

遠東控股國際有限公司

**Far East Holdings International Limited**

Stock Code : 0036



# CONTENTS

	PAGE(S)
CORPORATE INFORMATION	2
BUSINESS PROFILE	3
MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER'S STATEMENT	4
PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT	8
DIRECTORS' REPORT	11
CORPORATE GOVERNANCE REPORT	18
INDEPENDENT AUDITOR'S REPORT	22
CONSOLIDATED INCOME STATEMENT	24
CONSOLIDATED BALANCE SHEET	25
BALANCE SHEET	27
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	28
CONSOLIDATED CASH FLOW STATEMENT	29
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	31
FIVE YEARS FINANCIAL SUMMARY	94
PARTICULARS OF PROPERTIES HELD BY THE GROUP	95

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

# CORPORATE INFORMATION

## PLACE OF INCORPORATION

Hong Kong

## BOARD OF DIRECTORS

### Executive Directors:

Deacon Te Ken Chiu, J.P. (Chairman)  
Mr. Duncan Chiu, B.Sc. (Managing Director and  
Chief Executive Officer)  
Mr. Dennis Chiu, B.A.

### Non-executive Directors:

Tan Sri Dato' David Chiu, B.Sc.  
Mr. Daniel Tat Jung Chiu  
Mr. Derek Chiu, B.A.  
Mr. Desmond Chiu, B.A.  
Ms. Margaret Chiu, LL.B.  
Ms. Min Tang, B.Sc.

### Independent Non-executive Directors:

Dr. Lee G. Lam  
Mr. Eugene Yun Hang Wang, MBA  
Mr. Hing Wah Yim, CPA (Practising), FCCA, CPA

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Hung Kwong Lui, FCPA, FCCA, CGA, ACA

## SOLICITORS

Woo, Kwan, Lee & Lo

## AUDITOR

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong

## AUTHORISED REPRESENTATIVES

Mr. Duncan Chiu, B.Sc.  
Mr. Hung Kwong Lui, FCPA, FCCA, CGA, ACA

## AUDIT COMMITTEE

Dr. Lee G. Lam (Chairman)  
Mr. Eugene Yun Hang Wang, MBA  
Mr. Derek Chiu, B.A.  
Mr. Hing Wah Yim, CPA (Practising), FCCA, CPA

## REMUNERATION COMMITTEE

Mr. Duncan Chiu, B.Sc. (Chairman)  
Dr. Lee G. Lam  
Mr. Eugene Yun Hang Wang, MBA

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
The Hongkong and Shanghai Banking  
Corporation Limited  
The Bank of East Asia Limited  
Hang Seng Bank Limited

## REGISTERED OFFICE

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

## PRINCIPAL OFFICE

Room 1802-1804, 18th Floor  
Far East Consortium Building  
121 Des Voeux Road Central  
Hong Kong  
Telephone 3521 3800  
Facsimile 3521 3821  
Email [info@feholdings.com.hk](mailto:info@feholdings.com.hk)

