



**WHITE
FLOWER**

Pak Fah Yeow International Limited

(Incorporated in Bermuda with limited liability)

Stock Code:239

**80 Years Celebrated History
Definite Choice**

ANNUAL REPORT 2006

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DIRECTORS

Executive Directors

Gan Wee Sean (*Chairman*)
Gan Fock Wai, Stephen (*Chief Executive Officer*) (R)

Independent Non-executive Directors

Leung Man Chiu, Lawrence (*chairing A, chairing R*)
Wong Ying Kay, Ada (A, R)
Ip Tin Chee, Arnold (A, R)

COMPANY SECRETARY

Lo Tai On

QUALIFIED ACCOUNTANT

Tsang Hung Kei

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE
OF BUSINESS IN HONG KONG

11th Floor, The Sun's Group Centre
200 Gloucester Road
Wanchai
Hong Kong

AUDITORS

Moore Rowland Mazars
Chartered Accountants
Certified Public Accountants
34th Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

SOLICITORS

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

PRINCIPAL REGISTRARS

The Bank of Bermuda Limited
6 Front Street
Hamilton HM 11
Bermuda

HONG KONG SHARE REGISTRARS

Standard Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE

239

HOME PAGE

<http://www.whiteflower.com>

EMAIL

pfy@pfy.com.hk

TELEPHONE

(852) 2881 7713

(A) *Audit Committee member*

(R) *Remuneration Committee member*

Dear fellow shareholders,

General

The Group's total turnover for the year ended 31 December 2006 reached HK\$100.1 million, representing an increase of 4.0% over the previous year. Profit attributable to shareholders was HK\$42.1 million.

As you may recall, in order to enhance shareholders' value, we adopted in 2005 a special dividend policy for the financial years 2005 and 2006. We are proposing a final dividend of HK3 cents per share (2005: HK3 cents per share) and a special final dividend of HK3.5 cents per share (2005: HK2 cents per share) subject to approval by shareholders at the Annual General Meeting on 13 June 2007. This together with the interim and special dividends of HK\$33.0million already declared, will make a total dividend of HK\$49.9 million for 2006 (2005: HK\$46.0 million).

Marketing initiatives, brand building, operational efficiency and cost management continued to be our focus during the year. While we followed a strategy to invest in brand building on a continuous basis, we have managed to improve our production efficiency and consequently reduce our production costs by introducing a number of cost-saving measures. In addition, we commenced a new sole distributorship in Singapore in September 2006, which we expect would help improve efficiency in distributing our products there.

Outlook

Building on a well-recognised brand reputation and solid business foundation, the Group will continue focusing on brand building and market development in other geographical markets. In these respects, we have undertaken the following:

We hosted environmental and community activities co-organized by Friends of the Earth early in 2007. A school touring drama aimed at promoting environmental protection has been well received by students in 21 primary schools, which is still ongoing to cover 23 primary schools. This may become an ongoing project to extend this environmental promotion as well as rejuvenate our brand image to secondary school students starting this fall.

Early in 2007, we extended our coverage in PRC by listing our products in a new chain store with over 300 sale points in Beijing. We also have intention to start applying product registration of our Hoe Hin Strain Relief (Wood Lok Oil) in Thailand, which is one of our target markets for increasing our customer base of the same product in medium term.

To streamline our investments portfolio, we are planning to dispose of certain non-core investment properties that generate less return. In addition, while we concentrate mainly on our core business in "Hoe Hin" brand of products, we are considering other opportunities to generate better return from our surplus cash.

Appreciation

Now, we are celebrating our 80th anniversary. I would like to take this opportunity to express our gratitude to our past and current directors, and to our staff for their dedication and hard work and to the investors for their continuous support.

By order of the Board

GAN Wee Sean
Chairman

Hong Kong, 18 April 2007

Summary

For the year ended 31 December 2006, the Group's turnover was up 4.0% to HK\$100,090,000 (2005: HK\$96,208,000) as increased contributions from sales of Hoe Hin brand of products and rental income, slightly offset by the decrease in income derived from treasury investment.

Revaluation surplus of the Group's investment properties was HK\$15,694,000 (2005: HK\$13,530,000), of which HK\$11,384,000 (2005: HK\$10,565,000) was related to the Group's investment properties in the United Kingdom.

The revaluation of other properties has resulted in a net change of revaluation gain in this year of HK\$675,000 (2005: HK\$1,684,000).

As a result of adoption of the amended accounting standard, an exchange loss of HK\$7,141,000 (2005: an exchange gain of HK\$5,570,000) arising on balances between two subsidiaries has been recognised in exchange reserve and the Group's profit for the year has been increased by HK\$7,141,000 accordingly. Prior period adjustments have been made to reflect a decrease in profit of HK\$5,570,000 for the last year.

Profit for the year ended 31 December 2006 was approximately HK\$42,097,000 (2005: HK\$28,065,000 as restated).

Manufacturing and sales of Hoe Hin Brand of products

Sales of Hoe Hin brand of products continued to be the major source of revenue for the Group. Sales increased by 5.0% to HK\$87,532,000 (2005: HK\$83,344,000).

Hong Kong remained the major market of our Hoe Hin brand of products which accounts for about 54% of the segment revenue. Mainland China accounts for about 26%. Other than Philippines, Singapore and US markets, which have in total contributed approximately 20% of the segment revenue, growth in other foreign countries has been static during the year. The litigation in the US in respect of the "White Flower" trade mark infringement was settled in 2005 and the Group has regained its sales in the US after the settlement. We also commenced a new sole distributorship in Singapore in September 2006, which would help improve efficiency in distributing our products.

Segment profit increased by 80.3% to HK\$36,067,000 (2005: HK\$20,003,000), largely due to increased contribution in sales, and reduction in production costs and marketing expenses. The Group has taken a number of cost-saving measures to reduce its production costs, which has improved the profitability of the Group. In addition, certain promotional and advertising activities planned for the year 2006 have been rescheduled to be held in 2007 for celebration of our 80th anniversary. Coupled with mild increase in the average selling price, this business segment has been able to achieve remarkable results even under a challenging operating environment.

Property investment

Revenue for this segment increased by 2.5% to HK\$9,129,000 (2005: HK\$8,910,000). This change mainly represents increased rental income in Hong Kong and foreign exchange difference as a result of an increase in average exchange rate in translating foreign rental income, partly offset by overprovision of rent uplift in United Kingdom in previous year.

The segment profit was also positively affected by an increase in revaluation surplus arising from investment properties.

As a result, the segment profit increased by 11.7% to HK\$23,757,000 (2005: HK\$21,270,000).

The Group owns several investment properties in United Kingdom, Singapore, Hong Kong and other regions in the PRC. Rental income received from these properties will continue to provide a steady stream of turnover and profit for the Group.

Treasury investment

The Group continued the prudent management to its fund and continues to maintain a strong liquidity with sufficient cash.

Revenue derived from this segment decreased by 13.3% to HK\$3,428,000 (2005: HK\$3,952,000), primarily due to less fund invested for foreign exchange transactions in the second-half of 2006. The segment results increased to a profit of HK\$6,826,000 (2005: HK\$1,174,000) mainly attributable to improved results on foreign exchange transactions, and improved net fair value changes on listed investments as a result of appreciation of foreign currencies, in which most of our listed investments were denominated.

Finance costs

The increase of HK\$699,000 (18.2%) to HK\$4,538,000 was mainly due to higher market interest rate comparing to the same period in previous year and an additional bank loan arranged for financing the purchase of the Group's office premise.

Taxation

There was an increase in tax provision from HK\$2,554,000 to HK\$5,403,000 for the year, principally due to an increase in taxable operating profit of subsidiaries in Hong Kong.

Financial Resources and Treasury Policies

The Group continues to adhere to prudent treasury policies. Gearing ratio (interest-bearing borrowings divided by total shareholders funds) as at 31 December 2006 was 31.3% (2005: 29.8%). Total bank borrowings of the Group amounted to HK\$86,123,000 (2005: HK\$80,731,000), mainly denominated in British pound and Hong Kong dollars with floating interest rates. The increase in borrowings was mainly due to foreign exchange translation difference.

Current ratio (current assets divided by current liabilities) was 1.7 as at 31 December 2006 (2005: 2.1). The Group holds sufficient cash and marketable securities on hand to meet its liabilities, commitments and working capital demand.

Exchange Rate Exposures

Most of the Group's business transactions were conducted in Hong Kong dollars and United States dollars. The foreign exchange risk for bank borrowings was minimal as they were either denominated in Hong Kong dollars or the currency of the underlying assets. Other than United States dollars whose exchange rate remained relatively stable during the year, the Group's foreign exchange exposure relating to investments in overseas securities and bank balances as at 31 December 2006 were approximately HK\$50.2 million in total, or about 12.7% of the Group's total assets.

The Group may use suitable financial instruments to protect the downside risks associated with the price movement due to the timing of anticipated expenditure.

Pledge of Assets

As at 31 December 2006, certain of the Group's leasehold properties, leasehold land interests, investment properties, bank deposits and securities with carrying value of approximately HK\$231.4 million (2005: HK\$240.4 million) were pledged to secure banking facilities granted to the Group to the extent of approximately HK\$150.8 million (2005: HK\$166.6 million), of which approximately HK\$86.1 million (2005: HK\$80.7 million) were utilised as at 31 December 2006.

Employees and Remuneration Policies

As at 31 December 2006, the Group had a total of 103 employees. Remuneration packages of employees and directors are reviewed annually and determined by reference to market pay and individual performance. In addition to salary payments, the Group also provides other employment benefits including medical allowance and educational subsidies to eligible employees. The Company also has a share option scheme for the benefit of its directors and eligible employees of the Group. No option has been granted under the scheme since its adoption.

