YUGANG

YUGANG INTERNATIONAL LIMITED

(Stock Code : 613)

2006

Annual Report

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS:
Mr. Cheung Chung Kiu *(Chairman)*
Mr. Yuen Wing Shing *(Managing Director)*
Mr. Zhang Qing Xin
Mr. Lam Hiu Lo
Mr. Liang Kang

NON-EXECUTIVE DIRECTOR:
Mr. Lee Ka Sze, Carmelo

INDEPENDENT NON-EXECUTIVE DIRECTORS:
Mr. Wong Wai Kwong, David
Mr. Wong Yat Fai
Mr. Ng Kwok Fu

AUDIT COMMITTEE
Mr. Wong Wai Kwong, David
Mr. Lee Ka Sze, Carmelo
Mr. Wong Yat Fai
Mr. Ng Kwok Fu

REMUNERATION COMMITTEE
Mr. Cheung Chung Kiu
Mr. Wong Yat Fai
Mr. Ng Kwok Fu

SECRETARY
Albert T. da Rosa, Jr.

AUDITORS
Ernst & Young

QUALIFIED ACCOUNTANT
Mr. Leung Wai Fai

BANKERS
The Hongkong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited

SOLICITORS
Bermuda:
Conyers Dill & Pearman

Hong Kong:
Woo Kwan Lee & Lo
Cheung, Tong & Rosa

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG
Tengis Limited
26th Floor
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28 Queen's Road East
Wanchai
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REGISTERED OFFICE
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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STOCK CODE
613

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of the company (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2006.

RESULT

The Group's operating result demonstrated satisfactory growth during the year under review. Profit attributable to equity shareholders of the Company for the year amounted to HK$780.9 million, representing a robust increase from net loss of HK$26.6 million last year. It was mainly attributable to a gain of HK$508.9 million arising from a deemed disposal of subsidiaries, details of which are set out in the Business Review section below. The basic earnings per share for the year was HK8.83 cents (2005: basic loss per share of HK0.31 cent).

BUSINESS REVIEW

Packaging and Luggage Business

The Group carried out the packaging and luggage business through C C Land Holdings Limited ("C C Land", previously known as Qualipak International Holdings Limited), a company listed on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). On 6 November 2006, C C Land passed a resolution in a special general meeting to approve the purchase of the sale share of Starthigh International Ltd ("Sale Share") for a consideration of HK$3,317,553,298 satisfied by (i) HK$448,000,000 settled by the issue of 1,600,000,000 shares of C C Land; (ii) HK$2,552,000,000 settled by the issue of convertible note ("Convertible Note"); (iii) a sum representing such amount of the receivables up to the equivalent of HK$250,000,000 as may be recovered by C C Land group; (iv) HK$67,553,298 settled by the assumption of the obligations by C C Land group. The Sale Share represents the entire issued share capital of Starthigh International Ltd, which owns 11 parcels of land in Chongqing, the PRC, with total site area of 865,668.57 sq.m. Upon completion of the acquisition, the Group's interest in C C Land was diluted from 64.54% to 45.9%.

After the completion, the Group's interest in C C Land was further diluted to subsequently below 20% upon placing of 3,400,000,000 new shares in C C Land and full conversion of the Convertible Note, which were disclosed in the announcements made by C C Land during the period from 16 November 2006 to 30 November 2006. The transaction constituted a further deemed disposal of C C Land by the Group and resulted in substantial reduction on the deemed disposal gain to HK$508.9 million from that of the acquisition date. After that, C C Land is no longer a subsidiary or associate of the Group. The Group ceased to consolidate its operating result and discontinued the operation of packaging and luggage business.

During the year, the discontinued packaging business recorded a turnover of HK$265.2 million as compared to approximately HK$231.2 million in the corresponding period of last year, representing an increase of 14.7%. The operating result of discontinued packaging business for the year was HK$31.1 million. The sale of luggage products and the operating result of discontinued luggage business for the year were HK$383.7 million and HK$7.0 million respectively.

Property Investment Business

Y.T. Realty Group Limited ("Y.T. Realty"), whose shares are traded on the main board of the Stock Exchange, is a flagship of the Group's property investment business in Hong Kong. Investment properties currently held by Y.T. Realty include the whole block of Century Square and Prestige Tower situate in the core of Central District and Tsimshatsui respectively. During the year under review, the gross rental income of Y.T. Realty recorded an increase of HK$7.0 million or 8.4% to approximately HK$89.9 million when compared with last corresponding year. The increase in rental income was mainly due to the continuing upward adjustment in rental rates of the investment properties and successful application of business strategy by transforming the properties from office buildings to commercial, retail and lifestyle hub. During the year, all the tenancy renewal and fresh letting cases recorded much favorable rise in rent.

Y.T. Realty recorded a net profit after tax of HK$288.1 million for the year, representing an increase of HK$37.4 million or 14.9% from the last corresponding year.

Infrastructure Business

The Group invested in infrastructure business through The Cross-Harbour (Holdings) Ltd ("Cross Harbour"), being a company listed on the main board of Stock Exchange. During the year, Cross Harbour recorded a net profit after tax and minority interests of HK$172.8 million, representing an increase of 6.7% from the last corresponding year. Cross Harbour recorded a moderate growth in toll revenue as the traffic throughput continued to increase during the year.

Treasury Investment

Local economy continued to grow satisfactorily given appreciation of Renminbi, influx of hot money, liquidity flooding and optimistic economic outlook of China. The local stock market surged to a six-year high as the Hang Seng Index hiked through the 20,000 points barrier during the year. Capturing the bullish of stock market, the treasury investment of the Group recorded a net profit of HK$170.3 million for the year, representing a significant increase of HK$239.6 million from the last corresponding year.

PRC Trading Business

During the year, the Group has expanded its trading business in the PRC to metal commodities. As China has an increasing demand for metal commodities during the year, the sale orders for trading of metal commodities recorded a gradual increase over the year. The turnover of PRC trading was HK$52.4 million for the year under review.

PROSPECT

Driven by growing export performance of Mainland China, it gave rise to more trading opportunities in the PRC. The prospect of trading of metal commodities will be positive provided China continues to have strong demand for metals. It is expected that the Group will be benefited from the emergence of such trading opportunities in the foreseeable future.

Fueled by local lending rate cuts and favorable economic growth, the rental of both retail and commercial properties are expected to continue its upward trend. The present portfolio of tenants, which mainly comprised of retail and commercial sectors, enables Y.T. Realty with more favorable rental income than other similar office buildings of similar grade.

Given a positive outlook of local economy, the Group will adhere to its long-sustained strategies in financial management and focus its investment strategy toward a long-term strategic growth with sound financial and management capabilities.

FINANCIAL REVIEW

The Group's turnover of the continuing operations for the year was HK$122.8 million, comprising PRC trading of HK$52.4 million and treasury investment of HK$70.4 million, all of which have recorded a satisfactory growth for the year.

As at 31 December 2006, the consolidated net asset value of the Group was HK$3,217.2 million and the consolidated net asset value per share was HK$0.36. The Group's total assets and liabilities were HK$3,387.0 million and HK$169.8 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the cash and cash equivalents of the Group was HK$130 million, representing a decrease of HK$380 million from last year. This was mainly due to the deconsolidation of C C Land. The Group had a short-term bank loan of HK$95 million as at 31 December 2006. The Group did not have any contingent liabilities as at 31 December 2006.

The Group has strong liquidity and financial resources as indicated by high level of net current assets of HK$885.9 million and adequate working capital ratio of 6.2. The Group has strong financial strength as gearing ratio, defined as long-term liabilities to shareholders' fund, was as low as 0.03%. All of these indicated that the Group has sufficient working capital to support its operation.

EXCHANGE RISK

Whilst sales of the Group are mainly denominated in Hong Kong dollars and US dollars, purchases of raw materials are also in Hong Kong dollars. Most bank deposits are maintained in Hong Kong dollars and US dollars as well. Hence, the Group's exposure to foreign exchange risk is minimal.

CAPITAL STRUCTURE

On 31 July 2004, the Company issued a convertible note of HK$70,000,000, bearing an interest rate of 3% per annum payable in arrears. The convertible note has a maturity date on 31 July 2007 and can be converted into ordinary shares of the Company at the conversion price of HK$0.075 per share for the first year, HK$0.082 per share for the second year and HK$0.089 per share for the third year. On 29 July 2005, the noteholder exercised the conversion rights attaching to the convertible note in an aggregate amount of HK$20,325,000 and a total number of 271,000,000 shares were issued. On 31 July 2006, the noteholder exercised the conversion rights attaching to the convertible note in an aggregate amount of HK$23,780,000 and a total number of 290,000,000 shares were issued. The outstanding principal amount of convertible note as at 31 December 2006 was HK$25,895,000.

PLEDGE OF ASSETS

As at 31 December 2006, the Group pledged its leasehold and investment properties with an aggregate carrying value of approximately HK$58.4 million, and the time deposits of approximately HK$8.8 million to secure the general banking facilities of the Group.

HUMAN RESOURCES PRACTICES

The total number of employees as at 31 December 2006 was 37.

The human resources practices of the Company are oriented to attract, retain and motivate high caliber employees to perform at the highest level to attain the Company's objective of enhancing and maximizing the interests of shareholders, investors and employees as a whole. The Company aims to provide competitive remuneration package to ensure external competitiveness by reference to prevailing market level and links to individual contributions to the Group.

The Company provides other fringe benefits including MPF, medical insurance and discretionary training subsides. The Company also operates a discretionary share option scheme to motivate the performance of employees.

MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group acquired the entire issued share capital of Starthigh International Ltd, which owns 11 parcels of land in Chongqing, the PRC, with total site area of 865,668.57 sq.m. The transaction constituted a very substantial acquisition under the Rules Governing the Listing of Securities on Stock Exchange. After the completion of the acquisition, the Group's interest in C C Land subsequently diluted from 64.54% to below 20%, details of which are set out in the aforesaid business review section.

SIGNIFICANT INVESTMENTS

The Group's equity investment in C C Land was reclassified as available-for-sale investment at fair value of HK$1,271.2 million as at 31 December 2006. The Group maintains its strategic investment in equity interest of Y.T. Realty with a carrying value of HK$899.3 million as at 31 December 2006. The net profit after tax of Y.T. Realty for the year was HK$288.1 million.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$0.003 per share for the year ended 31 December 2006, subject to the approval of shareholders at the forthcoming annual general meeting to be held on 11 May 2007. The final dividend will be paid on 22 May 2007 to shareholders registered on 11 May 2007. No interim dividend was paid during the year. In respect of the preceding year, a final dividend of HK$0.003 per share was paid and no interim dividend was declared.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 9 May 2007 to Friday, 11 May 2007, both days inclusive, during such period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 8 May 2007.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

APPRECIATION

On behalf of the Board, I would like to extend our gratitude and sincere appreciation to all management and staff members for their diligence and dedication throughout the year.

Cheung Chung Kiu
Chairman

Hong Kong, 23 March 2007

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors ("Board") of the company (the "Company") is committed to an ongoing enhancement of effective and efficient corporate governance practices. The Board recognizes that good corporate governance practices are essential in upbringing the success of the Company and balance the interests of shareholders, investors and employees.

Throughout the accounting period covered by the annual report, the Company has complied with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Hereunder particularize the Company's key corporate governance practices:

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Code for Securities Transactions by Directors of the Company ("Directors Securities Dealings Code") on terms exacting as the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

Following specific enquiry by the Company, all directors of the Company ("Directors") confirmed that throughout the year of the accounting period covered by the Annual Report, they complied with the required standard set out in the Model Code and Directors Securities Dealings Code.

THE BOARD

A. Role and Function of the Board

The Board steers the Company's business direction. The major responsibilities of the Board include formulating the long-term corporate strategic, setting business development plans, supervising and monitoring the performance of the management, reviewing the effectiveness of the system of internal control including financial, operational, compliance and risk management functions, responsible for the appointment, removal or reappointment of Board members, senior management and auditors, and determining the remuneration of Directors and senior management based on the recommendations of the remuneration committee.

The day-to-day management, administration and operation of the Group are delegated to the executive board committee, comprising all of the executive Directors. Directions as to the powers delegated are clearly identified and periodical reviews will be conducted by the Board to ensure delegated tasks are appropriately performed.

B. Chairman and Chief Executive Officer ("CEO")

Pursuant to Code Provision A.2.1, the role of chairman and CEO are separated. Mr Cheung Chung Kiu, being elected the chairman of the Board since 1993, is accountable for the sketching of business development plans, strategies, objectives and policies for the Company. In addition, the chairman ensures that all Directors are properly briefed on issues arising at board meetings and that the Directors receive adequate information in a timely manner. Mr Yuen Wing Shing, being the Managing Director of the Company, takes the role of the CEO as described in Appendix 14 to the Listing Rules. The primary role of the CEO is to provide leadership for the implementation of the Company's objectives, policies and strategies, responsible for the day-to-day management of the Company, setting up budgets, monitoring performance of the management and effectiveness of the Company, and establishing and maintaining proper internal controls systems of the Company.

C. Board Composition

The Board comprises five executive Directors, being Mr Cheung Chung Kiu, Mr Yuen Wing Shing, Mr Zhang Qing Xin, Mr Lam Hiu Lo and Mr Liang Kang. Mr Zhang Qing Xin is the father of Mr Cheung Chung Kiu. Mr Lee Ka Sze, Carmelo was appointed as a non-executive Director of the Company. Further, in accordance with Listing Rule 3.10, three independent non-executive Directors, being Mr Wong Wai Kwong, David, Mr Wong Yat Fai and Mr Ng Kwok Fu were appointed. They are experienced personnel with academic and professional qualifications in the fields of accounting and business management and at least one of them have appropriate professional qualifications of accounting or related financial management expertise. Such balanced composition of executive and non-executive directors provides an adequate check and balance for safeguarding the interest of shareholders and the Company as a whole.

Pursuant to Listing Rule 3.13, the Company has received a written confirmation of independence from each of the independent non-executive Directors. The Board has assessed their independence based on the contents of such confirmation and concluded that all the independent non-executive Directors are independent within the definition of the Listing Rules.

D. Meeting Records

Regular board meetings of the full Board are held at least 4 times a year at quarterly intervals. Notices of at least 14 days have been given to all Directors for all regular board meetings and the Directors can include matters for discussion in the agenda if necessary. In addition, special board meetings are convened when necessary to deal with everyday matters that require the Board's prompt decision, and are thus usually attended to by the executive Directors only. During the year under review, the Board held 4 regular board meetings and details of the attendance are as follows:

Directors' attendance at board meetings

	Regular Board Meetings Attended/Held	Percentage
Directors		
Mr Cheung Chung Kiu	4/4	100%
Mr Yuen Wing Shing	4/4	100%
Mr Zhang Qing Xin	4/4	100%
Mr Lam Hiu Lo	4/4	100%
Mr Liang Kang	4/4	100%
Non-executive Director		
Mr Lee Ka Sze, Carmelo	4/4	100%
Independent non-executive Directors		
Mr Wong Wai Kwong, David	3/4	75%
Mr Wong Yat Fai	4/4	100%
Mr Ng Kwok Fu	4/4	100%

The Board works effectively and all important issues are discussed in a timely manner. All Directors have access to the advices and services of the company secretary to ensure necessary board procedures and all applicable rules and regulations are followed. All Directors are supplied with board papers and relevant materials not less than three days before the Board meeting. Board minutes have been recorded in sufficient detail and are kept by the company secretary ready for inspection at any reasonable time upon reasonable notice by the Directors.

