



遠東控股國際有限公司
Far East Holdings International Limited

Stock Code : 0036

Annual Report 2006



06

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The English text of this Annual Report shall prevail over the Chinese text.

PLACE OF INCORPORATION

Hong Kong

BOARD OF DIRECTORS*Executive Directors:*

Deacon Te Ken Chiu, J.P. *(Chairman)*

Mr. Duncan Chiu, B.Sc. *(Managing Director and Chief Executive Officer)*

Mr. Dennis Chiu, B.A.

Non-executive Directors:

Tan Sri Dato' David Chiu, B.Sc.

Mr. Daniel Tat Jung Chiu

Mr. Derek Chiu, B.A.

Mr. Desmond Chiu, B.A.

Ms. Margaret Chiu, LL.B.

Ms. Min Tang

Independent Non-executive Directors:

Dr. Lee G. Lam

Ms. Ryan Yen Hwung Fong

Mr. Hing Wah Yim

COMPANY SECRETARY

Mr. Hung Kwong Lui, FCPA, FCCA, CGA

QUALIFIED ACCOUNTANT

Mr. Hung Kwong Lui, FCPA, FCCA, CGA

SOLICITORS

Woo, Kwan, Lee & Lo

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

AUDIT COMMITTEE

Dr. Lee G. Lam *(Chairman)*

Mr. Ryan Yen Hwung Fong

Mr. Derek Chiu, B.A.

REMUNERATION COMMITTEE

Mr. Duncan Chiu, B.Sc. *(Chairman)*

Dr. Lee G. Lam

Mr. Ryan Yen Hwung Fong

PRINCIPAL BANKERS

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

The Bank of East Asia Limited
Hang Seng Bank Limited

REGISTERED OFFICE

16th Floor, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

PRINCIPAL OFFICE

Room 1802-1804, 18th Floor
Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

SHARE REGISTRAR

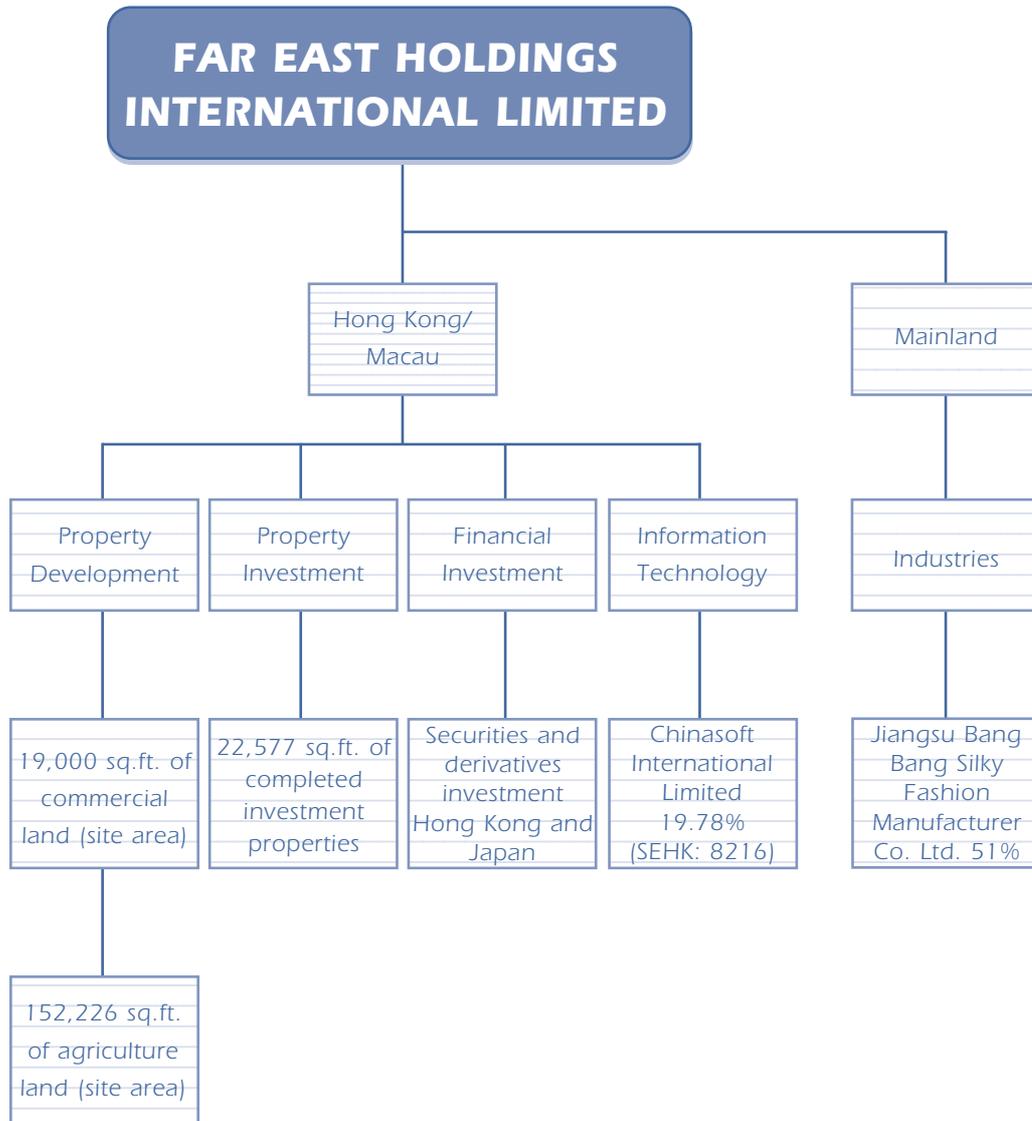
Computershare Hong Kong Investor Services
Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING INFORMATION

Stock Exchange of Hong Kong ("SEHK"): 36
Board Lot Size: 3000

WEBSITE

<http://www.feholdings.com.hk>



CORPORATE RESULTS

For the year ended 31st December, 2006, the Company and its subsidiaries (the "Group") generated a turnover from continuing operations of approximately HK\$66.3 million (2005: HK\$48.6 million), representing an increase of 36.4% compared with last year due to substantial increase in securities investment and trading activities.

The Group had earned a net profit attributable to equity holders of the Company approximately HK\$15.96 million (2005: HK\$14.91 million), an increase 7% from last year because of gain on disposal of entire equity interests in a jointly controlled entity and disposal of partial equity interests in an associate. The earnings per share from continuing and discontinued operations for the year ended 31st December, 2006 was 14.6 HK cents (2005: 20.2 HK cents, restated), a decrease of 27.72% over last year.

DIVIDEND

No interim dividend was paid during the year and no final dividend was recommended by the directors.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2006, the Group had cash and bank balances, pledged deposits and deposits held at financial institutions amounting to HK\$47.91 million (2005: HK\$46.48 million). Basically, the Group's funding policy was to finance the business operations with internally net generated cash and bank facilities. As at 31st December, 2006, the Group had total borrowings of HK\$11.26 million (2005: HK\$15.75 million) of which HK\$11.01 million (2005: HK\$15.37 million) was payable within one year and the remaining was payable after one year and was fully secured. The Group's borrowings were denominated in Hong Kong dollar, Japanese Yen and United States dollar.

Interest rates were in line with the best lending rates either at prime or based on the Hong Kong Inter-bank Offer Rate. The Group did not have any financial instruments used for hedging purpose.

GEARING RATIO AND CURRENT RATIO

The Group's gearing ratio (total bank and other loans to shareholders' equity) as at 31st December, 2006 declined to 5.95% (2005: 9.2%). The Group's current ratio (current assets to current liabilities) as at 31st December, 2006 has increased to 4.81 (2005: 2.16, restated). On the whole, the financial position and liquidity of the Group is healthy and stable.

CAPITAL STRUCTURE

Pursuant to an ordinary resolution passed at the annual general meeting of the Company on 23rd May, 2006, 9.95 million shares were issued and allotted on 30th May, 2006 as fully paid up by way of an one for ten bonus issue in respect of which an amount of HK\$0.1 million was applied to the credit of the share premium account. Accordingly, the Company's issued share capital was increased from HK\$1 million to HK\$1.1 million by the bonus issue of 9.95 million shares of HK\$0.01 each in the share capital of the Company. The new ordinary shares rank *pari passu* with the existing shares in all respect.

PLEDGE OF ASSETS

At 31st December, 2006, the Group had pledged certain listed investments, bank deposits and certain properties with an aggregate carrying value of approximately HK\$41.3 million (2005: HK\$42.1 million, restated) to banks, financial institutions for margin trading facilities, and other loan facilities to the Group to the extent of approximately HK\$32.9 million (2005: HK\$51.4 million, restated).

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent Liabilities

At 31st December, 2006, the Group had no significant contingent liabilities (2005: Nil).

Capital Commitments

On 27 September 2006, Jubilee Star Limited ("Jubilee Star"), a subsidiary of the Group, and China Aviation Supplies Import and Export Group Corporation ("China Aviation") entered into a conditional joint venture agreement for transformation of Beijing Kailan Aviation Technology Co. Ltd. ("Beijing Kailan") into an equity joint venture through capital injection of approximately RMB20.47 million into Beijing Kailan by Jubilee Star. Upon completion of the transformation, China Aviation and Jubilee Star will own a 68% and 32% equity interest in Beijing Kailan respectively. The obligation of Jubilee Star to contribute capital of approximately RMB20.47 million is conditional upon the fulfillment of certain terms and conditions and approval from relevant authorities.

At 31st December, 2006, the Group had a capital commitment of HK\$24.3 million (2005: Nil) contracted but not provided for regarding the purchase of Flat C on 22 Floor of Tower 3, Tregunter, with car park space No. 26 on level 5 of Tower 3, No. 14 Tregunter Path, Hong Kong.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the year, the China Entertainment (Jiangsu) Development Limited (a wholly-owned subsidiary of the Company) entered into a conditional share transfer agreement with the 無錫市新業建設發展公司 for the disposal of 65% equity interest in Wuxi Cheerman Property Company Limited at a consideration of RMB15.5 million.

The company acquired of HK\$8.3 million principal amount of the Convertible Notes of Golife Concepts Holdings Limited (the "Golife") from First Vantage Limited on 25 August 2006 at a consideration of HK\$4.98 million. The Company has already purchased 54,223,600 Golife shares in open market of Stock Exchange and subscription offer shares from Golife during the period from 2 December 2005 to 14 July 2006 at a consideration of approximately HK\$5.5 million.

On 7 November 2006, the Company disposed of 5 million Chinasoft International Limited (the "Chinasoft") shares to KGI Asia Limited, for a consideration of HK\$5.95 million. Subsequently, on 13 November 2006, the Company further disposed of 15 million Chinasoft shares to ABN-AMRO Bank N.V., for a consideration of HK\$18 million.

On 13 November 2006 the Company disposed its entire 90% equity interest in Goldtrack Limited (the "Goldtrack") the principal underlying asset of which was 70% equity interest in Suzhou Goldtract Commodity Concrete Company Limited (the "Suzhou Goldtract") which was operating one commodity concrete plant in Suzhou, the PRC for a consideration of HK\$1.00.

EMPLOYEES AND REMUNERATION POLICIES

At 31st December, 2006, the Group had approximately 500 employees in Hong Kong and PRC (2005: 600 employees). The Group offers its employees competitive remuneration packages based on industry's practices and performance of individual employee. Year-end discretionary bonus would be granted to reward and motivate those well-performed employees. The Group had adopted a share option scheme on 23rd May, 2005 and discretionary share options would be granted to reward and motivate those well performed employees. There were totaling 13,337,720 share options has been granted and outstanding as at 31 December 2006.

BUSINESS REVIEW AND PROSPECTS

Information Technology Holdings

Chinasoft is an associate of the Group listed in the Growth Enterprise Market (Stock code: 8216). Chinasoft has recorded a net loss of RMB66,593,000 for the year ended 31st December 2006. However, the reason for Chinasoft to jump from profit to loss is mainly due to two exceptional items which include an amount of RMB110,558,000 of the effect of adoption of Hong Kong Accounting Standard 39 "Financial Instruments: Recognition and Measurement" HKAS39 in relation to redeemable convertible preferred shares and another amount of RMB10,764,000 of the issuing expenses for redeemable convertible preferred shares. If the two exceptional items totaling RMB121,322,000 were deducted from the Audited Loss attributable to Shareholders of RMB66,593,000 as per the annual result, the adjusted annual result would be RMB54,729,000 in profit rather than a loss.

Comparing the adjusted annual result for the year ended 31st December, 2006 of RMB54,729,000 (audited loss add back exceptional items) to annual result for the year ended 31st December, 2005 of RMB39,656,000 net profits a growth of 38% rather than a severe loss was achieved.

The year of 2006 saw Chinasoft consolidated its leading position in providing e-Tobacco and e-Audit solutions and we also saw rapid growth in IT outsourcing services. There were also several successful acquisitions in 2006 and with the announced merger and acquisition with Hinge Global Resource Inc. scheduled to be completed in 2007. Chinasoft will scale up its operations further and we shall see rapid growth in 2007.

Industrial Holdings

For the industrial division, Jiangsu Bang Bang Silky Fashion Manufacturer Company Limited (the "Jiangsu Bang Bang") records a slight decrease in sales of 4% approximately to RMB34.21 million (2005: RMB35.62 million) over last year. Currently, Japanese customers purchased majority of its products and a weak Japanese Yen (the "YEN") will discourage our customers from increasing orders. YEN has stayed weak throughout 2006 and to reduce impacts from currency fluctuations in 2007, Management has spent effort in expanding sales in PRC market.

Property Division

Rental incomes were increased by 19% approximately to HK\$1.03 million in 2006 (2005: HK\$0.86 million). It was attributable to rental income contribution from Kwai Cheung Fa Yuen at Kwai Chung. In view of the steady rise of property market in Hong Kong, management is optimistic that property division will maintain steady incomes and cash flow.