Executive Directors

Mr. **GAN Wee Sean**, aged 60, is the Chairman of the Board and an Executive Director of the Company. He has been actively involved in the management of the Group since 1971 and was appointed as an executive director of the Company on 8 October 1991. He is a Fellow of the Institute of Chartered Secretaries and Administrators and Fellow of the Chartered Institute of Marketing. From 1981 to 1986, and from 1987 to 1990, he held the position of vice-chairman and chairman respectively of Chung Sing Benevolent Society. He was chairman of the Malaysian Association in Hong Kong from 1987 to 1989, and was a founder member of the Institute of Marketing in Hong Kong. He is also Island Command vice president of the St. John's Ambulance Brigade in Hong Kong. He is the grandson of the founder, Mr. Gan Geok Eng. He is a director of Hexagan Enterprises Limited, a substantial shareholder of the Company.

Mr. **GAN Fock Wai, Stephen**, aged 45, is the Chief Executive Officer and an Executive Director of the Company. He possessed an honorary bachelor degree in food process engineering from Loughborough University of Technology in England. He has been actively involved in the management of the Group since 1986. He is a son of the founder, Mr. Gan Geok Eng. In 2001, he was awarded one of the "2001 Youth Industrial Awards of Hong Kong" by the Federation of Hong Kong Industries. He was also a committee member (Practitioners Board) of the Chinese Medicine Council of Hong Kong from 1999 to 2005. He is a director of Gan's Enterprises Limited, a substantial shareholder of the Company.

Independent Non-executive Directors

Mr. **LEUNG Man Chiu, Lawrence**, aged 59, was appointed as an Independent Non-Executive Director of the Company in July 2006. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He graduated in 1969 from the Hong Kong Technical College (presently known as the Hong Kong Polytechnic University) with a diploma in accountancy and qualified himself as a certified public accountant in 1972. Mr. Leung is a practising certified public accountant and has been in public practice for over 36 years. He has extensive experience in accounting and auditing and served in listing and auditing projects for a number of Hong Kong public listed companies. Mr. Leung is also a director of Safety Godown Company, Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Ms. **WONG Ying Kay, Ada**, aged 47, has been appointed as an Independent Non-Executive Director of the Company since September 2004. She is a practicing solicitor and China-Appointed Attesting Officer. She is also an independent non-executive director of Hengan International Group Company Limited, a company listed on the Stock Exchange.

Mr. **IP Tin Chee, Arnold**, aged 44, has been appointed as an Independent Non-Executive Director of the Company since September 2004. He is a graduate of Trinity College, Cambridge University, and qualified as a chartered accountant in 1988. Between 1989 and March 1997, he worked for Standard Chartered Asia Limited and was a director of Yuanta Securities (Hong Kong) Limited thereafter until January 2001, specialising in a range of corporate finance and advisory activities for companies based in Hong Kong and China. He is a director of Altus Capital Limited where he is involved in the supervision and management of corporate finance and advisory work for companies in Hong Kong and in advising on private equity and property investments in Asia. Mr. Ip's work focuses on fund raising for listed and unlisted companies, and management of real estate investment funds. He is also an independent non-executive director of Pioneer Global Group Limited, a company listed on the Stock Exchange.

Senior Management

Mr. TSANG Hung Kei, aged 36, is the Chief Financial Officer of the Group responsible for the overall financial management and control. He is also an Executive Director of major subsidiaries of the Company. Mr. Tsang is a Fellow of the Association of Chartered Certified Accountants, an Associate of the Institute of Chartered Accountants in England and Wales and an Associate of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in May 2005, he worked for an international accounting firm for 8 years and was the financial controller of a listed company in Hong Kong thereafter until April 2005. He obtained a bachelor degree in computer science and accounting from the University of Manchester, England.

Ms. YAU Lai Ching, aged 42, is an Executive Director and the Chief Operating Officer of Hoe Hin Pak Fah Yeow Manufactory Limited responsible for the overall management of operation. She has been with the Group since 1992. Prior to joining the Group, she worked for tourism board for 3 years. She possessed a Professional Diploma in Marketing from the Hong Kong Polytechnic (presently known as Hong Kong Polytechnic University).

The Group is dedicated to maintaining a good credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders, and continues to review and reinforce our corporate governance practice.

On 1 January 2005, the Code of Best Practices was replaced by the Code on Corporate Governance Practices (“the Code”)

The Company adopted all the code provisions in 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”) as its own code on corporate governance practices.

The Company has complied with code provisions as set out in the Code during the year ended 31 December 2006.

THE BOARD

Composition

The Board consists of two executive directors (three executive directors prior to October 2006) and three independent non-executive directors (“INED(s)”), one of whom has the appropriate professional accounting experience and expertise. The names and biographical details of each director are disclosed on page 6 of this annual report.

Each INED has, pursuant to the rule 3.13 of the Listing Rules, confirmed he/she is independent of the Company and the Company also considers that they are independent. The term of office of each INED is for a period of approximately two years until 30 September 2008 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Bye-Laws of the Company. Save as disclosed in the biographical details of each director, there is no other relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

Function

The Board is responsible both for how the Company is managed and the Company’s direction. Approval of the Board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy and payment, appointment and retirement of directors, remuneration policy and other major operational and financial matters. Day-to-day operations of the Group are taken up by the Company’s management comprising executive directors and senior executives.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board held five regular Board meetings at approximately quarterly interval during the year 2006. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. Details of individual attendance of directors are set out in the table below:–

Attendance of individual directors at Board meetings in 2006

Number of meetings:	11
Executive director	
Gan Wee Sean (<i>Chairman</i>)	11
Gan Fock Wai, Stephen	11
Chiu Sin Kuen (<i>retired on 1 October 2006</i>)	7
INEDs	
Leung Man Chiu, Lawrence (<i>appointed on 19 July 2006</i>)	2
Wong Ying Kay, Ada	4
Ip Tin Chee, Arnold	3
Kwan Chiu Yin, Robert (<i>resigned on 19 July 2006</i>)	2

The Board has established written procedures to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expenses.

Chairman and Chief Executive Officer

The role of the Chairman, Mr. Gan Wee Sean is separate from that of the Chief Executive Officer, Mr. Gan Fock Wai, Stephen. Such division of responsibilities allows a balance of power between the Board and the management of the Group, and ensures their independence and accountability.

The Chairman is the leader of the Board and he oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account, where appropriate, matters proposed by other directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The Chief Executive Officer, assisted by other executive directors and senior executives, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. He ensures smooth operations and development of the Group and maintains continuing dialogue with the Chairman and all directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

BOARD COMMITTEES

To strengthen the functions of the Board and to enhance its expertise, there are two Board committees namely, the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

Audit Committee

The Audit Committee comprises three INEDs.

The role and function of the Audit Committee include:

- to serve as a focal point for communication between other directors and the auditors in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the Board may determine from time to time.
- to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the audits.
- to review the appointment of auditors on an annual basis including the review of the audit scope and approval of the audit fees.
- to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.
- to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors.

Set out below is the summary of work done in year 2006:

- reviewed the financial statements for the year ended 31 December 2005 and for the six months ended 30 June 2006;
- reviewed the auditors' statutory audit plan and the letters of representation; and
- considered and approved the 2006 audit fees and audit work.

The Audit Committee held four meetings during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at Audit Committee meetings in 2006

Number of meetings:	4
INEDs	
Leung Man Chiu, Lawrence (<i>Chairman</i>) (<i>appointed on 19 July 2006</i>)	2
Wong Ying Kay, Ada	3
Ip Tin Chee, Arnold	4
Kwan Chiu Yin, Robert (<i>Chairman</i>) (<i>resigned on 19 July 2006</i>)	1

Remuneration Committee

The Board has established a Remuneration Committee, comprising three INEDs and Mr. Gan Fock Wai, Stephen. The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive directors.

Set out below is the summary of work of the Remuneration Committee done in year 2006:

- considered the proposed retirement scheme of the Group; and
- reviewed the remuneration of the executive directors and the INEDs.

The Remuneration Committee held two meetings during 2006. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at Remuneration Committee meetings in 2006

Number of meetings:	2
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Executive Director

Gan Fock Wai, Stephen	2
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INEDs

Leung Man Chiu, Lawrence (<i>Chairman</i>) (<i>appointed on 19 July 2006</i>)	1
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Wong Ying Kay, Ada	2
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Ip Tin Chee, Arnold	2
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Kwan Chiu Yin, Robert (<i>Chairman</i>) (<i>resigned on 19 July 2006</i>)	1
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Other information

The Board of Directors has not established a nomination committee. According to the Bye-Laws of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board will take into consideration of the nominee's qualification, ability and potential contributions to the Company.

During 2006, Mr. Kwan Chiu Yin, Robert resigned as an independent non-executive director on 19 July 2006 and Mr. Chiu Sin Kuen retired from executive directorship on 1 October 2006. Mr. Leung Man Chiu, Lawrence was appointed as an independent non-executive director on 19 July 2006. All these changes in directorship were approved respectively at two board meetings at which all the executive directors were present.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code). All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2006.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

AUDITORS' REMUNERATION

During the year, the fees paid to the Company's Auditors, Moores Rowland Mazars amounted to HK\$581,000 in respect of audit services. No other fees were paid for non-audit services provided by the Company's Auditors during the year.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibilities in preparing the financial statements. The finance department of the Company is taken charge by the qualified accountant of the Company. With the assistance of the financial department, the directors ensure that the financial statements of the Group have been properly prepared in accordance with relevant regulations and applicable accounting principles. The statement of the auditors about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 18.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The system includes a defined management structure with limits of authority, safeguard its assets against unauthorized use of disposition, ensures the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensures compliances with relevant laws and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage the risks of failure in the Group's operational systems and in the achievement of the Group's objectives.

During the year, the Company has initiated a project to review the effectiveness of system of internal control including risk management system. The Company has engaged the external professional advisers to assist in conducting such review. The report and findings has been submitted to the Board and follow-up plan has been adopted based on recommendations.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the Chairman at the general meeting.

At the annual general meeting held on 27 June 2006, a separate resolution was proposed at the meetings by the Chairman in respect of each separate issue, including re-election of directors. The Chairman of the Board attended the meetings to answer questions of shareholders. Due to unexpected business commitment, the Chairman of the audit committee and remuneration committee was unable to attend the annual general meeting. The Chairman of the Board had arranged for an appointed delegate to answer questions at the annual general meeting.

