

Notes to the Financial Statements

31 December 2006

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. 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.

Notes to the Financial Statements

31 December 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

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

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

Notes to the Financial Statements

31 December 2006

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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).

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Notes to the Financial Statements

31 December 2006

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Pension schemes (Continued)

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.

Notes to the Financial Statements

31 December 2006

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 amount of goodwill at 31 December 2006 was HK\$21,445,000 (2005: HK\$7,872,000). 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 at 31 December 2006 was HK\$19,118,000 (2005: HK\$23,023,000). The amount of unrecognised tax losses at 31 December 2006 was HK\$1,517,466,000 (2005: HK\$1,512,351,000). Further details are contained in note 41 to the financial statements.

Notes to the Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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 amount of biological assets at 31 December 2006 was HK\$65,000,000 (2005: HK\$62,000,000) (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 amount of investment properties at 31 December 2006 was HK\$950,618,000 (2005: HK\$497,483,000) (note 16).

Notes to the Financial Statements

31 December 2006

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

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 amount of loans receivable at 31 December 2006 was HK\$213,705,000 (2005: HK\$158,805,000) (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 amount of available-for-sale financial assets at 31 December 2006 was HK\$60,202,000 (2005: HK\$41,328,000) (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;

Notes to the Financial Statements

31 December 2006

4. SEGMENT INFORMATION (Continued)

- (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 and 2005.

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
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

Notes to the Financial Statements

31 December 2006

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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
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

Notes to the Financial Statements

31 December 2006

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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

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
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

Notes to the Financial Statements

31 December 2006

4. SEGMENT INFORMATION (Continued)

(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 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
PRC, including Hong Kong and Macau	2,528,062	2,210,943	218,350	91,871
The United States of America	1,271,311	1,293,659	73,742	52,631
Europe	471,780	515,504	12,086	13,685
Japan	18,087	34,168	239	947
Others	155,132	250,846	1,163	7,383
	4,444,372	4,305,120	305,580	166,517

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 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong	2,139,414	1,679,182	5,448	22,148
Other regions of Mainland China	1,576,037	942,088	124,110	86,272
Macau	369	689	—	8
Others	23,857	—	18	—
	3,739,677	2,621,959	129,576	108,428

Notes to the Financial Statements

31 December 2006

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 HK\$'000	2005 HK\$'000
Revenue		
Sales of merchandise from manufacturing and trading business	2,081,985	2,254,878
Sales of travel-related products	1,908,586	1,629,861
Income from publishing and printing and the provision of related services	197,815	210,058
Income from securities and finance business	159,240	113,846
Service income from information and technology related business	72,050	82,406
Rental income	23,432	12,765
Sales of agricultural produce	1,264	1,306
	4,444,372	4,305,120

Notes to the Financial Statements

31 December 2006

6. PROFIT BEFORE TAX

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

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

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

At 31 December 2006, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: HK\$240,000).

Notes to the Financial Statements

31 December 2006

7. FINANCE COSTS

	2006 HK\$'000	Group 2005 HK\$'000
Interest on bank loans and overdrafts	33,363	19,538
Interest on finance leases	1,245	1,084
	34,608	20,622

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:

	2006 HK\$'000	Group 2005 HK\$'000
Fees	540	510
Other emoluments:		
Salaries, allowances and benefits in kind	5,760	6,000
Discretionary bonuses	—	18,000
Share option benefits	3,102	—
Pension scheme contributions	279	282
	9,681	24,792

During the year, 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 HK\$'000	2005 HK\$'000
Mr. David John Blackett	100	70
Mr. Cheng Hong Kei	50	50
Ms. Wong Siu Yin, Elizabeth	60	60
	210	180

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

Notes to the Financial Statements

31 December 2006

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Share option benefits HK\$'000	Pension scheme contributions HK\$'000	Total remuneration 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 HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Pension scheme contributions HK\$'000	Total remuneration 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.