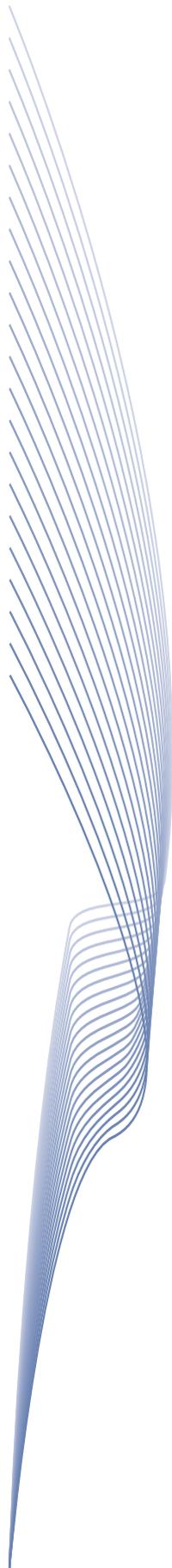
OUTLOOK

The Company has changed its name from Far East Technology International Limited to Far East Holdings International Limited on 27 February, 2007. The board believes that this action is necessary and that the new company name will more appropriately represent the Group's business nature. The management will continue to spend our best efforts to search for investment opportunities in the Greater China region and optimise returns for our shareholders.

Duncan Chiu

Managing Director and Chief Executive Officer

Hong Kong, 20th April, 2007



EXECUTIVE DIRECTORS

Mr. Deacon Te Ken Chiu, J.P. (Chairman)

Mr. Chiu, aged 81, is the founder of the Far East Group and has been the Chairman of the Company since 1981. He is also the Chairman of Far East Consortium International Limited (stock code: 35) and Far East Hotels and Entertainment Limited (stock code: 37). Mr. Chiu has more than 50 years of business experience in property investment and development; operation of entertainment and tourism related business; hotel ownership and management; financing and banking. He was a member of the Chinese People's Political and Consultative Conference from the 6th to 9th; the founder of the Yan Chai Hospital and the Vice Patron of the Community Chest since 1968; the founder and permanent Honorary Chairman of The New Territories General Chamber of Commerce; the founder and Chairman of the Ju Ching Chu Secondary School since 1966. Mr. Chiu is the father of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

Mr. Duncan Chiu, B.Sc. (Managing Director and Chief Executive Officer)

Mr. Chiu, aged 32, is the Managing Director and Chief Executive Officer of the Group. Mr. Chiu graduated with a bachelor's degree in business administration from Pepperdine University of California, USA in 1996. He serves as a Non-executive Director of Far East Hotels & Entertainment Limited (Stock Code: 37), Chinasoft International Limited (Stock Code: 8216) and Golife Concepts Holdings Limited (Stock Code: 8172). He currently serves as Vice Chairman and Treasurer of The Chamber of Hong Kong Listed Companies, Vice President of Innovation & Technology Association, Committee Member of All-China Youth Federation and Vice Chairman of Henan Provincial Youth Federation. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu and Ms. Margaret Chiu.

Mr. Dennis Chiu, B.A.

Mr. Chiu, aged 48, was appointed as an Executive Director of the Company in 1981. Mr. Chiu has been actively involved in the business development in the People's Republic of China ("PRC"), Singapore and Malaysia. He is an Executive Director of Far East Consortium International Limited and a Non-executive Director of Far East Hotels and Entertainment Limited. He is also a Non-executive Director of London-listing Fortune Oil Plc. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

NON-EXECUTIVE DIRECTORS

Tan Sri Dato' David Chiu, B.Sc.

Tan Sri Dato' David Chiu, aged 52, holds a double degree of Bachelor of Science in Business Administration and Economics at the University of Sophia, Japan. He has over 30 years' experience in the property development and related business. Since 1978, he had been the Managing Director of Far East Consortium Limited (the predecessor of Far East Consortium International Limited). He was appointed as Deputy Chairman and Chief Executive Officer of Far East Consortium International Limited ("FECIL") on 8th December, 1994 and 8th October, 1997 respectively. FECIL is listed on the Hong Kong Stock Exchange, it is primarily engaged in middle-class residential property development and hotel development and operation in Greater China.

In 1987, Tan Sri Dato' Chiu founded Malaysia Land Holdings Berhad (Mayland Group) in Malaysia. Over the years, Mayland Group has extensive development and become one of the largest real estate developers in Malaysia. Tan Sri Dato' Chiu is also the Chairman and substantial shareholder of Tokai Kanko Limited, which is listed on the Tokyo Stock Exchange. In regards of his devotion to the community services, Tan Sri Dato' Chiu is a trustee member of The Better Hong Kong Foundation and a committee member of the Mid-Autumn Festival Celebration People & Forces. In Malaysia, he was first conferred an honorary award which carries the title "Dato" by His Majesty, the King of Malaysia, in July 1997. At the end of 2005, he was awarded a more senior honorary title of "Tan Sri Dato" by His Majesty of Malaysia. He is the second son Deacon Te Ken Chiu J.P. and the brother of Messrs. Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

NON-EXECUTIVE DIRECTORS (Continued)

Mr. Daniel Tat Jung Chiu

Mr. Chiu, aged 46, has been appointed as a Director of the Company since 1983. He is also a Non-executive Director of Far East Consortium International Limited. He is the major shareholder and Vice Chairman of London-listing Fortune Oil Plc. He is the Chairman of Harrow International School. Mr. Chiu has extensive experience in China trade, petroleum trading and infrastructure investments. He also takes an active part in several kinds of projects in Hong Kong and the P.R.C.. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Dennis Chiu, Derek Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

Mr. Derek Chiu, B.A.

Mr. Chiu, aged 41, was appointed as a Director of the Company in 1989. He is also the Managing Director and Chief Executive of Far East Hotels and Entertainment Limited (Stock Code: 37). Mr. Chiu has extensive experience in the operation of amusement parks and entertainment business. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

Mr. Desmond Chiu, B.A.

Mr. Chiu, aged 40, was appointed as a Director of the Company in 1991. He graduated from the University of Cambridge, the United Kingdom and he was appointed as Deputy Managing Director of Far East Hotels and Entertainment Limited in 1999. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Duncan Chiu and Ms. Margaret Chiu.

Ms. Margaret Chiu, LL.B.

Ms. Chiu, aged 48, was appointed as a Director of the Company in 1995. She is also an Executive Director of Far East Hotels and Entertainment Limited. She graduated with law degree from the University of Buckingham, the United Kingdom and has extensive experience in entertainment, television and motion picture business in Hong Kong, the PRC and overseas. She is the daughter of Deacon Te Ken Chiu, J.P. and sister of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu and Duncan Chiu.

Ms. Min Tang

Ms. Tang, aged 62, was appointed as a Director of the Company on 1st January 2007. Ms. Tang holds a bachelor's degree in physics from Peking University, in PRC and has the professional qualification professor grade of Senior Engineer in Computer Science. She has more than 30 years experience at the management level in the Information Technology industry in the PRC. Ms. Tang is currently the chairman of the Chinasoft International Limited (Stock code: 8216) and the director of China National Computer Software and Technology Service Corporation (Hong Kong) Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lee G. Lam

Dr. Lam, aged 47, has been an Independent Non-executive Director of the Company since 30th September, 2004. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the UK, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 24 years of multinational general management, corporate governance, investment banking, and direct investment experience. He is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves on the board of a number of publicly-listed companies in the Asia Pacific region. He is a Member of the Hong Kong Institute of Bankers, a Member of the Young Presidents' Organization, a Fellow of the Hong Kong Institute of Directors and the China Institute of Directors, and a Member of the General Council of the Chamber of Hong Kong Listed Companies.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)**Mr. Ryan Yen Hwung Fong**

Mr. Fong aged 34, has been an Independent Non-executive Director of the Company since 30th September, 2004. He has over 10 years of equities portfolio management, trading and international capital markets analysis management experience.

Mr. Hing Wah, Yim

Mr. Yim aged 43, was appointed as an Independent Non-executive Director of the Company on 1st April, 2006. He is an associate member of Hong Kong Institute of Certified Public Accountants, fellow member of the Chartered Association of Certified Accountants and a member of the Hong Kong Securities Institute. He graduated from Hong Kong Polytechnic University with an honorary bachelor's degree in Accountancy. Mr. Yim has over 16 years of experience in audit work, accounting, taxation and financial management. He had worked with Deloitte Touche Tohmatsu for over 8 years. Currently, he is an audit partner of Chan Yim Cheng & Co. He is an Independent Non-executive Director of other listed companies in The Stock Exchange of Hong Kong Limited namely Jiangsu NandaSoft Company Limited, Powerleader Science & Technology Co. Ltd., China Haisheng Juice Holdings Co. Ltd., Ever Fortune International Holdings Limited and Launch Tech Co, Ltd.

SENIOR MANAGEMENT**Mr. Hung Kwong Lui, FCPA, FCCA, CGA**

Mr. Lui aged 47, is the Qualified Accountant and Company Secretary of the Company and the Financial Controller of the Group. He has over 20 years experience in audit and finance function in various sizeable and multinational companies. He is a Fellow Member of the Hong Kong Institute of Certified Public Accountants as well as Fellow Member of The Association of Chartered Certified Accountants in the United Kingdom. He is also an Associate Member of the Certified General Accountants Association of Canada.

The directors of Far East Holdings International Limited (the "Company") present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 18 to 19 respectively to the consolidated financial statements.

In prior years, the Group was also engaged in the sales and production of commodity concrete operations in the PRC. These operations were discontinued in November 2006. Details are set out in notes 10 and 40 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 24 of the consolidated financial statements.

No Interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2006.

INVESTMENT PROPERTIES

Details of movements during the year in investment properties of the Group and the Company are set out in note 15 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 36 to the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 80 of the consolidated financial statements.

PROPERTIES

Details of the properties held by the Group at 31st December, 2006 are set out on pages 81 and 82 of the consolidated financial statements.

RESERVES

The Company's distributable reserve at 31st December, 2006 was HK\$33,929,184 (2005: HK\$21,391,760). Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 28 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES

During the year under review, the Company and its subsidiaries have not purchased, sold or redeemed any of the listed securities in the Company.

DIRECTORS

The directors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Deacon Te Ken Chiu *J.P. (Chairman)*

Mr. Duncan Chiu *(Managing Director and Chief Executive Officer)*

Mr. Dennis Chiu

Non-executive Directors

Tan Sri Dato' David Chiu

Mr. Daniel Tat Jung Chiu

Mr. Derek Chiu

Mr. Desmond Chiu

Ms. Margaret Chiu

Ms. Min Tang

(appointed on 1st January, 2007)

Independent Non-executive Directors

Dr. Lee G. Lam

Mr. Ryan Yen Hwung Fong

Mr. Chi Man Ma

Mr. Hing Wah Yim

(resigned on 1st March, 2006)

(appointed on 1st April, 2006)

In accordance with Articles 79 and 80 of the Company's Articles of Association, Mr. Dennis Chiu, Tan Sri Dato' David Chiu, Mr. Daniel Tat Jung Chiu and Ms. Margaret Chiu will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

In accordance with the Article 84 of the Company's Articles of Association, Ms. Min Tang who was appointed as non-executive director of the Company, will hold office until the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

The term of office for each non-executive director is the period up to his or her annual retirement by rotation in accordance with the provisions of the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

The biographical details of the directors and senior management of the Group are set out on pages 8 to 10 of the consolidated financial statements.

DIRECTORS' AND SENIOR EXECUTIVES' INTERESTS IN SHARES AND SHARE OPTIONS

At 31st December, 2006, the interests of the Directors and senior executives of the Company and their associates in the shares of the Company or any of its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (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 Companies, were as follows:

(1) Long positions

Ordinary shares of HK\$0.01 each of the Company

Name of director	Number of ordinary shares of the Company held				Total interests	Percentage of issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Other interests		
Deacon Te Ken Chiu, J.P.	10,424,332	2,087,580 ⁽¹⁾	1,612,683	2,341,733 ⁽⁵⁾	16,466,328	15.04%
Tan Sri Dato' David Chiu	1,870,000	-	6,168,800	-	8,038,800	7.34%
Ms. Margaret Chiu	1,100,000	-	-	-	1,100,000	1.01%
Mr. Dennis Chiu	3,520,044	-	2,200,000 ⁽³⁾	1,170,866 ⁽⁵⁾	6,890,910	6.30%
Mr. Daniel Tat Jung Chiu	2,420,000	-	11,440,044 ⁽⁴⁾	-	13,860,044	12.66%
Mr. Derek Chiu	44,220	-	-	-	44,220	0.04%
Mr. Desmond Chiu	1,100,000	-	-	-	1,100,000	1.01%
Mr. Duncan Chiu	23,341,658	-	-	7,706,773 ⁽⁵⁾	31,048,431	28.37%

Notes:

- (1) These shares are held by Madam Ching Lan Ju Chiu, wife of Deacon Te Ken Chiu, J.P..
- (2) These shares are held by Rocket High Investments Limited, a company wholly-owned by Tan Sri Dato' David Chiu.
- (3) These shares are held by Cape York Investments Limited ("Cape York"), a company owned by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu equally.
- (4) Of the 11,440,044 shares, 2,200,000 shares are held by Cape York, and the remaining 9,240,044 shares are held by Gorich Holdings Limited, a company wholly-owned by Mr. Daniel Tat Jung Chiu.
- (5) Details of the interests of directors and senior executives of the Company in the underlying shares of equity derivatives in respect of options granted to them are stated in the "Share Options" section as below.

Save as disclosed above, none of directors had registered an interest and short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was 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 for Securities Transactions by Directors of Listed Companies at 31st December, 2006.