The directors have pleasure in submitting their report and audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 19.

Interim dividends and special interim dividend (as set out in note 10 to the financial statements) amounting to HK\$33,020,000 was paid to the shareholders during the year. The directors recommend the payment of a final dividend of HK3 cents and a special final dividend of HK3.5 cents per share, amounting to a total sum of HK\$16,900,000, to the shareholders of the Company whose names appear on the register of members on 13 June 2007.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$305,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the financial statements.

GROUP FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years is set out on page 58.

INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

All the properties of the Group are stated at their revalued amounts.

Movements in the investment properties and property, plant and equipment of the Group during the year are set out in notes 12 and 13 to the financial statements respectively.

PROPERTIES

Particulars of the property interests of the Group are set out on pages 59 and 60.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would obligate the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS

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

Executive directors

Mr. Gan Wee Sean (*Chairman*)

Mr. Gan Fock Wai, Stephen (*Chief Executive Officer*)

Mr. Chiu Sin Kuen (*retired on 1 October 2006*)

Independent non-executive directors

Mr. Leung Man Chiu, Lawrence (*appointed on 19 July 2006*)

Ms. Wong Ying Kay, Ada

Mr. Ip Tin Chee, Arnold

Mr. Kwan Chiu Yin, Robert (*resigned on 19 July 2006*)

In accordance with the Bye-Laws of the Company, Mr. Gan Fock Wai, Stephen, Ms. Wong Ying Kay, Ada and Mr. Leung Man Chiu, Lawrence shall retire by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Ms. Wong Ying Kay, Ada and Mr. Ip Tin Chee, Arnold have been appointed for the period from 8 September 2006 to 30 September 2008. Mr. Leung Man Chiu, Lawrence has been appointed for the period from 19 July 2006 to 30 September 2008.

The Company has received written confirmation from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independence non-executive directors is independent to the Company.

DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2006, the interests and short positions of the directors and chief executives in the shares of the Company and associated corporations, as defined in Part XV of Securities and Futures Ordinance (the "SFO") and as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows:

Long positions in shares of the Company

Name of director	Number of shares held			Total	Percentage of issued share capital of the Company
	Personal interests	Family interests	Corporate interests		
Mr. Gan Wee Sean	22,873,600	1,983,800 (Note 1)	54,436,200 (Note 2)	79,293,600 (Note 2)	30.5%
Mr. Gan Fock Wai, Stephen	8,697,400	–	52,106,600 (Note 3)	60,804,000 (Note 3)	23.4%

Long positions in non-voting deferred shares of associated corporations

Name of director	Number of shares held			Total	Percentage of issued non-voting deferred share capital of the respective corporation
	Personal interests	Family interests	Corporate interests		
<i>(a) Hoe Hin Pak Fah Yeow Manufactory, Limited (non-voting deferred shares of HK\$1,000 each)</i>					
Mr. Gan Wee Sean	8,600	800 (Note 1)	–	9,400	42.7%
Mr. Gan Fock Wai, Stephen	2,800	–	–	2,800	12.7%
<i>(b) Pak Fah Yeow Investment (Hong Kong) Company, Limited (non-voting deferred shares of HK\$1 each)</i>					
Mr. Gan Wee Sean	8,244,445	711,111 (Note 1)	–	8,955,556	42.2%
Mr. Gan Fock Wai, Stephen	2,800,000	–	–	2,800,000	13.2%

DIRECTORS' INTERESTS IN SECURITIES (Continued)*Notes:*

1. Madam Khoo Phaik Gim, wife of Mr. Gan Wee Sean, beneficially owned 1,983,800 shares of the Company, 800 non-voting deferred shares of Hoe Hin Pak Fah Yeow Manufactory, Limited and 711,111 non-voting deferred shares of Pak Fah Yeow Investment (Hong Kong) Company, Limited.
2. These 54,436,200 shares were beneficially owned by Hexagan Enterprises Limited, a company wholly-owned by Mr. Gan Wee Sean and his wife, Madam Khoo Phaik Gim. The total number of 79,293,600 shares in aggregate represented approximately 30.5 percent of the issued share capital of the Company.
3. These 52,106,600 shares were beneficially owned by Gan's Enterprises Limited, a company in which Mr. Gan Fock Wai, Stephen has an interest of approximately 31 percent. The total number of 60,804,000 shares in aggregate represented approximately 23.4 percent of the issued share capital of the Company.

Other than as disclosed above, none of the directors or chief executives, nor their associates, had any interests and short positions in shares, underlying shares and debentures of the Company or any of its associated corporations as defined in Part XV of the SFO and none of the directors or chief executives, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights at any time during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in note 34 to the accompanying financial statements, no other contracts of significance in relation to the Company's business 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.

DIRECTORS' SERVICE CONTRACTS

Mr. Gan Wee Sean and Mr. Gan Fock Wai, Stephen respectively entered into a service agreement with the Company on 28 November 1991 for a term of two years and one month commencing from 1 December 1991. The appointment shall continue thereafter subject to termination by either party giving not less than 6-month notice in writing to the other party pursuant to the terms of the service agreement. Accordingly, the appointment continued upon completion of the initial term on 31 December 1993.

Saved as disclosed above, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

The Company has adopted, by passing in a special general meeting convened on 27 June 2002 a share option scheme (the "Scheme") which will remain in force for a period of ten years commencing from 27 June 2002. No option has been granted under the Scheme since its adoption. Details of the Scheme are set out in note 28 to the accompanying financial statements.

At no time during the year was the Company or any of its subsidiaries a party to any arrangements, other than the Scheme, 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.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2006, no persons, other than the directors and companies controlled by them, whose names and interests are set out in the section headed "Directors' interests in securities" above, had notified an interest in the shares and underlying shares capital of the Company that was required to be recorded in the register maintained under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers of the Group accounted for 82.2 percent of the total sales of the Group in 2006 with the largest customer accounting for 43.0 percent.

The five largest suppliers of the Group accounted for 80.8 percent of the total purchases of the Group in 2006 with the largest supplier accounting for 35.1 percent.

To the best of the directors' knowledge, no director of the Company or any of its subsidiaries, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5 percent of the Company's share capital) has any interest in the five largest customers or suppliers referred to above.

MANAGEMENT CONTRACTS

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

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, as auditors of the Company.

On behalf of the Board

GAN Wee Sean
Chairman

Hong Kong, 18 April 2007

Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

Chartered Accountants
Certified Public Accountants
34th Floor, The Lee Gardens
33 Hysan Avenue
Causeway Bay, Hong Kong
香港銅鑼灣希慎道33號利園廣場34樓

To the shareholders of
Pak Fah Yeow International Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements of Pak Fah Yeow International Limited ("the Company") set out on pages 19 to 57, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

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

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants

Hong Kong, 18 April 2007

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Turnover	3	100,090	96,208
Other revenue	4	656	736
Other net income		1,329	86
Changes in inventories of finished goods		(593)	(1,746)
Raw materials and consumables used		(17,471)	(19,263)
Staff costs		(22,019)	(21,034)
Depreciation and amortisation expenses		(3,544)	(3,502)
Revaluation surplus in respect of investment properties		15,694	13,530
Reversal of revaluation deficit in respect of properties other than investment properties		737	2,891
Revaluation deficit in respect of properties other than investment properties		(62)	(1,207)
Net exchange gain (loss)		1,992	(2,736)
Net gain (loss) on financial assets at fair value through profit or loss		957	(798)
Other operating expenses		(25,728)	(28,707)
Profit from operations		52,038	34,458
Finance costs	5	(4,538)	(3,839)
Profit before taxation	5	47,500	30,619
Taxation	8	(5,403)	(2,554)
Profit for the year, attributable to equity holders of the parent	9	42,097	28,065
Dividends	10	49,920	46,020
Earnings per share	11		
Basic		16.2 cents	10.8 cents

Consolidated Statement of Changes in Equity

Year ended 31 December 2006

	2006 HK\$'000	2005 HK\$'000 (Restated)
Opening balance – total equity	270,933	295,713
Surplus on revaluation of properties other than investment properties, net of deferred tax	–	5,261
Changes in fair value of available-for-sale financial assets	266	280
Exchange difference arising from translation of financial statements of overseas subsidiaries	15,428	(11,436)
Exchange difference arising from translation of inter-company balances of overseas subsidiaries (2005: as restated)	(7,141)	5,570
Net income (loss) recognised directly in equity (2005: as restated)	8,553	(325)
Profit for the year (2005: as restated)	42,097	28,065
Total recognised income and expense for the year, attributable to equity holders of the parent	50,650	27,740
Interim dividends declared	(33,020)	(33,020)
Final dividends transferred to dividend payable	(13,000)	(19,500)
Closing balance – total equity	275,563	270,933

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Investment properties	12	185,278	153,302
Property, plant and equipment	13	27,994	27,689
Prepaid lease payments for leasehold land	14	40,072	40,559
Available-for-sale financial assets	15	2,928	2,662
		<hr/>	<hr/>
		256,272	224,212
Current assets			
Inventories	17	13,021	11,379
Trade receivables	18	15,042	19,207
Bills receivable		14,376	7,976
Deposits, prepayments and other debtors		3,537	4,343
Financial assets at fair value through profit or loss	15	26,963	41,310
Tax recoverable		–	416
Pledged bank deposits	19	40,711	57,480
Cash and cash equivalents	19	26,512	15,122
		<hr/>	<hr/>
		140,162	157,233
Current liabilities			
Short-term bank loans, secured	24	60,960	832
Current portion of long-term bank loans, secured	23	1,386	54,742
Trade payables	20	1,502	3,746
Accrued charges and other creditors		6,552	7,661
Tax payable		3,545	453
Unclaimed dividends		7,249	7,283
		<hr/>	<hr/>
		81,194	74,717
Net current assets		<hr/>	<hr/>
		58,968	82,516
Total assets less current liabilities		<hr/>	<hr/>
		315,240	306,728
Non-current liabilities			
Provision for long service payments	21	2,496	2,496
Provision for directors' retirement benefits	22	8,020	3,197
Long-term bank loans, secured	23	23,777	25,157
Deferred taxation	25	5,384	4,945
		<hr/>	<hr/>
		39,677	35,795
NET ASSETS		<hr/>	<hr/>
		275,563	270,933

