to Able Management Limtied at a consideration of HK$800 million. This agreement was subsequently amended and restated by the 9 January 2007 Agreement;

6. an agreement dated 6 November 2006 entered into among Micon Limited, SCI and Chinese Success Limited relating to the sale and purchase of 255,885,561 shares of Nority International beneficially owned by Micon Limited at an aggregate consideration of HK$105,424,851.13 and a supplemental agreement dated 24 November 2006 entered into among the aforesaid contracting parties amending certain terms of the aforesaid agreement;

7. an agreement dated 6 November 2006 and entered into among Nority International, Micon Limited and SCI to dispose and assign by Nority International to Micon Limited the 120,000,000 shares of US$0.10 each in the share capital of Nority (BVI) Limited and the sum of HK$25,347,048 which is due and owned by Nority (BVI) Limited to Nority International at a consideration of HK$75,555,000;

8. a subscription agreement dated 6 November 2006 entered into among Micon Limited (the subscriber), Nority International (the vendor) and Nority Limited ("Nority") relating to the subscription of 35% of the voting class A shares in the capital of Nority at a consideration of HK$3,520,000;

9. an agreement dated 21 December 2006 entered into among Jessica, South China Strategic Limited ("SCS"), a wholly-owned subsidiary of SCI and SCI, pursuant to which SCS had conditionally agreed to sell the projects relating the agricultural businesses in the PRC to Jessica at a consideration of HK$140,000,000. The consideration will be satisfied by Jessica issuing a convertible note. Subsequently, a termination agreement dated 27 December 2006 was entered into among the aforesaid contracting parties to terminate the aforesaid agreement;

10. the 9 January 2007 Agreement entered into among SCL, the Vendor and SCI pursuant to which the Vendor conditionally agreed to sell to SCL the Previous Sale Shares and to procure the sale to SCL of the Previous Sale Debt at a consideration of HK$408 million; and

11. the Agreement dated 30 April 2007 entered into among SCL, the Vendor and SCI pursuant to which the Vendor conditionally agreed to sell the Sale Shares and to procure the sale of the Sale Debt to SCL at a consideration of HK$392 million.

10. LITIGATION

So far as the Directors are aware, no member of the Group or the Enlarged Group is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to them to be pending or threatened against any member of the Group or the Enlarged Group.

11. QUALIFICATIONS OF EXPERTS, CONSENTS AND EXPERTS' INTERESTS

(a) The following are qualifications of experts who have given opinions, letters or advice which are contained or referred to in this circular:

遼寧誠銘律師事務所 (Liaoning Cheng Ming Law Office)	registered law firm in the PRC
CSC Asia	a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Ernst & Young ("Ernst & Young")	Certified Public Accountants
Jones Lang LaSalle	an independent professional property valuer

(Collectively, the "Experts")

(b) None of the Experts has any shareholding, directly or indirectly, in any member of the Group or the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group and the Enlarged Group .

(c) Each of the Experts has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included. The legal opinion of 遼寧誠銘律師事務所 (Liaoning Cheng Ming Law Office) was prepared for the purpose of the property valuation report of Jones Lang LaSalle. The letter from CSC Asia, the accountants' report of Ernst & Young and the property valuation report of Jones Lang LaSalle were made for incorporation in this circular.

(d) None of the Experts had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group or the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group or the Enlarged Group since 31 December 2006, the date to which the latest published audited financial statements of the Company were made up.

12. GENERAL

(a) The secretary of the Company and qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Ms. Cheung Siu Lan, who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of the Australian Society of Certified Practising Accountants. She is also an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

(b) The registered office of the Company is situated at Offshore Incorporations (Cayman) Limited, Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, Cayman Islands, and its principal place of business in Hong Kong is situated at 28th Floor, Bank of China Tower, 1 Garden Road Central, Hong Kong. The share registrars and transfer office of the Company is Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

(c) The English text of this circular shall prevail over the Chinese text.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during the normal business hours at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong on any Business Day from the date of this circular until the date of the EGM:

(1) each of the circulars of the Company issued since 31 December 2006;

(2) the memorandum and articles of association of the Company;

(3) the published audited consolidated accounts of the Group and SCL Group for each of the two financial years ended 31 December 2005 and 31 December 2006 together with all notes, certificates or information required by the Companies Ordinance;