(2) Share options

The Company's share option scheme was adopted pursuant to a resolution passed on 23rd May, 2005 (the "Share Option Scheme") for the purpose of providing incentives and rewards to employees or executive or officers of the Company or any of its subsidiaries (including executive and non-executive directors) and business consultants, agents and legal or financial advisers who will contribute or have contributed to the Company or any of its subsidiaries. Under the Share Option Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

Particulars of the Company's share option scheme are set out in note 37 to the consolidated financial statements. The following table discloses movements in the Company's share options during the year:

Name of Grantee	Number of Shares Options				Adjusted Exercise price HK\$	Grant date	Exercisable period (Both days inclusive)
	Outstanding as at 1/1/2006	Granted during the year	Adjustment for Bonus Issue	Outstanding as at 31/12/2006			
Deacon Te Ken Chiu, J.P.	2,128,848	-	212,885	2,341,733	1.153	21/7/2005	21/7/2005-20/7/2015
Mr. Dennis Chiu	1,064,424	-	106,442	1,170,866	1.153	21/7/2005	21/7/2005-20/7/2015
Mr. Duncan Chiu	3,406,158	-	340,615	3,746,773	1.153	21/7/2005	21/7/2005-20/7/2015
	-	1,800,000	180,000	1,980,000	1.2182	21/4/2006	23/5/2006-22/5/2016
	-	1,800,000	180,000	1,980,000	1.2182	21/4/2006	23/5/2007-22/5/2017
Aggregate for directors	6,599,430	3,600,000	1,019,942	11,219,372			
Aggregate for employees	425,770	-	42,578	468,348	1.153	21/7/2005	21/7/2005-20/7/2015
	-	750,000	75,000	825,000	1.2182	21/4/2006	23/5/2006-22/5/2016
	-	750,000	75,000	825,000	1.2182	21/4/2006	23/5/2007-22/5/2017
	<u>7,025,200</u>	<u>5,100,000</u>	<u>1,212,520</u>	<u>13,337,720</u>			

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' and senior executives' interests in shares and share options", at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2006 the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain Directors under the section headed "Directors' and senior executives' interests in shares and share options", the following shareholders had notified the Company of any interest, directly or indirectly, in 5% or more of the issued share capital of the Company:

Name of Substantial Shareholder	Number of ordinary shares of the Company held	Percentage of issued share capital of the Company
Gorich Holdings Limited ("Gorich") ⁽¹⁾	9,240,044	8.44%
Max Point Holdings Limited ("Max Point") ⁽²⁾	7,764,240	7.09%
Rocket High Investments Limited ("Rocket") ⁽³⁾	6,168,800	5.64%
Virtual Dragon International Limited ("Virtual Dragon") ⁽⁴⁾	5,611,760	5.13%

Notes:

- (1) Gorich is wholly-owned by Mr. Daniel Tat Jung Chiu. The interests of Mr. Daniel Tat Jung Chiu in the Company is stated under the section headed "Directors' and senior executives' interests in shares and share options" above.
- (2) The entire share capital of Max Point is beneficially owned by Mr. Chan Wai Ki.
- (3) Rocket is wholly-owned by Tan Sri Dato' David Chiu. The interests of Tan Sri Dato' David Chiu in the Company is stated under the section headed "Directors' and senior executives' interests in shares and share options" above.
- (4) These shares are held by Peace View Company Limited ("Peace View"), a wholly-owned subsidiary of Far East Consortium Limited ("FEC"). On 28 March 2001, FEC had entered into a Sale of Shares Agreement with Virtual Dragon to dispose of its entire equity interests in Peace View to Virtual Dragon.
- (5) All interests disclosed above represent long positions in the ordinary shares of the Company.

Save as disclosed above, the Company had not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital at 31st December, 2006.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and considers the independent non-executive Directors to be independent.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$154,800.

MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales of the Group's five largest and the top largest customers accounted for approximately 46% and 31% of total turnover, respectively.

Aggregate purchases of the Group's five largest and the top largest suppliers accounted for approximately 33% and 9% of total purchases, respectively.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the knowledge of the Director owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate governance report" on pages 18 to 21.

AUDIT COMMITTEE

The Company's audit committee comprising Independent Non-executive Directors and Non-executive Director.

The principal duties of the audit committee are reviewing the internal controls and the financial reporting requirements of the Group. The audit committee is satisfied with the Company's internal control procedures and the financial reporting disclosures.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

EMOLUMENT POLICY

Details of the directors' emoluments and of the five highest paid individuals in the Group are set out in notes 7 and 8 to the consolidated financial statements, respectively.

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible participants, details of the scheme is set out in note 37 to the consolidated financial statements.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Directors confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31st December, 2006.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 48 to the consolidated financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Duncan Chiu

Managing Director and Chief Executive Officer

Hong Kong, 20th April, 2007

COMMITMENT TO CORPORATE GOVERNANCE

The Company is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasising transparency, independence, accountability, responsibility and fairness. The Board and the Senior Management of the Company ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Company.

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31st December, 2006.

THE BOARD OF DIRECTORS

The Board's primary responsibilities are to formulate long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board. The Board is directly accountable to the shareholders and is responsible for preparing the accounts.

The Board comprises twelve Directors, whose biographical details are set out in the "Profile of the Directors and Senior Management" on pages 8 to 10 of this Annual Report. Three of the Directors are executive, six are non-executive and three are independent non-executive. The nine non-executive Directors bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contributes to the effective strategic management of the Group. The executive Directors are not permitted to engage in any other business which is in competition with that of the Group, and are required, with the exception of the Chairman, to devote all of their active business time to the business and affairs of the Group.

Please refer to the Report of Directors on page 12 for the composition of the Board.

The posts of Chairman and Group Chief Executive Officer are held separately by Deacon Te Ken Chiu, J.P. and Mr. Duncan Chiu respectively and their roles and responsibilities are separate and are set out in writing.

The Chairman is responsible for formulating and setting Group strategies and policies in conjunction with the Board.

The Group Chief Executive Officer is responsible for managing Group strategic initiatives, investor relations, corporate and investor communications, mergers/acquisitions and financing.

Pursuant to the requirement of the Listing Rules, the Company has received written confirmation from all three independent non-executive Directors of their independence from the Company and considers them to be independent.

The Board met on four occasions during 2006. The attendance of individual Directors at the Board meetings is set out in the table below.

	Number of meetings attended	Attendance rate
Executive Directors		
Deacon Te Ken Chiu J.P. (<i>Chairman</i>)	4/4	100%
Mr. Duncan Chiu (<i>Managing Director and Chief Executive Officer</i>)	4/4	100%
Mr. Dennis Chiu	0/4	0%
Non-executive Directors		
Tan Sri Dato' David Chiu	0/4	0%
Mr. Daniel Tat Jung Chiu	1/4	25%
Mr. Derek Chiu	3/4	75%
Mr. Desmond Chiu	1/4	25%
Ms Margaret Chiu	0/4	0%
Ms Min Tang (appointed on 1st January, 2007)	N/A	N/A
Independent Non-executive Directors		
Dr. Lee G Lam	3/4	75%
Mr. Ryan Yen Hwung Fong	4/4	100%
Mr. Chi Man Ma (resigned on 1st March, 2006)	0/4	0%
Mr. Hing Wah Yim (appointed on 1st April, 2006)	3/4	75%

CORPORATE GOVERNANCE

The Board confines itself to making broad policy decisions, such as the Group's overall strategies and policies and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions.

The Board has established Audit and Remuneration Committees in accordance with the Code and a majority of the members of Committees are independent non-executive directors.

The Company has complied with Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2006, with deviations from code provision A.4.1 of the Code in respect of the service term and rotation of Directors.

None of the existing Non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all Directors of the Company are subject to the retirement by rotation at each annual general meeting under Articles 76, 79 and 80 of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's Corporate Governance Practices are no less exacting than those in the Code.

INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well defined management structure with limits of authority which is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations.

COMMUNICATION WITH SHAREHOLDERS

The Board adopts an open and transparent communication policy and encourages full disclosure to the public as a way to enhance corporate governance. The Board aims to provide our shareholders and the public with the necessary information for them to form their own judgement on the Company.

AUDITORS' REMUNERATION

For the year ended 31st December, 2006, the Auditors of the Company received approximately HK\$674,000 for audit service (2005: HK\$666,000).

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Directors confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31st December, 2006.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. With the assistance of the Finance Department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the consolidated financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the consolidated financial statements of the Group is in a timely manner.

The Statement of the Auditors of the Company regarding their reporting responsibilities on the financial statements is set out in the Report of the Auditors on page 22.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee"). The terms of the Committee are consistent with the provisions set out in the relevant section of the Code and are available on the Company's website at www.feholdings.com.hk.

The Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the consolidated financial statements. The Committee comprises two independent non-executive directors, namely, Dr. Lee G. Lam and Mr. Ryan Yen Hwung Fong and one non-executive director, Mr. Derek Chiu.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. Two meetings were held during the financial year ended 31st December, 2006.

The Group's interim report for the six months ended 30th June, 2006 and the annual report for the year ended 31st December, 2006 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

During the financial year ended 31st December, 2006, two meeting, were held by the Audit Committee. The individual attendance record of each member of the Audit Committee is as follows:

	Number of meetings attended	Attendance rate
Dr. Lee G. Lam (<i>Chairman</i>)	2/2	100%
Mr. Ryan Yen Hwung Fong	2/2	100%
Mr. Derek Chiu	2/2	100%

REMUNERATION COMMITTEE

The Company had established a Remuneration Committee with written terms of reference pursuant to the provisions set out in the Code. The committee comprised two independent non-executive directors, namely Dr. Lee G. Lam, Mr. Ryan Yen Hwung Fong and the Managing Director, Mr. Duncan Chiu of the Company. The Remuneration Committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management. A meeting was held during the financial year ended 31st December, 2006.

The terms of reference of the Remuneration Committee are consistent with the terms set out in the relevant section of the Code, and the terms of reference of the Remuneration Committee are available from the Company's website www.feholdings.com.hk. No Director is involved in deciding his own remuneration.

During the financial year ended 31st December, 2006, one meeting was held by the Remuneration Committee. The individual attendance record of each member of the Remuneration Committee is as follows:

	Number of meetings attended	Attendance rate
Mr. Duncan Chiu (<i>Chairman</i>)	1/1	100%
Dr. Lee G. Lam	1/1	100%
Mr. Ryan Yen Hwung Fong	1/1	100%

Deloitte.

德勤

TO THE MEMBERS OF FAR EAST HOLDINGS INTERNATIONAL LIMITED

遠東控股國際有限公司

(FORMERLY KNOWN AS FAR EAST TECHNOLOGY INTERNATIONAL LIMITED 遠東科技國際有限公司)

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Far East Holdings International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 79, which comprise the consolidated and the Company balance sheets as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

OPINION

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
20th April, 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2006

	NOTES	Continuing operations		Discontinued operation		Total	
		2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Turnover	4	66,305,735	48,607,455	18,949,636	20,290,438	85,255,371	68,897,893
Sales of goods		33,502,783	33,874,829	18,949,636	20,290,438	52,452,419	54,165,267
Property rental income		1,033,189	864,733	-	-	1,033,189	864,733
Cost of sales		(30,990,767)	(30,971,368)	(20,937,398)	(21,290,852)	(51,928,165)	(52,262,220)
Gross profit (loss)		3,545,205	3,768,194	(1,987,762)	(1,000,414)	1,557,443	2,767,780
Dividend income from listed securities		694,727	671,058	-	-	694,727	671,058
Increase in fair value of held-for-trading investments		3,595,402	2,854,053	-	-	3,595,402	2,854,053
Other income	6	3,086,424	847,414	254,141	194,964	3,340,565	1,042,378
Distribution costs		(244,282)	(541,230)	(93,205)	(110,765)	(337,487)	(651,995)
Administrative expenses		(14,909,293)	(14,701,494)	(843,792)	(867,489)	(15,753,085)	(15,568,983)
Finance costs	9	(613,678)	(269,020)	(47,176)	(90,649)	(660,854)	(359,669)
Other expenses		(127,278)	(40,617)	(17,840)	(739,588)	(145,118)	(780,205)
Loss on disposal of available-for-sale investments		-	(31,278)	-	-	-	(31,278)
Imputed interest on debt component of convertible notes		700,846	-	-	-	700,846	-
Decrease in fair value of embedded derivative of convertible notes		(387,668)	-	-	-	(387,668)	-
Increase in fair value of investment properties	15	1,422,269	3,400,000	-	-	1,422,269	3,400,000
Gain on disposal of a jointly controlled entity	20	13,566,390	-	-	-	13,566,390	-
Gain on disposal of subsidiaries and discontinued operation	10 & 40	-	-	5,575,474	-	5,575,474	-
Gain on disposal of interest in an associate	19	16,804,646	2,872,542	-	-	16,804,646	2,872,542
Net (loss) gain on deemed disposal of an associate	19	(1,648,160)	11,320,610	-	-	(1,648,160)	11,320,610
Share of results of associates		(11,763,146)	9,332,317	-	-	(11,763,146)	9,332,317
Share of results of a jointly controlled entity		-	(1,215,879)	-	-	-	(1,215,879)
Profit (loss) before taxation	11	13,722,404	18,266,670	2,839,840	(2,613,941)	16,562,244	15,652,729
Taxation	12	(371,654)	(659,254)	-	-	(371,654)	(659,254)
Profit (loss) for the year		13,350,750	17,607,416	2,839,840	(2,613,941)	16,190,590	14,993,475
Attributable to:							
Equity holders of the Company						15,962,052	14,907,576
Minority interests						228,538	85,899
						16,190,590	14,993,475
Dividend	13					-	-
Earnings per share – basic	14						(restated)
– From continuing and discontinued operations						14.6 HK cents	20.2 HK cents
– From continuing operations						12.0 HK cents	23.8 HK cents