All Directors are regularly updated on governance and regulatory matters. The Directors, upon reasonable request, have access to independent professional advice in appropriate circumstances at the Company's expenses.

APPOINTMENTS, RE-ELECTION AND REMOVAL OF DIRECTORS

In accordance with Code Provision A.4.1, during the last annual general meeting of the Company held on 29 May 2006, all the non-executive Directors were re-elected by the shareholders to hold office for a specific term until the conclusion of the annual general meeting of the Company to be held in 2009, subject to re-election.

Pursuant to Code Provision A.4.2., the bye-laws of the Company ("Bye-laws") was amended on 29 May 2006 to the effect that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company does not have a nomination committee because the role and function of the committee have been undertaken by the Board. The Board is collectively responsible for nominating and appointing new Directors either to fill casual vacancies or as an addition to the Board, subject to re-election by the shareholders at the next general meeting. All Directors submitted for election or re-election have been accompanied by relevant biographical details as required for newly appointed directors set out in Listing Rule 13.51(2) (including other directorships held in listed public companies in the last three years and other major appointments) to enable shareholders to make an informed decision on their election. If the Board views that there is a need to nominate a candidate to fill a casual vacancy or as an addition to the Board, the Directors will be notified, and they will be entitled to nominate candidates. After receiving such nomination and the relevant resumes of the nominees, the Board will review the nomination and consideration would be given, amongst other things, to the nominee's qualification, experience and ability relevant to the Company's business. A Board meeting will then be held to discuss the nomination and approve the appointment. It is believed that all members of the Board would collectively have the required professional knowledge and skills in identifying, recruiting and evaluating new nominees to the Board.

During the year under review, there was no Board meeting during which the nomination of director to fill a casual vacancy or as an addition to the Board was discussed, as the Board considers that the present composition of the Board is adequate and competent.

If a director resigns or is removed from office, the Company will comply with the disclosure requirements set out in Listing Rule 13.51(2) and include in the announcement about the director's resignation or removal, the reasons given by the director for his resignation, including but not limited to information relating to the relevant director's disagreement with the Company, if any, and a statement confirming whether there are any matters that need to be brought to the attention of shareholders.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration committee, comprising a majority of independent non-executive Directors, was established on 30 June 2005. Mr Cheung Chung Kiu chairs the committee, and other members include Mr Wong Yat Fai and Mr Ng Kwok Fu. One meeting was held in 2006 during which all the members attended. Remuneration committee is governed by its terms of reference which are posted on the Company's website: www.yugang.com.hk.

The principle role and functions of the remuneration committee are to make recommendation to the Board on relevant matters relating to remuneration policy, formulation and review of the remuneration packages of Directors and senior executives of the Company, including basic salaries, discretionary bonuses, retirement benefit and discretionary share option. The emolument is determined by reference to time commitment and responsibilities undertaken by Directors and senior executives, ensuring external competitiveness and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

ACCOUNTABILITY AND AUDIT

The Board is also responsible for the integrity of financial information. The Directors acknowledge their responsibilities to prepare the accounts and financial statements for each financial period in accordance with statutory requirements and applicable accounting standards so as to give a true and fair view of the state of affairs of the Group. The Directors also ensure the timely publication of the financial statements of the Company. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable and necessary enquires, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

AUDIT COMMITTEE

The audit committee comprises all non-executive Directors of the Company, namely Mr David Wong Wai Kwong acting as the chairman, and other members include Mr Carmelo Lee Ka Sze, Mr Wong Yat Fai and Mr Ng Kwok Fu, who among themselves possess diversified industry experience, particularly in accounting, legal, commercial and management sectors. The chairman has appropriate professional qualifications and experiences in accounting matters.

The specific written terms of reference which clearly set out the authorities and duties of the audit committee have been posted on the Company's website: www.yugang.com.hk. Generally, the major roles and functions of the audit committee are as follows:

1. to review the annual report and half-yearly interim report;

2. to review the group's financial and accounting policies and practices, and any significant and judgmental financial reporting issues contained therein;

3. to review the Company's financial controls, internal controls and risk management systems;

4. to make recommendation to the Board with respect to the appointment, re-appointment and removal of the Company's external auditor, their remuneration and terms of engagement; and

5. to report to the Board on the matters set out in the Code Provisions in relation to the audit committee.

During the year of 2006, the audit committee has reviewed with the management and external auditors on the accounting principles and policies adopted by the Company and the audited financial statements for the year ended 31 December 2006 and the six-month period ended 30 June 2006, and has discussed auditing, financial and internal control, and financial reporting matters of the Company. The audit committee focuses on the impact of the changes in accounting policies and practices and also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports as a whole.

The audit committee met regularly since its establishment. In 2006, three meetings with the management and two meetings with the external auditors were held with the attendance rate of 100%. Full minutes of audit committee meetings were kept by the company secretary. Draft and final versions of minutes of the audit committee meetings were sent to all members of the committee for comments and records within a reasonable time. Details of the members' attendance at the audit committee meetings held in 2006 are as follows:

Members' attendance at audit committee meetings

Name	Audit Committee Attended/Held	Percentage
Mr Wong Wai Kwong, David	3/3	100%
Mr Lee Ka Sze, Carmelo	3/3	100%
Mr Wong Yat Fai	3/3	100%
Mr Ng Kwok Fu	3/3	100%

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the auditors, Messrs Ernst & Young, being the Company's auditor and Messrs Deloitte Touche Tohmatsu, being the auditor of a former subsidiary, C C Land Holdings Limited ("C C Land", previously known as Qualipak International Holdings Ltd) was as follows:

Services rendered	The Company Fees paid/payable *(HK$)*	C C Land Fees paid/payable *(HK$)*	Total Fees paid/payable *(HK$)*
Audit fee *(Note 1)*	1,000,000	808,200	1,808,200
Non-audit Fee *(Note 2)*	1,715,500	324,650	2,040,150
Total	2,715,500	1,132,850	3,848,350

Notes:

1. It includes the audit fee of C C Land for the ten months ended 31 October 2006. C C Land has ceased to be a subsidiary of the Group since 6 November 2006.

2. It includes the review of interim financial statements, tax compliance and service fee on the issuance of accountant's report for the Company on a very substantial disposal as required under the Listing Rules.

INTERNAL CONTROL

The Board undertakes the responsibilities to establish, maintain and operate an effective internal control system of the Company. Areas of responsibilities for each business and operational unit are clearly defined in the Internal Control Manual to ensure effective checks and balances. The Internal Control Manual clearly stipulates the Company's major policies and procedures, management and operational control standards, terms of reference of relevant committees, Code for Securities Transactions by Directors and Code for Securities Dealings by Employees.

The implementation of the internal control system is to identify and manage risks that could adversely hinder the achievement of the Company's business objectives, provide reasonable, albeit not absolute, assurance against failure in operational system, material error, loss or fraud to the Company.

To comply with Code Provision C.2.1., an annual review on the effectiveness of the internal control system of the Company and its subsidiaries has been conducted by the Board and reviewed by the audit committee in November 2006, covering all material controls, including financial, operational and compliance control and risk management functions. The review has been conducted by reference to the guidance of "Internal Control and Risk Management — A Basic Framework" published by Hong Kong Institute of Certified Public Accountants, and considering the standand of the COSO Framework (The Committee of Sponsoring Organizations of the Treadway Commission). The Board is of the view that the internal control system in place for the year under review is sound and is sufficient to safeguard the interests of shareholders, investors and employees. There were no suspected frauds, material error, misstatement and irregularities, nor infringement of applicable laws, rules and regulations that had come to the Board's attention.

REPORT OF THE DIRECTORS

The directors ("Directors") of the company (the "Company") present their report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries, jointly-controlled entity and principal associates are set out in notes 20, 21 and 22 to the financial statements respectively.

There were no significant changes in the nature of the Group's principal activities during the year, other than the deemed disposal of a group of subsidiaries on 6 November 2006 which engaged in the manufacturing and sale of packaging and luggage products.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 95.

The Directors recommend the payment of a final dividend of HK$0.003 per ordinary share to the shareholders whose name appear on the register of members on 11 May 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SEGMENT INFORMATION

An analysis of the Group's performance by business and geographical segments for the year ended 31 December 2006 is set out in note 4 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate, is set out on page 96. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Particulars of the property, plant and equipment and investment properties of the Group are set out in notes 16 and 17 to the financial statements respectively.

CONVERTIBLE NOTE

Particulars of the Company's convertible note during the year are set out in note 32 to the financial statements.

SHARE CAPITAL

Particulars of the Company's share capital during the year are set out in note 34 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of Bermuda which oblige the Company to offer new shares to existing shareholders on a pro rata basis.

RESERVES

Particulars of reserves of the Company and the Group during the year are set out in note 35 to the financial statements and the consolidated statement of changes in equity respectively.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$2,183,000.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive Directors:
Mr. Cheung Chung Kiu *(Chairman)*
Mr. Yuen Wing Shing *(Managing Director)*
Mr. Zhang Qing Xin
Mr. Lam Hiu Lo
Mr. Liang Kang

Non-executive Director:
Mr. Lee Ka Sze, Carmelo

Independent non-executive Directors:
Mr. Wong Wai Kwong, David
Mr. Ng Kwok Fu
Mr. Wong Yat Fai

In accordance with the bye-laws of the Company, Mr. Cheung Chung Kiu, Mr. Zhang Qing Xin and Mr. Lam Hiu Lo will retire by rotation at the conclusion of the annual general meeting to be held on 11 May 2007, and, being eligible, will offer themselves for re-election as executive Directors.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of Directors and the five highest paid individuals in the Group are set out in notes 9 to 10 to the financial statements respectively.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2006, the interests and short positions of the Directors and chief executive's and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

(i) Long positions in the Company's ordinary shares:

Name of Director	Nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Mr. Cheung Chung Kiu	Corporate *(note 1)*	3,755,434,684	41.66
	Personal	53,320,000	0.59
Mr. Zhang Qing Xin	Personal	13,600,000	0.15
Mr. Lam Hiu Lo	Personal	41,800,000	0.46
Mr. Liang Kang	Personal	30,000,000	0.33

(ii) Long position in the Company's convertible note:

Name of Director	Nature of interest	Convertible note held *HK$*	Number of underlying shares held	Percentage of the Company's issued share capital
Mr. Cheung Chung Kiu	Corporate *(note 2)*	25,895,000	290,955,056	3.23

(iii) Long positions in shares and underlying shares of associated corporations:

Name of Director	Name of associated corporation	Relationship with the Company	Shares	Nature of interest	Number of shares held	Percentage of the associated corporation's issued share capital
Mr. Cheung Chung Kiu	Y.T. Realty Group Limited	Associate	Ordinary shares	Corporate *(note 3)*	273,000,000	34.14
Mr. Ng Kwok Fu	Y.T. Realty Group Limited	Associate	Ordinary shares	Personal and family	90,000	0.01

Notes:

(1) 3,194,434,684 shares were held by Chongqing Industrial Limited ("Chongqing") and 561,000,000 shares were held by Timmex Investment Limited ("Timmex").

Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have 35%, 30%, 5% and 30% equity interests in Chongqing respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu.

(2) The convertible note is held by Timmex. Pursuant to the terms of the convertible note, the remaining number of underlying shares that may be converted under the convertible note was 290,955,056. The aggregate percentage of interests in ordinary shares and underlying shares of Mr. Cheung Chung Kiu is 45.48%.

(3) The 273,000,000 shares were held by Funrise Limited which is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

In addition to the above, some Directors have non-beneficial personal interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 31 December 2006, none of the Directors nor chief executive or their associates had registered an interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") was adopted on 29 April 2005, the terms of which are in line with and comply with the requirements of Chapter 17 of the Listing Rules.

No option was granted under the Share Option Scheme and no option was outstanding as at 31 December 2006.

The particulars in relation to the Share Option Scheme that are required to be disclosed under Rules 17.07 to 17.09 of the Listing Rules are set out below:

(1) Purpose of the Share Option Scheme

To provide incentives and rewards to eligible participants for their contributions to the Group and enable the Group to retain existing employees and recruit additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Group.

(2) Participants of the Share Option Scheme

It includes the directors, officers and employees of the Eligible Group and any executive, officer or employee of any business consultant, professional and other advisers of any member of the Eligible Group.

The Eligible Group includes:

(i) the Company and each of its substantial shareholders;

(ii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the Company or of a substantial shareholder referred to in (i) above;

(iii) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (ii) above; and

(iv) each associate or substantial shareholder or direct or indirect associated company or jointly-controlled entity of any of the foregoing entities referred to in (iii) above.

(3) The total number of securities available for issue under the Share Option Scheme together with the percentage of the issued share capital as at the date of the annual report

872,432,170 ordinary shares and 9.68% of the existing issued share capital.

(4)	The maximum entitlement of each participant under the Share Option Scheme	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.
(5)	The period within which the securities must be taken up under an option	An option may be exercised at any time during a period to be determined and notified by the Directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the Share Option Scheme.
(6)	The minimum period for which an option must be held before it can be exercised	There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the Directors.
(7)	Amount payable on acceptance of the option and the period within which such payment must be made	The offer of a grant of share options may be accepted with a consideration of HK$1 being payable by the grantee.
(8)	The basis of determining the exercise price	The exercise price is determined by the Directors 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 quotation sheet on the date of offer of grant of options, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options; and (iii) the nominal value of the Company's shares.
(9)	The remaining life of the Share Option Scheme	The Share Option Scheme remains in force until 28 April 2015.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the headings "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" and "Share option scheme" above, at no time during the year rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Directors or their respective spouse or minor children, or any such rights were exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions set out in note 43 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at the balance sheet date, the following persons had an interest of 5% or more of the issued share capital and the underlying shares of the Company which were recorded in the register as required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	*Notes*	Capacity and nature of interest	Number of ordinary shares/ underlying shares held	Percentage of the Company's issued share capital
Timmex Investment Limited	*1*	Corporate	851,955,056	9.45
Chongqing Industrial Limited	*2*	Corporate	3,194,434,684	35.44
Palin Holdings Limited	*3*	Trustee of a Family Trust	3,194,434,684	35.44
Mr. Cheung Chung Kiu	*4*	Corporate and personal	4,099,709,740	45.48
PMA Capital Management Limited		Corporate	532,302,000	5.91
Deutsche Bank Aktiengesellschaft		Corporate	518,520,000	5.75

Notes:

(1) The interests represent the aggregate of 561,000,000 shares held and 290,955,056 shares issuable upon the exercise of the conversion rights attaching to the convertible note of HK$25,895,000 that was held by Timmex, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.