	<i>Notes</i>	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
CAPITAL AND RESERVES			
Issued capital	26	13,000	13,000
Reserves	27	262,563	257,933
		<hr/>	<hr/>
		275,563	270,933
		<hr/> <hr/>	<hr/> <hr/>

Approved and authorised for issue by the Board of Directors on 18 April 2007

GAN Wee Sean
Director

GAN Fock Wai, Stephen
Director

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Investments in subsidiaries	16	84,340	84,340
Current assets			
Deposits, prepayments and other debtors		203	146
Amounts due from subsidiaries	29	140,863	140,128
Cash and cash equivalents	19	241	287
		141,307	140,561
Current liabilities			
Accrued charges and other creditors		363	517
Amounts due to subsidiaries	29	104,810	104,161
Unclaimed dividends		7,249	7,283
		112,422	111,961
Net current assets		28,885	28,600
Total assets less current liabilities		113,225	112,940
Non-current liabilities			
Provision for directors' retirement benefits	22	8,020	3,197
NET ASSETS		105,205	109,743
CAPITAL AND RESERVES			
Issued capital	26	13,000	13,000
Reserves	27	92,205	96,743
		105,205	109,743

Approved and authorised for issue by the Board of Directors on 18 April 2007

GAN Wee Sean
Director

GAN Fock Wai, Stephen
Director

	Notes	2006 HK\$'000	2005 HK\$'000
OPERATING ACTIVITIES			
Cash generated from operations	30	30,662	27,460
Interest received		3,428	3,952
Interest paid		(4,538)	(3,839)
Income taxes paid		(1,456)	(3,057)
Net cash generated from operating activities		<u>28,096</u>	<u>24,516</u>
INVESTING ACTIVITIES			
Dividends received from financial assets at fair value through profit or loss		499	519
Purchase of financial assets at fair value through profit or loss		(5,277)	(19,707)
Purchase of property, plant and equipment		(2,687)	(12,073)
Payment of lease premium for land		–	(31,525)
Proceeds from disposal of property, plant and equipment		783	–
Proceeds from disposal of financial assets at fair value through profit or loss		20,738	13,742
Net cash generated from (used in) investing activities		<u>14,056</u>	<u>(49,044)</u>
FINANCING ACTIVITIES			
Net movement in short-term bank loans		(832)	(1,347)
New long-term bank loans raised		–	27,400
Repayment of long-term bank loans		(1,294)	(943)
Dividends paid		(46,054)	(45,384)
Net cash used in financing activities		<u>(48,180)</u>	<u>(20,274)</u>
Net decrease in cash and cash equivalents		(6,028)	(44,802)
Cash and cash equivalents at beginning of year		72,602	117,662
Effect of foreign exchange rate changes		649	(258)
Cash and cash equivalents at end of year	19	<u>67,223</u>	<u>72,602</u>

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of Hoe Hin Brand of products, treasury and property investment, and distribution of healthcare and household products.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2005 financial statements except for the adoption of the following new/revised HKFRS that are effective from the current year.

Changes in accounting policies

Exchange difference arising from inter-company balances (Amendment to HKAS 21, The effects of changes in foreign exchange rate: Net investment in a foreign operation)

Prior to 1 January 2006, exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation were recognised in a separate component of equity in the consolidated financial statements only when (1) the monetary item was denominated in the functional currency of either the reporting entity or the foreign operation; and (2) the monetary item arose directly between the reporting entity and the foreign operation. Following the adoption of HKAS 21 (Amendment), such treatment is also required in respect of exchange differences arising on balances between group entities which are denominated in a currency other than the functional currency of either the reporting entity or the foreign operation.

As a result of the adoption of HKAS 21 (Amendment), the exchange loss arising on balances between two subsidiaries of the Company of HK\$7,141,000 (2005: gain of HK\$5,570,000) has been recognised in exchange reserve in the consolidated financial statements instead of in the Group’s income statement as in the previous year. In addition, the cumulative exchange losses of HK\$572,000 and HK\$6,142,000 as at 1 January 2006 and 2005 have been transferred from accumulated profits to exchange reserve. Earnings per share has been increased by HK2.7 cents to HK16.2 cents (2005: decreased by HK2.1 cents to HK10.8 cents). Prior year adjustments have been made and comparative figures have been restated accordingly.

Financial guarantees issued (Amendments to HKAS 39, Financial instruments: Recognition and measurement and HKFRS 4 Insurance contracts: Financial guarantee contracts)

Under the amendments, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Details of the financial guarantees currently issued by the Company are set out in note 33.

A summary of the principal accounting policies adopted by the Group is set out below.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Basis of measurement

The measurement basis used in the preparation of these financial statements is historical cost, except for investment properties, buildings situated on leasehold land, available-for-sale financial assets and financial assets at fair value through profit or loss, which are measured at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year. All inter-company transactions and balances have been eliminated on consolidation.

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.

Investment properties

Investment properties are land and/or building that are held by owner or lessee under finance lease, to earn rental income and/or for capital appreciation. These include properties held for a currently undetermined future use and properties that are held under operating lease, which satisfy the definition of investment property and carried at fair value.

Investment properties are stated at fair value at the balance sheet date. Any gain or loss arising from a change in fair value is recognised in the income statement. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued. The fair value is based on market value, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion.

Prepaid lease payments for leasehold land

Prepaid lease payments for leasehold land are up-front payments to acquire fixed term interests in lessee-occupied land. The premiums are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

Property, plant and equipment

Property, plant and equipment, other than buildings situated on leasehold land, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Repairs and maintenance expenses are charged to the income statement during the year in which they are incurred.

Depreciation is provided to write off the cost or valuation less accumulated impairment losses of property, plant and equipment over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis and depreciated separately.

Buildings situated on leasehold land	50 years or over the relevant lease term whichever is the shorter
Plant and machinery	10 – 15 years
Furniture, fixtures and equipment	5 – 15 years
Motor vehicles	5 years

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Buildings situated on leasehold land are stated at fair value at the date of valuation less accumulated depreciation and accumulated impairment losses. Increases in valuation are credited to the property revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same asset and are thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged and thereafter to property revaluation reserve.

Subsidiaries

A subsidiary is an entity in which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities held for trading and financial assets or financial liabilities designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which incorporates any dividend or interest earned on the financial assets.

The Group's short-term dual currency deposits are in the nature of hybrid financial instruments under HKAS 39. Since the deposits are measured at fair value with changes in fair value recognised in profit or loss, the embedded derivatives are not separately accounted for.

Loans and receivables

Loans and receivables including trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated at this category or not classified in any of the other categories of financial assets. They are measured at fair value with changes in value recognised as a separate component of equity until the assets are sold, collected or otherwise disposed of, or until the assets are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is transferred to the income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment loss.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Impairment of financial assets

At each balance sheet date, the Group assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial assets' original effective interest rate.

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

Financial liabilities

The Group's financial liabilities include trade and other payables, and bank loans and other borrowings. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of bank overdrafts. For balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in, first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Revenue recognition

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

Sale of goods is recognised on transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has been passed.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Rental income under operating leases is recognised when the properties are let out and on the straight-line basis over the lease terms.

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

Interest income from financial asset is accrued on a time apportionment basis, by reference to the principal outstanding and at the interest rate applicable.

Proceeds from disposal of financial assets at fair value through profit or loss are recognised on the transaction date when the relevant sale and purchase contract is entered into.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in the currency of Hong Kong dollars, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equity investments held that are classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity instruments classified as available-for-sale financial assets are included in the investment revaluation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are recognised in a separate component of equity and recognised in income statement on disposal of the foreign operations. The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relates to that foreign operation is included in the calculation of the profit or loss on disposal.

Impairment loss of other assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment, prepaid lease payments for leasehold land and investments in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impairment loss of other assets (Continued)

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, except where the relevant asset is carried at valuation in which case the impairment loss is treated as a revaluation decrease.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately, except where the relevant asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation increase.

Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Rentals payable and receivable under operating leases are charged or credited to the income statement on a straight-line basis over the term of the relevant lease.

Employee benefits

Defined contribution plans

With effective from 1 December 2000, the Group joined a Mandatory Provident Fund (“MPF”) scheme for all employees in Hong Kong. The MPF scheme is registered with the Mandatory Provident Fund Scheme Authority under the Hong Kong’s Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement.

Post-employment benefit obligations

The net obligations in respect of long service payment under the Employment Ordinance and directors’ retirement scheme benefits are the amounts of future benefit that employees and directors have earned in return for their services in the current and prior periods. The obligations are calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets, including retirement scheme benefit, is deducted.

Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Related parties

A party is related to the Group if

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below.

Allowance for inventories

The Group's management reviews the carrying amount of inventories at each balance sheet date, and make allowance for obsolete and slow-moving items identified that are no longer recoverable or suitable for use in production. Management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability of the accounts receivables. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate and result in an impairment of their ability to make payments, additional allowance will be required.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Future changes in HKFRS

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for the followings:

	Effective for accounting periods beginning on or after
HK(IFRIC) 9, <i>Reassessment of embedded derivatives</i>	1 June 2006
HKFRS 7, <i>Financial instruments: disclosures</i>	1 January 2007
Amendment to HKAS 1, <i>Presentation of financial statements: capital disclosures</i>	1 January 2007
HK(IFRIC) 10, <i>Interim financial reporting and impairment</i>	1 January 2007
HKFRS 8, <i>Operating segments</i>	1 January 2009

HK(IFRIC) 9 prohibits the subsequent reassessment of whether an embedded derivative is required to be separated from the host contract after the entity first becomes a party to the contract. HKFRS 7 and amendment to HKAS 1 may result in new or amended disclosures in the financial statements. HKFRS 8 requires the use of operating segments as the basis of the components of the entity for presenting primary segmental information. In accordance with HK(IFRIC) 10, impairment on available-for-sale financial assets reported in the interim period shall not be reversed in annual financial statements, irrespective of whether conditions have improved at the year-end balance sheet date.