CONSOLIDATED BALANCE SHEET

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At 31st December, 2006

	NOTES	2006 HK\$	2005 HK\$
NON-CURRENT ASSETS			
Investment properties	15	41,040,000	36,040,000
Property, plant and equipment	16	11,734,867	14,744,934
Prepaid lease payments	17	1,131,911	3,466,534
Interests in associates	19	39,593,645	64,138,770
Interest in a jointly controlled entity	20	–	1,583,310
Available-for-sale investments	21	12,512,564	8,567,359
Deposits paid for acquisition of property		2,700,260	3,440,053
Investment in convertible notes	22	4,962,049	–
		113,675,296	131,980,960
CURRENT ASSETS			
Prepaid lease payments	17	82,439	204,179
Held-for-trading investments	23	38,023,174	33,374,424
Inventories	24	6,444,064	6,493,160
Trade and other receivables	25	3,528,446	11,804,967
Amount due from an associate	26	639,629	661,733
Amount due from a minority shareholder	27	4,746,762	5,551,241
Amounts due from related companies	29	16,143,448	–
Tax prepaid		103,649	20,650
Pledged bank deposits	28 & 43	4,209,560	4,851,380
Deposits held at financial institutions	28	3,171,212	54,664
Bank balances and cash	28	40,526,459	41,573,679
		117,618,842	104,590,077
CURRENT LIABILITIES			
Trade and other payables	30	10,159,489	26,066,873
Amounts due to directors	31	1,391,687	3,688,421
Amount due to a minority shareholder	27	297,038	1,312,035
Amounts due to related companies	29	1,619,438	1,557,088
Amount due to a jointly controlled entity	33	–	507,550
Bank and other loans	34	10,886,860	15,272,939
Obligations under a finance lease			
– due within one year	35	119,925	101,727
		24,474,437	48,506,633
NET CURRENT ASSETS			
		93,144,405	56,083,444
		206,819,701	188,064,404

CONSOLIDATED BALANCE SHEET

At 31st December, 2006

	NOTES	2006 HK\$	2005 HK\$
CAPITAL AND RESERVES			
Share capital	36	1,094,506	995,007
Reserves		187,981,414	170,218,953
Equity attributable to equity holders of the Company		189,075,920	171,213,960
Minority interests		16,476,689	15,772,931
		205,552,609	186,986,891
NON-CURRENT LIABILITIES			
Obligations under a finance lease – due after one year	35	249,949	374,907
Deferred taxation	39	1,017,143	702,606
		1,267,092	1,077,513
		206,819,701	188,064,404

The financial statements on pages 24 to 79 were approved and authorised for issue by the Board of Directors on 20th April, 2007 and are signed on its behalf by:

Duncan Chiu
DIRECTOR

Derek Chiu
DIRECTOR

BALANCE SHEET

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At 31st December, 2006

	NOTES	2006 HK\$	2005 HK\$
NON-CURRENT ASSETS			
Investment properties	15	4,640,000	4,640,000
Property, plant and equipment	16	885,151	725,999
Investments in subsidiaries	18	13,193,767	19,212,634
Interests in associates	19	13,786,211	15,386,319
Amounts due from subsidiaries	32	54,358,769	52,357,206
Available-for-sale investments	21	2,982,304	–
Investment in convertible notes	22	4,962,049	–
		94,808,251	92,322,158
CURRENT ASSETS			
Held-for-trading investments	23	36,966,776	32,525,294
Other receivables		100,545	150,368
Amount due from an associate	26	639,629	661,732
Pledged bank deposits	28&43	4,209,560	4,851,380
Deposits held at financial institutions	28	3,171,212	54,664
Bank balances and cash	28	24,760,038	27,751,820
		69,847,760	65,995,258
CURRENT LIABILITIES			
Other payables		1,605,714	1,643,331
Amounts due to directors	31	1,391,687	2,407,989
Amounts due to related companies	29	1,619,438	1,557,088
Amount due to a subsidiary	32	540,496	580,306
Bank and other loans	34	10,886,860	15,272,939
Obligations under a finance lease – due within one year	35	119,925	101,727
		16,164,120	21,563,380
NET CURRENT ASSETS			
		53,683,640	44,431,878
		148,491,891	136,754,036
CAPITAL AND RESERVES			
Share capital	36	1,094,506	995,007
Reserves	38	147,147,436	135,384,122
		148,241,942	136,379,129
NON-CURRENT LIABILITY			
Obligations under a finance lease – due after one year	35	249,949	374,907
		148,491,891	136,754,036

Duncan Chiu
DIRECTOR

Derek Chiu
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2006

	Attributable to equity holders of the Company								
	Share capital HK\$	Share premium HK\$	Exchange reserve HK\$	Investment revaluation reserve HK\$	Share option reserve HK\$	Retained profits (accumulated losses) HK\$	Total HK\$	Minority interests HK\$	Total HK\$
At 1st January, 2005	331,668,905	282,892,010	606,472	4,445,094	-	(494,718,342)	124,894,139	16,328,993	141,223,132
Decrease in fair value of available-for-sale investments	-	-	-	(2,260,454)	-	-	(2,260,454)	-	(2,260,454)
Exchange differences arising on translation of overseas operations	-	-	1,148,399	-	-	-	1,148,399	350,998	1,499,397
Share of post-acquisition reserve movement of an associate	-	-	(456,430)	-	-	-	(456,430)	-	(456,430)
Net income (expense) recognised directly in equity	-	-	691,969	(2,260,454)	-	-	(1,568,485)	350,998	(1,217,487)
Profit for the year	-	-	-	-	-	14,907,576	14,907,576	85,899	14,993,475
Total recognised income and expense for the year	-	-	691,969	(2,260,454)	-	14,907,576	13,339,091	436,897	13,775,988
Recognition of equity-settled share based payments	-	-	-	-	4,249,740	-	4,249,740	-	4,249,740
Capital reduction	(331,005,567)	(201,548,709)	-	-	-	532,554,276	-	-	-
Shares issued	331,669	30,016,035	-	-	-	-	30,347,704	-	30,347,704
Transaction costs attributable to issue of new shares	-	(1,616,714)	-	-	-	-	(1,616,714)	-	(1,616,714)
Contribution by minority shareholder of a subsidiary	-	-	-	-	-	-	-	49	49
Dividend paid to minority shareholders	-	-	-	-	-	-	-	(993,008)	(993,008)
At 31st December, 2005	995,007	109,742,622	1,298,441	2,184,640	4,249,740	52,743,510	171,213,960	15,772,931	186,986,891
Decrease in fair value of available-for-sale investments	-	-	-	(2,059,426)	-	-	(2,059,426)	-	(2,059,426)
Exchange differences arising on translation of overseas operations	-	-	2,566,135	-	-	-	2,566,135	475,220	3,041,355
Share of post-acquisition reserve movement of an associate	-	-	(163,611)	-	-	-	(163,611)	-	(163,611)
Net income (expense) recognised directly in equity	-	-	2,402,524	(2,059,426)	-	-	343,098	475,220	818,318
Profit for the year	-	-	-	-	-	15,962,052	15,962,052	228,538	16,190,590
Realised on disposal of subsidiaries	-	-	(626,059)	-	-	-	(626,059)	-	(626,059)
Total recognised income and expense for the year	-	-	1,776,465	(2,059,426)	-	15,962,052	15,679,091	703,758	16,382,849
Recognition of equity-settled share based payments	-	-	-	-	2,182,869	-	2,182,869	-	2,182,869
Bonus shares issued	99,499	(99,499)	-	-	-	-	-	-	-
At 31st December, 2006	1,094,506	109,643,123	3,074,906	125,214	6,432,609	68,705,562	189,075,920	16,476,689	205,552,609

The retained profits of the Group include retained profits of HK\$ 11,757,949 (2005: HK\$27,768,341) and accumulated losses of Nil (2005: HK\$5,402,465) attributable to associates and a jointly controlled entity, respectively.

CONSOLIDATED CASH FLOW STATEMENT

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For the year ended 31st December, 2006

	2006 HK\$	2005 HK\$
OPERATING ACTIVITIES		
Profit before taxation	16,562,244	15,652,729
Adjustments for:		
Amortisation of prepaid lease payments	204,179	204,179
Finance costs	660,854	359,669
Imputed interest income on debt component of convertible notes	(700,846)	–
Interest income	(1,132,567)	(359,012)
Dividend income from available-for-sale investments	(165,669)	(79,026)
Depreciation	3,223,671	3,136,740
Gain on disposal of subsidiaries and discontinued operations	(5,575,474)	–
Gain on disposal of interest in an associate	(16,804,646)	(2,872,542)
Gain on disposal of a jointly controlled entity	(13,566,390)	–
Net loss (gain) on deemed disposal of an associate	1,648,160	(11,320,610)
Impairment of interest in an associate	240	–
Loss on disposal of available-for-sale investments	–	31,278
Loss on disposal of property, plant and equipment	17,409	16,844
Share of results of a jointly controlled entity	–	1,215,879
Share of results of an associate	11,763,146	(9,332,317)
Write off of amount due from an associate	22,104	–
Share-based payment expense	2,182,869	4,249,740
Increase in fair value of held-for-trading investments	(3,595,402)	(2,854,053)
Increase in fair value of investment properties	(1,422,269)	(3,400,000)
Decrease in fair value of embedded derivative of convertible notes	387,668	–
Operating cash flows before movements in working capital	(6,290,719)	(5,350,502)
Increase in inventories	(692,416)	(1,217,709)
Increase in held-for-trading investments	(1,053,348)	(9,674,998)
(Increase) decrease in trade and other receivables	(1,074,426)	2,537,267
Decrease in amount due from a minority shareholder	1,030,147	642,504
Decrease in amount due from an associate	–	23,796
Increase in trade and other payables	2,041,838	453,185
Increase in amount due to a minority shareholder	30,192	329,165
Cash used in operations	(6,008,732)	(12,257,292)
Overseas tax paid	(139,330)	(207,891)
NET CASH USED IN OPERATING ACTIVITIES	(6,148,062)	(12,465,183)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2006

	NOTE	2006 HK\$	2005 HK\$
INVESTING ACTIVITIES			
Interest received		1,132,567	359,012
Increase in amount due from related companies		(993,748)	–
Proceeds on disposal of property, plant and equipment		–	60,731
Proceeds on disposal of available-for-sale investments		–	1,844,722
Acquisition of investment properties		(3,577,731)	–
Investment in an associate		(236,704)	–
Proceeds from disposal of interest in an associate		23,863,242	4,900,000
Net cash outflow arising on disposal of subsidiary	40	(139,187)	–
Acquisition of property, plant and equipment		(1,599,627)	(308,485)
Dividend received from an associate		4,247,246	1,768,898
Decrease in pledged bank deposits		641,820	364,626
Increase in deposits held at financial institutions		(3,116,548)	(54,664)
Decrease (increase) in deposits paid for acquisition of property		739,793	(3,440,053)
Acquisition of available-for-sales investments		(10,488,657)	–
NET CASH FROM INVESTING ACTIVITIES		10,472,466	5,494,787
FINANCING ACTIVITIES			
Dividend paid to minority shareholders		–	(993,008)
Net proceeds from issue of shares		–	28,730,990
Increase in amounts due to related companies		62,350	–
Decrease in amounts due to directors		(680,730)	(2,064,177)
Decrease in amount due to a jointly controlled entity		(507,550)	–
Contribution by minority shareholder of a subsidiary		–	49
New bank and other loans raised		39,759,877	20,117,961
Repayment of bank and other loans		(44,176,584)	(11,376,680)
Repayment of obligations under a finance lease		(106,760)	(23,366)
Interest paid on bank and other loans		(607,606)	(342,809)
Interest paid on finance lease		(53,248)	(16,860)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(6,310,251)	34,032,100
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,985,847)	27,061,704
CASH AND CASH EQUIVALENTS BROUGHT FORWARD		41,573,679	14,466,764
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		938,627	45,211
CASH AND CASH EQUIVALENTS CARRIED FORWARD, represented by bank balances and cash		40,526,459	41,573,679

1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate information" in the annual report.

The Company is engaged in investment holding and securities trading. Its subsidiaries are principally engaged in the manufacture and sales of garments, securities investment and trading, property development and investment. Its principal associate is engaged in the provision of information technology services in the People's Republic of China (the "PRC").

Pursuant to a special resolution passed at an extraordinary general meeting held on 8th February, 2007, the name of the Company was changed from Far East Technology International Limited 遠東科技國際有限公司 to Far East Holdings International Limited 遠東控股國際有限公司 with effect from 27th February, 2007.

The financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has had no material effect on how the results and financial position of the Group for the current and prior accounting years have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC) – INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC) – INT 11	HKFRS2 – Group and Treasury Share Transactions ⁷
HK(IFRIC) – INT 12	Service Concession Arrangements ⁸

For the year ended 31st December, 2006

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

- ¹ Effective for annual periods beginning on or after 1st January, 2007.
- ² Effective for annual periods beginning on or after 1st January, 2009.
- ³ Effective for annual periods beginning on or after 1st March, 2006.
- ⁴ Effective for annual periods beginning on or after 1st May, 2006.
- ⁵ Effective for annual periods beginning on or after 1st June, 2006.
- ⁶ Effective for annual periods beginning on or after 1st November, 2006.
- ⁷ Effective for annual periods beginning on or after 1st March, 2007.
- ⁸ Effective for annual periods beginning on or after 1st January, 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance. The principal accounting policies adopted are below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Interests in associates

An associate is an entity, in which the Group has significant influence, but not control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or jointly control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of the assets over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leasehold land held for undetermined future use

Leasehold land held for undetermined future use is regarded as held for capital appreciation purpose and classified as an investment property, and carried at fair value. Changes in fair value of the leasehold land are recognised directly in profit or loss for the period in which changes take place.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Owner-occupied leasehold interest in land

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. The leasehold interests in land are classified as prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using first-in, first-out method.

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of estimates, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Revenue recognition

Sales of merchandise are recognised when goods are delivered and title has passed.