(2) The voting rights of these shares are exercisable by Chongqing, which is controlled by Mr. Cheung Chung Kiu.

(3) Palin Holdings Limited is the trustee for the Palin Discretionary Trust, a family discretionary trust, the beneficiaries include Mr. Cheung Chung Kiu and his family.

(4) Out of the 4,099,709,740 shares, 3,194,434,684 shares and 561,000,000 shares are held by Chongqing and Timmex respectively and 53,320,000 shares are held by Mr. Cheung Chung Kiu personally. The remaining 290,955,056 shares are the underlying shares interested by Timmex.

Save as disclosed above, as at 31 December 2006, no person, other than the Directors and chief executives of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations" above, had registered an interest or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK$870,303,000, of which HK$27,043,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account in the amount of HK$881,476,000, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 54% of the total sales for the year and sales to the largest customer included therein amounted to 32%.

Purchases from the Group's five largest suppliers accounted for 41% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15%.

As far as the Directors are aware, neither the Directors and their associates, nor any shareholders who, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and five largest suppliers.

LIQUIDITY AND CAPITAL RESOURCES

As at the balance sheet date, the Group's net current assets amounted to approximately HK$885.9 million with a current ratio of 6.2. The cash and cash equivalents of the Group decreased from approximately HK$510 million to approximately HK$130 million during the year.

The Group had short term banking facilities of approximately HK$263 million as at 31 December 2006. The Group had outstanding bank loans of approximately HK$95 million as at the balance sheet date. An analysis of the bank borrowings is set out in note 30 to the financial statements.

CONNECTED TRANSACTIONS

The Group entered into a sub-tenancy agreement with Chongqing, a substantial shareholder of the Company in relation to premises situate at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong. The total rent and other charges amounted to approximately HK$996,000 for the year.

On 25 May 2004, the Company entered into a conditional subscription agreement with Timmex Investment Ltd pursuant to which the Company agreed to issue and Timmex agreed to subscribe for a convertible note of HK$70,000,000 in cash, bearing an interest of 3% per annum and payable annually in arrears. The convertible note has a maturity date on 31 July 2007 and can be converted into ordinary shares of the Company at the conversion price of HK$0.075 per share for the first year, HK$0.082 per share for the second year and HK$0.089 per share for the third year (subject to adjustment). Given that Mr. Cheung Chung Kiu is a Director of the Company and Timmex is wholly owned by him, the entering into the subscription agreement constituted a connected transaction for the Company under the Listing Rules. On 29 July 2005, HK$20,325,000 of the convertible note was converted into 271,000,000 shares of the Company at the conversion price of HK$0.075 per share. Further on 31 July 2006, HK$23,780,000 of the convertible note was converted into 290,000,000 shares of the Company at the conversion price of HK$0.082 per share. At the balance sheet date, HK$25,895,000 of the convertible note remained outstanding. During the year, interest expenses on the convertible note paid or payable to Timmex amounted to HK$1,189,000 (2005: HK$1,839,000).

On 22 February 2006, Hoi Tin Universal Limited ("Hoi Tin") and Thomas Wagner GmbH ("Thomas Wagner") entered into an agreement pursuant to which the parties agreed to enter into transactions relating to the sale of products manufactured by Hoi Tin and its subsidiaries, including soft luggage, travel bags, backpacks and brief cases (the "Sales Transactions") to Thomas Wagner and its subsidiaries for the period up to 31 December 2008. Hoi Tin is a subsidiary of C C Land Holdings Limited ("C C Land", previously known as "Qualipak International Holdings Limited") and Thomas Wagner is a 25% shareholder of a subsidiary of Hoi Tin. The Sales Transactions constituted continuing connected transaction of the Company under Listing Rules. The Sales Transactions were approved by the shareholders of the Company on 3 April 2006 with proposed annual cap of HK$55 million, HK$60.5 million and HK$66.55 million for the three financial years ending 31 December 2006, 2007 and 2008 respectively. On 27 September 2006, Hoi Tin and Thomas Wagner entered into an agreement pursuant to which Hoi Tin agreed to purchase and Thomas Wagner agreed to sell an interest of 25% in Young Comfort Development Limited ("Young Comfort") for the consideration of HK$990,120. The transaction was completed on 29 September 2006 and Young Comfort has become a wholly-owned subsidiary of Hoi Tin whereby Thomas Wagner ceased to be a connected person of the Group and hence the Sales Transactions will no longer constitute a connected transaction to the Group. The aggregate amount of the Sales Transactions during the period was HK$13,431,000. The Sales Transactions during the period have been reviewed by the independent non-executive Directors and they confirmed that the Sales Transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and (iii) in accordance with the terms of the agreement governing the Sales Transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The auditors of the Company also confirmed that the Sales Transactions (i) were approved by the Board; (ii) were entered into in accordance with the pricing policies of the Group; (iii) were conducted in accordance with the terms of the agreement governing the Sales Transactions; and (iv) were within the cap limit as disclosed in the announcement dated 23 February 2006.

On 22 September 2006, Marvel Leader Investments Limited ("Marvel") and Thrivetrade Limited ("Thrivetrade") entered into an agreement pursuant to which Marvel agreed to purchase and Thrivetrade agreed to sell the entire issued share capital of Starthigh International Limited ("Starthigh"). Marvel is a wholly-owned subsidiary of C C Land and Starthigh was a wholly-owned subsidiary of Thrivetrade, which was 100% interested by Mr. Cheung Chung Kiu, a Director of the Company. The aggregate value of consideration for the transaction was HK$3,317,553,298 being as to: (i) HK$448,000,000 was satisfied by the issue of 1,600,000,000 ordinary shares in C C Land; (ii) HK$2,552,000,000 was satisfied by the issue of convertible note by C C Land; (iii) an aggregate amount of up to the equivalent of HK$250,000,000, as may be recovered by C C Land group; (iv) HK$67,553,298 was satisfied by the assumption of the obligations by C C Land group. The transaction constituted a connected transaction of the Company under Listing Rules and was duly approved by the independent shareholders of the Company at a special general meeting held on 6 November 2006. Immediately upon the completion, the Company's interest in C C Land was diluted from 64.54% to approximately 45.9%. Accordingly, the transaction constituted a deemed disposal by the Company of its interest in C C Land which in turn constituted a very substantial disposal under the Listing Rules. C C Land was no longer a subsidiary of the Company as at 31 December 2006. Further details of the transaction had been set out in the Company's circular dated 20 October 2006.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

Ernst & Young will retire at the conclusion of the annual general meeting to be held on 11 May 2007. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Yuen Wing Shing
Managing Director

Hong Kong, 23 March 2007

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Cheung Chung Kiu, aged 42, was appointed the chairman of the company in 1993. Mr. Cheung set up Chongqing Industrial Limited in 1985, a company mainly engaged in the trading business in the PRC. He is the founder of the group. Mr. Cheung is also the chairman of Y.T. Realty Group Limited ("Y.T. Realty"), The Cross-Harbour (Holdings) Limited ("Cross Harbour") and C C Land Holdings Ltd ("C C Land", previously known as Qualipak International Holdings Ltd). All of the above companies are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In addition, he is the director of such other companies disclosed in the section headed "directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the company and its associated corporations" in the Report of the Directors. Further, Mr. Cheung is the son of Mr. Zhang Qing Xin, another director of the company.

Yuen Wing Shing, aged 60, was appointed an executive director of the company in June 1993 and the managing director of the company on 1 January 2005. He is responsible for the group's administration and business operations. Mr. Yuen holds a diploma in management studies from The Hong Kong Polytechnic University. Prior to joining the company, he had held senior management positions with a major bank in Hong Kong for over 20 years. He is also an executive director of Y.T. Realty, Cross Harbour and Silver Grant International Industrial Limited.

Zhang Qing Xin, aged 70, was appointed an executive director of the company in December 1995. Mr. Zhang has over 20 years of experience in import and export trading business. Prior to joining the company, he had been the deputy general manager of a foreign trade enterprise for more than 10 years. Mr. Zhang is the director of Chongqing Industrial Ltd, the major shareholder of the company. Mr. Zhang is the father of Mr. Cheung Chung Kiu, the chairman of the company.

Lam Hiu Lo, aged 45, was appointed an executive director of the company in 1993. He is mainly responsible for the sales and marketing of the group's automobile parts and raw materials. Prior to joining the company, he had over 15 years of experience in trading with PRC parties. He is an executive director of C C Land.

Liang Kang, aged 64, was appointed an executive director of the company in June 1995. He is mainly responsible for the sales and marketing of the group's trading business in the PRC. Mr. Liang holds a master degree in Business Administration from European University of Ireland. Prior to joining the company, he had been engaged in the trading business in the PRC for over 15 years.

NON-EXECUTIVE DIRECTORS

Lee Ka Sze, Carmelo, aged 46, was appointed an independent non-executive director of the company in 1993 and redesignated as a non-executive director of the company on 30 September 2004. Mr. Lee received his Bachelor of Laws degree and the Postgraduate Certificate in Laws from The University of Hong Kong. He is a partner of Messrs. Woo, Kwan, Lee & Lo. In addition, Mr. Lee is a non-executive director of Y. T. Realty, Cross Harbour, China Pharmaceutical Group Limited, Hopewell Holdings Limited, Safety Godown Company Limited and Termbray Industries International (Holdings) Limited. All of the above companies are listed on the Stock Exchange.

Wong Wai Kwong, David, aged 49, was appointed an independent non-executive director of the company in 1993. Mr Wong is a fellow of The Association of Chartered Certified Accountants and a certified public accountant. Mr. Wong has over 26 years of experience in finance, accounting, corporate affairs and taxation. He is an independent non-executive director of Y.T. Realty, Cross Harbour, C C Land, Upbest Group Limited and UBA Investments Limited. He is also a non-executive director of Tonic Industries Holdings Limited. In addition, he is an executive director of Incutech Investments Limited and EganaGoldpfeil (Holdings) Limited. All of the above companies are listed on the Stock Exchange.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Wong Yat Fai, aged 47, was appointed an independent non-executive director of the company on 30 September 2004. Mr Wong holds a professional diploma in banking from The Hong Kong Polytechnic University. He has over 13 years of working experience with an international banking group. He is an executive director of 139 Holdings Limited and an independent non-executive director of Y.T. Realty, Cross Harbour and C C Land.

Ng Kwok Fu, aged 35, was appointed an independent non-executive director of the company on 30 September 2004. Mr Ng holds a certificate in accounting from Grant MacEwan Community College. Mr. Ng has over 16 years experience in marketing, trading and purchasing of construction materials and providing technical control, support and management in building projects. He is an independent non-executive director of Y.T. Realty and Cross Harbour.

Leung Wai Fai, aged 45, joined the company in 1993 and is the group's Financial Controller. Mr. Leung graduated from University of Wisconsin - Madison, USA, with a Bachelor of Business Administration degree, He is a fellow of both The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He is an executive director of C C Land and Cross Harbour.

Wong Ka Tai, aged 40, joined the company in 2000 and held a position of Senior Finance and Accounting Manager. Mr. Wong graduated with a Bachelor of Business Administration degree major in finance. He holds a Master of Corporate Finance from The Hong Kong Polytechnic University. He is a fellow of The Association of Chartered Certified Accountants and an associate of The Hong Kong Institute of Certified Public Accountants. He has more than 10 years experience in group accounting, auditing, tax planning, internal audit and corporate finance. Prior to joining the company, he held a senior position with a sizeable listed company for over 3 years and had relevant audit experience in an international accounting firm.

Tsang Kuk, aged 36, joined the company in 1993. He is the head of the company's sales office in Shenzhen. Mr. Tsang has over 10 years experience in China trade. He is responsible for the group's business planning and development in the coastal area of Mainland China.

Wong Sze Chak, aged 44, joined the company in 1993. He is the head of the company's sales office in Chengdu. Mr. Wong has over 10 years experience in China trade. He is responsible for the group's business planning and development in the interior region of Mainland China.

INDEPENDENT AUDITORS' REPORT

安永會計師事務所

To the shareholders of
Yugang International Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of Yugang International Limited set out on pages 25 to 95, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

OPINION

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

Ernst & Young
Certified Public Accountants

Hong Kong
23 March 2007

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	5	122,847	(11,098)
Cost of sales		(51,348)	(579)
Gross profit/(loss)		71,499	(11,677)
Other income and gains	5	205,537	28,477
Administrative expenses		(85,389)	(62,091)
Other expenses	6	(3,490)	(86,548)
Finance costs	8	(8,740)	(4,045)
Share of profits and losses of:			
A jointly-controlled entity		(359)	(910)
Associates		110,918	90,145
PROFIT/(LOSS) BEFORE TAX	7	289,976	(46,649)
Tax	11	(20,172)	(741)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		269,804	(47,390)
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	13	539,340	37,247
PROFIT/(LOSS) FOR THE YEAR		809,144	(10,143)
Attributable to:			
Equity holders of the Company	12	780,923	(26,579)
Minority interests		28,221	16,436
		809,144	(10,143)
DIVIDEND	14	27,043	26,173
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	15		
Basic			
— For profit/(loss) for the year		8.83 HK cents	(0.31) HK cent
— For profit/(loss) from continuing operations		3.05 HK cents	(0.55) HK cent
Diluted			
— For profit/(loss) for the year		8.41 HK cents	N/A
— For profit/(loss) from continuing operations		2.92 HK cents	N/A

CONSOLIDATED BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	16,389	134,054
Investment properties	17	11,700	55,169
Prepaid land lease payments	18	72,934	143,564
Goodwill	19	—	35,297
Investment in a jointly-controlled entity	21	—	3,669
Interests in associates	22	899,310	839,451
Convertible debentures and notes	23	47,416	52,811
Loans receivable	24	1,000	2,000
Available-for-sale investment	25	1,271,198	20,000
Other assets		12,360	19,101
Total non-current assets		2,332,307	1,305,116
CURRENT ASSETS			
Investments at fair value through profit or loss	26	731,366	396,696
Loans receivable	24	159,991	173,237
Inventories	27	—	86,014
Tax recoverable		—	294
Trade debtors	28	7,574	87,813
Other debtors, deposits and prepayments		15,662	18,236
Bills receivable		—	6,901
Prepaid land lease payments	18	1,347	2,906
Pledged time deposits		8,754	10,345
Time deposits		119,217	436,078
Cash and bank balances		10,786	73,861
Total current assets		1,054,697	1,292,381
CURRENT LIABILITIES			
Bills payable and trust receipt loans, secured		—	663
Trade creditors	29	977	100,404
Tax payable		22,712	72,799
Other payables		3,076	3,439
Accrued expenses		21,588	33,980
Customers' deposits received		127	11,269
Interest-bearing bank borrowings	30	95,000	15,448
Loans from minority shareholders	31	—	8,000
Convertible note	32	25,299	—
Total current liabilities		168,779	246,002
NET CURRENT ASSETS		885,918	1,046,379
TOTAL ASSETS LESS CURRENT LIABILITIES		3,218,225	2,351,495