## SHARE REGISTRAR AND TRANSFER OFFICE

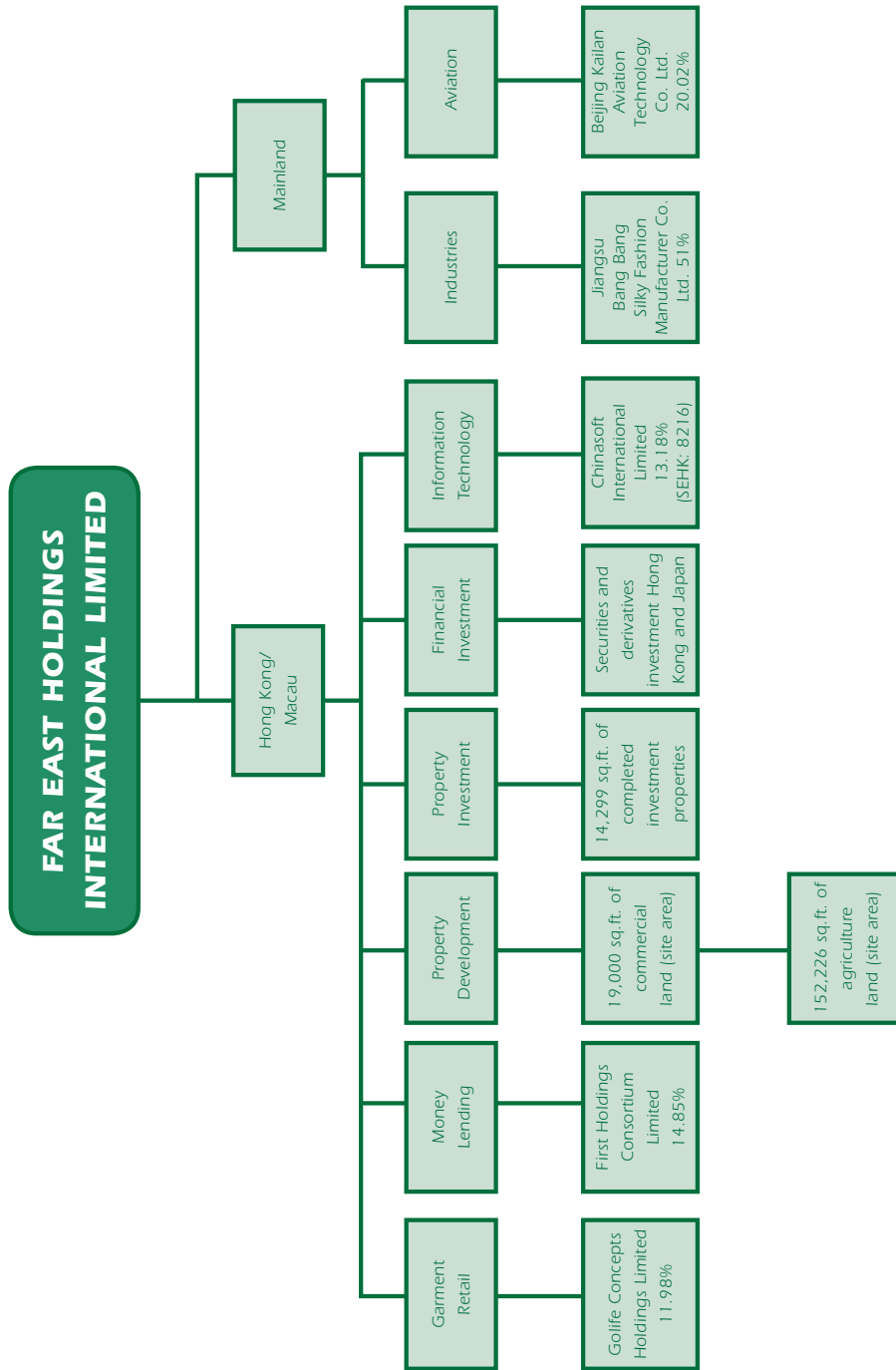
Computershare Hong Kong Investor Services  
Limited  
Shops 1712-1716  
17th Floor, Hopewell Centre  
183 Queen's Road East  
Hong Kong

## LISTING INFORMATION

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

## WEBSITE

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



# MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER'S STATEMENT

## CORPORATE RESULTS

For the year ended 31st December, 2007, the Company and its subsidiaries (the "Group") recorded gross proceeds from continuing operations of approximately HK\$77.1 million (2006: HK\$66.3 million), representing a rise of 16% compared with last year.

The Group had achieved a net profit attributable to equity holders of the Company approximately HK\$97.39 million (2006: HK\$15.96 million), an increase of 510% from last year mainly due to net gain on deemed disposal in an associate. The earnings per share from continuing operations for the year ended 31st December, 2007 was 87.5 HK cents (2006: 14.6 HK cents), an increase of 499% over last year.

## DIVIDEND AND BONUS SHARE ISSUE

No interim dividend was paid during the year but the Board now recommends a final dividend of 2 HK cents per share payable to shareholders of the Company whose names are on the register of members on 30th May, 2008. The Board also recommends the issue of bonus shares on the basis of one bonus share for every one existing share held by shareholders registered as such on the register of members on 30th May, 2008. The necessary resolutions will be proposed at the forthcoming Annual General Meeting on 30th May, 2008, and if passed, dividend warrants and share certificates will be posted on 10th June, 2008.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2007, the Group had cash and bank balances, pledged deposits and deposits held at financial institutions amounting to HK\$93.58 million (2006: HK\$47.91 million). Basically, the Group's funding policy was to finance the business operations with internally net generated cash and bank facilities. As at 31st December, 2007, the Group had total borrowings of HK\$26.65 million (2006: HK\$10.89 million) of which HK\$9.01 million (2006: HK\$10.89 million) was payable within one year and the remaining was payable after one year and was fully secured. The Group's borrowings were denominated in Hong Kong dollar, Japanese Yen and United States dollar.