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

Notes to the Financial Statements

31 December 2006

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and benefits in kind	4,265	4,901
Pension scheme contributions	100	105
	4,365	5,006

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

	Number of employees	
	2006	2005
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	—	1
	2	2

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. 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 HK\$'000	2005 HK\$'000
Group:		
Current – Hong Kong		
Charge for the year	4,764	4,767
Underprovision in prior years	3,494	12,983
Current – Elsewhere		
Charge for the year	3,797	8,235
Underprovision in prior years	90	3,002
Deferred (note 41)	12,503	2,809
Total tax charge for the year	24,648	31,796

Notes to the Financial Statements

31 December 2006

10. TAX (Continued)

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
	HK\$'000	HK\$'000
Profit before tax	306,744	212,651
Tax at the statutory tax rate	53,680	37,214
Effect of different tax rates of operations in other jurisdictions	(2,073)	4,821
Profits and losses attributable to associates	(6,260)	(8,046)
Expenses not deductible for tax	27,746	4,732
Income not subject to tax	(72,052)	(33,091)
Tax losses utilised from previous periods	(8,429)	(8,598)
Tax losses not recognised	26,584	33,246
Adjustments in respect of current tax of previous periods	3,584	15,985
Tax losses arising from previous periods recognised	(448)	(14,467)
Others	2,316	—
Total tax charge for the year	24,648	31,796

The share of tax attributable to associates amounting to HK\$8,184,000 (2005: HK\$28,060,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

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 includes a loss of HK\$17,449,000 (2005: HK\$147,000) 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: Nil).

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 (2005: HK\$96,574,000) and 1,823,401,000 (2005: 1,823,401,000) ordinary shares in issue during the year.

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

Notes to the Financial Statements

31 December 2006

14. BIOLOGICAL ASSETS

	Group	
	2006 HK\$'000	2005 HK\$'000
Litchi trees:		
Carrying amount at 1 January	46,774	51,300
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	2,887	(4,185)
Decrease due to harvest	(624)	(341)
Carrying amount at 31 December	49,037	46,774
Longan trees:		
Carrying amount at 1 January	15,226	16,700
Gain/(loss) arising from changes in fair value less estimated point-of-sale costs	777	(1,403)
Decrease due to harvest	(40)	(71)
Carrying amount at 31 December	15,963	15,226
Total carrying amount at 31 December	65,000	62,000
Quantities of fruit trees:		
	Number of trees '000	Number of trees '000
Litchi fruit trees	333	333
Longan fruit trees	108	108
	441	441

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Fair value less estimated point-of-sale costs:		
Litchis	624	341
Longans	40	71
	664	412
	Tons	Tons
Saleable output:		
Litchis	178	139
Longans	10	32
	188	171

Notes to the Financial Statements

31 December 2006

14. BIOLOGICAL ASSETS (Continued)

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.

Notes to the Financial Statements

31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Leasehold land and buildings HK\$'000	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
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

Notes to the Financial Statements

31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Group					
	Leasehold land and buildings HK\$'000	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
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

Notes to the Financial Statements

31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

	2006	Group
	HK\$'000	2005
		HK\$'000
Hong Kong		
Medium-term leases	88,556	89,566
Long-term leases	16,107	16,457
Mainland China		
Medium-term land use rights	92,368	72,911
In the process of applying land use rights*	31,446	25,516
Taiwan		
Freehold	1,160	—
	229,637	204,450

* As at 31 December 2006, 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 (2005: HK\$25,516,000).

During the year, the Group has transferred certain leasehold land and buildings of HK\$25,368,000, at fair value, to investment properties.

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 amounted to HK\$29,726,000 (2005: HK\$33,352,000).

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 would have been approximately HK\$226,187,000 (2005: HK\$201,000,000).

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

Notes to the Financial Statements

31 December 2006

16. INVESTMENT PROPERTIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Carrying amount at 1 January	497,483	327,255
Acquisition of subsidiaries (note 45)	449,771	—
Disposals	(35,257)	—
Net profit from a fair value adjustment	66,304	144,948
Transfer from/(to) leasehold land and buildings, net (note 15)	25,368	(7,420)
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

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
		HK\$'000	HK\$'000
Hong Kong			
Medium-term leases		304,779	301,548
Long-term lease		166,100	159,100
		470,879	460,648
Mainland China			
Medium-term leases		457,739	36,835
Taiwan			
Freehold		22,000	—
		950,618	497,483

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, the Group's investment properties with a value of HK\$392,344,000 (2005: HK\$427,567,000) were pledged to secure general banking facilities granted to the Group (note 36).

As at 31 December 2006, 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 (2005: HK\$Nil).

Further particulars of the Group's investment properties are included from pages 103 to 106.