CONSOLIDATED BALANCE SHEET *(Continued)*

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT LIABILITIES			
Convertible note	32	—	46,680
Deferred tax liabilities	33	977	3,491
Consideration payable on acquisition of associates	22	—	3,000
Consideration payable on acquisition of subsidiaries	36	—	5,000
Total non-current liabilities		977	58,171
Net assets		3,217,248	2,293,324
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	34	90,143	87,243
Equity component of convertible note	32	2,819	5,407
Reserves	35	3,097,243	1,965,195
Proposed final dividend	14	27,043	26,173
		3,217,248	2,084,018
Minority interests		—	209,306
Total equity		3,217,248	2,293,324

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

		Attributable to equity holders of the Company											
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Equity component of a convertible note HK$'000	Other reserves HK$'000	Available-for-sale investment revaluation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2005		84,533	840,629	760,799	(419)	7,620	(1,699)	—	396,960	25,360	2,113,783	223,233	2,337,016
Share of changes in reserves of associates		—	—	—	—	—	3,253	—	—	—	3,253	—	3,253
Exchange realignment		—	—	—	117	—	—	—	—	—	117	187	304
Total income and expense for the year recognised directly in equity		—	—	—	117	—	3,253	—	—	—	3,370	187	3,557
Loss for the year		—	—	—	—	—	—	—	(26,579)	—	(26,579)	16,436	(10,143)
Total income and expense for the year		—	—	—	117	—	3,253	—	(26,579)	—	(23,209)	16,623	(6,586)
Deemed disposal of partial interests in associates		—	—	—	—	—	5	—	—	—	5	—	5
Acquisition of subsidiaries	36	—	—	—	—	—	—	—	—	—	—	1,711	1,711
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	—	(26,673)	(26,673)
Issue of shares upon conversion of a convertible note	32, 34	2,710	18,302	—	—	(2,213)	—	—	—	—	18,799	—	18,799
Proposed final dividend	14	—	—	—	—	—	—	—	(26,173)	26,173	—	—	—
Dividend paid		—	—	—	—	—	—	—	—	(25,360)	(25,360)	(5,588)	(30,948)
At 31 December 2005 and at 1 January 2006		87,243	858,931*	760,799*	(302)*	5,407	1,559*	—*	344,208*	26,173	2,084,018	209,306	2,293,324
Fair value changes of an available-for-sale investment		—	—	—	—	—	—	356,258	—	—	356,258	—	356,258
Share of changes in reserves of associates		—	—	—	—	—	(518)	—	—	—	(518)	—	(518)
Total income and expense for the year recognised directly in equity		—	—	—	—	—	(518)	356,258	—	—	355,740	—	355,740
Profit for the year		—	—	—	—	—	—	—	780,923	—	780,923	28,221	809,144
Total income and expense for the year		—	—	—	—	—	(518)	356,258	780,923	—	1,136,663	28,221	1,164,884
Deemed disposal of subsidiaries	37(a)	—	—	—	(117)	—	—	—	—	—	(117)	(228,740)	(228,857)
Acquisition of minority interests		—	—	—	—	—	—	—	—	—	—	(404)	(404)
Issue of shares upon conversion of a convertible note	32, 34	2,900	22,545	—	—	(2,588)	—	—	—	—	22,857	—	22,857
Proposed final dividend	14	—	—	—	—	—	—	—	(27,043)	27,043	—	—	—
Dividend paid		—	—	—	—	—	—	—	—	(26,173)	(26,173)	(8,383)	(34,556)
At 31 December 2006		90,143	881,476*	760,799*	(419)*	2,819	1,041*	356,258*	1,098,088*	27,043	3,217,248	—	3,217,248

* These reserve accounts comprise the consolidated reserves of HK$3,097,243,000 (2005: HK$1,965,195,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax:			
From continuing operations		**289,976**	(46,649)
From discontinued operations	13	**32,728**	41,621
Adjustments for:			
Share of profits and losses of:			
A jointly-controlled entity		**359**	910
Associates		**(110,918)**	(90,145)
Interest income from convertible notes and loans receivable	5	**(18,680)**	(17,986)
Interest income on bank deposits	5	**(14,497)**	(13,902)
Dividend income from listed investments	5	**(17,287)**	(5,800)
Allowance/(write-back of allowance) for doubtful debts, net	5, 6	**2,981**	(4,052)
Fair value gains on investment properties	5	**(2,530)**	(3,800)
Fair value losses/(gains) on investments at fair value through profit or loss	5, 6	**(136,601)**	27,329
Loss/(gain) on disposal of listed equity investments at fair value through profit or loss	5	**(34,485)**	35,767
Loss on deemed disposal of interests in associates	6	**—**	1,801
Gain on disposal of subsidiaries	5	**(36,144)**	—
Gain arising from redemption of convertible notes	5	**(3,066)**	—
Gain on redemption of investments at fair value through profit or loss		**(32)**	—
Gain on derecognition of investments at fair value through profit or loss	5	**(17,229)**	—
Fair value losses/(gains) on convertible debentures and notes	5, 6	**3,682**	(2,415)
Excess over the cost of acquisitions of an additional interest in a subsidiary	5	**—**	(9,525)
Impairment loss on an available-for-sale investment	6	**—**	50,000
Provision against obsolete inventories	7	**1,039**	—
Depreciation	7	**10,194**	10,002
Write-back of impairment loss on a convertible note	5	**—**	(3,907)
Amortisation on prepaid land lease payments	7	**2,886**	2,795
Loss/(gain) on disposal of items of property, plant and equipment	7	**(82)**	116
Impairment losses on items of property, plant and equipment	6	**—**	751
Impairment losses on prepaid land lease payments	6	**—**	6,319
Finance costs	8	**10,684**	4,449
		(37,022)	(16,321)
Decrease/(increase) in inventories		**908**	(12,179)
Increase in trade debtors		**(78,801)**	(19,948)
Decrease/(increase) in other debtors, deposits and prepayments		**(4,316)**	3,846
Increase in bills receivable		**(251)**	(2,407)
Decrease/(increase) in investments at fair value through profit or loss		**(181,245)**	86,110
Decrease in loans receivable		**16,951**	119,529
Increase in trade creditors		**31,046**	13,202
Increase/(decrease) in bills payable and trust receipt loans, secured		**(663)**	445
Increase/(decrease) in other payables		**(363)**	898
Increase/(decrease) in accrued expenses		**4,222**	(8,548)
Increase in customers' deposits received		**905**	2,516
Dividend received from listed investments		**4,221**	5,821
Interest income from convertible notes and loans receivable		**15,799**	20,865
Cash generated from/(used in) operations		**(228,609)**	193,829
Hong Kong profits tax paid		**(2,462)**	(4,674)
Net cash inflow/(outflow) from operating activities		**(231,071)**	189,155

CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Net cash inflow/(outflow) from operating activities		(231,071)	189,155
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	16	(45,303)	(17,251)
Additions to prepaid land lease payments	18	—	(26,553)
Purchases of investment properties	17	—	(44,669)
Proceeds from disposal of items of property, plant and equipment		96	35
Proceeds received from disposal of subsidiaries		56,000	—
Proceeds from redemption of investments at fair value through profit or loss		1,280	—
Proceeds from exchange of investments at fair value through profit or loss		4,825	—
Interest received from bank deposits		14,546	13,802
Dividend received from an associate		11,622	5,460
Purchases of convertible debentures and notes		(68,000)	(56,330)
Proceeds from redemption of convertible debentures and notes		38,500	3,907
Deemed disposal of subsidiaries	37(a)	(236,420)	—
Acquisition of subsidiaries	36	—	(31,340)
Acquisition of additional interest in a subsidiary		(992)	(17,148)
Acquisition of associates		—	(30,595)
Loan to an associate	22	—	(3,000)
Increase in pledged time deposits		(1,482)	(2,202)
Net cash outflow from investing activities		(225,328)	(205,884)
CASH FLOWS FROM FINANCING ACTIVITIES			
Additions to bank loans		493,391	50,000
Repayment of bank loans		(373,044)	(50,542)
Interest paid		(9,328)	(2,573)
Loans from minority shareholders		—	3,394
Dividend paid		(26,173)	(25,360)
Dividends paid to minority shareholders		(8,383)	(5,588)
Net cash inflow/(outflow) from financing activities		76,463	(30,669)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(379,936)	(47,398)
Cash and cash equivalents at beginning of year		509,939	557,614
Effect of foreign exchange rate changes, net		—	(277)
CASH AND CASH EQUIVALENTS AT END OF YEAR		130,003	509,939
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		10,786	73,861
Non-pledged time deposits with original maturity of less than three months when acquired		119,217	436,078
		130,003	509,939

BALANCE SHEET

31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	20	1,870,513	1,867,990
CURRENT ASSETS			
Prepayments		771	858
Cash and bank balances		1,462	1,473
Total current assets		2,233	2,331
CURRENT LIABILITIES			
Tax payable		567	567
Accrued expenses		2,139	1,314
Convertible note	32	25,299	—
Total current liabilities		28,005	1,881
NET CURRENT ASSETS/(LIABILITIES)		(25,772)	450
TOTAL ASSETS LESS CURRENT LIABILITIES		1,844,741	1,868,440
NON-CURRENT LIABILITY			
Convertible note	32	—	46,680
Net assets		1,844,741	1,821,760
EQUITY			
Issued capital	34	90,143	87,243
Equity component of a convertible note	32	2,819	5,407
Reserves	35	1,724,736	1,702,937
Proposed final dividend	14	27,043	26,173
Total equity		1,844,741	1,821,760

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

1. CORPORATE INFORMATION

Yugang International Limited is a company incorporated in Bermuda with limited liability. The principal place of business of the Company is located at Rooms 3301 — 3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

During the year, the Group was involved in the following principal activities:

(i) trading of metal commodities and other materials;

(ii) treasury investment;

(iii) manufacture and sale of watch boxes, gift boxes, spectacles cases, bags and pouches and display units. The operation was discontinued upon deemed disposal of C C Land Holdings Limited ("C C Land") as detailed in note 37(a);

(iv) manufacture and sale of soft luggage, travel bags, backpacks and brief cases. The operation was discontinued upon deemed disposal of C C Land as detailed in note 37(a); and

(v) property and other investments.

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, derivative financial instruments and equity investments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand 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.

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 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
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 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.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(b) 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.

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 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangement

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 Company 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 standards sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, 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 and HKFRS 7 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) 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

(d) 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 neither has joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. Goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves is included as part of the Group's interests in associates.

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 on acquisitions for which the agreement date is on or after 1 January 2005

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The excess for associates is included in the determination of the Group's share of the associates' profit or loss in the period in which the investments are acquired.

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, financial assets, investment properties, goodwill and non-current assets/disposal groups classified as held for sale), 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than 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.

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:

Buildings	2%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles and yachts	20% — 25%
Plant and machinery	10%
Moulds	15%

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

Where parts of an item of property, plant and equipment have different useful lives, the cost 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.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for 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.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current 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 net of any incentives received from the lessor 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.

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

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading or these financial assets are recognised in the income statement.

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

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

Loans and receivables

Loans and receivables 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. 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 equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

Assets carried at amortised cost *(Continued)*

In relation to trade debtors, 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.

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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Financial liabilities including trade and other payables, and interest-bearing bank 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*.

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average method 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 in selling and distribution.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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.

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, jointly-controlled entity 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.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, 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 bank balances and time deposits represent assets which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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) from the sale 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) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;

(c) 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;

(d) dividend income, when the shareholder's right to receive payment has been established; and

(e) income from the sale of listed securities, on the trade date.

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.

Employee benefits

Retirement benefits schemes

The Group, other than C C Land and its subsidiaries (details of whose retirement benefits scheme are included below), operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees. Contributions 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.

C C Land, a former subsidiary of the Company, together with its subsidiaries (collectively, the "C C Land Group"), operates a defined contribution retirement benefits scheme for those employees who are eligible and who have elected to participate in the scheme. The assets of the scheme are held separately from those of the C C Land Group in an independently administered fund. Contributions are made at specified rates and are charged to the income statement as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the C C Land Group's employer contributions vesting fully, the ongoing contributions payable by the C C Land Group may be reduced by the relevant amount of forfeited contributions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Retirement benefits schemes *(Continued)*

Following the introduction of the MPF Scheme, the C C Land Group has restructured its retirement arrangements to comply with the Mandatory Provident Fund Schemes Ordinance. The C C Land Group has secured Mandatory Provident Fund exemption status for its retirement benefits scheme and, in addition, has participated in an approved MPF Scheme with effect from 1 December 2000 to provide a choice of schemes to its existing employees. All of its new employees are required to participate in the MPF Scheme.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which has been earned by the employees from their service to the Group to the balance sheet date.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

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 commercial 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Judgements *(Continued)*

Classification between investment properties and owner-occupied properties *(Continued)*

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 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.

Estimation of fair value of investment properties

The fair value of the Company's investment properties are assessed by management based on the property valuation performed by independent qualified valuers on an open market, existing use basis. The assumptions adopted in the property valuation are based on market conditions existing at each balance sheet date, with reference to comparable sales transactions and where appropriate, on the basis of capitalisation of the net income after allowances for outgoings and in some cases provisions for reversionary income potential.

Estimation of provision against obsolete and slow-moving inventories

The Group does not have a general provision policy on inventories based on aging given the nature of inventories that are not subject to frequent wear and tear and frequent technological changes. However, operational procedures have been in place to monitor this risk as the majority of working capital is devoted to inventories. The Group's sales and marketing managers review the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of the carrying value of the aged inventory items with the respective net relisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether the allowance needs to be made in respect of any obsolete and defective inventories identified.

Impairment loss on trade debtors

In determining whether the allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the Group's responsible personnel discuss with the relevant customers and report to management on the recoverability. Specific allowance is only made for receivables that are unlikely to be collected.

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 of automobile parts and other materials segment consists of the trading of automobile parts mainly for use in the manufacture of automobiles, and the trading of other materials including metal commodities;

(b) the treasury investment segment includes the trading of securities, interest and dividend income from securities investment and interest income from the provision of financing services;

(c) the manufacture and sale of packaging products segment comprises the production and sale of watch boxes, gift boxes, spectacles cases, bags and pouches and display units;

(d) the manufacture and sale of luggage products segment comprises the production and sale of soft luggage, travel bags, backpacks and brief cases; and

(e) the property and other investments segment comprises rental income from investment properties.