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

## GEARING RATIO AND CURRENT RATIO

The Group's gearing ratio (total bank and other loans to shareholders' equity) as at 31st December, 2007 increased to 8.12% (2006: 5.76%). The Group's current ratio (current assets to current liabilities) as at 31st December, 2007 raised to 7.55 (2006: 4.81). On the whole, the financial position and liquidity of the Group were healthy.

## CAPITAL STRUCTURE AND FUND RAISING ACTIVITY

As announced on 4th December, 2007, the Company raised approximately HK\$28.4 million after deduction of expenses by way of a top-up placing of shares pursuant to the general mandate. The net proceeds received from the top-up placing of shares will be used for general working capital of the Group. On 11th December, 2007, the Company completed a top-up placing of Shares and therefore, the Company had allotted and issued 21,000,000 new shares at a price of HK\$1.39 per share. The new ordinary shares rank pari passu with the existing shares in all respect.

## PLEDGE OF ASSETS

At 31st December, 2007, the Group had pledged certain listed investments, bank deposits and certain properties with an aggregate carrying value of approximately HK\$61.8 million (2006: HK\$41.3 million) to banks, financial institutions for margin trading facilities, and other loan facilities to the Group to the extent of approximately HK\$47.9 million (2006: HK\$32.9 million).

## CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

### Contingent Liabilities

At 31st December, 2007, the Group had no significant contingent liabilities (2006: Nil).

### Capital Commitments

On 18th September, 2007, Jubilee Star Limited ("Jubilee Star"), a wholly-owned subsidiary of the Group, and China Aviation Supplies Import and Export Group Corporation ("China Aviation") entered into a conditional joint venture agreement for transformation of Beijing Kailan Aviation Technology Co. Ltd. ("Beijing Kailan") into an equity joint venture through capital injection of approximately RMB38 million into Beijing Kailan by Jubilee Star. Upon fulfillment of conditions set out on the joint venture agreement, China Aviation and Jubilee Star will own a 79.98% and 20.02% equity interest in Beijing Kailan respectively.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

On 29th January, 2007, River Joy Limited, a wholly-owned subsidiary of the Company purchased a Property at Flat C on 22nd Floor of Tower 3, Tregunter, with car parking space No. 26 on level 5 of Tower 3, No. 14 Tregunter Path, Hong Kong from Lee Lo Miu Ling and Lee Marcus at a consideration of HK\$27 million. The Property had a total gross floor area of approximately 3,001 sq.ft. approximately HK\$8,997 per sq.ft..

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

On 27th April, 2007, Power Profit Far East Limited (the "Power Profit") a wholly-owned subsidiary of the Company and First Holdings Consortium Ltd (the "First Holdings") and other subscribers have entered into the Shareholders Agreement pursuant to which Power Profit irrevocably subscribes for approximately 1.92 million shares representing 14.85% equity interest in the enlarged issued share capital of the First Holdings as at the subscription date and undertakes to fully pay up the Subscription Shares at the Subscription Price of HK\$15 million.

## MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER'S STATEMENT

On 31st August, 2007, Peterfame Company Limited, a wholly-owned subsidiary of the Company disposed of a property at Lower Ground to 3rd Floor, Kwai Chung Fa Yuen, Nos. 50-56 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong to Star Way Properties Limited at a consideration of HK\$27.6 million.

On 18th September, 2007, Jubilee Star, a wholly-owned subsidiary of the Company, and China Aviation entered into the new joint venture agreement (the "New JV Agreement") for transformation of Beijing Kailan into a sino-foreign equity joint venture (the "Transformation") by capital injection of the RMB38 million into Beijing Kailan by Jubilee Star, of which RMB30.71 million shall be used for the increase in the registered capital and RMB7.29 million as capital reserve. The New JV Agreement entirely supersedes the Original Joint Venture Agreement which was terminated and ceased to have effect on 18th September, 2007. Upon completion of the Transformation, Beijing Kailan will be owned as to approximately 79.98% by China Aviation Supplies and as to approximately 20.02% by Jubilee Star.