(4) The accountants' report on the Group, the text of which is set out in Appendix I to this circular;

(5) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(6) the letter from CSC Asia, the text of which is set out in the section headed "Letter from CSC Asia" of this circular;

(7) the Letter from Ernst & Young on the unaudited pro forma financial information on the Remaining Group and the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(8) the property valuation report prepared by Jones Lang LaSalle, the text of which is set out in Appendix V to this circular;

(9) the written consents from each of CSC Asia, Ernst & Young and Jones Lang LaSalle referred to in the paragraph headed "Qualifications of Experts, Consents and Experts' Interests" above; and

(10) each of the material contracts referred in the paragraph headed "Material Contracts" above.

(11) the contracts referred to in the section headed "FINANCIAL AND TRADING PROSPECTS" in Appendix II to this circular.

SOUTH CHINA HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 265)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of South China Holdings Limited (the "**Company**") will be held at 28/F., Bank of China Tower, 1 Garden Road, Central, Hong Kong on Wednesday, 4 July 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modifications) the following resolutions:

ORDINARY RESOLUTIONS

"1. To approve, confirm and ratify the sale by WTS International (BVI) Limited ("**WTS**") of 49 shares of US$1.00 each in the share capital of Praise Rich Limited ("**Praise Rich**"), representing the remaining 49% of the existing issued share capital of Praise Rich, and WTS' procurement of the sale of a sum representing the total outstanding interest-free debts owing from Ever Talent Limited to Able Management Limited, a wholly-owned subsidiary of South China Industries Limited ("**SCI**") to South China Land Limited ("**SCL**") (the "**Transaction**") pursuant to the share purchase agreement dated 30 April 2007 entered into among SCL, WTS and SCI (a copy of which has been produced to the EGM marked "A" and initialed by the Chairman of the EGM for the purpose of identification) and all transactions contemplated thereunder (details of which are set out in the joint announcement of South China Holdings Limited (the "Company"), SCI and SCL dated 30 April 2007 and the circular dated 13 June 2007 issued by the Company) and to authorise any one director of the Company (the "**Director**"), or any two Directors or any one Director and the company secretary of the Company if the affixation of the common seal of the Company is necessary, for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in or relating to the Transaction and the other transactions contemplated under the Transaction as he/she/they may consider necessary, desirable or expedient."

"2. To approve, confirm and ratify the terms and conditions of the non-interest bearing convertible note (the "**Convertible Note II**") in the principal amount of HK$392 million due 2012 to be issued by South China Land Limited ("**SCL**") in favour of Skychance Group Limited (which is a wholly-owned subsidiary of South China Industries Limited ("**SCI**"), which is in turn beneficially owned as to approximately 74.79% by South China Holdings Limited (the "**Company**")) pursuant to the share purchase agreement dated 30 April 2007 entered into among SCL, WTS International (BVI) Limited and SCI (a copy of the Convertible Note II incorporating its terms and conditions has been produced to the EGM marked "B" and initialed by the Chairman of the EGM for the purpose of identification) and the exercise of the conversion rights of the Convertible Note I (as defined in the circular of the Company dated 13 June 2007 (the "**Circular**")) and the Convertible Note II; and to authorise any one director of the Company (the "**Director**"), or any two Directors or any one Director and the company secretary of the Company if the affixation of the common seal of the Company is necessary, for and on behalf of the Company to execute all such documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in or relating to the Convertible Note I (as defined in the Circular) and the Convertible Note II (including, without limitation, the exercise of the redemption, conversion and other rights attaching to the Convertible Note I (as defined in the Circular) and the Convertible Note II) and the other transactions contemplated under the Convertible Note I (as defined in the Circular) and the Convertible Note II as he/she/they may consider necessary, desirable or expedient."

On behalf of the Board
Cheung Siu Lan
Company Secretary

Hong Kong, 13 June 2007

Principal Place of Business in Hong Kong:
28th Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.

2. In order to be valid, a proxy form and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's share registrar, Union Registrars Limited at Room 1803, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude any member from attending and voting in person at the meeting or any adjourned meeting should he so wish.

3. In case of joint shareholding, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purpose seniority will be determined by the order in which the names stand on the register of members of the Company in respect of the joint shareholding.