Particulars in respect of discontinued operations relating to package and luggage business segments are set out in note 13.

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.

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2006.

Year ended 31 December 2006

	Continuing operations					Discontinued operations			
	Trading of automobile parts and other materials HK$'000	Treasury investment HK$'000	Property and other investments HK$'000	Unallocated HK$'000	Total HK$'000	Manufacture and sale of packaging products HK$'000	Manufacture and sale of luggage products HK$'000	Total HK$'000	Consolidated HK$'000
Segment revenue:									
Revenue from external customers	52,395	70,452	–	–	122,847	265,154	383,754	648,908	771,755
Other revenue	–	–	1,842	–	1,842	–	–	–	1,842
Total revenue	52,395	70,452	1,842	–	124,689	265,154	383,754	648,908	773,597
Segment results	(3,714)	170,305	39,884	–	206,475	31,125	6,994	38,119	244,594
Unallocated expenses, net					(25,537)			(10,725)	(36,262)
Gain on deemed disposal of subsidiaries					–			508,885	508,885
Interest income on bank deposits					7,219			7,278	14,497
Finance costs					(8,740)			(1,944)	(10,684)
Share of profits and losses of:									
A jointly-controlled entity	–	–	(359)	–	(359)	–	–	–	(359)
Associates	–	–	110,918	–	110,918	–	–	–	110,918
Profit before tax					289,976			541,613	831,589
Tax					(20,172)			(2,273)	(22,445)
Profit for the year					269,804			539,340	809,144

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2006

	Continuing operations					Discontinued operations			
	Trading of automobile parts and other materials	Treasury investment	Property and other investments	Unallocated	Total	Manufacture and sale of packaging products	Manufacture and sale of luggage products	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities:									
Segment assets	15,774	1,019,592	1,295,312	—	2,330,678	—	—	—	2,330,678
Interests in associates	—	—	899,310	—	899,310	—	—	—	899,310
Unallocated assets	—	—	—	157,016	157,016	—	—	—	157,016
Total assets									3,387,004
Segment liabilities	4,056	39	—	—	4,095	—	—	—	4,095
Unallocated liabilities	—	—	—	165,661	165,661	—	—	—	165,661
Total liabilities									169,756
Other segment information:									
Capital expenditure	—	—	—	(4,285)	(4,285)	(38,013)	(3,005)	(41,018)	(45,303)
Depreciation	—	(297)	—	(2,394)	(2,691)	(5,699)	(1,804)	(7,503)	(10,194)
Amortisation on prepaid land lease payments	—	—	—	(1,443)	(1,443)	(1,390)	(53)	(1,443)	(2,886)
Allowance for doubtful debts, net	—	(150)	—	—	(150)	(1,204)	(1,627)	(2,831)	(2,981)
Provision against obsolete inventories	—	—	—	—	—	—	(1,039)	(1,039)	(1,039)
Fair value gains on investments at fair value through profit or loss	—	136,601	—	—	136,601	—	—	—	136,601
Gain on disposal of listed investments at fair value through profit or loss	—	34,485	—	—	34,485	—	—	—	34,485
Gain on derecognition of investment at fair value through profit or loss	—	17,229	—	—	17,229	—	—	—	17,229

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

The following table presents revenue, loss and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2005.

Year ended 31 December 2005
(Restated)

	Continuing operations					Discontinued operations				
	Trading of automobile parts and other materials	Treasury investment	Property and other investments	Unallocated	Total	Manufacture and sale of packaging products	Manufacture and sale of luggage products	Unallocated	Total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Revenue from external customers	590	(11,688)	–	–	(11,098)	277,442	169,990	–	447,432	436,334
Other revenue	–	–	696	–	696	–	–	–	–	696
Total revenue	590	(11,688)	696	–	(10,402)	277,442	169,990	–	447,432	437,030
Segment results	(4,077)	(69,342)	(38,369)	–	(111,788)	39,499	5,530	–	45,029	(66,759)
Unallocated expenses, net					(28,226)				(8,731)	(36,957)
Interest income on bank deposits					8,175				5,727	13,902
Finance costs					(4,045)				(404)	(4,449)
Share of profits and losses of:										
A jointly-controlled entity	–	–	(910)	–	(910)	–	–	–	–	(910)
Associates	–	–	90,145	–	90,145	–	–	–	–	90,145
Profit/(loss) before tax					(46,649)				41,621	(5,028)
Tax					(741)				(4,374)	(5,115)
Profit/(loss) for the year					(47,390)				37,247	(10,143)

4. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

Year ended 31 December 2005
(Restated)

	Continuing operations					Discontinued operations				
	Trading of automobile parts and other materials *HK$'000*	Treasury investment *HK$'000*	Property and other investments *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Manufacture and sale of packaging products *HK$'000*	Manufacture and sale of luggage products *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*	Consolidated *HK$'000*
Assets and liabilities:										
Segment assets	8,200	836,374	48,870	—	893,444	380,293	134,862	—	515,155	1,408,599
Investment in a jointly-controlled entity	—	—	3,669	—	3,669	—	—	—	—	3,669
Interests in associates	—	—	839,451	—	839,451	—	—	—	—	839,451
Unallocated assets	—	—	—	345,778	345,778	—	—	—	—	345,778
Total assets										2,597,497
Segment liabilities	4,428	2,165	—	—	6,593	48,651	110,262	—	158,913	165,506
Unallocated liabilities	—	—	—	109,159	109,159	—	—	29,508	29,508	138,667
Total liabilities										304,173
Other segment information:										
Capital expenditure	—	—	—	(1,775)	(1,775)	(84,291)	(2,407)	—	(86,698)	(88,473)
Depreciation	—	(320)	—	(1,879)	(2,199)	(6,855)	(948)	—	(7,803)	(10,002)
Amortisation on prepaid land lease payments	—	—	—	(1,442)	(1,442)	(1,289)	(64)	—	(1,353)	(2,795)
Write-back of allowance/(allowance) for doubtful debts, net	—	(411)	—	—	(411)	4,463	—	—	4,463	4,052
Fair value losses on investments at fair value through profit or loss	—	(27,329)	—	—	(27,329)	—	—	—	—	(27,329)
Loss on disposal of listed investments at fair value through profit or loss	—	(35,767)	—	—	(35,767)	—	—	—	—	(35,767)
Impairment losses on items of property, plant and equipment	—	—	—	(751)	(751)	—	—	—	—	(751)
Impairment losses on prepaid land lease payments	—	—	—	(6,319)	(6,319)	—	—	—	—	(6,319)

4. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain assets and expenditure information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006

	Hong Kong *HK$'000*	Elsewhere in the PRC *HK$'000*	North and South Americas *HK$'000*	European Union *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:						
Revenue from external customers	149,273	50,135	359,330	172,235	40,782	771,755
Other revenue	1,842	—	—	—	—	1,842
	151,115	50,135	359,330	172,235	40,782	773,597
Attributable to discontinued operations	(80,784)	—	(359,330)	(172,235)	(36,559)	(648,908)
Revenue from continuing operations	70,331	50,135	—	—	4,223	124,689
Other segment information:						
Segment assets	3,174,492	7,575	—	—	204,937	3,387,004
Capital expenditure	40,536	4,767	—	—	—	45,303

Year ended 31 December 2005 (Restated)

	Hong Kong *HK$'000*	Elsewhere in the PRC *HK$'000*	North and South Americas *HK$'000*	European Union *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
Segment revenue:						
Revenue from external customers	65,906	590	207,539	127,678	34,621	436,334
Other revenue	696	—	—	—	—	696
	66,602	590	207,539	127,678	34,621	437,030
Attributable to discontinued operations	(75,254)	—	(207,139)	(127,678)	(37,361)	(447,432)
Revenue from continuing operations	(8,652)	590	400	—	(2,740)	(10,402)
Other segment information:						
Segment assets	2,363,328	233,701	468	—	—	2,597,497
Capital expenditure	88,473	—	—	—	—	88,473

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the aggregate of the net invoiced value of goods sold, after the allowances for returns and trade discounts, gain/(loss) on disposal of trading securities, dividend income from listed investments and interest income from convertible notes and loans receivable during the year.

An analysis of the Group's revenue, other income and gains is as follows:

		2006			2005		
	Note	**Continuing operations HK$'000**	**Discontinued operations HK$'000**	**Total HK$'000**	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Revenue							
Sale of goods		**52,395**	**648,908**	**701,303**	590	447,432	448,022
Gain/(loss) on disposal of listed equity investments at fair value through profit or loss		**34,485**	**—**	**34,485**	(35,767)	—	(35,767)
Dividend income from listed investments		**17,287**	**—**	**17,287**	5,800	—	5,800
Interest income from convertible notes and loans receivable		**18,680**	**—**	**18,680**	17,986	—	17,986
Others		**—**	**—**	**—**	293	—	293
		122,847	**648,908**	**771,755**	(11,098)	447,432	436,334
Other income and gains							
Gross rental income		**1,842**	**—**	**1,842**	696	—	696
Interest income on bank deposits		**7,219**	**7,278**	**14,497**	8,175	5,727	13,902
Excess over the cost of acquisitions of an additional interest in a subsidiary		**—**	**—**	**—**	9,525	—	9,525
Fair value gains, net:							
Investments at fair value through profit or loss		**136,601**	**—**	**136,601**	—	—	—
Convertible debentures and notes		**—**	**—**	**—**	2,415	—	2,415
Gain on disposal of subsidiaries	*38*	**36,144**	**—**	**36,144**	—	—	—
Write-back of allowance/(allowance) for doubtful debts, net		**—**	**—**	**—**	(411)	4,463	4,052
Gain on derecognition of investments at fair value through profit or loss		**17,229**	**—**	**17,229**	—	—	—
Gain arising from redemption of convertible notes		**3,066**	**—**	**3,066**	—	—	—
Write-back of impairment loss on a convertible note		**—**	**—**	**—**	3,907	—	3,907
Fair value gains on investment properties		**2,530**	**—**	**2,530**	3,800	—	3,800
Others		**906**	**2,692**	**3,598**	370	2,767	3,137
		205,537	**9,970**	**215,507**	28,477	12,957	41,434

6. OTHER EXPENSES

	2006			2005		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Exchange losses/(gains), net	**(342)**	**815**	**473**	348	6	354
Fair value losses, net						
Investments at fair value through profit or loss	**—**	**—**	**—**	27,329	—	27,329
Convertible debentures and notes	**3,682**	**—**	**3,682**	—	—	—
Allowance for doubtful debts, net	**150**	**2,831**	**2,981**	—	—	—
Loss on deemed disposal of interests in associates	**—**	**—**	**—**	1,801	—	1,801
Impairment loss on an available-for-sale investment	**—**	**—**	**—**	50,000	—	50,000
Impairment losses on items of property, plant and equipment	**—**	**—**	**—**	751	—	751
Impairment losses on prepaid land lease payments	**—**	**—**	**—**	6,319	—	6,319
	3,490	**3,646**	**7,136**	86,548	6	86,554

7. PROFIT/(LOSS) BEFORE TAX

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

	2006 HK$'000	2005 HK$'000
Cost of inventories sold	615,565	374,129
Provision against obsolete inventories	1,039	—
Depreciation	10,194	10,002
Amortisation on prepaid land lease payments	2,886	2,795
Loss/(gain) on disposal of items of property, plant and equipment	(82)	116
Minimum lease payments under operating leases		
Land and buildings	2,875	3,398
Others	11,256	2,004
	14,131	5,402
Auditors' remuneration	1,808	1,964
Staff costs (including those of directors *(note 9)*):		
Wages and salaries	54,004	45,133
Pension scheme contributions	1,421	1,230
Less: Forfeited contributions	(62)	(46)
Net pension scheme contributions*	1,359	1,184
	55,363	46,317
Net rental income	(1,842)	(696)
Exchange losses, net	473	354
Impairment of goodwill arising from acquisition of associates	1,900	—

* At 31 December 2006, there were no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2005: Nil).

\# The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operations.

8. FINANCE COSTS

	Group 2006 HK$'000	2005 HK$'000
Interest on bank loans, overdrafts and other loans wholly repayable within one year	**8,019**	476
Interest on a convertible note *(notes 15 and 32)*	**2,665**	3,973
	10,684	4,449
Attributable to discontinued operations *(note 13)*	**1,944**	404
Attributable to continuing operations reported in the consolidated income statement	**8,740**	4,045
	10,684	4,449

9. DIRECTORS' REMUNERATION

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

	Group 2006 HK$'000	2005 HK$'000
Fees	**2,137**	1,900
Other emoluments:		
Salaries, allowances and benefits in kind	**8,406**	8,060
Bonuses	**8,300**	7,200
Pension scheme contributions	**48**	48
	18,891	17,208

9. DIRECTORS' REMUNERATION *(Continued)*

(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. Wong Wai Kwong, David	708	700
Mr. Ng Kwok Fu	200	100
Mr. Wong Yat Fai	229	100
	1,137	900

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

(b) Executive directors and non-executive director

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Executive directors:					
Mr. Cheung Chung Kiu	—	3,190	4,500	12	7,702
Mr. Yuen Wing Shing	—	2,330	1,200	12	3,542
Mr. Zhang Qing Xin	—	840	1,000	—	1,840
Mr. Lam Hiu Lo	—	1,165	1,000	12	2,177
Mr. Liang Kang	—	881	600	12	1,493
	—	8,406	8,300	48	16,754
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	1,000	—	—	—	1,000
	1,000	8,406	8,300	48	17,754

9. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive director *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonuses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005					
Executive directors:					
Mr. Cheung Chung Kiu	—	3,160	4,000	12	7,172
Mr. Yuen Wing Shing	—	2,190	1,000	12	3,202
Mr. Zhang Qing Xin	—	770	600	—	1,370
Mr. Lam Hiu Lo	—	1,100	1,000	12	2,112
Mr. Liang Kang	—	840	600	12	1,452
	—	8,060	7,200	48	15,308
Non-executive director:					
Mr. Lee Ka Sze, Carmelo	1,000	—	—	—	1,000
	1,000	8,060	7,200	48	16,308

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2005: two) non-director, highest paid employees for the year are as follows:

	Group 2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**5,390**	4,425
Bonuses	**4,400**	800
Pension scheme contributions	**139**	132
	9,929	5,357

10. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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	**—**	1
HK$2,500,001 to HK$3,000,000	**2**	—
HK$3,000,001 to HK$3,500,000	**—**	1
HK$4,500,001 to HK$5,000,000	**1**	—
	3	2

11. 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.