3. SEGMENT INFORMATION

The Group is currently organised into three operating divisions – manufacturing and sale of Hoe Hin Brand of products, property investment and treasury investment.

The Group's operations are located in The Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC"), other regions in the PRC, Southeast Asia, Northern America, United Kingdom and Europe (excluding United Kingdom). The Group's manufacturing division is located in Hong Kong. Property investment and treasury investment divisions are in various locations.

Geographical segments

The geographical locations of customers are the basis on which the Group reports its primary segment information.

	Year ended 31 December 2006							Consolidated HK\$'000
	Hong Kong HK\$'000	Other regions in the PRC HK\$'000	Southeast Asia HK\$'000	Northern America HK\$'000	United Kingdom HK\$'000	Europe (excluding United Kingdom) HK\$'000	Others HK\$'000	
Segment revenue	46,376	24,694	11,798	9,023	7,787	243	169	100,090
Segment results	24,742	7,091	8,271	5,990	18,981	779	(232)	65,622
Unallocated corporate expenses								(13,584)
Profit from operations								52,038
Finance costs								(4,538)
Profit before taxation								47,500
Taxation								(5,403)
Profit for the year								42,097

3. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

	At 31 December 2006						Consolidated HK\$'000
	Hong Kong HK\$'000	Other regions in the PRC HK\$'000	Southeast Asia HK\$'000	Northern America HK\$'000	United Kingdom HK\$'000	Europe (excluding United Kingdom) HK\$'000	
Assets							
Segment assets	166,999	11,891	72,335	6,405	138,618	–	396,248
Unallocated corporate assets							186
Consolidated total assets							<u>396,434</u>
Liabilities							
Segment liabilities	95,629	–	–	–	1,435	–	97,064
Unallocated corporate liabilities							23,807
Consolidated total liabilities							<u>120,871</u>
Other information for the year ended 31 December 2006							
Capital additions	2,687	–	–	–	–	–	2,687
Depreciation and amortisation expenses	3,544	–	–	–	–	–	3,544
Revaluation surplus in respect of investment properties	4,140	170	–	–	11,384	–	15,694
Reversal of revaluation deficit in respect of properties other than investment properties	737	–	–	–	–	–	737
Revaluation deficit in respect of properties other than investment properties	(62)	–	–	–	–	–	(62)

3. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

	Year ended 31 December 2005							Consolidated HK\$'000 (Restated)
	Hong Kong HK\$'000	Other regions in the PRC HK\$'000	Southeast Asia HK\$'000	Northern America HK\$'000	United Kingdom HK\$'000 (Restated)	Europe (excluding United Kingdom) HK\$'000	Others HK\$'000	
Segment revenue	48,580	21,133	13,282	4,986	8,043	-	184	96,208
Segment results	17,355	(187)	4,448	2,680	12,080	160	(392)	36,144
Unallocated corporate expenses								(1,686)
Profit from operations								34,458
Finance costs								(3,839)
Profit before taxation								30,619
Taxation								(2,554)
Profit for the year								28,065

3. SEGMENT INFORMATION (Continued)

Geographical segments (Continued)

	At 31 December 2005						Consolidated HK\$'000
	Hong Kong HK\$'000	Other regions in the PRC HK\$'000	Southeast Asia HK\$'000	Northern America HK\$'000	United Kingdom HK\$'000	Europe (excluding United Kingdom) HK\$'000	
Assets							
Segment assets	151,091	8,277	94,383	4,549	112,260	–	370,560
Unallocated corporate assets							<u>10,885</u>
Consolidated total assets							<u><u>381,445</u></u>
Liabilities							
Segment liabilities	90,984	–	832	–	2,062	–	93,878
Unallocated corporate liabilities							<u>16,634</u>
Consolidated total liabilities							<u><u>110,512</u></u>
Other information for the year ended 31 December 2005							
Capital additions	43,598	–	–	–	–	–	43,598
Depreciation and amortisation expenses	3,502	–	–	–	–	–	3,502
Revaluation surplus (deficit) in respect of investment properties	4,090	(60)	(1,065)	–	10,565	–	13,530
Reversal of revaluation deficit in respect of properties other than investment properties	2,891	–	–	–	–	–	2,891
Revaluation deficit in respect of properties other than investment properties	(1,207)	–	–	–	–	–	(1,207)

3. SEGMENT INFORMATION (Continued)

Business segments

The following table provides an analysis of the Group's revenue and results from operations by business segment:

	Segment revenue		Segment results	
	Year ended	Year ended	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Restated)
Manufacturing and sale of				
Hoe Hin Brand of products	87,532	83,344	36,067	20,003
Property investment	9,129	8,910	23,757	21,270
Treasury investment	3,428	3,952	6,826	1,174
Others	1	2	(58)	(26)
Unallocated corporate expenses	–	–	(14,554)	(7,963)
	100,090	96,208	52,038	34,458

The following is an analysis of the carrying amount of segment assets and capital additions by business segment:

	Carrying amount of segment assets		Capital additions	
	At	At	Year ended	Year ended
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacturing and sale of				
Hoe Hin Brand of products	127,891	119,402	2,084	43,598
Property investment	186,079	154,250	–	–
Treasury investment	82,076	104,789	–	–
Others	–	38	603	–
	396,046	378,479	2,687	43,598
Unallocated corporate assets	388	2,966		
	396,434	381,445		

4. OTHER REVENUE

	2006	2005
	HK\$'000	HK\$'000
Dividend income from listed securities	499	519
Gain on disposal of financial assets at fair value through profit or loss	157	217
	656	736

5. PROFIT BEFORE TAXATION

This is stated after charging (crediting):

(a) Finance costs

	2006 HK\$'000	2005 HK\$'000
Interest on bank loans, overdrafts and other borrowings wholly repayable within five years	3,239	3,222
Interest on bank loan wholly repayable more than five years	1,299	617
	<u>4,538</u>	<u>3,839</u>

(b) Other items

	2006 HK\$'000	2005 HK\$'000
Auditor's remuneration		
Current year	580	538
Underprovision in prior year	6	40
Cost of inventories	31,485	31,639
Contributions to defined contribution plan	504	484
Operating lease charges on land and buildings and advertising spaces	132	249
Provision for directors' retirement benefits (note 22)	4,823	–
Gross rental income from investment properties less outgoings of HK\$452,000 (2005: HK\$378,000)	(8,677)	(8,531)
Royalty charges	185	185
Gain on disposal of property, plant and equipment	(783)	–
Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	3,057	3,007
Amortisation of prepaid lease payments for leasehold land	487	495
	<u>3,544</u>	<u>3,502</u>

(c) Trademarks

The Group has registered its trademarks in various locations including Hong Kong, other regions in the PRC and South East Asia. The costs of registration of the trademarks have been expensed in the financial statements. The trademarks for Hong Kong, other regions in the PRC, Thailand, Indonesia and the Philippines were valued at HK\$63 million on a market value basis on 31 December 2005 by Sallmanns (Far East) Limited, a firm of independent professional qualified valuers.

6. DIRECTORS' EMOLUMENTS

The aggregate amounts of remuneration received and receivable by the Company's directors are as follows:

	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Management bonus HK\$'000	Retirement benefits HK\$'000 (note 22)	Housing and subsistence allowances HK\$'000	Contributions to defined contribution plan HK\$'000	2006 Total HK\$'000
<i>Executive directors</i>							
Gan Wee Sean	30	2,967	420	4,734	1,002	12	9,165
Gan Fock Wai, Stephen	30	1,924	420	89	544	12	3,019
Chiu Sin Kuen*	22	701	157	–	283	–	1,163
<i>Independent non-executive directors</i>							
Wong Ying Kay, Ada	60	–	–	–	–	–	60
Ip Tin Chee, Arnold	60	–	–	–	–	–	60
Leung Man Chiu, Lawrence**	36	–	–	–	–	–	36
Kwan Chiu Yin, Robert***	24	–	–	–	–	–	24
	262	5,592	997	4,823	1,829	24	13,527

* Retired on 1 October 2006

** Appointed on 19 July 2006

*** Resigned on 19 July 2006

	Directors' fees HK\$'000	Salaries and other benefits HK\$'000	Management bonus HK\$'000	Retirement benefits HK\$'000	Housing and subsistence allowances HK\$'000	Contributions to defined contribution plan HK\$'000	2005 Total HK\$'000
<i>Executive directors</i>							
Gan Wee Sean	30	3,002	189	–	1,002	12	4,235
Gan Fock Wai, Stephen	30	2,007	189	–	545	12	2,783
Chiu Sin Kuen	30	874	95	–	378	–	1,377
<i>Independent non-executive directors</i>							
Kwan Chiu Yin, Robert	40	–	–	–	–	–	40
Wong Ying Kay, Ada	40	–	–	–	–	–	40
Ip Tin Chee, Arnold	40	–	–	–	–	–	40
	210	5,883	473	–	1,925	24	8,515

Management bonus is calculated at 2.5 percent of the consolidated net profit after taxation with a minimum guaranteed amount of HK\$100,000, according to the terms specified in the directors' service agreements.

7. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with the highest emoluments in the Group, three (2005: three) are directors whose emoluments are included in the amounts disclosed in note 6 above. The aggregate of the emoluments of the other two (2005: two) individuals are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries	1,262	1,061
MPF contributions	24	24
	<u>1,286</u>	<u>1,085</u>

The two individuals with the highest emoluments are within the HK\$0 – HK\$1 million band for the years ended 31 December 2005 and 2006.