### EMPLOYEES AND REMUNERATION POLICIES

At 31st December, 2007, the Group had approximately 400 employees in Hong Kong and PRC (2006: 500 employees). The Group offers its employees competitive remuneration packages based on industry's practices and performance of individual employee. Year-end discretionary bonus would be granted to reward and motivate those well-performed employees. The Group had adopted a share option scheme on 23rd May, 2005 and discretionary share options would be granted to reward and motivate those well performed employees. There were totaling 2,118,348 share options outstanding as at 31st December, 2007.

### BUSINESS REVIEW AND PROSPECTS

#### Information Technology Holdings

Chinasoft (stock code: 8216) is an associate of the Group and is listed in the Growth Enterprise Market of Hong Kong. Chinasoft has reported a net profit of RMB122.54 million for the year ended 31st December, 2007 (2006: net loss RMB63.85 million) while turnover grew from RMB355.24 million in 2006 to RMB811.55 million in 2007.

During the year, Chinasoft has successfully integrated with Hinge Global Resources Inc. and expands its staff force to over 4,000 employees.

In the coming year, Chinasoft will further strengthen its foothold in e-Government solutions, while looking to expand in the I.T. outsourcing and I.T. training segments rapidly. Chinasoft will seek to build Excellence Training Centres (ETCs) in China to offer I.T. training programs in China and at the same time ensure sufficient supply of talented labor for Chinasoft.

#### Industrial Holdings

The Group's industrial business, operated through Jiangsu Bang Bang Silky Fashion Manufacturer Company Limited recorded a 17.28% decline in turnover to HK\$27.71 million comparing with last year (2006: HK\$33.50 million). The increases in raw material prices and operating expenses, the garment business incurred a net loss of HK\$1.48 million (2006: net profit of approximately HK\$6,000). However, the trading and export of garment are expected to remain challenging in the coming year with the rise of labour costs and continued appreciation of Renminbi in China.

## MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER'S STATEMENT

The Group holds 11.98% effective interest of the Golife. Golife reported a net loss of HK\$92.24 million for the financial year ended 2007, the loss was mainly due to one time write-off of goodwill accrued from its acquisition of Chung Chin Limited in 2006.

The retail market in Hong Kong remains strong, while the increasing rentals has negative impacts on profit margins, we are still positive on the overall retail market. In 2008, Golife will develop into the China market and plan to open stores in major cities like Beijing and Shanghai.

The Group has also invested into First Holdings on 27th April, 2007 and holds 14.85% equity interest. First Holdings holds 100% equity interest in First Credit Limited which is a private company incorporated in Hong Kong and is engaged in money lending business in Hong Kong.

### **Property Division**

The price of residential property market in Hong Kong raised rapidly in 2007. With rising incomes, strong affordability for homebuyers and negative real interest rates, the Group has recorded a profits of HK\$10.49 million from increase a far value of its investment properties. Tight supply of new private housing will be expected in the next year and therefore the Group has positive expectations from its property holdings.

### **OUTLOOK**

With the slowdown of the U.S. economy expected in the coming year resulting from the subprime mortgage crisis, there will be big uncertainties in the global financial markets. Under a tightening monetary policy in China, the economic growth in Mainland China is expected to be moderate.

It remains unclear how long the crisis will persist and its overall impact to China's economy. However, the slowdown of China's economy means more reasonable investment opportunities may arise. With the view that China's growth will still be rampant in the long term, the Group will continue to explore new investments with good potentials in the region.

### **Duncan Chiu**

Managing Director and Chief Executive Officer

Hong Kong, 25th April, 2008



# PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

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

Mr. Chiu, aged 83, is the founder of the Far East Group and has been the Chairman of the Company since 1981. He is also the Chairman of Far East Consortium International Limited (stock code: 35) and Far East Hotels and Entertainment Limited (stock code: 37). Mr. Chiu has more than 50 years of business experience in property investment and development; operation of entertainment and tourism related business; hotel ownership and management; financing and banking. He was a member of the Chinese People's Political and Consultative Conference from the 6th to 9th; the founder of the Yan Chai Hospital and the Vice Patron of the Community Chest since 1968; the founder and permanent Honorary Chairman of The New Territories General Chamber of Commerce; the founder and Chairman of the Ju Ching Chu Secondary School since 1966. Mr. Chiu is the father of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

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

Mr. Chiu, aged 33, is the Managing Director and Chief Executive Officer of the Group. Mr. Chiu graduated with a bachelor's degree in business administration from Pepperdine University of California, USA in 1996. He serves as a Non-executive Director of Far East Hotels & Entertainment Limited (Stock Code: 37), Chinasoft International Limited (Stock Code: 8216) and Golife Concepts Holdings Limited (Stock Code: 8172). He currently serves as Vice Chairman and Treasurer of The Chamber of Hong Kong Listed Companies, Vice President of Innovation & Technology Association, Committee Member of All-China Youth Federation, Vice Chairman of Henan Provincial Youth Federation and Member of The Chinese People's Political Consultative Conference, Shanghai Committee. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu and Ms. Margaret Chiu.