Notes to the Financial Statements

31 December 2006

17. PREPAID LAND LEASE PAYMENTS

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

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

18. CONSTRUCTION IN PROGRESS

	Group	
	2006 HK\$'000	2005 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
At 1 January	—	13,402
Transfer to investment properties (note 16)	—	(13,402)
At 31 December	—	—

Notes to the Financial Statements

31 December 2006

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
Loans receivable	353,512	289,772
Impairment	(139,807)	(130,967)
	213,705	158,805
Market value of collateral at 31 December	933,550	656,388

At 31 December 2006, certain equity securities as collateral provided by certain subsidiaries and clients of approximately of HK\$158,294,000 (2005: HK\$128,737,000) 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
Repayable:		
On demand	184,578	124,170
Within 3 months	8,243	10,443
3 months to 1 year	14,905	17,791
1 year to 5 years	5,979	6,401
	213,705	158,805
Portion classified as current assets	(207,726)	(152,404)
Portion classified as non-current assets	5,979	6,401

Notes to the Financial Statements

31 December 2006

21. INTERESTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000 (Restated)
Unlisted shares, at cost	527,702	527,702
Due from subsidiaries	314,595	289,014
	842,297	816,716

Except for an amount of HK\$45,507,000 (2005: HK\$19,401,000) due from a subsidiary which bears interest at the Hong Kong Dollar Prime Rate plus 3% (2005: Hong Kong Dollar Prime Rate plus 3%) per annum, 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.

Details of the Company's principal subsidiaries are set out in note 55 to the financial statements.

During the year, 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.

22. INTERESTS IN ASSOCIATES

	Group	
	2006 HK\$'000	2005 HK\$'000
Share of net assets:		
Listed associate in Hong Kong	—	60,305
Unlisted associates	93,589	103,957
	93,589	164,262
Advances to associates	217,950	214,059
Amounts due to associates	(77)	(1,039)
Provision for impairment	(700)	(706)
	217,173	212,314
	310,762	376,576
Market value of the listed associate	—	29,670

During the year, 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.

Notes to the Financial Statements

31 December 2006

22. INTERESTS IN ASSOCIATES (Continued)

During the year, 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 (2005: HK\$213,354,000) which bears interest at 0.5% (2005: 0.5%) per annum, 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, the Group has given guarantees with a total amount of HK\$210,000,000 (2005: HK\$210,000,000) to secure banking facilities granted to FWIL, out of which HK\$203,100,000 (2005: HK\$210,000,000) 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.

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 HK\$'000	2005 HK\$'000
Assets	1,790,219	1,623,824
Liabilities	1,506,416	1,495,640
Turnover	87,267	72,243
Profit	155,617	198,180

The following table illustrates the summarised financial information of the Group's other associates extracted from their management accounts and financial statements.

Other associates

	2006 HK\$'000	2005 HK\$'000
Assets	108,197	367,031
Liabilities	86,204	119,636
Turnover	16,210	297,638
Loss	(7,382)	(51,974)

Details of a principal associate are set out in note 56 to the financial statements.

Notes to the Financial Statements

31 December 2006

23. GOODWILL

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

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 (2005: HK\$1,238,000) as at 31 December 2006.

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% (2005: 17.7%) and cash flows beyond the five-year period are extrapolated using a growth rate of 7.2% (2005: 7.6%) 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% (2005: 10.9%). The growth rate used to extrapolate the cash flows of the travel business unit beyond the five-year period is 3.6% (2005: 4.0%) which is the same as the long term average growth rate of the travel business industry.

Notes to the Financial Statements

31 December 2006

23. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

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% (2005: 10.9%). The growth rate used to extrapolate the cash flows of the information technology business unit beyond the five-year period is 3.6% (2005: 4.0%) 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 HK\$'000	2005 HK\$'000
Cash-generating unit:		
Toy and footwear products	14,947	1,374
Travel business	2,994	2,994
Information technology business	3,504	3,504
	21,445	7,872

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

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

Notes to the Financial Statements

31 December 2006

24. INTANGIBLE ASSETS (Continued)

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 HK\$'000	2005 HK\$'000
Listed equity securities in Hong Kong, at fair value	39,089	22,662
Club debentures and memberships	18,968	18,666
Unlisted equity investment, at cost	2,145	—
	60,202	41,328

During the year, the fair value gain of the Group's listed equity securities recognised directly in equity amounted to HK\$3,410,000 (2005: loss of HK\$2,678,000) of which HK\$604,000 (2005: loss of HK\$2,061,000) was removed from equity and recognised in the income statement and no impairment of the Group's debentures was recognised in the income statement (2005: HK\$553,000).

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 these financial statements was approximately HK\$122,832,000.

Notes to the Financial Statements

31 December 2006

26. OTHER NON-CURRENT ASSETS

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

Berths owned by the Group are valued at cost less impairment, at HK\$16,666,000 as at 31 December 2006 (2005: HK\$16,666,000).

27. INVENTORIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Raw materials	218,446	222,699
Work in progress	136,467	128,895
Finished goods	91,285	72,828
	446,198	424,422
Provision against obsolete inventories	(84,915)	(72,052)
	361,283	352,370

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

28. NON-CURRENT ASSETS HELD FOR SALE

During the year, 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. As at 31 December 2006, 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 HK\$'000	2005 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).

Notes to the Financial Statements

31 December 2006

29. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables of the Group are trade receivables of HK\$379,024,000 (2005: HK\$322,202,000). 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, trade receivables with a carrying value of HK\$26,496,000 (2005: 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
	HK\$'000	HK\$'000
Within 90 days	346,375	303,164
91 to 180 days	24,179	17,599
181 to 365 days	5,154	664
Over 1 year	3,316	775
	379,024	322,202

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
	HK\$'000	HK\$'000
Listed equity investments, at market value:		
Hong Kong	132,496	59,925

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

The market values of the Group's listed equity investments at the date of approval of these financial statements 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.

Notes to the Financial Statements

31 December 2006

32. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

Note	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash and bank balances	365,891	256,575	67	68
Time deposits	17,630	20,980	—	—
	383,521	277,555	67	68
Less: Pledged time deposits:				
Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for commodities dealings	(5,000)	(5,000)	—	—
Pledged for a guarantee provided to Hong Kong Exchanges and Clearing Limited for securities dealings	(500)	(500)	—	—
Pledged for bank overdraft facilities	(12,130)	(15,480)	—	—
	(17,630)	(20,980)	—	—
Cash and cash equivalents	365,891	256,575	67	68

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$67,341,000 (2005: HK\$84,103,000). 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.

Notes to the Financial Statements

31 December 2006

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 (2005: bank deposit saving rate) and are repayable on demand.

Included in client deposits are deposits from directors of the subsidiary and of the Group of HK\$44,000 (2005: HK\$2,555,000) and HK\$7,176,000 (2005: HK\$4,891,000), respectively, which 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) and their aged analysis based on the invoice date is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 90 days	563,608	453,139
91 to 180 days	64,737	50,929
181 to 365 days	35,861	17,684
Over 365 days	20,742	14,330
	684,948	536,082

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.

Notes to the Financial Statements

31 December 2006

36. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	Group		Company	
			2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Current						
Finance lease payables (note 37)	1.7-9.0	2007	9,519	13,056	—	—
Bank overdrafts – unsecured	5.9-10.3	On demand	61,968	16,065	—	—
Bank overdrafts – secured	7.8-8.3	On demand	35,788	9,627	30,007	9,401
Bank loans – unsecured	6.0-14.6	2007	57,680	52,755	—	—
Bank loans – secured	4.1-6.9	2007	311,155	107,908	8,500	1,500
Trust receipt loans	4.9-7.1	2007	102,688	81,225	—	—
			578,798	280,636	38,507	10,901
Non-current						
Finance lease payables (note 37)	1.7-9.0	2008-2010	6,862	9,353	—	—
Bank loans – unsecured	6.0-6.6	2008-2010	1,339	2,080	—	—
Bank loans – secured	4.6-5.9	2008-2014	180,338	101,062	7,000	8,500
			188,539	112,495	7,000	8,500
			767,337	393,131	45,507	19,401
Analysed into:						
Bank loans and overdrafts repayable:			Group		Company	
			2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year or on demand			569,279	267,580	38,507	10,901
In the second year			56,445	17,505	1,500	1,500
In the third to fifth years, inclusive			98,296	46,099	4,500	4,500
Over five years			26,936	39,538	1,000	2,500
			750,956	370,722	45,507	19,401
Other borrowings repayable:						
Within one year or on demand			9,519	13,056	—	—
In the second year			5,282	7,739	—	—
In the third to fifth years, inclusive			1,580	1,614	—	—
			16,381	22,409	—	—
			767,337	393,131	45,507	19,401