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current — Hong Kong		
Charge for the year	**31,694**	3,564
Underprovision/(overprovision) in prior years	**(7,488)**	1,553
	24,206	5,117
Deferred *(note 33)*	**(1,761)**	(2)
Total tax charge for the year	**22,445**	5,115

11. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate 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/(loss) before tax (including profit from discontinued operations)	**831,589**		(5,028)	
Tax at the statutory tax rate	**145,528**	**17.5**	(880)	17.5
Underprovision/(overprovision) of tax in prior years	**(7,488)**	**(0.9)**	1,553	(30.9)
Profits and losses attributable to a jointly-controlled entity and associates	**(19,347)**	**(2.3)**	(15,616)	310.6
Income not subject to tax	**(102,722)**	**(12.4)**	(8,884)	176.7
Expenses not deductible for tax	**5,288**	**0.6**	12,138	(241.4)
Utilisation of tax losses brought forward from previous years	**(1,017)**	**(0.1)**	(10)	0.2
Tax losses not recognised	**2,281**	**0.3**	17,241	(342.9)
Others	**(78)**	**—**	(427)	8.5
Tax charge at the Group's effective rate	**22,445**	**2.7**	5,115	(101.7)
Represented by:				
Tax charge attributable to discontinued operations *(note 13)*	**2,273**		4,374	
Tax charge attributable to continuing operations reported in the consolidated income statement	**20,172**		741	
	22,445		5,115	

The share of tax attributable to associates amounting to HK$13,692,000 (2005: HK$13,505,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

12. PROFIT/(LOSS) 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 profit of HK$26,297,000 (2005: HK$26,567,000) which has been dealt with in the financial statements of the Company *(note 35)*.

13. DISCONTINUED OPERATIONS

On 22 September 2006, Marvel Leader Investments Limited ("Marvel") and Thrivetrade Limited ("Thrivetrade") entered into an agreement pursuant to which Marvel agreed to purchase and Thrivetrade agreed to sell the entire issued share capital of Starthigh International Limited ("Starthigh"). Marvel is a wholly-owned subsidiary of C C Land and Starthigh was a wholly-owned subsidiary of Thrivetrade, which was 100% owned by Mr. Cheung Chung Kiu, a Director of the Company. The aggregate value of the consideration for the transaction was approximately HK$3,317,553,000 which was principally satisfied by the issue of C C Land's shares ("Consideration Shares") and the issue of convertible notes by C C Land. As a result of the issue of the Consideration Shares upon the completion of the transaction and the subsequent full conversion of the convertible notes issued by C C Land, the Company's interest in C C Land was passively diluted from 64.54% to 14.08%, resulting in a deemed disposal in the interest of C C Land. Consequently, C C Land ceased to be a subsidiary of the Group. This constituted a deemed disposal of subsidiaries as detailed in note 37(a).

Upon completion of deemed disposal, the manufacturing and sale of packaging and luggage business of C C Land were discontinued and the results of the discontinued operations of C C Land for the year are as follows:

	Notes	**2006** ***HK$'000***	2005 *HK$'000*
Revenue	*5*	**648,908**	447,432
Cost of sales		**(565,217)**	(373,550)
Gross profit		**83,691**	73,882
Other income and gains	*5*	**9,970**	12,957
Expenses		**(58,989)**	(44,814)
Finance costs	*8*	**(1,944)**	(404)
Profit before tax from the discontinued operations		**32,728**	41,621
Tax	*11*	**(2,273)**	(4,374)
Profit for the year from the discontinued operations		**30,455**	37,247
Gain on deemed disposal of subsidiaries	*37(a)*	**508,885**	—
		539,340	37,247
Attributable to:			
Equity holders of the Company		**511,119**	20,811
Minority interests		**28,221**	16,436
		539,340	37,247

13. DISCONTINUED OPERATIONS *(Continued)*

The net cash flows incurred by the discontinued operations of C C Land are as follows:

	2006	2005
	HK$'000	*HK$'000*
Operating activities	**20,323**	9,024
Investing activities	**18,005**	(147,626)
Financing activities	**1,710**	(12,906)
Net cash inflow/(outflow)	**40,038**	(151,508)
Earnings per share:		
Basic, from the discontinued operations	**5.78 HK cents**	0.24 HK cent
Diluted, from the discontinued operations	**5.49 HK cents**	0.22 HK cent

The calculations of basic and diluted earnings per share from the discontinued operations are based on:

	2006	2005
Profit attributable to ordinary equity holders of the Company from the discontinued operations	**HK$511,119,000**	HK$20,811,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**8,845,883,344**	8,569,146,358
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**9,319,702,994**	9,364,284,458

14. DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final — HK$0.003 (2005: HK$0.003) per ordinary share	**27,043**	26,173

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. No interim dividend was declared in respect of both of the years.

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings/(loss) per share amounts is based on the net profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings/(loss) per share amounts is based on the net profit/(loss) for the year attributable to ordinary equity holders of the Company, adjusted to reflect the interest on the convertible note, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings/(loss) per share are based on:

	2006 ***HK$'000***	2005 *HK$'000* (Restated)
Earnings/(loss)		
Profit/(loss) attributable to ordinary equity holders of the Company, used in the basic earnings/(loss) per share calculation		
From continuing operations	**269,804**	(47,390)
From discontinued operations	**511,119**	20,811
	780,923	(26,579)
Interest on a convertible note *(note 8)*	**2,665**	3,973
Profit/(loss) attributable to ordinary equity holders of the Company before interest on a convertible note	**783,588**	(22,606)
Attributable to:		
Continuing operations	**272,469**	(43,417)
Discontinued operations	**511,119**	20,811
	783,588	(22,606)

15. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY *(Continued)*

	Number of shares 2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings/(loss) per share calculation	**8,845,883,344**	8,569,146,358
Effect of dilution — weighted average number of ordinary shares:		
Convertible note	**473,819,650**	795,138,100
Weighted average number of ordinary shares in issue during the year used in the diluted earnings/(loss) per share calculation	**9,319,702,994**	9,364,284,458

The diluted loss per share amount for the year ended 31 December 2005 has not been disclosed as the convertible note outstanding during that year had an anti-dilutive effect on the basic loss per share for that year.

16. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles and yachts HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006									
At 31 December 2005 and at 1 January 2006:									
Cost	109,603	4,773	23,962	2,614	18,225	34,713	9,986	190	204,066
Accumulated depreciation	(8,330)	(3,559)	(14,150)	(2,349)	(14,604)	(20,668)	(6,352)	—	(70,012)
Net carrying amount	101,273	1,214	9,812	265	3,621	14,045	3,634	190	134,054
At 1 January 2006, net of accumulated depreciation	101,273	1,214	9,812	265	3,621	14,045	3,634	190	134,054
Transfer from construction in progress	190	—	—	—	—	—	—	(190)	—
Additions	37,235	—	1,536	273	4,110	1,721	428	—	45,303
Disposal	—	—	(14)	—	—	—	—	—	(14)
Deemed disposal of subsidiaries *(note 37(a))*	(122,513)	—	(8,730)	—	(1,423)	(13,175)	(3,161)	—	(149,002)
Disposal of subsidiaries *(note 38)*	(3,758)	—	—	—	—	—	—	—	(3,758)
Depreciation provided during the year	(2,302)	(476)	(1,909)	(102)	(1,913)	(2,591)	(901)	—	(10,194)
At 31 December 2006, net of accumulated depreciation	10,125	738	695	436	4,395	—	—	—	16,389
At 31 December 2006:									
Cost	12,828	4,773	5,509	2,887	18,863	—	—	—	44,860
Accumulated depreciation and impairment	(2,703)	(4,035)	(4,814)	(2,451)	(14,468)	—	—	—	(28,471)
Net carrying amount	10,125	738	695	436	4,395	—	—	—	16,389

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

Group	Buildings HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles and yachts HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2005									
At 1 January 2005:									
Cost	78,883	4,256	20,298	2,450	17,532	27,456	9,029	—	159,904
Accumulated depreciation	(5,170)	(3,136)	(12,324)	(2,227)	(14,738)	(18,010)	(5,263)	—	(60,868)
Net carrying amount	73,713	1,120	7,974	223	2,794	9,446	3,766	—	99,036
At 1 January 2005, net of accumulated Depreciation	73,713	1,120	7,974	223	2,794	9,446	3,766	—	99,036
Additions	10,128	517	2,352	164	1,277	1,666	957	190	17,251
Disposal	—	—	(41)	—	(91)	(19)	—	—	(151)
Acquisition of subsidiaries *(note 36)*	20,240	—	1,406	—	1,014	5,518	—	—	28,178
Impairment	(751)	—	—	—	—	—	—	—	(751)
Exchange realignment	352	—	25	—	10	106	—	—	493
Depreciation provided during the year	(2,409)	(423)	(1,904)	(122)	(1,383)	(2,672)	(1,089)	—	(10,002)
At 31 December 2005, net of accumulated depreciation	101,273	1,214	9,812	265	3,621	14,045	3,634	190	134,054
At 31 December 2005:									
Cost	109,603	4,773	23,962	2,614	18,225	34,713	9,986	190	204,066
Accumulated depreciation and impairment	(8,330)	(3,559)	(14,150)	(2,349)	(14,604)	(20,668)	(6,352)	—	(70,012)
Net carrying amount	101,273	1,214	9,812	265	3,621	14,045	3,634	190	134,054

Certain of the Group's buildings were pledged to banks to secure banking facilities granted to the Group *(note 41)*.

17. INVESTMENT PROPERTIES

	Group 2006 HK$'000	Group 2005 HK$'000
Carrying amount at 1 January	**55,169**	6,700
Additions	**—**	44,669
Disposal of subsidiaries *(note 38)*	**(45,999)**	—
Net gain from a fair value adjustment	**2,530**	3,800
Carrying amount at 31 December	**11,700**	55,169

The Group's investment properties are situated in Hong Kong and are held under long term leases.

The revaluation of the above investment properties was carried out by Savills Valuation and Professional Services Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis as at 31 December 2006. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 39(a).

At 31 December 2006, the Group's investment properties with a carrying value of HK$11,700,000 (2005: HK$10,500,000) were pledged to banks to secure banking facilities granted to the Group *(note 41)*.

18. PREPAID LAND LEASE PAYMENTS

	Notes	Group 2006 HK$'000	Group 2005 HK$'000
Carrying amount at 1 January		**146,470**	125,949
Additions		**—**	26,553
Impairment		**—**	(6,319)
Acquisition of subsidiaries	*36*	**—**	2,992
Deemed disposal of subsidiaries	*37(a)*	**(69,303)**	—
Recognised during the year		**(2,886)**	(2,795)
Exchange realignment		**—**	90
Carrying amount at 31 December		**74,281**	146,470
Current portion		**(1,347)**	(2,906)
Non-current portion		**72,934**	143,564

18. PREPAID LAND LEASE PAYMENTS *(Continued)*

The Group's leasehold land is held under the following lease terms in Hong Kong:

	HK$'000
Long term leases	59,178
Medium term leases	15,103
	74,281

Certain of the Group's leasehold land was pledged to banks to secure banking facilities granted to the Group *(note 41)*.

19. GOODWILL

Group

	Notes	**Total** *HK$'000*
Cost at 1 January 2005		—
Acquisition of subsidiaries	*36*	35,297
Cost and carrying amount at 31 December 2005 and 1 January 2006		35,297
Acquisitions of additional interests in subsidiaries		587
Deemed disposal of subsidiaries	*37(a)*	(35,884)
Cost and carrying amount at 31 December 2006		—

Impairment testing of goodwill

In the prior year, goodwill acquired through a business combination was allocated to the cash-generating unit of the manufacture and sale of luggage products, which was a reportable segment, for impairment testing:

The recoverable amount of the cash-generating unit of the manufacture and sale of luggage products was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections was 6%, while it was assumed that the unit would not have any growth in business.

Key assumptions were used in the value-in-use calculation of the cash-generating unit of the manufacture and sale of luggage products for the year ended 31 December 2005.

20. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**105,759**	105,759
Due from subsidiaries	**1,764,754**	1,762,231
	1,870,513	1,867,990

Except for an amount due from a subsidiary amounting to HK$3,900,000 in the prior year which bore interest at the best lending rate of the Hongkong and Shanghai Banking Corporation Limited plus 2% per annum, the amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Big Brother Resources Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Property holding
Bonco Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Property holding
Bookman Properties Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Securities investment
Chase Create Investments Limited	Hong Kong	HK$2	**100**	100	Property holding
Dynamic Award International Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Eastern Bloom Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Investment holding

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Faircom Limited#	British Virgin Islands	US$1	—	100	Investment holding
Ferrex Holdings Limited	British Virgin Islands	US$1	**100**	100	Investment holding
First River Investments Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Funrise Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Grand Island Development Limited#	British Virgin Islands	US$1	—	100	Investment holding
iChoice Limited#	British Virgin Islands	US$10	—	60	Investment holding
iFortune Limited#	British Virgin Islands	US$1	—	60	Investment holding
iNoble Inc.#	British Virgin Islands	US$1	—	60	Investment holding
Joystar Limited#	British Virgin Islands/ Hong Kong	US$1	—	100	Investment holding
Joywell Holdings Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Kent Smart Investments Limited	Hong Kong	HK$2	**100**	100	Property holding
Maxking Industries Limited	Hong Kong	HK$2	**100**	100	Motor leasing
Maxlord Enterprises Limited	Hong Kong	HK$2	**100**	100	Money lending
Megaspace Asia Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Property holding
New Wealth Limited	Hong Kong	HK$2	**100**	100	Property investment
Regulator Holdings Limited	British Virgin Islands	US$1	**100**	100	Investment holding

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Senico Investments Limited	British Virgin Islands	US$1	**100**	100	Trading of metal commodities and other materials
Time Lander Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Property holding
Top Eagle Holdings Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Vigorous Assets Limited#	British Virgin Islands	US$1	**—**	100	Investment holding
Yugang Enterprises Limited#	Hong Kong	HK$2	**—**	100	Investment holding
Yugang Finance Limited	Hong Kong	HK$2	**100**	100	Treasury investment
Yugang International (B.V.I.) Limited	British Virgin Islands	US$5	**100**	100	Investment holding
Yugang Management Limited	Hong Kong	HK$2	**100**	100	Corporate Management
C C Land Holdings Limited*	Bermuda	HK$180,538,225	**—**	64.54	Investment holding
Ablelink Investments Limited*	British Virgin Islands	US$100	**—**	64.54	Investment holding
Empire New Assets Limited*	British Virgin Islands/ Hong Kong	US$100	**—**	64.54	Property holding
Ensure Success Holdings Limited*	British Virgin Islands	US$100	**—**	64.54	Investment holding
Global Palace Investments Limited*	British Virgin Islands/ Hong Kong	US$1,000	**—**	64.54	Property holding
Onestep Enterprises Limited*	British Virgin Islands	US$100	**—**	64.54	Investment holding
Qualipak Development Limited*	British Virgin Islands	US$10,000	**—**	64.54	Investment holding
Qualipak Finance Limited*	Hong Kong	HK$2	**—**	64.54	Provision of financial services

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Qualipak Fortune Inc.*	British Virgin Islands/ PRC	US$10,000	—	64.54	Manufacture and sale of watch boxes, gift boxes, spectacles cases and bags and pouches
Qualipak Manufacturing Limited*	Hong Kong	Ordinary HK$100 non-voting deferred HK$22,303,857	—	64.54	Manufacture and sale of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Manufacturing (China) Limited*	British Virgin Islands	US$1	—	64.54	Investment holding
Qualipak Production Inc.*	British Virgin Islands/ PRC	US$10,000	—	64.54	Manufacture and sale of watch boxes, gift boxes and display units
Winning Hand Management Limited*	British Virgin Islands/ PRC	US$1	—	64.54	Property holding
Wisdom Way Limited*	Hong Kong	HK$2	—	64.54	Property holding
Wiseteam Assets Limited#	British Virgin Islands	US$100	—	64.54	Property holding
Worthwell Investments Limited*	British Virgin Islands/ Hong Kong	US$50,000	—	64.54	Investment holding
Hoi Tin Universal Limited*	Hong Kong	HK$1,000,000	—	38.72	Sale of soft luggage, travel bags, backpacks and brief cases

20. INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company 2006	2005	Principal activities
Young Comfort Development Limited*	Hong Kong	HK$10,000	—	29.04	Manufacture and sale of soft luggage, travel bags, backpacks and brief cases
海天環球旅遊用品（蘇州）有限公司*	PRC	US$5,000,000	—	38.72	Manufacture and sale of soft luggage, travel bags, backpacks and brief cases

Except for Yugang International (B.V.I.) Limited, all subsidiaries are indirectly held by the Company.