### **Mr. Dennis Chiu, B.A.**

Mr. Chiu, aged 49, was appointed as an Executive Director of the Company in 1981. Mr. Chiu has been actively involved in the business development in the People's Republic of China ("PRC"), Singapore and Malaysia. He is an Executive Director of Far East Consortium International Limited and a Non-executive Director of Far East Hotels and Entertainment Limited. He is also a Non-executive Director of London-listing Fortune Oil Plc. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

## NON-EXECUTIVE DIRECTORS

### **Tan Sri Dato' David Chiu, B.Sc.**

Tan Sri Dato' David Chiu, aged 54, holds a double degree of Bachelor of Science in Business Administration and Economics at the University of Sophia, Japan. He has over 30 years' experience in the property development and related business. Since 1978, he had been the Managing Director of Far East Consortium Limited (the predecessor of Far East Consortium International Limited). He was appointed as Deputy Chairman and Chief Executive Officer of Far East Consortium International Limited ("FECIL") on 8th December, 1994 and 8th October, 1997 respectively. FECIL is listed on the Hong Kong Stock Exchange, it is primarily engaged in middle-class residential property development and hotel development and operation in Greater China.

## PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

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

### **Mr. Daniel Tat Jung Chiu**

Mr. Chiu, aged 47, has been appointed as a Director of the Company since 1983. He is also a Non-executive Director of Far East Consortium International Limited. He is the major shareholder and Vice Chairman of London-listing Fortune Oil Plc. He is the Chairman of Harrow International School. Mr. Chiu has extensive experience in China trade, petroleum trading and infrastructure investments. He also takes an active part in several kinds of projects in Hong Kong and the P.R.C.. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Dennis Chiu, Derek Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

### **Mr. Derek Chiu, B.A.**

Mr. Chiu, aged 42, was appointed as a Director of the Company in 1989. He is also the Managing Director and Chief Executive of Far East Hotels and Entertainment Limited (Stock Code: 37). Mr. Chiu has extensive experience in the operation of amusement parks and entertainment business. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Desmond Chiu, Duncan Chiu and Ms. Margaret Chiu.

### **Mr. Desmond Chiu, B.A.**

Mr. Chiu, aged 41, was appointed as a Director of the Company in 1991. He graduated from the University of Cambridge, the United Kingdom and he was appointed as Deputy Managing Director of Far East Hotels and Entertainment Limited in 1999. He is the son of Deacon Te Ken Chiu, J.P. and the brother of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Duncan Chiu and Ms. Margaret Chiu.

### **Ms. Margaret Chiu, LL.B.**

Ms. Chiu, aged 50, was appointed as a Director of the Company in 1995. She is also an Executive Director of Far East Hotels and Entertainment Limited. She graduated with law degree from the University of Buckingham, the United Kingdom and has extensive experience in entertainment, television and motion picture business in Hong Kong, the PRC and overseas. She is the daughter of Deacon Te Ken Chiu, J.P. and sister of Messrs. David Chiu, Dennis Chiu, Daniel Tat Jung Chiu, Derek Chiu, Desmond Chiu and Duncan Chiu.

### **Ms. Min Tang, B.Sc.**

Ms. Tang, aged 63, was appointed as a Director of the Company on 1st January 2007. Ms. Tang holds a bachelor's degree in physics from Peking University, in PRC and has the professional qualification professor grade of Senior Engineer in Computer Science. She has more than 30 years experience at the management level in the Information Technology industry in the PRC.