During the years ended 31 December 2005 and 2006, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended 31 December 2005 and 2006, no directors waived any of their emoluments.

8. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Overseas taxation has been provided on the estimated assessable profits for the year at the rates of taxation prevailing in the relevant jurisdictions.

	2006 HK\$'000	2005 HK\$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax		
Current year	4,487	1,890
Over provision in prior years	(187)	(255)
	<u>4,300</u>	<u>1,635</u>
Overseas tax		
Current year	674	846
Over provision in prior years	(10)	(748)
	<u>664</u>	<u>98</u>
Deferred taxation (note 25)	<u>439</u>	<u>821</u>
	<u>5,403</u>	<u>2,554</u>

8. TAXATION (Continued)

Reconciliation of effective tax rate

	2006 %	2005 % (Restated)
Applicable tax rate in Hong Kong	17.5	17.5
Effect of overseas tax rate differences	1.4	2.1
Non-deductible expenses and losses	0.2	1.7
Non-taxable revenue and gains	(9.8)	(9.2)
Unrecognised tax losses	0.0	0.1
Unrecognised temporary differences	1.7	0.0
Utilisation of previously unrecognised tax losses	(0.3)	(0.5)
Over provision in prior year	(0.4)	(3.3)
Over provision in current year	1.0	0.6
Others	0.1	(0.7)
	<hr/>	<hr/>
Effective tax rate for the year	<u>11.4</u>	<u>8.3</u>

9. PROFIT FOR THE YEAR

The consolidated profit attributable to equity holders of the parent includes a profit of HK\$41,482,000 (2005: HK\$52,637,000) dealt with in the financial statements of the Company.

10. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim dividend of HK10.2 cents per share (2005: HK5 cents per share before subdivision of shares and HK2.7 cents per share after subdivision of shares)	26,520	13,520
Special interim dividend of HK2.5 cents per share (2005: HK15 cents per share before subdivision of shares)	6,500	19,500
Final dividend of HK3 cents per share (2005: HK3 cents per share after subdivision of shares)	7,800	7,800
Special final dividend of HK3.5 cents per share (2005: HK2 cents per share after subdivision of shares)	9,100	5,200
	<hr/>	<hr/>
	<u>49,920</u>	<u>46,020</u>

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the parent for the year of HK\$42,097,000 (2005 (restated): HK\$28,065,000) and the 260,000,000 (2005: 260,000,000) ordinary shares in issue during the year.

Diluted earnings per share has not been presented as there were no dilutive events during the two years ended 31 December 2005 and 2006.

12. INVESTMENT PROPERTIES

	Investment properties in Hong Kong under long leases <i>HK\$'000</i>	Investment properties in other regions in the PRC under long leases <i>HK\$'000</i>	Freehold investment properties in United Kingdom and Singapore <i>HK\$'000</i>	Total <i>HK\$'000</i>
Valuation				
At 1 January 2005	16,200	1,800	114,432	132,432
Transfer from prepaid lease payments and buildings situated on leasehold land upon change of use	19,500	–	–	19,500
Exchange realignment	–	–	(12,160)	(12,160)
Revaluation surplus (deficit)	4,090	(60)	9,500	13,530
At 31 December 2005	<u>39,790</u>	<u>1,740</u>	<u>111,772</u>	<u>153,302</u>
At 1 January 2006	39,790	1,740	111,772	153,302
Exchange realignment	–	–	16,282	16,282
Revaluation surplus	4,140	170	11,384	15,694
At 31 December 2006	<u>43,930</u>	<u>1,910</u>	<u>139,438</u>	<u>185,278</u>

Investment properties in Hong Kong and other regions in the PRC and Singapore were valued respectively on a market value basis on 31 December 2006 by Memfus Wong Surveyors Limited and Dovebid (S) Pte Ltd., independent professional valuers. Investment properties in United Kingdom were valued on a market value basis by Cushman & Wakefield Healey & Baker, independent professional valuers.

At the balance sheet date, the carrying amount of the investment properties of the Group rented out under operating leases was HK\$183,368,000 (2005: HK\$153,302,000).

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings in Hong Kong under long leases HK\$'000	Buildings in Hong Kong under medium- term leases HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Reconciliation of carrying amount – year ended 31 December 2005						
At beginning of year	3,064	9,803	3,891	3,350	341	20,449
Additions	9,313	–	224	2,536	–	12,073
Revaluation	(574)	2,258	–	–	–	1,684
Transfer to investment properties	(3,510)	–	–	–	–	(3,510)
Depreciation	(271)	(536)	(763)	(1,096)	(341)	(3,007)
At balance sheet date	8,022	11,525	3,352	4,790	–	27,689
Reconciliation of carrying amount – year ended 31 December 2006						
At beginning of year	8,022	11,525	3,352	4,790	–	27,689
Additions	–	–	501	102	2,084	2,687
Revaluation	44	631	–	–	–	675
Depreciation	(186)	(536)	(814)	(1,104)	(417)	(3,057)
At balance sheet date	7,880	11,620	3,039	3,788	1,667	27,994
At 1 January 2006						
Cost	–	–	12,289	16,131	1,709	30,129
Valuation	8,022	11,525	–	–	–	19,547
Accumulated depreciation	–	–	(8,937)	(11,341)	(1,709)	(21,987)
	8,022	11,525	3,352	4,790	–	27,689
At 31 December 2006						
Cost	–	–	12,790	16,233	2,084	31,107
Valuation	7,880	11,620	–	–	–	19,500
Accumulated depreciation	–	–	(9,751)	(12,445)	(417)	(22,613)
	7,880	11,620	3,039	3,788	1,667	27,994

The buildings were valued on a market value basis on 31 December 2006 by Memfus Wong Surveyors Limited, independent professional qualified valuers.

The carrying amount of the buildings at 31 December 2006 would have been HK\$19,461,000 (2005: HK\$19,445,000) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

14. PREPAID LEASE PAYMENTS FOR LEASEHOLD LAND

Prepaid lease payments for leasehold land represent unamortised balance of the costs paid for medium and long term leasehold land in Hong Kong. The cost is amortised over the leasehold period.

The Group's prepaid lease payments at the balance sheet date are in respect of the following leasehold land in Hong Kong:

	2006 HK\$'000	2005 HK\$'000
Long leases	31,008	31,268
Medium-term leases	9,064	9,291
	<u>40,072</u>	<u>40,559</u>

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS/FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Available-for-sale financial assets		Financial assets at fair value through profit or loss		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Equity securities:						
Listed	-	-	15,496	19,154	15,496	19,154
Unlisted	2,928	2,662	-	-	2,928	2,662
	2,928	2,662	15,496	19,154	18,424	21,816
Debt securities, listed	-	-	9,514	1,519	9,514	1,519
Dual currency deposits	-	-	1,953	20,637	1,953	20,637
	2,928	2,662	26,963	41,310	29,891	43,972
Comprising:						
Listed securities						
Hong Kong	-	-	666	6,076	666	6,076
Overseas	-	-	24,344	14,597	24,344	14,597
Unlisted securities	2,928	2,662	-	-	2,928	2,662
Dual currency deposits	-	-	1,953	20,637	1,953	20,637
	2,928	2,662	26,963	41,310	29,891	43,972
Carrying amount included in:						
Current assets	-	-	26,963	41,310	26,963	41,310
Non-current assets	2,928	2,662	-	-	2,928	2,662
	2,928	2,662	26,963	41,310	29,891	43,972

Market values have been used to determine the fair value of listed and unlisted financial instruments.

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	84,340	84,340

Particulars of the Company's subsidiaries, all of which are private limited liability companies, are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid share capital	Percentage of nominal value of issued ordinary share capital held by the Company		Principal activities
			Directly	Indirectly	
Biotech Marketing Limited	British Virgin Islands/Hong Kong	1 ordinary share of US\$1	–	100	Distribution of healthcare and household products
Digi Star Advertising Company Limited	Hong Kong	4,000,000 ordinary shares of HK\$1 each	–	100	Advertising agency
Hoe Hin Pak Fah Yeow (B. V. I.) Limited	British Virgin Islands/Hong Kong	20,000 ordinary shares of US\$1 each	100	–	Investment holding
Hoe Hin Pak Fah Yeow Manufactory, Limited	Hong Kong	22,000 non-voting deferred shares* of HK\$1,000 each, and 2 ordinary shares of HK\$1,000 each	–	100	Manufacturing and sale of Hoe Hin Brand of products
Pak Fah Yeow Advertising Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100	Inactive
Pak Fah Yeow Investment (Hong Kong) Company, Limited	Hong Kong	21,200,000 non-voting deferred shares* of HK\$1 each, and 2 ordinary shares of HK\$1 each	–	100	Property and treasury investment
Princely Profits Limited	British Virgin Islands/ United Kingdom	1 ordinary share of US\$1	–	100	Inactive
Princesland International Limited	British Virgin Islands/ United Kingdom	1 ordinary share of US\$1	–	100	Property investment

* The non-voting deferred shares carry no right to receive notice of or to attend or vote at any general meeting of these subsidiaries. They also carry very limited rights in respect of dividends and share of surplus assets upon winding up.

17. INVENTORIES

	2006 HK\$'000	2005 HK\$'000
Finished goods	483	1,076
Raw materials	8,088	6,167
Bottles, caps and packing materials	4,450	4,136
	<u>13,021</u>	<u>11,379</u>

The amount of inventories carried at net realisable value is HK\$38,000 (2005: HK\$38,000).