Proceeds from sale of securities are recognised on a trade date upon the execution of a binding sale agreement.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Retirement benefit costs

Payments to defined contribution retirement benefits plans or the Mandatory Provident Fund schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised as, and included in, finance costs in the income statement in the period in which they are incurred.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets held for trading) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets held for trading are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets held for trading, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below:

Financial assets held for trading

At each balance sheet date subsequent to initial recognition, financial assets at held for trading (including derivatives assets) are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate, amount due from a minority shareholder, amounts due from related companies, deposits held at financial institutions, bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of financial assets at fair value through profit or loss or loan and receivables. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

Investment in convertible notes

Convertible notes are regarded as hybrid instruments, consisting of a debt component and embedded derivative components. At the date of acquisition, the fair value of the debt component is estimated using the prevailing market interest rate for similar non-convertible debt and is recognised as an available-for-sale financial asset. The fair value of the embedded derivative components are calculated using the Black-Scholes pricing model. The gain arising from excess of fair value (determined at initial recognition using valuation techniques whose variables were not based solely on observable market data) over the cost of acquisition of the convertible notes at the date of acquisition (gain on initial recognition) is credited to the carrying amount of the convertible notes. The gain on initial recognition is recognised in profit or loss over the maturity period of the convertible notes on a straight line basis. On derecognition or disposal of the convertible notes, the unamortised portion of the gain on initial recognition is recognised in profit or loss.

For the year ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Investment in convertible notes (continued)

At each balance sheet date subsequent to initial recognition, the convertible notes are measured at fair value. Changes in fair value of the debt component of the convertible notes are recognised in equity, until the instruments are disposed of or are determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or losses. Changes in fair value of the embedded derivative components of the convertible notes are recognised directly in profit or loss in the period in which they arise.

The interest income on the debt component of convertible notes is calculated using the effective interest rate to the debt component (excluding the gain on initial recognition).

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities (including trade and other payables, amounts due to directors, amounts due to related companies, amount due to a minority shareholder, amount due to a jointly controlled entity, bank and other loans, and obligations under a finance lease) are measured at amortised cost, using the effective interest method after initial recognition.

4. TURNOVER

An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Sales of goods	33,502,783	33,874,829	18,949,636	20,290,438	52,452,419	54,165,267
Property rental income	1,033,189	864,733	–	–	1,033,189	864,733
Dividend income from listed securities	694,727	671,058	–	–	694,727	671,058
Securities trading	31,075,036	13,196,835	–	–	31,075,036	13,196,835
	66,305,735	48,607,455	18,949,636	20,290,438	85,255,371	68,897,893

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating divisions – securities investment and trading, property development and investment and industrial. These divisions are the basis on which the Group reports its primary segment information.

In November, 2006, the Group discontinued a major separate line of business in relation to the manufacturing and sale of commodity concrete.

Principal activities of the remaining segment are as follows:

- | | | |
|-------------------------------------|---|--|
| Securities investment and trading | – | investment and trading in securities. |
| Property development and investment | – | properties development and investment. |
| Industrial | – | manufacturing and sale of garments. |

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Business segments** (continued)

Segment information about these businesses is presented below.

2006

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial-manufacturing and sales of garment HK\$	Industrial-manufacturing and sales of commodity concrete HK\$	
TURNOVER					
External sales	<u>31,769,763</u>	<u>1,033,189</u>	<u>33,502,783</u>	<u>18,949,636</u>	<u>85,255,371</u>
RESULTS					
Segment results	<u>(6,501,812)</u>	<u>2,073,328</u>	<u>6,094</u>	<u>(2,942,599)</u>	<u>(7,364,989)</u>
Other income					3,340,565
Finance costs					(660,854)
Unallocated expenses					(1,287,682)
Gain on disposal of a jointly controlled entity					13,566,390
Gain on disposal of interest in subsidiaries					5,575,474
Gain on disposal of interest in an associate					16,804,646
Loss on deemed disposal of an associate					(1,648,160)
Share of results of associates					<u>(11,763,146)</u>
Profit before taxation					16,562,244
Taxation					<u>(371,654)</u>
Profit for the year					<u>16,190,590</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2006

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial- manufacturing and sales of garment HK\$	Industrial- manufacturing and sales of commodity concrete HK\$	
ASSETS					
Segment assets	61,125,995	40,855,995	24,773,013	-	126,755,003
Tax prepaid					103,649
Interests in associates					39,593,645
Unallocated corporate assets					64,841,841
Consolidated total assets					<u>231,294,138</u>
LIABILITIES					
Segment liabilities	1,627,715	818,468	7,825,506	-	10,271,689
Deferred taxation					1,017,143
Bank and other loans					10,886,860
Unallocated corporate liabilities					3,565,837
Consolidated total liabilities					<u>25,741,529</u>
OTHER INFORMATION					
Capital additions	436,196	3,577,731	1,163,431	-	5,177,358
Depreciation	277,044	-	2,748,640	197,987	3,223,671
Amortisation of prepaid lease payments	-	-	82,439	121,740	204,179

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Business segments** (continued)

2005

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial- manufacturing and sales of garment HK\$	Industrial- manufacturing and sales of commodity concrete HK\$	
TURNOVER					
External sales	<u>13,867,893</u>	<u>864,733</u>	<u>33,874,829</u>	<u>20,290,438</u>	<u>68,897,893</u>
RESULTS					
Segment results	<u>(8,335,548)</u>	<u>4,558,459</u>	<u>219,937</u>	<u>(2,718,256)</u>	(6,275,408)
Other income					1,042,378
Finance costs					(359,669)
Unallocated expenses					(1,064,162)
Gain on disposal of interest in an associate					2,872,542
Gain on deemed disposal of an associate					11,320,610
Share of results of associates					9,332,317
Share of results of a jointly controlled entity	-	(1,215,879)	-	-	<u>(1,215,879)</u>
Profit before taxation					15,652,729
Taxation					<u>(659,254)</u>
Profit for the year					<u>14,993,475</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

2005

	Continuing operations			Discontinued operation	Consolidated
	Securities investment and trading	Property development and investment	Industrial-manufacturing and sales of garment	Industrial-manufacturing and sales of commodity concrete	
	HK\$	HK\$	HK\$	HK\$	HK\$
ASSETS					
Segment assets	47,460,730	34,938,836	41,095,436	–	123,495,002
Tax prepaid					20,650
Interests in associates					64,138,770
Interest in a jointly controlled entity	–	1,583,310	–	–	1,583,310
Unallocated corporate assets					47,333,305
Consolidated total assets					<u>236,571,037</u>
LIABILITIES					
Segment liabilities	2,389,886	561,874	23,888,785	–	26,840,545
Deferred taxation					702,606
Bank and other loans					15,272,939
Unallocated corporate liabilities					6,768,056
Consolidated total liabilities					<u>49,584,146</u>
OTHER INFORMATION					
Capital additions	584,820	–	223,665	–	808,485
Depreciation	170,294	–	2,866,819	99,627	3,316,740
Amortisation of prepaid lease payments	–	–	82,439	121,740	<u>204,179</u>

For the year ended 31st December, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China (the "PRC"), Japan and United States.

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

	Sales revenue by geographical market					
	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Hong Kong	22,033,374	13,857,851	-	-	22,033,374	13,857,851
The PRC	423,331	713,700	18,949,636	20,290,438	19,372,967	21,004,138
Japan	43,849,030	30,579,019	-	-	43,849,030	30,579,019
United States	-	3,456,885	-	-	-	3,456,885
	<u>66,305,735</u>	<u>48,607,455</u>	<u>18,949,636</u>	<u>20,290,438</u>	<u>85,255,371</u>	<u>68,897,893</u>

Revenue from the Group's discontinued operation of HK\$18,949,636 (2005: HK\$20,290,438) for the year ended 31st December, 2006 was derived principally from the PRC.

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

	Carrying amount of segment assets	
	2006 HK\$	2005 HK\$
Hong Kong	100,445,917	82,399,566
The PRC	26,309,086	41,095,436
	<u>126,755,003</u>	<u>123,495,002</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

	Additions to property, plant and equipment and investment properties					
	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Hong Kong	733,861	790,368	-	-	733,861	790,368
The PRC	4,443,497	18,117	-	-	4,443,497	18,117
	<u>5,177,358</u>	<u>808,485</u>	<u>-</u>	<u>-</u>	<u>5,177,358</u>	<u>808,485</u>

6. OTHER INCOME

Included in other income is:

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
	Interest income	<u>1,132,567</u>	<u>359,012</u>	<u>-</u>	<u>-</u>	<u>1,132,567</u>

For the year ended 31st December, 2006

7. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the twelve (2005: eleven) directors were as follows:

	Mr. Deacon Te Ken Chiu HK\$	Mr. Duncan Chiu HK\$	Mr. Dennis Chiu HK\$	Tan Sri Dato' David Chiu HK\$	Mr. Daniel Tat Jung Chiu HK\$	Mr. Derek Chiu HK\$	Mr. Desmond Chiu HK\$	Ms. Margaret Chiu HK\$	Mr. Chi Man Ma HK\$	Dr. Lee G Lam HK\$	Mr. Ryan Yen Hwung Fong HK\$	Mr. Hing Wah Yim HK\$	Total 2006 HK\$
2006													
Fees	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	5,000	120,000	120,000	60,000	425,000
Other emoluments:													
Salaries and other benefits	-	664,500	-	-	-	-	391,500	-	-	-	-	-	1,056,000
Retirement benefits schemes contributions	-	12,000	-	-	-	-	12,000	-	-	-	-	-	24,000
Share-based payment expense	-	1,540,848	-	-	-	-	-	-	-	-	-	-	1,540,848
Total emoluments	15,000	2,232,348	15,000	15,000	15,000	15,000	418,500	15,000	5,000	120,000	120,000	60,000	3,045,848

	Mr. Deacon Te Ken Chiu HK\$	Mr. Duncan Chiu HK\$	Mr. Dennis Chiu HK\$	Tan Sri Dato' David Chiu HK\$	Mr. Daniel Tat Jung Chiu HK\$	Mr. Derek Chiu HK\$	Mr. Desmond Chiu HK\$	Ms. Margaret Chiu HK\$	Mr. Chi Man Ma HK\$	Dr. Lee G Lam HK\$	Mr. Ryan Yen Hwung Fong HK\$	Total 2005 HK\$
2005												
Fees	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	30,000	120,000	120,000	390,000
Other emoluments:												
Salaries and other benefits	-	395,000	-	-	-	-	342,500	-	-	-	-	737,500
Retirement benefits schemes contributions	-	12,000	-	-	-	-	12,000	-	-	-	-	24,000
Share-based payment expense	1,287,800	2,060,480	643,900	-	-	-	-	-	-	-	-	3,992,180
Total emoluments	1,302,800	2,482,480	658,900	15,000	15,000	15,000	369,500	15,000	30,000	120,000	120,000	5,143,680

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2005: three) was executive director and one (2005: one) was non-executive director whose emoluments are included in note 7 above. The emoluments of the remaining three (2005: one) individuals were as follows:

	2006	2005
	HK\$	HK\$
Salaries and other benefits	910,878	330,000
Retirement benefits schemes contributions	34,809	11,000
Share-based payment expense	128,404	128,780
	<u>1,074,091</u>	<u>469,780</u>

9. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2006	2005	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Interest on:						
Bank loans wholly repayable within five years	122,495	202,086	–	–	122,495	202,086
Other loans	437,935	50,074	47,176	90,649	485,111	140,723
Obligations under a finance lease	53,248	16,860	–	–	53,248	16,860
	<u>613,678</u>	<u>269,020</u>	<u>47,176</u>	<u>90,649</u>	<u>660,854</u>	<u>359,669</u>

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10. DISCONTINUED OPERATIONS

- (a) In November, 2006, the Group disposed of its entire 90% equity interest in Goldtrack Limited, the principal underlying assets of which is 70% equity interest in Suzhou Goldtract Commodity Concrete Company Limited, a company registered and carried out manufacturing of commodity concrete in the PRC (collectively referred to as the Goldtrack Group"), to a third party at a consideration of HK\$1.

The results of Goldtrack Group up to the date of disposal, which have been included in the consolidated financial statements, were as follows:

	HK\$
Turnover	18,949,636
Cost of sales	<u>(20,937,398)</u>
Gross loss	(1,987,762)
Other income	254,141
Distribution costs	(93,205)
Administrative expenses	(843,792)
Finance costs	(47,176)
Other expenses	(17,840)
Loss for the year	<u><u>(2,735,634)</u></u>

The carrying amounts of the assets and liabilities of Goldtrack Group at the date of disposal were approximately HK\$14.7 million (2005: HK\$15.1 million) and HK\$20.9 million (2005: HK\$18.1 million), respectively.

A gain of approximately HK\$5.6 million arose on the disposal of Goldtrack Group, being the proceeds of disposal less the carrying amount of the subsidiary's net liabilities and the realisation of exchange reserve. No tax charge or credit arose from the transaction.

The net liabilities of Goldtrack Group at the date of disposal were disclosed in note 40.

The amounts of net cash flows attributable to the operating, investing and financing activities of discontinued operations amounted to inflow of HK\$0.6 million (2005: HK\$0.4 million), outflow of HK\$0.9 million (2005: Nil) and inflow of HK\$0.3 million (2005: outflow of HK\$0.5 million), respectively.

11. PROFIT (LOSS) BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Profit (loss) before taxation has been arrived at after charging (crediting):						
Amortisation of prepaid lease payments	82,439	82,439	121,740	121,740	204,179	204,179
Auditor's remuneration	666,667	658,000	7,333	8,000	674,000	666,000
Cost of inventories recognised as expense	30,938,975	30,936,790	20,937,398	21,290,852	51,876,373	52,227,642
Depreciation	3,025,684	3,037,113	197,987	99,627	3,223,671	3,136,740
Directors' remuneration and other staff costs, including retirement benefits schemes contributions of HK\$1,394,000 (2005: HK\$1,048,235)	12,719,213	15,756,051	1,204,667	1,335,013	13,923,880	17,091,064
Exchange (gain) loss, net	(1,133,387)	308,053	-	(194,150)	(1,133,387)	113,903
Impairment loss on interests in an associate	240	-	-	-	240	-
Loss on disposal of property, plant and equipment	17,409	16,844	-	-	17,409	16,844
Operating lease in respect of rented premise	327,646	273,202	-	-	327,646	273,202
Share of tax of associates (included in share of results of associates)	2,560,396	1,309,702	-	-	2,560,396	1,309,702
Write off of amount due from an associate	22,104	-	-	-	22,104	-
and after crediting:						
Dividend income from available-for-sale investment	165,669	79,026	-	-	165,669	79,026
Rental income from investment properties, less outgoings of HK\$51,791 (2005: HK\$34,579)	981,398	830,154	-	-	981,398	830,154

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12. TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
The charge comprises:						
PRC enterprise income tax:						
Current year	54,967	55,303	-	-	54,967	55,303
Underprovision in prior years	2,150	125,248	-	-	2,150	125,248
	57,117	180,551	-	-	57,117	180,551
Deferred taxation (note 39)	314,537	478,703	-	-	314,537	478,703
	371,654	659,254	-	-	371,654	659,254

PRC enterprise income tax is calculated at a tax rate of 24%. Where the export sales of the relevant entity exceeds a certain percentage, that entity will entitle to enjoy a concession tax rate of 12%.