Notes to the Financial Statements

31 December 2006

36. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

- (a) At the balance sheet date, the Group's overdraft facilities amounting to approximately HK\$186,688,000 (2005: HK\$143,000,000) and bank loans facilities amounting to approximately HK\$1,086,075,000 (2005: HK\$515,751,000) 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 (2005: HK\$427,567,000) (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 (2005: HK\$81,225,000) (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 (2005: HK\$94,607,000) (note 15); and
 - (iv) the pledge of certain of the Group's time deposits amounting to HK\$12,130,000 (2005: HK\$15,480,000) (note 32).
 - (v) the pledge of certain of the Group's trade receivable amounting to HK\$26,496,000 (2005: 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 (2005: Nil) (note 28).
 - (vii) listed equity investments belonging to the Group and clients totalling approximately HK\$208,133,000 (2005: HK\$162,348,000).
- (b) All other borrowings are in Hong Kong dollars, except:
- (i) secured bank loans of HK\$9,370,000 (2005: HK\$7,115,000) and no unsecured bank loans (2005: HK\$1,702,000) are denominated in Renminbi; and
 - (ii) bank loans of HK\$80,579,000 (2005: Nil) which are denominated in US dollars.

Other interest rate information:

	2006		2005	
	Fixed rate HK\$'000	Floating rate HK\$'000	Fixed rate HK\$'000	Floating rate HK\$'000
Finance lease payables	7,794	8,587	14,267	8,142
Bank overdrafts – unsecured	–	61,968	–	16,065
Bank overdrafts – secured	–	35,788	–	9,627
Bank loans – unsecured	–	59,019	2,279	52,556
Bank loans – secured	9,370	482,123	7,115	201,855
Trust receipt loans	–	102,688	–	81,225

	2006		2005	
	Fixed rate HK\$'000	Floating rate HK\$'000	Fixed rate HK\$'000	Floating rate HK\$'000
Bank overdraft – secured	–	30,007	–	9,401
Bank loans – secured	–	15,500	–	10,000

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.

Notes to the Financial Statements

31 December 2006

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

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.

Notes to the Financial Statements

31 December 2006

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 HK\$'000	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of properties HK\$'000	Total 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

Notes to the Financial Statements

31 December 2006

41. DEFERRED TAX (Continued)

Deferred tax assets

		2006		
	Loss available for offset against future taxable profits HK\$'000	Provision HK\$'000	Depreciation in excess of related depreciation allowance HK\$'000	Total 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 HK\$'000	Depreciation allowance in excess of related depreciation HK\$'000	Revaluation of properties HK\$'000	Total 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

Notes to the Financial Statements

31 December 2006

41. DEFERRED TAX (Continued)

Deferred tax assets

	Loss available for offset against future taxable profits HK\$'000	Provision HK\$'000	2005 Depreciation in excess of related depreciation allowance HK\$'000	Total 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

The Group has tax losses of HK\$1,626,712,000 (2005: HK\$1,617,959,000) 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) of these tax losses. No deferred tax assets have been recognised in respect of the remaining HK\$1,517,466,000 (2005: HK\$1,512,351,000) 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 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Tax losses	1,517,466	1,512,351	5,152	4,626
Deductible temporary differences	5,536	3,237	–	–
	1,523,002	1,515,588	5,152	4,626

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, there was no significant unrecognised deferred tax liability (2005: Nil) 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.

Notes to the Financial Statements

31 December 2006

42. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
4,000,000,000 (2005: 4,000,000,000) ordinary shares of HK\$0.025 (2005: HK\$0.025) each	100,000	100,000
Issued and fully paid:		
1,823,401,376 (2005: 1,823,401,376) ordinary shares of HK\$0.025 (2005: HK\$0.025) each	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;

Notes to the Financial Statements

31 December 2006

43. SHARE OPTION SCHEMES (Continued)

(2) Participants of the Share Option Schemes (Continued)

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

- (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 date of this Annual Report, 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 date of this Annual Report.
- (ii) 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 date of this Annual Report is not applicable.
- (iii) Provided that all share options of SCB offered to the directors of SCB and certain employees on 12 April 2007 and 17 April 2007 were accepted in full, a total of 121,693,674 shares of SCB are available for issue under the SCB Share Option Scheme, which represents approximately 2.4% of the issued share capital of SCB as at the date of this Annual Report.
- (iv) A total of 53,033,474 shares of SCI are available for issue under the SCI Share Option Scheme, which represents 10% of the issued share capital of SCI as at the date of this Annual Report.

As at 31 December 2006, no share options were granted under the Share Option Schemes of the Company, Nority and SCI and hence the disclosure of value of options granted during the year is not applicable.