## PROFILE OF THE DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTORS

#### **Dr. Lee G. Lam**

Dr. Lam, aged 48, has been an Independent Non-executive Director of the Company since 30th September, 2004. He holds a Bachelor of Science in Mathematics and Sciences, a Master of Science in Systems Science, and a Master of Business Administration, all from the University of Ottawa in Canada, a Post-graduate Diploma in Public Administration from Carleton University in Canada, a Post-graduate Diploma in English and Hong Kong Law and a Bachelor of Law (Hons) from Manchester Metropolitan University in the UK, and a Doctor of Philosophy from the University of Hong Kong. Dr. Lam has over 25 years of multinational operation and general management, strategy consulting, corporate governance, investment banking, and direct investment experience in the telecommunications, media and technology (TMT), retail, property and financial services sectors. He is Chairman of Monte Jade Science and Technology Association of Hong Kong, and serves as a non-executive director of several publicly-listed companies in the Asia Pacific region. He is a Member of the Hong Kong Institute of Bankers, a Member of the Young Presidents' Organization, a Fellow of the Hong Kong Institute of Directors and the China Institute of Directors, a Member of the General Council of the Chamber of Hong Kong Listed Companies, and a Part-time Member of the Central Policy Unit of the Government of the Hong Kong Special Administrative Region.

#### **Mr. Eugene Yun Hang Wang, MBA**

Mr. Wang, aged 34, has been appointed as an Independent Non-executive Director of the Company on 1st December 2007. He holds a Bachelor of Science in Business Administration from the University of Southern California in the United States and a Master of Business Administration from The Hong Kong University of Science and Technology in Hong Kong. He has over 10 years of experience in audit work, accounting and financial management and is currently the executive director of Sterling Products Limited, a garment and textile manufacturing company.

#### **Mr. Hing Wah, Yim, CPA (Practising), FCCA, CPA**

Mr. Yim aged 44, was appointed as an Independent Non-executive Director of the Company on 1st April, 2006. He is an associate member of Hong Kong Institute of Certified Public Accountants, fellow member of the Chartered Association of Certified Accountants and a member of the Hong Kong Securities Institute. He graduated from Hong Kong Polytechnic University with an honorary bachelor's degree in Accountancy. Mr. Yim has over 16 years of experience in audit work, accounting, taxation and financial management. He had worked with Deloitte Touche Tohmatsu for over 8 years. Currently, he is an audit partner of Chan Yim Cheng & Co. He is an Independent Non-executive Director of other listed companies in The Stock Exchange of Hong Kong Limited namely Jiangsu NandaSoft Company Limited, Powerleader Science & Technology Co. Ltd., China Haisheng Juice Holdings Co. Ltd., Ever Fortune International Holdings Limited and Launch Tech Co, Ltd.

### SENIOR MANAGEMENT

#### **Mr. Hung Kwong Lui, FCPA, FCCA, CGA, ACA**

Mr. Lui aged 48, is the Qualified Accountant and Company Secretary of the Company and the Financial Controller of the Group. He has over 20 years experience in audit and finance function in various sizeable and multinational companies. He is a Fellow Member of the Hong Kong Institute of Certified Public Accountants as well as Fellow Member of The Association of Chartered Certified Accountants in the United Kingdom. He is also an Associate Member of the Certified General Accountants Association of Canada and the Institute of Chartered Accountants in English and Wales.

The directors of Far East Holdings International Limited (the "Company") present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2007.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are set out in notes 20 to 21 respectively to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

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

No interim dividend was paid during the year but the Board now recommends a final dividend of 2 HK cents per share payable to shareholders of the Company whose names are on the register of members on 30th May, 2008.

## BONUS ISSUE OF SHARES

The Board also recommends the issue of bonus shares on the basis of one bonus share for every one existing share held by shareholders registered as such on the register of members on 30th May, 2008. The bonus issue is subject to the conditions and trading arrangements set out in the circular despatched together with this Annual Report.

## FIXED ASSETS

Details of movements during the year in fixed assets of the Group and the Company are set out in note 18 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 38 to the consolidated financial statements.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 94 of the consolidated financial statements.

## PROPERTIES

Details of the properties held by the Group at 31st December, 2007 are set out on pages 95 to 96 of the consolidated financial statements.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's distributable reserve at 31st December, 2007 was HK\$77,962,156 (2006: HK\$33,929,184).

# DIRECTORS' REPORT

## MANAGEMENT CONTRACTS

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

## PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES

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

## DIRECTORS

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

### Executive Directors

Deacon Te Ken Chiu J.P. (Chairman)  
Mr. Duncan Chiu (Managing Director and Chief Executive Officer)  
Mr. Dennis Chiu

### Non-executive Directors

Tan Sri Dato' David Chiu  
Mr. Daniel Tat Jung Chiu  
Mr. Derek Chiu  
Mr. Desmond Chiu  
Ms. Margaret Chiu  
Ms. Min Tang (appointed on 1st January, 2007)

### Independent Non-executive Directors

Dr. Lee G. Lam  
Mr. Ryan Yen Hwung Fong (resigned on 30th September, 2007)  
Mr. Hing Wah Yim  
Mr. Eugene Yun Hang Wang (appointed on 1st December, 2007)

In accordance with Articles 79 and 80 of the Company's Articles of Association, Mr. Duncan Chiu, Mr. Derek Chiu, Mr. Hing Wah Yim and Dr. Lee G. Lam will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, have offered themselves for re-election.