18. TRADE RECEIVABLES

The Group allows credit period ranging from 30 days to 240 days to its customers. The aged analysis of trade receivables is as follows:

	2006 HK\$'000	2005 HK\$'000
Within 30 days	8,508	9,331
31 – 60 days	5,620	3,941
61 – 90 days	896	5,770
More than 90 days	18	165
	<u>15,042</u>	<u>19,207</u>

19. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
As stated in the balance sheet				
Bank balances and cash	26,512	15,122	<u>241</u>	<u>287</u>
Pledged bank deposits (<i>note 31</i>)	<u>40,711</u>	<u>57,480</u>		
As stated in the consolidated cash flow statement	<u>67,223</u>	<u>72,602</u>		

20. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within 30 days	1,104	1,956
31 – 60 days	–	1,790
61 – 90 days	248	–
More than 90 days	150	–
	<u>1,502</u>	<u>3,746</u>

21. PROVISION FOR LONG SERVICE PAYMENTS

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
At beginning of year and at balance sheet date	<u>2,496</u>	<u>2,496</u>

22. PROVISION FOR DIRECTORS' RETIREMENT BENEFITS

	The Group and the Company	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
At beginning of year	3,197	3,197
Additional provision	4,823	–
At balance sheet date	<u>8,020</u>	<u>3,197</u>

During the year, the maximum amount of retirement benefits entitlements of two of the executive directors have been revised and additional provision has been made accordingly.

23. LONG-TERM BANK LOANS, SECURED

The bank loans are repayable as follows:

	2006 HK\$'000	2005 HK\$'000
Within 1 year	1,386	54,742
After 1 year but within 2 years	1,453	1,384
After 2 years but within 5 years	4,796	4,570
After 5 years	17,528	19,203
	<u>23,777</u>	<u>25,157</u>
	<u>25,163</u>	<u>79,899</u>

The maturity of the above borrowings is as follows:

Wholly repayable within five years	7,635	53,442
Wholly repayable more than five years	17,528	26,457
	<u>25,163</u>	<u>79,899</u>

The effective interest rates per annum of the bank loans at the balance sheet date are as follows:

	2006 HK\$'000	%	2005 HK\$'000	%
Bank loan in Pound Sterling (note 24) (note (b))	–	–	53,442	5.54
Bank loan in Hong Kong dollars (note (a))	<u>25,163</u>	4.75	<u>26,457</u>	4.75
	<u>25,163</u>		<u>79,899</u>	

The bank loans are secured by:

- (a) a first legal charge over the Group's leasehold land and buildings with carrying value of HK\$31,004,000 (2005: HK\$31,264,000) and HK\$7,840,000 (2005: HK\$7,920,000) respectively; and
- (b) the Group's investment properties with an aggregate carrying value of HK\$134,112,000 (note 24) (2005: HK\$106,884,000) together with the assignment of rental monies derived from the investment properties.

24. SHORT-TERM BANK LOAN, SECURED

As at 31 December 2005, the Group had a 3-year term loan denominated in Pound Sterling amounting to HK\$53,442,000, which was repayable in full in June 2006. On 5 July 2006, the Group agreed with the bank to renew the loan as a revolving bank loan repayable on demand which bears interest at the bank's cost of fund plus 0.95% per annum. The loan is secured by pledging the Group's investment properties with an aggregate carrying value of HK\$134,112,000 together with the assignment of rental monies derived from the investment properties. The change in the carrying amount of the bank loan during the year was due to exchange realignment. The effective interest rate at the balance sheet date was 6.14% per annum.

25. DEFERRED TAXATION

The Group

Recognised deferred tax liabilities (assets):

Deferred tax arising from:	Accelerated depreciation allowances HK\$'000	Revaluation of properties HK\$'000	Fair value adjustment on investment properties HK\$'000	Total HK\$'000
At 1 January 2005	173	–	2,835	3,008
Recognised in consolidated income statement	116	–	705	821
Recognised in reserves (note 27)	–	1,116	–	1,116
At 31 December 2005	289	1,116	3,540	4,945
At 1 January 2006	289	1,116	3,540	4,945
Recognised in consolidated income statement	(330)	–	769	439
At 31 December 2006	(41)	1,116	4,309	5,384

Unrecognised deferred tax assets arising from:

	2006 HK\$'000	2005 HK\$'000
Deductible temporary differences	8,723	4,894
Tax losses	7,914	8,923
At balance sheet date	16,637	13,817

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation.

The Company

Unrecognised deferred tax assets arising from:

	2006 HK\$'000	2005 HK\$'000
Deductible temporary differences	8,019	3,196
Tax losses	2,266	2,693
At balance sheet date	10,285	5,889

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation.

26. ISSUED CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
600,000,000 ordinary shares of HK\$0.05 each	<u>30,000</u>	<u>30,000</u>
Issued and fully paid:		
260,000,000 ordinary shares of HK\$0.05 each	<u>13,000</u>	<u>13,000</u>

By an ordinary resolution passed at a special general meeting held on 27 October 2005, the issued and unissued shares of HK\$0.10 each in the share capital of the Company were subdivided into two shares of HK\$0.05 each.

27. RESERVES

	Share premium HK\$'000	Revaluation reserve		Exchange reserve HK\$'000	Accumulated profits		Total HK\$'000
		Properties HK\$'000	Investment HK\$'000		Proposed dividends HK\$'000	Undistributed profits HK\$'000	
The Group							
At 1 January 2005							
- as previously reported	24,925	-	1,037	5,743	19,500	231,508	282,713
- prior year adjustment arising from the adoption of HKAS 21 (Amendment) (note 2)	-	-	-	(6,142)	-	6,142	-
- as restated	24,925	-	1,037	(399)	19,500	237,650	282,713
Surplus on revaluation of properties	-	6,377	-	-	-	-	6,377
Deferred tax (note 25)	-	(1,116)	-	-	-	-	(1,116)
Exchange difference arising from translation of financial statements of overseas subsidiaries	-	-	-	(11,436)	-	-	(11,436)
Exchange difference arising from translation of inter-company balances of overseas subsidiaries (as restated)	-	-	-	5,570	-	-	5,570
Changes in fair value of available-for-sale financial assets	-	-	280	-	-	-	280
Profit for the year (as restated)	-	-	-	-	-	28,065	28,065
Interim dividends declared	-	-	-	-	-	(33,020)	(33,020)
Final dividends proposed	-	-	-	-	13,000	(13,000)	-
2004 final dividends transferred to dividends payable	-	-	-	-	(19,500)	-	(19,500)
At 31 December 2005	<u>24,925</u>	<u>5,261</u>	<u>1,317</u>	<u>(6,265)</u>	<u>13,000</u>	<u>219,695</u>	<u>257,933</u>

27. RESERVES (Continued)

	Share premium HK\$'000	Revaluation reserve		Exchange reserve HK\$'000	Accumulated profits		Total HK\$'000
		Properties HK\$'000	Investment HK\$'000		Proposed dividends HK\$'000	Undistributed profits HK\$'000	
The Group							
At 1 January 2006							
– as previously reported	24,925	5,261	1,317	(5,693)	13,000	219,123	257,933
– prior year adjustments arising from the adoption of HKAS 21 (Amendment) (note 2)	–	–	–	(572)	–	572	–
– as restated	24,925	5,261	1,317	(6,265)	13,000	219,695	257,933
Exchange difference arising from translation of financial statements of overseas subsidiaries	–	–	–	15,428	–	–	15,428
Exchange difference arising from translation of inter-company balances of overseas subsidiaries	–	–	–	(7,141)	–	–	(7,141)
Changes in fair value of available-for-sale financial assets	–	–	266	–	–	–	266
Profit for the year	–	–	–	–	–	42,097	42,097
Interim dividends declared	–	–	–	–	–	(33,020)	(33,020)
Final dividends proposed	–	–	–	–	16,900	(16,900)	–
2005 final dividends transferred to dividends payable	–	–	–	–	(13,000)	–	(13,000)
At 31 December 2006	24,925	5,261	1,583	2,022	16,900	211,872	262,563

27. RESERVES (Continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits		Total HK\$'000
			Proposed dividends HK\$'000	Undistributed profits HK\$'000	
The Company					
At 1 January 2005	24,925	67,708	19,500	(15,507)	96,626
Net profit for the year	–	–	–	52,637	52,637
Interim dividends declared	–	–	–	(33,020)	(33,020)
Final dividends proposed	–	–	13,000	(13,000)	–
2004 final dividends transferred to dividend payable	–	–	(19,500)	–	(19,500)
At 31 December 2005	24,925	67,708	13,000	(8,890)	96,743
At 1 January 2006	24,925	67,708	13,000	(8,890)	96,743
Net profit for the year	–	–	–	41,482	41,482
Interim dividends declared	–	–	–	(33,020)	(33,020)
Final dividends proposed	–	–	16,900	(16,900)	–
2005 final dividends transferred to dividend payable	–	–	(13,000)	–	(13,000)
At 31 December 2006	24,925	67,708	16,900	(17,328)	92,205

The share premium represents the excess of the net proceeds from issuance of shares of the Company over its par value.

The revaluation reserves and exchange reserve are recognised as a result of accounting treatments as detailed in note 2 to the financial statements.

The balance of contributed surplus of the Company represents the difference between the nominal value of the Company's shares allotted on 28 November 1991 and the consolidated net assets of the subsidiaries then acquired.

Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

- (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

27. RESERVES (Continued)

At the balance sheet date, the Company's reserves available for distribution to shareholders are as follows:

	2006 HK\$'000	2005 HK\$'000
Contributed surplus	67,708	67,708
Accumulated (losses) profits	(428)	4,110
	<u>67,280</u>	<u>71,818</u>

28. SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 27 June 2002. The purpose of the Scheme is to enable the Company to attract, retain and motivate talented participants to strive for future developments and expansion of the Group, to encourage the participants to perform their best in achieving the goals of the Group and to allow the participants to enjoy the results of the Group attained through their efforts and contributions. Participants includes (i) any director and employee of each member of the Group; (ii) any discretionary object of a discretionary trust established by any employee or director of each member of the Group; (iii) any executive or employee of any business consultant, business partner, professional and other advisers to each member of the Group; (iv) any substantial shareholder of each members of the Group; (v) any associates of director or substantial shareholder of the Company; and (vi) any employee of the Company's substantial shareholder or any employee of such substantial shareholder's subsidiaries or associated companies, as absolutely determined by the Board of Directors.