* These subsidiaries were deemed disposed of during the year. Further details of this disposal are included in note 37(a).

\# These subsidiaries were disposed of during the year. Further details of this disposal are included in note 38.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

In 2005, the Group acquired Hoi Tin Universal Limited. Further details of this acquisition are included in note 36.

21. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group 2006 HK$'000	2005 HK$'000
Share of net assets	—	3,669

The jointly-controlled entity was disposed of in 2006 *(note 38)*.

21. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY *(Continued)*

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
青島海信網絡科技股份有限公司	Corporate	PRC	35	40	35	Trading and manufacturing of software products

The above jointly-controlled entity was not audited by Ernst & Young and is held through a subsidiary.

22. INTERESTS IN ASSOCIATES

	Group 2006 HK$'000	2005 HK$'000
Share of net assets:		
— listed shares	899,310	797,645
— unlisted shares	—	7,017
Goodwill on acquisition	—	31,789
	899,310	836,451
Loan to an associate	—	3,000
	899,310	839,451
Market value of listed shares	363,090	283,920

In the prior year, the loan to an associate was unsecured, interest-free and had no fixed terms of repayment.

On 3 June 2005, the Group acquired a 30% equity interest in Technical International Holdings Limited ("Technical International"), a company incorporated in British Virgin Islands with limited liability, for a cash consideration of HK$33,000,000, subject to adjustment, as disclosed in the circular of the Company dated 27 June 2005. Technical International and its subsidiaries (the "Technical Group") are principally engaged in the business of design, trading and marketing of knives, corkscrews and kitchenware in Hong Kong.

The total consideration of HK$33,000,000 for the acquisition was in the form of cash, of which HK$30,000,000 was paid during the prior year, and the remaining balance of HK$3,000,000 (subject to adjustment as stipulated in the sale and purchase agreement entered into with the vendor) is payable within seven business days from the issue of the audited consolidated financial statements of the Technical Group for the year ended 31 December 2006. Goodwill arising from this acquisition amounted to HK$31,789,000 in the prior year.

22. INTERESTS IN ASSOCIATES *(Continued)*

The interest in Technical International was held by C C Land Group, which was disposed of together with the deemed disposal of C C Land Group during the year. Further details of the disposal are set out in note 37(a) to these financial statements.

Particulars of the principal associates are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued share held	Percentage of equity attributable to the Group 2006	2005	Principal activities
Y.T. Realty Group Limited	Bermuda	Ordinary shares of HK$0.1 each	**34.14**	34.14	Investment holding
Apex Rich Group Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US$1 each	**34.14**	34.14	Investment holding
Benefit Plus Company Limited	Hong Kong	Ordinary shares of HK$1 each	**34.14**	34.14	Property investment
Best View Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US$1 each	**34.14**	34.14	Property holding
E-Tech Services Limited	Hong Kong	Ordinary shares of HK$1 each	**34.14**	34.14	Property technical consultant services
Harson Investment Limited	Hong Kong	Ordinary shares of HK$1 each	**34.14**	34.14	Property investment
Honway Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US$1 each	**34.14**	34.14	Investment holding
Mainland Sun Ltd.	British Virgin Islands/ PRC	Ordinary shares of US$1 each	**34.14**	34.14	Property investment
New Island Development Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US$1 each	**34.14**	—	Investment holding
Score Goal Investment Limited	Hong Kong	Ordinary shares of HK$1 each	**34.14**	34.14	Property investment
Y.T. (China) Limited	Hong Kong/ PRC	Ordinary shares of HK$1 each	**34.14**	34.14	Investment holding

22. INTERESTS IN ASSOCIATES *(Continued)*

Name	Place of incorporation/ registration and operations	Particulars of issued share held	Percentage of equity attributable to the Group 2006	2005	Principal activities
Y.T. Finance Limited	Hong Kong	Ordinary shares of HK$500 each	**34.14**	34.14	Finance vehicle
Y. T. Investment Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US$1 each	**34.14**	34.14	Investment holding
Y.T. Investment Management Limited	British Virgin Islands/ PRC	Ordinary shares of US$1 each	**34.14**	34.14	Securities investment
Y. T. Properties International Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US$1 each	**34.14**	34.14	Investment holding
Y.T. Property Services Limited	Hong Kong	Ordinary shares of HK$1 each	**34.14**	34.14	Property management
Y.T. Group Management Limited	Hong Kong	Ordinary shares of HK$1 each	**34.14**	34.14	Provision of business management services
Winwide Excel Limited	British Virgin Islands/ Hong Kong	Ordinary shares of US$1 each	**34.14**	34.14	Investment holding
Technical International Holdings Limited#	British Virgin Islands	Ordinary shares of US$1 each	—	19.36	Investment holding
Technical Development (HK) Limited#	Hong Kong	Ordinary shares of HK$1 each	—	19.36	Design, trading and marketing of corkscrews, and kitchenware
Technical (HK) Manufacturing Limited#	Hong Kong	Ordinary shares of HK$1 each	—	19.36	Design, trading and marketing of corkscrews, and kitchenware

\# These associates are held by non-wholly-owned subsidiaries of the Company, and were not audited by Ernst & Young. They were deemed disposed of by the Company during the year *(note 37(a))*.

22. INTERESTS IN ASSOCIATES *(Continued)*

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

All the above associates have been accounted for using the equity method in these financial statements.

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2006	2005
	HK$'000	*HK$'000*
Assets	**3,478,201**	3,058,474
Liabilities	**844,050**	698,725
Revenues	**99,473**	235,245
Profit	**288,088**	268,058

23. CONVERTIBLE DEBENTURES AND NOTES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Unsecured and non-interest-bearing	**—**	14,666
Unsecured and interest-bearing	**47,416**	38,145
	47,416	52,811

At 31 December 2006, the Group held an unlisted convertible note which was issued by a listed company in Hong Kong. This convertible note conferred rights to the bearers to convert the whole or part of the outstanding principal amounts into shares of this listed company at a conversion price of HK$0.305 per share in the defined periods. It can only be redeemed at their face values upon maturity to the extent of the amounts not previously converted. The convertible note bears an interest of 4% per annum and it states at fair value as at the balance sheet date.

24. LOANS RECEIVABLE

	Group 2006 HK$'000	2005 HK$'000
Non-current:		
Unsecured	**1,000**	2,000
Current:		
Secured	**—**	42,000
Unsecured	**159,991**	131,237
	159,991	173,237
	160,991	175,237

The Group's loans receivable represents receivables arising from its money lending business and are stated at amortised cost at effective interest rates ranging from Hong Kong dollar prime rate (the "Prime Rate") to 2% above the Prime Rate (2005: Prime Rate to 5% above the Prime Rate) per annum. The credit terms are normally less than one year. As the Group's loans receivable relate to a number of different borrowers, the directors are of the opinion that there is no significant concentration of credit risk over these loans.

25. AVAILABLE-FOR-SALE INVESTMENT

	Group 2006 HK$'000	2005 HK$'000
Unlisted equity investment in Hong Kong, at cost	**—**	100,000
Less: Impairment	**—**	(80,000)
	—	20,000
Listed equity investment in Hong Kong, at fair value	**1,271,198**	—
	1,271,198	20,000

25. AVAILABLE-FOR-SALE INVESTMENT *(Continued)*

Available-for-sale investment represented 14.08% equity investments in ordinary shares of C C Land. Particulars of C C Land at the balance sheet date are as follows:

Name	Place of incorporation	Nominal value of issued and paid-up share capital	Percentage of ownership interest attributable to the Group
C C Land Holdings Limited	Bermuda	HK$180,538,225	14.08

During the year, the fair value gain of the Group's available-for-sale investment recognised directly in equity amounted to HK$356,258,000 (2005: Nil).

The fair value of the Group's listed equity investment is based on a quoted market price. This investment has no maturity date or coupon rate.

In the prior year, directors considered that the fair value of the unlisted available-for-sale investment could not be reliably measured. Accordingly, the investment was stated at cost less any impairment loss. The impairment loss was measured as the difference between the investment's carrying amount and the recoverable amount. The recoverable amount was determined with reference to the proceeds received from the disposal of the investment subsequent to the prior year end.

26. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	**586,429**	395,447
Overseas	**144,937**	—
	731,366	395,447
Unlisted debt security:		
Hong Kong	**—**	1,249
	731,366	396,696

The above investments at 31 December 2006 were classified as held for trading.

The fair values of the above investments were determined based on quoted prices in the market or obtained from financial institutions at the balance sheet date.

The market value of the Group's investments at fair value through profit or loss at the date of approval of these financial statements was approximately HK$864,903,000.

27. INVENTORIES

	Group 2006 HK$'000	2005 HK$'000
Raw materials	—	30,939
Work in progress	—	38,700
Finished goods	—	16,375
	—	86,014

28. TRADE DEBTORS

The Group allows an average credit period of 30 days to its customers.

An aged analysis of the trade debtors at the balance sheet date is as follows:

	Group 2006 HK$'000	2005 HK$'000
0 to 30 days	6,606	77,019
31 to 60 days	968	3,822
More than 60 days	—	6,972
	7,574	87,813

29. TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date is as follows:

	Group 2006 HK$'000	2005 HK$'000
0 to 30 days	—	69,044
31 to 60 days	—	16,393
More than 60 days	977	14,967
	977	100,404

The trade creditors are non-interest-bearing and are normally settled on 60 day terms.

30. INTEREST-BEARING BANK BORROWINGS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current		
Discounted bills with recourse	—	12,916
Bank loan — secured	**95,000**	2,404
Bank loan — unsecured	—	128
	95,000	15,448

The Group's bank borrowings are secured by leasehold land and buildings and investment properties amounting to HK$46,657,000 and HK$11,700,000 respectively.

The carrying amounts of the Group's bank borrowings approximate to their fair values.

The Group's bank borrowings are denominated in Hong Kong dollars and carry effective interest rates ranging from 5.6% to 5.8% per annum.

31. LOANS FROM MINORITY SHAREHOLDERS

In the prior year, the loans were unsecured, interest-free and had no fixed terms of repayment.

The carrying amounts of these loans approximated to their fair values.

They are deemed disposed of during 2006 *(note 37(a))*.

32. CONVERTIBLE NOTE

On 25 May 2004, the Company entered into an agreement with Timmex Investment Limited ("Timmex") in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK$70,000,000 (the "Note"). Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu, a director of the Company. The Note conferred the right on the note holder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from 31 July 2004 (the date of issuance) for a period of three years, at conversion prices of HK$0.075 per share in the first year, HK$0.082 per share in the second year and HK$0.089 per share in the third year (subject to adjustment). The Note will mature for principal repayment on 31 July 2007. Interest on the Note is accrued from the date of issuance on a day-to-day basis at a rate of 3% per annum on the principal amount of the Note and is payable annually in arrears.

On 29 July 2005, Timmex exercised the conversion right of the Note in an aggregate amount of HK$20,325,000, resulting in the issue of 271,000,000 new ordinary shares of the Company *(note 34)*.

On 31 July 2006, Timmex exercised the conversion right of the Note in an aggregate amount of HK$23,780,000 resulting in the issue of 290,000,000 new ordinary shares of the Company *(note 34)*.

32. CONVERTIBLE NOTE *(Continued)*

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar note without a conversion option amounting to HK$62,380,000. The residual amount is assigned as the equity component and is included in shareholders' equity amounting to HK$7,620,000.

	Liability component of the convertible note *HK$'000*	**Equity component of the convertible note** *HK$'000*
At 1 January 2005	63,345	7,620
Conversion of part of the Note	(18,799)	(2,213)
	44,546	5,407
Interest expense *(note 8)*	3,973	—
Interest paid	(1,839)	—
At 31 December 2005 and at 1 January 2006	46,680	5,407
Conversion of part of the Note	(22,857)	(2,588)
	23,823	2,819
Interest expense *(note 8)*	2,665	—
Interest paid	(1,189)	—
At 31 December 2006	25,299	2,819

The effective interest rate on the liability component of the Note is 7%.

33. DEFERRED TAX

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

Deferred tax liabilities

Group	Revaluation of properties	Depreciation allowance in excess of related depreciation	Loss available for offsetting against future taxable profit	Total
	2006			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	**682**	**3,152**	**(343)**	**3,491**
Disposal of subsidiaries *(note 38)*	**—**	**(87)**	**—**	**(87)**
Deemed disposal of subsidiaries *(note 37(a))*		**(2,663)**	**1,997**	**(666)**
Deferred tax charged/(credited) to the income statement during the year *(note 11)*	**210**	**223**	**(2,194)**	**(1,761)**
Deferred tax liabilities at 31 December 2006	**892**	**625**	**(540)**	**977**

Group	Revaluation of properties	Depreciation allowance in excess of related depreciation	Loss available for offsetting against future taxable profit	Total
	2005			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	—	3,202	(357)	2,845
Acquisition of subsidiaries *(note 36)*	—	648	—	648
Deferred tax charged/(credited) to the income statement during the year *(note 11)*	682	(698)	14	(2)
Deferred tax liabilities at 31 December 2005	682	3,152	(343)	3,491

The Group has tax losses arising in Hong Kong of HK$33,540,000 (2005: HK$44,351,000) that 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 these losses as it is not considered probable that sufficient taxable profits will be available against which the tax losses can be utilised.