12. TAXATION (continued)

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK\$	2005 HK\$
Profit before taxation	16,562,244	15,652,729
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	2,898,393	2,739,228
Tax effect of expenses not deductible for tax purpose	582,485	1,771,672
Tax effect of income not taxable for tax purpose	(6,488,818)	(1,932,865)
Tax effect of utilisation of tax losses previously not recognised	(15,076)	(88,133)
Tax effect of tax losses not recognised	1,578,453	1,168,594
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(28,794)	(19,572)
Share of tax effect of associates	2,058,551	(3,304,705)
Share of tax effect of a jointly controlled entity	–	212,779
Underprovision in prior years	2,150	125,248
Others	(215,690)	(12,992)
Taxation charge for the year	371,654	659,254

13. DIVIDEND

The directors do not recommend the payment of a dividend for the year.

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14. EARNINGS PER SHARE

For both continuing and discontinued operations, the calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2006 HK\$	2005 HK\$
Earnings		
Earnings for the purpose of basic earnings per share	<u>15,962,052</u>	<u>14,907,576</u>
	2006	2005 (Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>109,450,595</u>	<u>73,736,649</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the bonus shares issued during the current year.

No diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares for both years.

No adjustment has been made for the potential ordinary shares of the associate as the effect in 2006 is anti-dilutive. The effect of dilutive potential ordinary shares of an associate was considered to be insignificant in 2005.

From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

	2006 HK\$	2005 HK\$ (Restated)
Earnings		
Earnings for the year attributable to equity holders of the Company	15,962,052	14,907,576
Less: (Profit) loss for the year from discontinued operation	<u>(2,839,840)</u>	<u>2,613,941</u>
Earnings for the purposes of basic earnings per share from continuing operations	<u>13,122,212</u>	<u>17,521,517</u>

The denominators used are the same as those detailed above for both basic earnings per share.

14. EARNINGS PER SHARE (continued)

From discontinued operations

Basic earning per share for discontinued operation in 2006 is 2.6 HK cents (2005: loss per share 3.6 HK cents), based on the profit for the year from discontinued operation of HK\$2.8 million (2005: loss for the year HK\$2.6 million). The denominator used is the same as that detailed above for basic earnings per share.

15. INVESTMENT PROPERTIES

	THE GROUP	THE COMPANY
	HK\$	HK\$
AT VALUATION		
At 1st January, 2005	32,640,000	4,640,000
Increase in fair value recognised in income statement	3,400,000	–
At 31st December, 2005	36,040,000	4,640,000
Addition during the year	3,577,731	–
Increase in fair value recognised in income statement	1,422,269	–
At 31st December, 2006	41,040,000	4,640,000

All of the Group's and the Company's investment properties including both land and building elements are situated in Hong Kong and Macau held under medium-term leases and are rented out under operating leases.

The investment properties were fair valued at 31st December, 2006 in existing state on an open market value basis by DTZ Debenham Tie Leung Limited, an independent firm of valuers not connected with the Group. DTZ Debenham Tie Leung Limited is member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties published by the Hong Kong Institute of Surveyors, was arrived at by considering the capitalised income to be derived from properties or, where appropriate, by reference to market evidence of transaction prices for similar properties.

The investment properties of the Group and the Company includes an amount of HK\$4,640,000 and HK\$4,640,000 (2005: HK\$4,640,000 and HK\$4,640,000), the title of which has not been transferred to the Group and the Company and is still registered in the name of the vendor companies which are controlled by certain directors as trustee for the Company.

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings in PRC held under medium term lease	Leasehold improvements	Exhibits and display items	Lifts, electrical and office equipment	Trams, coaches and motor vehicles	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP						
COST						
At 1st January, 2005	11,888,189	272,328	–	32,452,457	8,310,956	52,923,930
Currency realignment	376,738	–	–	700,531	180,231	1,257,500
Additions	–	–	–	231,685	576,800	808,485
Disposals	–	–	–	(301,259)	–	(301,259)
At 31st December, 2005	12,264,927	272,328	–	33,083,414	9,067,987	54,688,656
Currency realignment	454,896	–	–	1,212,559	288,839	1,956,294
Additions	–	–	427,690	18,227	1,153,710	1,599,627
Disposals	–	–	–	(151,782)	–	(151,782)
Disposal of subsidiary	(2,275,051)	–	–	(7,922,368)	(9,022,921)	(19,220,340)
At 31st December, 2006	10,444,772	272,328	427,690	26,240,050	1,487,615	38,872,455
DEPRECIATION AND IMPAIRMENT						
At 1st January, 2005	3,325,989	53,519	–	24,824,954	8,034,323	36,238,785
Currency realignment	80,518	–	–	537,131	174,232	791,881
Provided for the year	551,923	54,936	–	2,336,707	193,174	3,136,740
Eliminated on disposals	–	–	–	(223,684)	–	(223,684)
At 31st December, 2005	3,958,430	108,455	–	27,475,108	8,401,729	39,943,722
Currency realignment	146,290	–	–	1,007,893	281,518	1,435,701
Provided for the year	536,495	27,468	13,884	2,259,391	386,433	3,223,671
Eliminated on disposals	–	–	–	(134,373)	–	(134,373)
Eliminated on disposals of subsidiaries	(1,147,076)	–	–	(7,919,641)	(8,264,416)	(17,331,133)
At 31st December, 2006	3,494,139	135,923	13,884	22,688,378	805,264	27,137,588
CARRYING VALUES						
At 31st December, 2006	6,950,633	136,405	413,806	3,551,672	682,351	11,734,867
At 31st December, 2005	8,306,497	163,873	–	5,608,306	666,258	14,744,934

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements HK\$	Exhibits and display items HK\$	Office equipment HK\$	Motor vehicle HK\$	Total HK\$
THE COMPANY					
COST					
At 1st January, 2005	272,329	–	149,136	–	421,465
Additions	–	–	8,020	576,800	584,820
At 31st December, 2005	272,329	–	157,156	576,800	1,006,285
Additions	–	427,690	8,506	–	436,196
At 31st December, 2006	272,329	427,690	165,662	576,800	1,442,481
DEPRECIATION					
At 1st January, 2005	53,526	–	56,466	–	109,992
Provided for the year	54,936	–	28,838	86,520	170,294
At 31st December, 2005	108,462	–	85,304	86,520	280,286
Provided for the year	27,468	13,884	62,652	173,040	277,044
At 31st December, 2006	135,930	13,884	147,956	259,560	557,330
CARRYING VALUES					
At 31st December, 2006	136,399	413,806	17,706	317,240	885,151
At 31st December, 2005	163,867	–	71,852	490,280	725,999

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	over the shorter of the useful life and lease term of 50 years
Leasehold improvements	10%
Exhibits and display items	10%
Lifts, electrical and office equipment	10%-20%
Trams, coaches and motor vehicles	20%-30%

The net book value of motor vehicle of the Group and the Company includes an amount of HK\$317,240 (2005: HK\$490,280) in respect of assets held under a finance lease.

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17. PREPAID LEASE PAYMENTS

The prepaid lease payments represent leasehold land outside Hong Kong held under medium term leases and are analysed for reporting purposes.

	THE GROUP	
	2006 HK\$	2005 HK\$
Current assets	82,439	204,179
Non-current assets	1,131,911	3,466,534
	1,214,350	3,670,713

18. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2006 HK\$	2005 HK\$
Unlisted shares, at cost	15,055,520	25,765,601
Less: Impairment loss recognised	(1,861,753)	(6,552,967)
	13,193,767	19,212,634

Particulars of the subsidiaries of the Company at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Direct	Indirect	
Brentford Investments Inc.	Republic of Liberia/ Hong Kong	US\$200 Ordinary shares	100%	–	Securities investment
Cathay Motion Picture Studios Limited	Hong Kong/ Hong Kong	HK\$3,000,000 Ordinary shares	100%	–	Property investment
China Entertainment (Jiangsu) Development Ltd.	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Investment holding

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18. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Direct	Indirect	
Epoch Sino Investments Limited	British Virgin Islands/ Hong Kong	US\$10 Ordinary shares	100%	–	Investment holding
Far East Art and Cultural Corporation Limited	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Property investment
Far East Capital Management Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary shares	100%	–	Inactive
Far East Holdings China Limited	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Investment holding
Far East Holdings International Limited (now known as Far East Technology International Limited)	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	–	100%	Inactive
Far East Holdings (Jiangsu) Limited	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	–	100%	Investment holding
Jiangsu Bang Bang Silky Fashion Manufacturer Co., Ltd.	PRC/PRC*	US\$3,940,000 Paid up registered capital	–	51%	Manufacturing and sales of garment products
Jubilee Star Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary shares	–	100%	Inactive
Kwong Ming Amusement Company, Limited	Hong Kong/ Hong Kong	HK\$1,000 Ordinary shares HK\$448,000 Deferred shares	100%	–	Inactive
Marvel Star Group Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary shares	100%	–	Investment holding

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18. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Direct	Indirect	
Panlong Investments (Holdings) Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Investment holding
Panlong Asset Management Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Inactive
Panlong Far East Auction Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Inactive
Peterfame Company Limited	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	100%	–	Property investment
River Joy Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	100%	–	Property investment
Skydynamic Holdings Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	100%	–	Property investment

* *Sino-foreign equity joint venture*

None of the subsidiaries had any debt securities outstanding at the end of the year.

For the year ended 31st December, 2006

19. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Listed shares, at cost	13,786,211	15,386,079	13,786,211	15,386,079
Unlisted shares, at cost	-	240	-	240
Share of post-acquisition profits, net of dividends received	25,807,434	48,752,451	-	-
	<u>39,593,645</u>	<u>64,138,770</u>	<u>13,786,211</u>	<u>15,386,319</u>
Market value of listed shares	<u>259,724,592</u>	<u>144,406,349</u>	<u>259,724,592</u>	<u>144,406,349</u>

Particulars of associates of the Group at 31st December, 2006 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued ordinary share capital held by the Group		Principal activity
		2006	2005	
Chinasoft International Limited ("Chinasoft")	Cayman Islands/ The PRC	19.78%	23.2%	Provision of information technology services
Fortex Investments Limited	British Virgin Islands/ Hong Kong	-	41.67%	Deregistered*

* In October 2006, Fortex Investments Limited has been deregistered.

In May 2006, Chinasoft allotted and issued 23,248,302 new shares at an issue price of HK\$0.05 each to China National Computer Software & Technology Service Corporation (Hong Kong) Limited as the second portion of consideration shares of HK\$1.01 each for the acquisition of 51% equity interest in the registered capital of Chinasoft Resources Information Technology Services Limited during the year. Accordingly, the Group's shareholding in Chinasoft has decreased from 23.2% to 22.48%, resulting in a loss on deemed disposal of HK\$2,151,668.

In May and June 2006, the Group acquired of 240,000 shares of Chinasoft. The Group's shareholding in Chinasoft increased from 22.48% to 22.51%.

In November 2006, Chinasoft allotted and issued 3,196,721 new shares at an issue price of HK\$1.09 each to Beijing Opportune Technology Development Company Ltd. as the consideration shares for the acquisition of the Mobile and Embedded Division of Opportune Technology. Accordingly, the Group's shareholding in Chinasoft has decreased from 22.51% to 22.42%, resulting in a gain on deemed disposal of HK\$503,508.

For the year ended 31st December, 2006

19. INTERESTS IN ASSOCIATES (continued)

In November 2006, the Group disposed of 20,000,000 shares of Chinasoft for a consideration of HK\$23,863,242, resulting in a gain on disposal of HK\$16,804,646. Accordingly, the Group's shareholding in Chinasoft has decreased from 22.42% to 19.78%.

The directors of the Group believe that the Group is able to exert significant influence over Chinasoft as the Group has nominated Mr. Duncan Chiu as a director of Chinasoft who also participates in the financial and operating decisions of Chinasoft.

The summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	HK\$'000	HK\$'000
Total assets	652,361	421,697
Total liabilities	(421,837)	(124,684)
Net assets	230,524	297,013
Group's share of net assets of associates	39,593	64,139
Revenue	355,947	363,505
(Loss) profit for the year	(62,183)	40,885
Group's share of results of associates for the year	(11,763)	9,332

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2006	2005
	HK\$	HK\$
Cost of unlisted investments in a jointly controlled entity	-	6,478,226
Share of post-acquisition losses, net of dividends received	-	(4,894,916)
	-	1,583,310

At 31st December, 2005, the Group held a 65% interest in Wuxi Cheerman Property Co. Ltd. ("Wuxi Cheerman"), a joint venture registered and engaged in letting of properties in the PRC. Under a joint venture agreement, Wuxi Cheerman is jointly controlled by the Group and another PRC joint venture partner. During the year, the Group disposed of its entire interest in Wuxi Cheerman to a third party at a cash consideration of RMB15.5 million.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

The 2005 summarised financial information in respect of the Group's jointly controlled entity which are accounted for using the equity method in 2005 is set out below:

	2005 HK\$'000
Current assets	1,449
Non-current assets	14,910
Current liabilities	1,243
Income	6
Expenses	<u>1,873</u>

21. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments of the Group and the Company at 31st December, 2006 comprise:

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Listed equity securities in Hong Kong, at fair value	<u>12,512,564</u>	<u>8,567,359</u>	<u>2,982,304</u>	<u>–</u>

The fair values of available-for-sale investments have been determined by reference to the quoted market bid prices available on the Stock Exchange.