Subsequent to the balance sheet date, there were movements in the share options granted under the SCB Share Option Scheme as follows:

- (i) on 19 January 2007 and 13 February 2007, 21,000,000 and 6,000,000 share options granted to a director of SCB and an employee respectively, during the year were lapsed after their resignation;
- (ii) on 16 February 2007, 50,000,000 share options were granted to a director of SCB and certain employees respectively in respect of their service to the SCB group in the forthcoming year subject to a vesting period and becoming exercisable in the manner as disclosed below. The price of SCB's shares at the date of grant was HK\$0.092 per share.
- (iii) on 12 April 2007 and 17 April 2007, 100,500,000 and 3,000,000 share options were offered to certain directors of SCB and certain employees in respect of their service to the SCB group respectively in the forthcoming year subject to a vesting period and becoming exercisable in the manner as disclosed below. The acceptance of these share options are subjected to relevant grantees' decision. The last dates of acceptance of offer would be 19 April 2007 and 24 April 2007. The price of SCB's share at the respective date of grant was HK\$0.161 per share and HK\$0.138 per share.

Notes to the Financial Statements

31 December 2006

43. SHARE OPTION SCHEMES (Continued)

(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

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.

Notes to the Financial Statements

31 December 2006

43. SHARE OPTION SCHEMES (Continued)

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	Immediately preceding the exercise date of share options
										per share	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 to the Financial Statements

31 December 2006

43. SHARE OPTION SCHEMES (Continued)

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.

Notes to the Financial Statements

31 December 2006

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 2005	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 amounted to approximately HK\$734,276,000 (2005: HK\$751,725,000).

Notes to the Financial Statements

31 December 2006

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS

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 HK\$'000	Weifen HK\$'000	Nority HK\$'000	Weifen 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)

Notes to the Financial Statements

31 December 2006

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (Continued)

	Fair value recognised on acquisition	Fair value recognised on acquisition	Carrying amount	Carrying amount
	Nority HK\$'000	Weifen HK\$'000	Nority HK\$'000	Weifen HK\$'000
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 HK\$'000	Weifen 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.

Notes to the Financial Statements

31 December 2006

45. BUSINESS COMBINATIONS AND ACQUISITION OF MINORITY INTERESTS (Continued)

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.

46. MAJOR NON-CASH TRANSACTIONS

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

47. CONTINGENT LIABILITIES

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

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

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

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

Notes to the Financial Statements

31 December 2006

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 HK\$'000
	2005 HK\$'000
Net book value of pledged assets:	
Investment properties	392,344
Property, plant and machinery	98,054
Inventories	102,688
Non-current assets held for sale	28,000
Financial assets at fair value through profit or loss	49,839
Bank deposits	12,130
Trade receivables	26,496
	709,551
	652,490

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, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group
	2006 HK\$'000
	2005 HK\$'000
Within one year	28,841
In the second to fifth years, inclusive	63,993
Over 5 years	30,300
	123,134
	17,197

Notes to the Financial Statements

31 December 2006

49. OPERATING LEASES ARRANGEMENTS (Continued)

(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, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Within one year	20,928	19,040
In second to fifth years, inclusive	39,739	47,167
Over five years	66,747	74,259
	127,414	140,466

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 HK\$'000	2005 HK\$'000
Contracted but not provided for:		
Property, plant and equipment	8,624	5,825
Land use rights	2,730	7,386
	11,354	13,211
Authorised but not contracted for:		
Property, plant and equipment	6,816	—

At the balance sheet date, the Company did not have any significant capital commitments (2005: nil).

Notes to the Financial Statements

31 December 2006

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
Associates	Management fee income	(i)	–	(492)
	Interest income	(ii)	(1,065)	(1,436)
Jessica Management Limited *	Administrative fee income received	(i)	(720)	(720)
	Colour separation and photo processing income received	(i)	(783)	(733)
	Rental income received	(i)	(283)	(273)
	Subscription of magazines paid	(i)	–	11
Capital Publishing Management Limited *	Colour separation and photo processing income received	(i)	(202)	(270)
	Rental income received	(i)	(132)	(266)
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)
	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% (2005: 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 (2005: 4% over the Hong Kong Dollar Prime Rate) per annum.

(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.

Notes to the Financial Statements

31 December 2006

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.

Notes to the Financial Statements

31 December 2006

52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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, 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.

54. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 17 April 2007.

Notes to the Financial Statements

31 December 2006

55. 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
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

Notes to the Financial Statements

31 December 2006

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
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
South China Commodities Limited	Hong Kong	HK\$10,000,000	72.8%	Commodities broking

Notes to the Financial Statements

31 December 2006

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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 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

Notes to the Financial Statements

31 December 2006

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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 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
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 to the Financial Statements

31 December 2006

55. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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.

56. 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.