The directors may, at their discretion, invite any participant to take up options. An option is deemed to have been granted and accepted by the grantee upon the duplicate letter comprising acceptance of the option duly signed by the grantee and paying HK\$1 by way of consideration for the grant thereof.

The subscription price for shares in the Company under the Scheme will be the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date on which an option is granted (which date must be a business day); (ii) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date on which an option is granted; and (iii) the nominal value of a share of the Company.

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme and any other share option schemes of the Company shall not in aggregate exceed 26,000,000 shares of the Company, being 10% of the total number of shares of the Company in issue as at the date of approval of the Scheme and as at the date of the financial statements. An option may be exercised during a period to be determined by the directors in its absolute discretion and in any event such period shall expire not later than 10 years after the date of grant of the option.

The maximum entitlement for any participant is that the total number of shares issued and to be issued upon exercise of the options granted to each participant under the Scheme in any 12-month period shall not exceed 1 percent of the total number of shares in issue of the Company. Any further grant of options in excess of the 1 percent limit shall be subject to shareholders' approval in general meeting with such participant and his associates abstaining from voting. The Scheme will remain in force for a period of 10 years from 27 June 2002.

No option was granted pursuant to the Scheme since its adoption.

29. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due are unsecured, interest-free and have no fixed repayment terms.

30. CASH GENERATED FROM OPERATIONS

	2006 HK\$'000	2005 HK\$'000 (Restated)
Profit before taxation	47,500	30,619
Interest income	(3,428)	(3,952)
Interest expenses	4,538	3,839
Dividend income from financial assets at fair value through profit or loss	(499)	(519)
Revaluation surplus in respect of investment properties	(15,694)	(13,530)
Reversal of revaluation deficit in respect of properties other than investment properties	(737)	(2,891)
Revaluation deficit in respect of properties other than investment properties	62	1,207
Gain on disposal of property, plant and equipment	(783)	–
Gain on disposal of financial assets at fair value through profit or loss	(157)	(217)
Net (gain) loss on financial assets at fair value through profit or loss	(957)	798
Exchange differences	(1,170)	(122)
Depreciation and amortisation expenses	3,544	3,502
Changes in working capital:		
Inventories	(1,642)	456
Trade receivables	4,272	1,935
Bills receivable	(6,400)	1,354
Deposits, prepayments and other debtors	806	(1,399)
Trade payables	(2,300)	2,762
Accrued charges and other creditors	(1,116)	3,618
Provision for directors' retirement benefits	4,823	–
Cash generated from operations	30,662	27,460

31. PLEDGE OF ASSETS

Certain of the Group's buildings situated on leasehold land, leasehold land interests, investment properties, bank deposits and securities were pledged to secure banking facilities, including bank loans, granted to the Group to the extent of HK\$150,760,000 (2005: HK\$166,642,000) of which HK\$86,123,000 (2005:HK\$80,731,000) were utilised at the balance sheet date.

The carrying amounts of the Group's buildings situated on leasehold land, leasehold land interests, investment properties, bank deposits and investments in securities pledged are as follows:

	The Group	
	2006 HK\$'000	2005 HK\$'000
Buildings situated on leasehold land	7,840	7,920
Prepaid lease payments for leasehold land	31,004	31,264
Investment properties	134,112	106,884
Bank deposits	40,711	57,480
Financial assets at fair value through profit or loss	17,696	36,835
	231,363	240,383
	231,363	240,383

32. OPERATING LEASE COMMITMENTS

As at the balance sheet date, the Group leased out its investment properties under operating leases. Most of the investment properties have committed tenants with remaining lease terms ranging from less than 1 year to 20 years. The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	9,412	7,810
In the second to fifth years inclusive	29,101	25,182
Over five years	43,202	42,766
	81,715	75,758
	81,715	75,758

33. FINANCIAL GUARANTEES

At the balance sheet date, the Company had issued corporate guarantees to banks in respect of bank loans and general banking facilities granted to and utilised by its subsidiaries amounting to HK\$88,360,000 (2005: HK\$79,899,000). The fair value of these guarantees is immaterial.

34. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in the financial statements, during the year, the Group had the following transactions with related parties.

	2006 HK\$'000	2005 HK\$'000
Compensation paid to key management personnel, excluding directors:		
– Salaries and other benefits	1,678	1,406
– Contribution to defined contribution plan	36	32
Royalty paid to a director (<i>Note</i>)	185	185

Note:

Mr. Gan Wee Sean was interested as licensor in an agreement with a subsidiary, Hoe Hin Pak Fah Yeow Manufactory, Limited, whereby the subsidiary was granted a license to use certain trademarks relating to White Flower Embrocation registered in Malaysia and Singapore for a period of one year from 1 January 2006 in consideration of an annual royalty payment equivalent to 10 percent of the sales in Malaysia and Singapore. The agreement has been renewed for a further term of one year on similar terms.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, available-for-sale financial assets, financial assets at fair value through profit or loss, cash and short-term deposits. The main purpose of these financial instruments is to raise or maintain financial resources for the Group's operations. The Group has various other financial instruments such as trade receivables and trade payables, which arise directly from its business activities.

Exposure to interest rate risk, currency risk, credit risk and liquidity risk arise in the normal course of the Group's business. The board of directors generally adopts conservative strategies on its risk management and limits the Group's exposure to these risks to a minimum. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely and effective manner. The policies on how to monitor and control these risks are set out below.

Interest rate risk

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

Currency risk

Most of the Group's business transactions were conducted in Hong Kong dollars and United States dollars. The Group considers there is no significant exposure to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged. The currency risk for bank borrowings is minimal as they are either denominated in Hong Kong dollars or the currency of the underlying pledged assets. Other than United States dollars, the Group is exposed to foreign exchange fluctuations for certain investments in overseas securities and bank balances. The Group closely monitors the related exchange rates and, whenever appropriate, takes necessary action to reduce exchange risk.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management of the Group has a credit limit policy in place and exposures to credit risk are monitored on an ongoing basis. In order to minimise credit risk, management of the Group has established credit limits, credit approvals and other monitoring procedures to ensure appropriate actions are taken to recover overdue debts.

Liquidity risk

The management of the Group closely monitors the current and expected liquidity requirements to ensure sufficient reserves of cash available for the Group's business operation in short and longer term.

36. COMPARATIVE FIGURES

As further explained in note 2 to the financial statements, due to the adoption of the revised HKAS 21, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, prior period adjustments have been made and certain comparative amounts have been restated.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December				
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000 (Restated)	2006 HK\$'000
Turnover	86,965	83,773	89,383	96,208	100,090
Profit before taxation	27,157	34,602	45,706	30,619	47,500
Taxation	(4,006)	(3,408)	(5,966)	(2,554)	(5,403)
Profit after taxation	23,151	31,194	39,740	28,065	42,097
Dividends	12,740	19,500	37,700	46,020	49,920
Earnings per share	8.9 cents	12.0 cents	15.3 cents	10.8 cents	16.2 cent

Note: As a result of the changes in accounting policies as detailed in note 2 to the financial statements, figures for the years from 2004 to 2005 have been restated for comparative purposes.

CONSOLIDATED BALANCE SHEET

	At 31 December				
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	2006 HK\$'000
Non-current assets	154,011	174,462	173,367	224,212	256,272
Net current assets	104,772	173,582	189,860	82,516	58,968
Non-current liabilities	(4,217)	(59,689)	(68,551)	(35,795)	(39,677)
	254,566	288,355	294,676	270,933	275,563
Share capital	13,000	13,000	13,000	13,000	13,000
Reserves	241,566	275,355	281,676	257,933	262,563
	254,566	288,355	294,676	270,933	275,563

INVESTMENT PROPERTIES

	Location	Tenure	Approximate floor area	Type	Group's interest (%)
1.	12th Floor, Grand Building Nos. 15-18 Connaught Road Central Hong Kong	Two leases for 999 years respectively from 6 December 1899 and 24 December 1898	2,905 sq.ft.	Commercial	100
2.	7th Floor, Lippo Leighton Tower No. 103 Leighton Road Causeway Bay Hong Kong	Lease for 982 years from 25 June 1860	3,880 sq.ft.	Commercial	100
3.	13th Floor in Block B North Point Mansion (Part) Nos. 692-702 King's Road and Nos. 27-29 Healthy Street East Hong Kong	Lease for 75 years from 20 March 1933, renewable for another 75 years	905 sq.ft.	Residential	100
4.	Flat A on 4th Floor Hennessy Apartments No. 48 Percival Street Hong Kong	Lease for 982 years from 25 June 1860	715 sq.ft.	Residential	100
5.	No. 30 Kallang Pudding Road No. 03-07 Valiant Industrial Building Singapore, 349312	Freehold	323 sq.m.	Industrial	100
6.	Princess Court 47-63 Queensway London, W2 United Kingdom	Freehold	7,241 sq.ft.	Commercial/ Residential	100
7.	Unit D on 10th Floor of Block 1 Palace Court, Pacific Plaza 1068 Huai Hai Zhong Road Xu Hui District, Shanghai The People's Republic of China	Lease from 2 November 1994 to 19 October 2063	106 sq.m.	Residential	100

OTHER PROPERTIES

	Location	Tenure	Approximate floor area	Type	Group's interest (%)
1.	Roof of No. 84 Hing Fat Street Hong Kong	Lease for 75 years from 15 May 1916, renewable for another 75 years	3,080 sq.ft.	Commercial	100
2.	11th Floor The Sun's Group Centre 200 Gloucester Road Wanchai Hong Kong	Lease for 99 years from 26 December 1928, renewable for another 99 years	7,388 sq.ft.	Commercial	100
3.	Units 1 to 13 on 2nd Floor Paramount Building No. 12 Ka Yip Street Chai Wan Hong Kong	Lease from 29 May 1987 to 30 June 2047	31,444 sq.ft.	Industrial	100
4.	Car parking Space Nos. 13 and 14 on 1st Floor Paramount Building No. 12 Ka Yip Street Hong Kong	Lease from 29 May 1987 to 30 June 2047	133 sq.ft.	Carpark	100