22. INVESTMENT IN CONVERTIBLE NOTES

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Unlisted convertible notes				
– debt component	6,298,519	–	6,298,519	–
– derivative Component	1,222,811	–	1,222,811	–
	<u>7,521,330</u>	<u>–</u>	<u>7,521,330</u>	<u>–</u>
– gain on initial recognition	(2,559,281)	–	(2,559,281)	–
	<u>4,962,049</u>	<u>–</u>	<u>4,962,049</u>	<u>–</u>

For the year ended 31st December, 2006

22. INVESTMENT IN CONVERTIBLE NOTES (continued)

In August 2006, the Company acquired the convertible notes of Golife Concept Holding Company Ltd. (formerly known as Satellite Devices Corporation) with a principal amount of HK\$8.3 million which are not traded on an active market, from a third party at a consideration of HK\$4.98 million. The convertible notes were fair valued at the date of acquisition and at balance sheet date by Greater China Appraisal Limited, an independent firm of valuers not connected to the Group. The valuation of the convertible notes was arrived at based on generally accepted valuation procedures and practices that rely on the use of certain assumptions and consideration of uncertainties. The convertible notes are non-interest bearing and will mature on 30th July, 2009.

In addition the issuer of the convertible notes has the right to redeem the whole or any part of the outstanding principal amount at any time. The directors believe that the fair value of this early redemption option is immaterial.

The fair value of the debt component of the convertible notes is measured using an applicable prevailing market interest rate and the conversion feature of the convertible note is calculated based on Black-Scholes pricing model. The effective interest rate of the debt element (excluding the gain on initial recognition) is 11.8%.

23. HELD-FOR-TRADING INVESTMENTS

The held-for-trading investments of the Group and the Company at 31st December, 2006 comprise:

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Listed equity securities:				
Hong Kong	11,864,842	8,576,289	10,808,444	7,727,159
Overseas	26,158,332	24,798,135	26,158,332	24,798,135
	38,023,174	33,374,424	36,966,776	32,525,294

The fair values of held-for-trading investments have been determined by reference to the quoted market bid prices available on the relevant exchanges.

24. INVENTORIES

	THE GROUP	
	2006 HK\$	2005 HK\$
Raw materials	1,917,834	2,502,484
Work in progress	2,476,381	1,748,010
Finished goods	2,049,849	2,242,666
	6,444,064	6,493,160

At the balance sheet dates, all inventories are carried at cost.

For the year ended 31st December, 2006

25. TRADE AND OTHER RECEIVABLES

For sales of goods, the Group has a policy of allowing a credit period of 30 days to 90 days to its trade customers. Rentals receivable from tenants and service income from customers are payable on presentation of invoices. The aged analysis of trade receivable is as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
0 – 30 days	–	2,270,048
31 – 60 days	894,601	1,023,174
61 – 90 days	–	2,110,841
Over 90 days	241,809	5,707,376
Total trade receivables	1,136,410	11,111,439
Other receivables	2,392,036	693,528
	3,528,446	11,804,967

26. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, interest-free and repayable on demand.

27. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

The amounts are unsecured, interest-free and repayable on demand.

28. PLEDGED BANK DEPOSITS/DEPOSITS HELD AT FINANCIAL INSTITUTIONS/BANK BALANCES AND CASH

Bank balances and deposits held at financial institutions carry interest at market rates which range from 2.50% to 3.93%. The pledged deposits carry interest rates which range from 2.75% to 5.81%.

29. AMOUNTS DUE FROM/TO RELATED COMPANIES

The amounts are unsecured, interest-free and repayable on demand. The related companies are controlled by certain directors of the Company.

Included in amount due from related companies are:

- (a) an amount of HK\$993,748 due from 上海錦秋房地產有限公司, a company in which certain directors of the Company have beneficial interest.
- (b) an amount of HK\$15,149,700 due from 上海錦秋集貿市場經營管理有限公司, a company in which certain directors of the Company have beneficial interests. The amount mainly represents sales proceeds of the disposal of a 65% interest in Wuxi Cheerman received on behalf of the Group.

The amount due to related companies reflected in the Company's balance sheet are unsecured interest-free and repayable on demand.

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30. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
0 – 30 days	–	3,105,979
31 – 60 days	520,114	832,323
61 – 90 days	–	879,792
Over 90 days	3,077	9,770,844
Total trade payables	523,191	14,588,938
Other payables	9,636,298	11,477,935
	10,159,489	26,066,873

31. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable on demand.

32. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from subsidiaries are unsecured and interest free. The Company has agreed that the accounts will not be demanded for repayment within next twelve months. Accordingly, the amounts are shown as non current.

The amount due to a subsidiary is unsecured, interest-free and repayable on demand.

33. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

The amount is unsecured, interest-free and repayable on demand.

34. BANK AND OTHER LOANS

	THE GROUP		THE COMPANY	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
Bank and other loans comprise:				
Bank loans, unsecured	–	3,881,947	–	3,881,947
Other loans, secured	10,886,860	11,390,992	10,886,860	11,390,992
	10,886,860	15,272,939	10,886,860	15,272,939

The other loans that are denominated in USD and YEN bear interest rates at 5.605% per annum and 0.815% per annum, respectively.

34. BANK AND OTHER LOANS (continued)

In 2005, certain other loans borne interests at Hong Kong Prime Lending Rate plus 1% or HIBOR plus 1% per annum and were repayable within one year.

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	USD Loan	YEN Loan
At 31st December, 2006	HK\$8,402,447	HK\$2,484,413
At 31st December, 2005	<u>HK\$3,881,947</u>	<u>HK\$10,283,645</u>

35. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$	2005 HK\$	2006 HK\$	2005 HK\$
THE GROUP AND THE COMPANY				
Amounts payable under finance lease:				
Within one year	160,008	160,008	119,925	101,727
In the second to fifth year inclusive	280,014	453,356	249,949	374,907
	440,022	613,364	369,874	476,634
Less: Future finance charges	(70,148)	(136,730)	-	-
Present value of lease obligations	<u>369,874</u>	<u>476,634</u>	369,874	476,634
Less: Amount due within one year shown under current liabilities			<u>(119,925)</u>	<u>(101,727)</u>
Amount due after one year			<u>249,949</u>	<u>374,907</u>

The obligations under a finance lease are secured by the Company's motor vehicle. The term of the lease is four years. Interest rates are fixed at 7% per annum. No arrangements have been entered into for contingent rental payments.

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36. SHARE CAPITAL

	Number of shares		Share capital	
	2006	2005	2006 HK\$	2005 HK\$
Authorised:				
At beginning of year	70,000,000,000	700,000,000	700,000,000	700,000,000
Reduction upon capital reorganisation	-	(560,000,000)	-	(698,600,000)
Shares subdivision	-	69,860,000,000	-	698,600,000
At end of year	70,000,000,000	70,000,000,000	700,000,000	700,000,000
Issued and fully paid:				
At beginning of year	99,500,671	331,668,905	995,007	331,668,905
Reduction upon capital reorganisation	-	(265,335,124)	-	(331,005,567)
Issue of shares upon rights issue	-	33,166,890	-	331,669
Issue of bonus shares	9,949,924	-	99,499	-
At end of year	109,450,595	99,500,671	1,094,506	995,007

Pursuant to an ordinary resolution passed at annual general meeting on 23rd May, 2006, 9,949,924 ordinary shares were issued and allotted on 30th May, 2006 as fully paid up by way of one for ten bonus issue ("Bonus Issue") in respect of which an amount of HK\$99,499 was applied to the credit of the share premium account. The new ordinary shares rank pari passu with the existing shares in all respect.

Details of the Company's bonus issue of shares is set out in a circular of the Company dated 28th April, 2006.

In 2005, the Court has granted an order confirming the Company's capital reorganisation which results in reduction of capital, consolidation of shares, subdivision of shares and reduction of share premium as follows:

- (a) every 5 shares of HK\$1.00 each in the share capital of the Company (whether issued or unissued) be consolidated into one consolidated share of HK\$5.00 each;
- (b) upon the share consolidation taking effect, the issued share capital of the Company be reduced from HK\$331,668,905 to HK\$663,338 by cancelling paid up capital to the extent of HK\$4.99 on each consolidated share in issue arising from the share consolidation so as to form fully-paid up adjusted shares;
- (c) upon the capital reduction taking effect, each authorised but unissued consolidated share of HK\$5.00 each be subdivided into 500 adjusted shares of HK\$0.01 each; and

36. SHARE CAPITAL (continued)

- (d) upon the capital reduction taking effect, the credit amount arising from the capital reduction together with the credit amount standing in the share premium account be applied by the directors to eliminate the accumulated losses of the Company of HK\$532,554,276.

Details of the Company's capital reorganisation are set out in a circular and a supplemental circular of the Company dated 28th May, 2004 and 27th August, 2004, respectively.

In addition, the Company issued and allotted 33,166,890 ordinary shares of HK\$0.01 each for consideration of HK\$0.915 per share to finance the Group's working capital. The allotment was made on 23rd December, 2005 to the existing shareholders on the basis of one new ordinary share for every two existing shares held on 30th November, 2005. The new ordinary shares rank *pari passu* with the existing shares in all respect.

37. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 23rd May, 2005 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 20th July, 2015. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31st December, 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 13,337,720 (2005: 7,025,200) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days of the date of grant, upon payment of HK\$1.00 per option. Options may be exercised at any time from 21st July, 2005 from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 21st July, 2005, 6,600,000 share options were granted at an initial exercise price at HK\$1.35 per share. Pursuant to the rights issue during 2005, the exercise price and number of the share option granted were adjusted from HK\$1.35 to HK\$1.2683 and from 6,600,000 to 7,025,200 respectively.

For the year ended 31st December, 2006

37. SHARE OPTION SCHEME (continued)

Pursuant to the bonus issue during the year, the exercised price and number of the share options outstanding balance as at 1st January, 2006 were adjusted accordingly from HK\$1.2683 to HK\$1.1530 and from 7,025,200 to 7,727,720 respectively.

On 21st April, 2006, 5,100,000 share options were granted at an initial exercise price of HK\$1.34, 50% of 5,100,000 share options granted with exercisable period from 23rd May, 2006 to 22nd May, 2016 and the remaining 50% of 5,100,000 share options granted with exercisable period from 23rd May, 2007 to 22nd May, 2017 respectively. Pursuant to the bonus issue during the period, the exercised price and number of the share options granted were adjusted accordingly from HK\$1.34 to HK\$1.2182 and from 5,100,000 to 5,610,000 respectively.

Details of the share options granted on 21st April, 2006 and outstanding at 31st December, 2006, as adjusted for the effect of the bonus issue, are as follows:

Capacity of grantee	Grant date	Adjusted exercise price HK\$	Exercise period (both days inclusive)	Number of Share Options				
				Balance at 1.1.2006	Granted during the year	Balance before bonus issue	Adjustment for bonus issue	Balance at 31.12.2006
Directors	21/7/2005	1.153	21st July, 2005 to 20th July, 2015	6,599,430	-	6,599,430	659,942	7,259,372
	21/4/2006	1.2182	23rd May, 2006 to 22nd May, 2016	-	1,800,000	1,800,000	180,000	1,980,000
	21/4/2006	1.2182	23rd May, 2007 to 22nd May, 2017	-	1,800,000	1,800,000	180,000	1,980,000
Employees	21/7/2005	1.153	21st July, 2005 to 20th July, 2015	425,770	-	425,770	42,578	468,348
	21/4/2006	1.2182	23rd May, 2006 to 22nd May, 2016	-	750,000	750,000	75,000	825,000
	21/4/2006	1.2182	23rd May, 2007 to 22nd May, 2017	-	750,000	750,000	75,000	825,000
				<u>7,025,200</u>	<u>5,100,000</u>	<u>12,125,200</u>	<u>1,212,520</u>	<u>13,337,720</u>

No share options were exercised, forfeited or expired during the year.

37. SHARE OPTION SCHEME (continued)

The estimated fair values of the options granted on 21st April, 2006 are HK\$0.4964 and HK\$0.5613 (21st July, 2005: HK\$0.6439) respectively. The market price of the shares at the date of granted was HK\$1.34 (21st July, 2005: HK\$1.388) These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2006	2005
Share price	HK\$1.34 & HK\$1.34	HK\$1.388
Exercise price	HK\$1.34 & HK\$1.34	HK\$1.35
Expected volatility	49.74% & 49.74%	55%
Expected life	4 years & 5 years	4 years
Risk-free rate	4.51% & 4.6%	3.26%
Expected dividend yield	-	-

Expected volatility was determined by using the historical volatility of the Company's share price from 2002 to 2005 (21st July, 2005: 2002 to 2005).

The Group recognised the total expense of HK\$2,182,869 during the year (2005: HK\$4,249,740) in relation to equity-settled share-based payment transactions.

Note: As a consequence of an ordinary resolution passed at annual general meeting on 23rd May, 2006 in relation to bonus share issue, the exercise price for options, granted on 21st July, 2005 was adjusted downwards from HK\$1.35 to HK\$1.153.