33. DEFERRED TAX *(Continued)*

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 the jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

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

34. SHARE CAPITAL

Shares	**2006**	2005
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 (2005: 50,000,000,000) ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
9,014,321,700 (2005: 8,724,321,700) ordinary shares of HK$0.01 each	**90,143**	87,243

A summary of the transactions involving the Company's issued ordinary share capital during the year is as follows:

	Notes	**Number of shares in issue**	**Issued share capital**	**Share premium account**	**Total**
			HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005		8,453,321,700	84,533	840,629	925,162
Conversion of part of the convertible note	*(a)*	271,000,000	2,710	18,302	21,012
At 31 December 2005 and 1 January 2006		8,724,321,700	87,243	858,931	946,174
Conversion of part of the convertible note	*(b)*	290,000,000	2,900	22,545	25,445
At 31 December 2006		9,014,321,700	90,143	881,476	971,619

34. SHARE CAPITAL *(Continued)*

Notes:

(a) On 29 July 2005, part of the convertible note amounting to HK$20,325,000 was converted into 271,000,000 shares of the Company at a conversion price of HK$0.075 per share. Further details relating to the convertible note are set out in note 32.

(b) On 31 July 2006, part of the convertible note amounting to HK$23,780,000 was converted into 290,000,000 shares of the Company at a conversion price of HK$0.082 per share. Further details relating to the convertible note are set out in note 32.

Share options

At the special general meeting held on 29 April 2005, the Company adopted a share option scheme (the "Scheme"). Employees (including directors) of the Group are included in the eligible participants under the Scheme. A total of 872,432,170 shares will be available for issue under the Scheme, which represents 9.68% of the Company's issued share capital at the balance sheet date. Each participant cannot be entitled more than 1% of the total number of shares in issue in any 12-month period. The option shall end in any event not later than 10 years from the date of grant of option subject to the provision for early termination set out in the Scheme. The Scheme remains in force until 28 April 2015. No option was granted under the Scheme during the year.

35. RESERVES

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.

Company	*Notes*	**Share premium account** *HK$'000*	**Contributed surplus** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
At 1 January 2005		840,629	839,108	4,504	1,684,241
Issue of shares upon conversion of part of the convertible note	*34*	18,302	—	—	18,302
Profit for the year		—	—	26,567	26,567
Proposed final dividend	*14*	—	—	(26,173)	(26,173)
At 31 December 2005 and at 1 January 2006		858,931	839,108	4,898	1,702,937
Issue of shares upon conversion of part of the convertible note	*34*	22,545	—	—	22,545
Profit for the year		—	—	26,297	26,297
Proposed final dividend	*14*	—	—	(27,043)	(27,043)
At 31 December 2006		881,476	839,108	4,152	1,724,736

35. RESERVES *(Continued)*

Company *(Continued)*

The contributed surplus of the Company originally represented the excess of the net asset values of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in preparation for the listing of the Company's shares in 1993. Under the Bermuda Companies Act 1981 (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

36. BUSINESS COMBINATION

In the prior year, the Group acquired a 60% equity interest in Hoi Tin Universal Limited ("Hoi Tin") and its subsidiaries ("Hoi Tin Group") from certain independent third parties. The purchase consideration of the acquisition was in the form of cash, among which HK$31,000,000 was paid on the completion date of the acquisition and the remaining HK$5,000,000 was payable within three business days from the issue of the audited consolidated financial statements of Hoi Tin for the year ending 31 March 2007.

The fair values of the identifiable assets and liabilities of Hoi Tin Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *HK$'000*	**Carrying amount** *HK$'000*
Property, plant and equipment	*16*	28,178	26,221
Prepaid land lease payments	*18*	2,992	2,992
Trade debtors		39,395	39,395
Other debtors, deposits and prepayments		7,099	7,099
Inventories		29,969	29,969
Cash and bank balances		1,308	1,308
Trade creditors and other payables		(63,116)	(63,116)
Accruals and other payables		(19,917)	(19,917)
Tax payable		(602)	(602)
Bank borrowings		(15,990)	(15,990)
Deferred tax	*33*	(648)	(2)
Loans from shareholders		(4,606)	(4,606)
Minority interests		(1,711)	(1,711)
		2,351	1,040
Goodwill on acquisition	*19*	35,297	
		37,648	
Satisfied by:			
Cash		31,000	
Consideration payable		5,000	
Direct expenses paid in connection with the acquisition		1,648	
		37,648	

36. BUSINESS COMBINATION *(Continued)*

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

	2005 *HK$'000*
Cash consideration paid	(31,000)
Direct expenses paid in connection with the acquisition	(1,648)
Cash and bank balances acquired	1,308
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(31,340)

Since its acquisition, Hoi Tin Group contributed HK$169,990,000 to the Group's turnover and HK$4,544,000 to the consolidated profit for the year ended 31 December 2005.

Had the combination taken place at the beginning of 2005, the Group's turnover and loss for the year ended 31 December 2005 would have been HK$575,449,000 and HK$12,481,000, respectively.

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Deemed disposal of subsidiaries

	Notes	2006 HK$'000
Net assets disposed of:		
Property, plant and equipment	16	149,002
Prepaid land lease payments	18	69,303
Goodwill	19	35,884
Interests in associates		38,921
Convertible debentures and notes		32,903
Other assets		781
Investments at fair value through profit or loss		37,647
Inventories		84,067
Tax recoverable		431
Trade debtors		156,209
Other debtors, deposits and prepayments		12,464
Bills receivable		7,152
Pledged time deposits		3,073
Time deposits		181,252
Cash and bank balances		55,168
Trade creditors		(130,473)
Loans from minority shareholders	31	(8,000)
Accrued expenses		(16,492)
Customers' deposits received		(12,047)
Tax payable		(12,872)
Interest-bearing bank borrowings		(40,795)
Deferred tax liabilities	33	(666)
Consideration payable on acquisition of associates		(3,000)
Consideration payable on acquisition of subsidiaries		(5,000)
Exchange fluctuation reserve		(117)
Minority interests		(228,740)
		406,055
Gain on deemed disposal of subsidiaries		508,885
Reclassified to available-for-sale investment		914,940

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) Deemed disposal of subsidiaries *(Continued)*

An analysis of the net decrease in cash and cash equivalents in respect of the deemed disposal of subsidiaries is as follows:

	2006 ***HK$'000***
Time deposits	**181,252**
Cash and bank balances	**55,168**
	236,420

(b) Major non-cash transactions

(i) In 2005, part of the convertible note amounting to HK$20,325,000 was converted into 271,000,000 shares of the Company at a conversion price of HK$0.075 per share.

(ii) In 2005, the Group's convertible debentures and notes amounting to HK$17,000,000 were converted into 68,000,000 shares of a company listed on the Stock Exchange at a conversion price of HK$0.25 per share.

(iii) During the year, part of the convertible note amounting to HK$23,780,000 was converted into 290,000,000 shares of the Company at a conversion price of HK$0.082 per share.

(iv) During the year, the Group's convertible note amounting to HK$35,000,000 were converted into 51,470,588 shares of a company listed on the Stock Exchange at a conversion price of HK$0.68 per share.

(v) During the year, the Group's investments at fair value through profit or loss with a carrying value of HK$21,250,000 were exchanged for cash amounting to HK$4,825,000 and a convertible note issued by a company listed on the Stock Exchange with an initial fair value of approximately HK$33,654,000.

(c) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to a bank to secure the banking facilities granted to the Group, as further explained in note 41.

38. DISPOSAL OF SUBSIDIARIES

	Notes	2006 HK$'000
Net assets disposed of:		
Property, plant and equipment	16	3,758
Investment properties	17	45,999
Investment in a jointly-controlled entity		3,310
Available-for-sale equity investment		20,000
Other assets		5,960
Other debtors, deposits and prepayments		16
Tax payable		(59,100)
Due to group companies, net		(43,689)
Deferred tax liabilities	33	(87)
		(23,833)
Assignment of amounts due to group companies, net		43,689
		19,856
Gain on disposal of subsidiaries	5	36,144
		56,000
Satisfied by:		
Cash		56,000

39. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties *(note 17)* under operating lease arrangements, with leases negotiated for terms of two to three 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 the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Within one year	763	497
In the second to fifth years, inclusive	465	276
	1,228	773

39. OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group lease certain of its office properties under operating lease arrangements. The lease for the office properties is negotiated for terms of three years.

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

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**996**	2,714
In the second to fifth years, inclusive	**581**	1,636
	1,577	4,350

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following commitments in respect of the purchases of property, plant and equipment at the balance sheet date:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Contracted, but not provided for	**—**	3,714

At the balance sheet date, the Company did not have any significant commitments.

41. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by:

(a) a pledge of the Group's time deposits of HK$8,754,000 (2005: HK$10,345,000);

(b) the Group's investment properties and certain leasehold land and buildings with an aggregate carrying value of HK$58,357,000 (2005: HK$66,955,000); and

(c) corporate guarantees issued by the Company.

42. CONTINGENT LIABILITIES

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to:				
Subsidiaries*	**—**	—	**518,080**	518,080
An associate	**—**	6,000	**—**	—
	—	6,000	**518,080**	518,080

* The banking facilities were utilised to the extent of HK$95,000,000 at the balance sheet date (2005: Nil).

43. RELATED PARTY TRANSACTIONS

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

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Rental expenses for office premises paid to a substantial shareholder	*(i)*	**996**	963
Interest expense paid to a related company	*(ii)*	**1,189**	1,839
Sales of goods to a minority shareholder of a subsidiary	*(iii)*	**13,431**	—
Purchase of additional interest in a subsidiary from a minority shareholder of a subsidiary	*(iv)*	**990**	—

Notes:

(i) The rental expenses were charged at cost, based on the floor area occupied by the Group in respect of the office premises rented by Chongqing Industrial Limited from an independent third party. Mr. Cheung Chung Kiu, a director of the Company, has a beneficial interest in Chongqing Industrial Limited, which is a substantial shareholder of the Company. This transaction also constituted a connected transaction of the Company under the Listing Rules.

(ii) The interest expense paid to a related company was in respect of the convertible note issued by the Company to Timmex Investment Limited as detailed in note 32. The transaction constituted a connected transaction of the Company under the Listing Rules.

(iii) The sales of goods were made between Hoi Tin Universal Limited and a minority shareholder owning 25% of Young Comfort Development Limited, a then indirectly-held subsidiary. The transaction also constituted connected transactions of the Company under the Listing Rules. Details of the transactions were set out under the section headed "Connected transactions" in the Report of the Directors.

(iv) On 27 September 2006, the Group entered into an agreement with Thomas Wagner GmbH to acquire a 25% equity interest in Young Comfort for a cash consideration of approximately HK$990,000. The transaction was completed on 29 September 2006. It also constituted a connected transaction of the Company under the Listing Rules. Details of the transactions were set out under the section headed "Connected transactions" in the Report of the Directors.

43. RELATED PARTY TRANSACTIONS *(Continued)*

(b) (i) Details of the Group's loan to an associate as at the balance sheet date of the prior year are included in note 22.

(ii) During the year, the Group had a deemed disposal of subsidiaries as detailed in note 37(a). The transaction constituted connected transactions of the Company under the Listing Rules. Details of the transactions were set out in the section headed "Connected transactions" in the Report of the Directors.

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

	2006	2005
	HK$'000	*HK$'000*
Short term employee benefits	**20,238**	19,185
Post-employment benefits	**72**	60
Long term employee benefits	**97**	90
Total compensation paid to key management personnel	**20,407**	19,335

Further details of directors' emoluments are included in note 9.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include equity investments, convertible note investments, loans receivable, trade debtors, trade creditors, bank borrowings and short-term deposits. Details of the major financial instruments and the Group accounting policies in relation to them are disclosed in note 2.4.

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

Cash flow interest rate risk

The Group does not have any significant exposure to the risk of changes in market interest rates, and therefore it does not use derivative financial instruments to hedge its debt obligations.

Foreign currency risk

The Group has currency exposure as the majority of its sales were denominated in U.S. dollars, which are pegged to Hong Kong dollars.

The Group currently does not have a foreign currency hedging policy. However, management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group trades only with recognised and creditworthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade debtor and other receivable balances are monitored on an ongoing basis to ensure follow-up action is taken to recover overdue debts and the Group's exposure to bad debts is not significant. In addition, the Group reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has established a credit committee (the "Committee") to manage the credit risk with respect to the loans receivable of the Group. The Committee reviews the credit standing and assesses credit risk exposures of each borrower. In order to mitigate this risk, the Group has formulated a credit policy governing the control of credit risk. In this regard, the directors consider that the credit risk is significantly reduced and controlled.

Price risk

The Group's investments held for trading and portion of the call option embedded in investments in convertible notes are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a well-diversified portfolio with different risk profiles.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, convertible notes and other interest-bearing loans. The Group's policy is that all of the bank borrowings should mature in any 12-month period.

45. COMPARATIVE AMOUNTS

The comparative income statement has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period *(note 13)*.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2007.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

RESULTS	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
CONTINUING OPERATIONS					
REVENUE	**122,847**	(11,098)	138,323	25,601	243,123
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**179,417**	(135,884)	206,045	75,731	(165,658)
Share of profits/(losses) of a jointly-controlled entity	**(359)**	(910)	(725)	643	(5,325)
Share of profits of associates	**110,918**	90,145	43,132	18,288	2,236
PROFIT/(LOSS) BEFORE TAX	**289,976**	(46,649)	248,452	94,662	(168,747)
Tax	**(20,172)**	(741)	(5,368)	(894)	(463)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**269,804**	(47,390)	243,084	93,768	(169,210)
DISCONTINUED OPERATIONS					
Profit/(loss) for the year from discontinued operations	**539,340**	37,247	(2,740)	24,157	30,178
PROFIT/(LOSS) FOR THE YEAR	**809,144**	(10,143)	240,344	117,925	(139,032)
Attributable to:					
Equity holders of the Company	**780,923**	(26,579)	223,953	107,734	(152,337)
Minority interests	**28,221**	16,436	16,391	10,191	13,305
	809,144	(10,143)	240,344	117,925	(139,032)

ASSETS, LIABILITIES AND MINORITY INTERESTS	At 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Property, plant and equipment	**16,389**	134,054	99,036	99,809	113,697
Prepaid land lease payments	**72,934**	143,564	123,527	118,633	120,649
Interests in associates	**899,310**	839,451	659,930	618,936	604,217
Available-for-sale investment	**1,271,198**	20,000	70,000	—	—
Other assets	**72,476**	168,047	31,595	15,936	46,226
Current assets	**1,054,697**	1,292,381	1,448,720	1,404,390	1,222,845
Current liabilities	**(168,779)**	(246,002)	(129,938)	(301,162)	(114,026)
Net current assets	**885,918**	1,046,379	1,318,782	1,103,228	1,108,819
Non-current liabilities	**(977)**	(58,171)	(66,190)	(783)	(101,468)
Minority interests	**—**	(209,306)	(223,394)	(158,569)	(177,010)
Equity attributable to equity holders of the Company	**3,217,248**	2,084,018	2,013,286	1,797,190	1,715,130