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38. RESERVES

	Share premium HK\$	Share option reserve HK\$	Investment revaluation reserve HK\$	Retained profits (accumulated losses) HK\$	Total HK\$
THE COMPANY					
At 1st January, 2005	282,892,010	–	–	(539,783,034)	(256,891,024)
Capital reduction	(201,548,709)	–	–	532,554,276	331,005,567
Recognition of equity-settled share based payments	–	4,249,740	–	–	4,249,740
Share premium arising on rights issue	30,016,035	–	–	–	30,016,035
Transaction costs attributable to issue of new shares	(1,616,714)	–	–	–	(1,616,714)
Profit for the year	–	–	–	28,620,518	28,620,518
At 31st December, 2005	109,742,622	4,249,740	–	21,391,760	135,384,122
Recognition of equity-settled share based payments	–	2,182,869	–	–	2,182,869
Bonus share issued	(99,499)	–	–	–	(99,499)
Decrease fair value of available-for-sale investments	–	–	(2,857,480)	–	(2,857,480)
Profit for the year	–	–	–	12,537,424	12,537,424
At 31st December, 2006	109,643,123	6,432,609	(2,857,480)	33,929,184	147,147,436

39. DEFERRED TAXATION

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$	Revaluation of properties HK\$	Tax losses HK\$	Other temporary difference HK\$	Total HK\$
At 1st January, 2005	(956)	950,636	(725,777)	–	223,903
Charge (credit) to income for the year	18,651	638,096	(178,044)	–	478,703
At 31st December, 2005	17,695	1,588,732	(903,821)	–	702,606
Charge (credit) to income for the year	48,081	291,993	(148,185)	122,648	314,537
At 31st December, 2006	65,776	1,880,725	(1,052,006)	122,648	1,017,143

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

At 31st December, 2006, the Group has unused tax losses of approximately HK\$110.1 million (2005: HK\$100.3 million) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$6.0 million (2005: HK\$5.2 million) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$104.1 million (2005: HK\$95.1 million) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At 31st December, 2006, the Company has unused tax losses of approximately HK\$92.3 million (2005: HK\$82.2 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

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40. DISCONTINUED OPERATION

- (a) In November 2006, the Group disposed of its 90% interest in Goldtrack Limited, the principal underlying assets of which is a 70% equity interest in Suzhou Goldtract Commodity Concrete Company Limited, a company registered and which carried out manufacturing of commodity concrete in the PRC, to a third party at a consideration of HK\$1.

The effects of the disposal were summarised as follows:

	Discontinued operation HK\$
Net assets (liabilities) disposed of:	
Property, plant and equipment	1,889,207
Prepaid lease payments	2,338,595
Inventories	958,269
Trade and other receivables	9,385,021
Bank balances and cash	139,188
Trade and other payables	(18,236,350)
Amounts due to directors	(1,616,004)
Amounts due to a minority shareholder	(1,059,458)
	<u>(6,201,532)</u>
Exchange reserve realised	626,059
	<u>(5,575,473)</u>
Gain on disposal	5,575,474
	<u><u>1</u></u>
Satisfied by:	
Cash	1
	<u><u>1</u></u>
Net cash outflow arising on disposals of subsidiaries:	
Cash consideration	1
Bank balances and cash disposed of	(139,188)
	<u><u>(139,187)</u></u>

The subsidiaries disposed of contributed approximately HK\$18.9 million to the Group's turnover and incurred a loss of approximately HK\$2.7 million to the Group's profit from operations. No tax charge or credit arose from the transactions.

41. MAJOR NON-CASH TRANSACTION

During the year, the Group disposed of its interests in a jointly controlled entity. The disposal proceeds of HK\$15,149,700 was received by a related company on behalf of the Group (see note 29).

In 2005, the Group entered into a finance lease arrangement in respect of an asset with a total capital value at the inception of the lease of HK\$500,000. No new finance lease was entered into during the year.

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, trade and other receivables, amount due from an associate, amount due from a minority shareholder, amounts due from related companies, bank balances and cash, trade and other payables, amounts due to directors, amount due to a minority shareholder, amount due to related companies, amount due to a jointly controlled entity, bank and other loans, and obligations under a finance lease. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below:

Currency risk

Certain bank and other loans are denominated in US dollars and Japanese Yen as stated in note 34. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

The Group's cash flow interest rate risk relates primarily to the bank deposits and deposits held by financial institutions. Interest rate risk relating to bank and other loans is minimal due to their short term nature or at fixed interest rate. The fair value interest rate risk relate primarily to obligations under finance lease and debt component of convertible notes. The Group currently does not have an interest rate hedging policy to hedge against its exposures. However, the management closely monitors interest rate exposures and will consider entering into interest rate swap transactions to hedge significant interest rate risk should the risk arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's credit risk is primarily attributable to its trade receivables debt component of convertible notes, amounts due from related companies, amount due from minority shareholder and amount due from associate companies. The Group is exposed to concentration of credit risk as a substantial portion of its sales is generated from a limited number of customers. During the year, the top five customers of the Group accounted for about 46% (2005: 67%) of the Group's sales. The Group manages its credit risk by closely monitoring the granting of credit. The Group also reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For the year ended 31st December, 2006

42. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The credit risk on bank balances and deposits is limited because the counterparties are banks with assigned by international credit rating agencies.

Price risk

The Group is exposed to equity security price risk on the Group's held for trading investments, available-for-sale investments and investments in convertible notes. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

The fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binominal model).

The carrying amounts of the Group's major financial instruments which are carried at cost or amortised cost (including trade and other receivables, bank balances and cash, trade and other payables, amounts due from/to related companies, and bank and other loans) approximate their fair values due to their short maturity.

43. PLEDGE OF ASSETS

At 31st December, 2006:

- (a) margin trading facilities in respect of securities transactions to the extent of approximately HK\$15.8 million (2005: HK\$10.9 million), of which HK\$7.9 million (2005: HK\$10.9 million) has been utilised after considering deposits held by financial institutions, were secured by the listed investments of the Group and the Company of approximately HK\$31.6 million (2005: HK\$31.8 million) and HK\$30.7 million (2005: HK\$31.2 million), respectively; and
- (b) overdraft and revolving loan facilities to the extent of approximately HK\$17.1 million (2005: HK\$40.5 million), of which nil (2005: HK\$3.9 million) had been utilised, were secured by time deposits held by the Company of approximately HK\$4.2 million (2005: HK\$4.9 million) and by a floating charge over certain properties of the Company of approximately HK\$5.5 million (2005: HK\$5.4 million).

44. OPERATING LEASE ARRANGEMENTS

The Group as lessor

Property rental income earned during the year was HK\$1,033,189 (2005: HK\$864,733). The properties held have committed tenants for the next two years.

At the balance sheet date, the Group had contracted with tenants for future minimum lease payments under a non-cancellable operating leases which fall due as follows:

	2006 HK\$	2005 HK\$
Within one year	1,531,934	660,000
In the second to fifth year inclusive	3,270,604	192,500
	<u>4,802,538</u>	<u>852,500</u>

The Group and the Company as lessee

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under a non-cancellable operating lease which falls due as follows:

	2006 HK\$	2005 HK\$
Within one year	160,920	234,692
In the second to fifth year inclusive	78,780	18,360
	<u>239,700</u>	<u>253,052</u>

Operating lease payments represent rentals payable by the Group to a company controlled by certain directors of the Company for the use of its office premises. Leases are negotiated for a term of two years.

45. RETIREMENT BENEFITS SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% (2005: 5%) of relevant payroll costs to the scheme, which contribution is matched by employees.

Employees located in the PRC are covered by the retirement and pension schemes defined by local practice and regulations and which are essentially defined contribution schemes.

For the year ended 31st December, 2006

46. COMMITMENTS

- (i) At 31st December, 2006, the Group had a capital commitment of HK\$24.3 million contracted but not provided to purchase Flat C on 22 Floor of Tower 3, Tregunter, with car parking space No. 26 on level 5 of Tower 3, No. 14 Tregunter Path, Hong Kong.
- (ii) On 27 September 2006, Jubilee Star Limited ("Jubilee Star"), a subsidiary of the Group and China Aviation Supplies Import and Export Group Corporation ("China Aviation") entered into a conditional joint venture agreement for the transformation of Beijing Kailan Aviation Technology Co. Ltd. ("Beijing Kailan") into an equity joint venture through capital injection of approximately RMB20.47 million into Beijing Kailan by Jubilee Star. Upon the completion of the transformation, China Aviation and Jubilee Star will own a 68% and 32% equity interest in Beijing Kailan respectively. The obligation of Jubilee Star to contribute capital of approximately RMB20.47 million is conditional upon the fulfillment of certain terms and conditions and approval from relevant authorities.

Save as above, no other capital commitment contracted for but not provided; or approved but not contracted for in the consolidated financial statements.

47. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant transactions with related parties:

Related party	Nature of transaction	2006	2005
		HK\$	HK\$
Minority shareholder	Sales of goods	6,313,728	8,123,804
	Purchases of materials	1,575,392	1,893,439

Terms and balances with related parties are set out in notes 26, 27, 29, 31 and 33 and on the balance sheet.

The key management of the Group comprises all directors and the three (2005: one) highest paid employees, details of their remuneration are disclosed in notes 7 and 8. The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

48. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to balance sheet date, the Group entered into the transactions as follows:

(i) Disposal of 20 million shares of Chinasoft International Limited

On 26 January 2007, the Group disposed of 20 million shares held in Chinasoft International Limited, to Oriental Patron Securities Limited, an independent third party for a consideration of HK\$35.4 million. Accordingly, the equity interest in this associate held by the Group is reduced from 19.78% to approximately 17.15% of the issued share capital of Chinasoft International Limited.

(ii) Convertible notes of Golife Concepts Holdings Limited is converted.

In March 2007, the Group converted the entire HK\$8.3 million principal amount of convertible notes issued by Golife Concepts Holdings Limited to shares.

(iii) Issuance of new shares by Chinasoft International Limited

On 19 April 2007, Chinasoft International Limited entered into a subscription agreement with ABN AMRO Bank N.V. (the "Subscriber"), whereby the Subscriber has conditionally agreed to subscribe for a total of 32,300,000 new ordinary shares ("New Share") of Chinasoft at the price of HK\$1.7 per New Share. Upon the completion of the subscription of the New Shares by the Subscriber, the equity interest in this associate held by the Group is further reduced from 17.15% to approximately 16.45% of the issued share capital of Chinasoft International Limited.

FIVE YEARS FINANCIAL SUMMARY

At 31st December, 2006

	For the year ended 31st December,				2006
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	HK\$ 000
RESULTS					
Turnover	<u>90,124</u>	<u>84,678</u>	<u>73,395</u>	<u>68,898</u>	<u>85,255</u>
(Loss) profit before taxation	(184,695)	(85,089)	56,378	15,652	16,563
Taxation	<u>5,387</u>	<u>2,692</u>	<u>(526)</u>	<u>(659)</u>	<u>(372)</u>
(Loss) profit for the year	<u>(179,308)</u>	<u>(82,397)</u>	<u>55,852</u>	<u>14,993</u>	<u>16,191</u>
Attributable to:					
Equity holders of the Company	(179,242)	(84,760)	54,809	14,907	15,962
Minority interests	<u>(66)</u>	<u>2,363</u>	<u>1,043</u>	<u>86</u>	<u>229</u>
	<u>(179,308)</u>	<u>(82,397)</u>	<u>55,852</u>	<u>14,993</u>	<u>16,191</u>
As at 31st December,					
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2006 HK\$ 000
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
Total assets	416,850	319,354	177,954	236,571	231,294
Total liabilities	<u>(244,001)</u>	<u>(229,766)</u>	<u>(41,176)</u>	<u>(49,584)</u>	<u>(25,741)</u>
	172,849	89,588	136,778	186,987	205,553
Minority interests	<u>(16,922)</u>	<u>(16,411)</u>	<u>(16,329)</u>	<u>(15,773)</u>	<u>(16,477)</u>
Equity attributable to equity holders of the Company	<u>155,927</u>	<u>73,177</u>	<u>120,449</u>	<u>171,214</u>	<u>189,076</u>

Note: No restatement of the consolidated financial statements for the years ended 31st December, 2002, 2003 and 2004 was made for the new and revised accounting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005.

The above financial summary prior to 2004 has not been adjusted to take into account the effect on the adoption of Hong Kong Accounting Standard NO. 40 and Statement of Standard Accounting Practice No. 12 (Revised) "Income taxes" issued by HKICPA as the directors considered that is not practicable to do so.

PARTICULARS OF PROPERTIES HELD BY THE GROUP

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At 31st December, 2006

A. INVESTMENT PROPERTIES

Location	Group's interests	Approximate Gross floor area (sq.ft.)	Existing use	Term of lease
1. Lower G/F to 3/F Kwai Chung Fa Yuen 50 – 56 Wo Yi Hop Road Kwai Chung, New Territories (78/1015th Shares of and in KCTL 266) Hong Kong	100%	11,279	Commercial	Medium
2. G/F to 3/F, Tung Fai Court, 2 Shui Che Kwun Street, Yuen Long, New Territories (165/750th shares of and in YLTL 287 and 349) Hong Kong	100%	7,515	Commercial	Medium
3. Units A, B, C, D, E, F, G and H on 3rd Floor, Sun Star Castle, Beco da Roma No. 6, Rua de S. Domingos No. 13 – 19A and Patio de S. Domingos, No.17 – 19 Macau	100%	3,783	Commercial	Medium

At 31st December, 2006

B. LAND HELD FOR UNDETERMINED FUTURE USE

Location	Group's interests	Approximate site area (sq.ft.)	Existing use	Term of lease
1. Half share in Lots 5, 9, 10, 12, 14, 15, 17, 18, 19, 20, 33 and 72 in DD 447, Tsuen Wan, New Territories Hong Kong	100%	40,075	Agriculture	Medium
2. Lots 46, 47, 48, 49, 107, 108, 109 and 110 in DD279, Tuen Mun New Territories Hong Kong	100%	36,155	Agriculture	Medium
3. Lots 421 and 718 in DD 395, Tin Fu Tsai, Tuen Mun, New Territories Hong Kong	100%	22,216	Agriculture	Medium
4. Lots 968, 969, 970, 971, 972, 973, 975, 976, 977, 978 R.P., 980 R.P. and 981 R.P. in DD 82, Ta Kwu Ling, Fanling, New Territories Hong Kong	100%	53,070	Agriculture	Medium
5. The Remaining Portion of Lot No. 445 in DD 360 Chuen Lung, Tsuen Wan, New Territories Hong Kong	100%	710	Agriculture	Medium
6. 13.075% Interest in Lot No. 389 Chuen Lung, Tsuen Wan, New Territories Hong Kong	100%	19,000	Commercial	Medium