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

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

## DIRECTORS' SERVICE CONTRACTS

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

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

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

At 31st December, 2007, the interests of the Directors and senior executives of the Company and their associates in the shares and above options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (1) Long positions

#### Ordinary shares of HK\$0.01 each of the Company

Name of Director	Number of issued ordinary Shares held			Total interests	Percentage of the issued share capital of the Company
	Personal interests	Family interests	Corporate interests		
Deacon Te Ken Chiu, J.P.	10,424,332	2,087,580 <sup>(1)</sup>	934,683	13,446,595	10.31%
Tan Sri Dato' David Chiu	1,870,000	–	6,168,800 <sup>(2)</sup>	8,038,800	6.16%
Ms. Margaret Chiu	1,100,000	–	–	1,100,000	0.84%
Mr. Dennis Chiu	3,520,044	–	2,200,000 <sup>(3)</sup>	5,720,044	4.38%
Mr. Daniel Tat Jung Chiu	2,420,000	–	11,440,044 <sup>(4)</sup>	13,860,044	10.62%
Mr. Derek Chiu	44,220	–	–	44,220	0.03%
Mr. Desmond Chiu	2,000	–	–	2,000	0.002%
Mr. Duncan Chiu	28,788,878	–	–	28,788,878	22.07%

Notes:

- (1) These Shares are held by Madam Ching Lan Ju Chiu, wife of Deacon Te Ken Chiu, J.P.
- (2) These Shares are held by Rocket High Investments Limited, a company wholly-owned by Tan Sri Dato' David Chiu.
- (3) These Shares are held by Cape York Investments Limited ("Cape York"), a company owned by Mr. Dennis Chiu and Mr. Daniel Tat Jung Chiu equally.
- (4) Of the 11,440,044 Shares, 2,200,000 Shares are held by Cape York, and the remaining 9,240,044 Shares are held by Gorich Holdings Limited, a company wholly-owned by Mr. Daniel Tat Jung Chiu.

## DIRECTORS' REPORT

Save as disclosed above, none of directors had registered an interest and short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies at 31st December, 2007.

### (2) Share options

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

Particulars of the Company's share option scheme are set out in note 39 to the consolidated financial statements. The following table discloses movements in the Company's share options during the year:

Name of Grantee	Number of Shares Options			Exercise price HK\$	Exercisable Grant date	Exercise period (Both days inclusive)
	Outstanding as at 1/1/2007	Cancelled during the year	Outstanding as at 31/12/2007			
Deacon Te Ken Chiu, J.P.	2,341,733	2,341,733	-	1.153	21/7/2005	21/7/2005– 20/7/2015
Mr. Dennis Chiu	1,170,866	1,170,866	-	1.153	21/7/2005	21/7/2005– 20/7/2015
Mr. Duncan Chiu	3,746,773	3,746,773	-	1.153	21/7/2005	21/7/2005– 20/7/2015
	1,980,000	1,980,000	-	1.2182	21/4/2006	23/5/2006– 22/5/2016
	1,980,000	1,980,000	-	1.2182	21/4/2006	23/5/2007– 22/5/2017
Aggregate for directors	11,219,372	11,219,372	-			
Aggregate for employees	468,348	-	468,348	1.153	21/7/2005	21/7/2005– 20/7/2015
	825,000	-	825,000	1.2182	21/4/2006	23/5/2006– 22/5/2016
	825,000	-	825,000	1.2182	21/4/2006	23/5/2007– 22/5/2017
	<u>13,337,720</u>	<u>11,219,372</u>	<u>2,118,348</u>			

No share options of the Company were granted, lapsed or exercised during the year.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## SUBSTANTIAL SHAREHOLDERS

At 31st December, 2007 the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain Directors under the section headed "Directors' and senior executives' interests in shares and share options", the following shareholders had notified the Company of any interest, directly or indirectly, in 5% or more of the issued share capital of the Company:

Name of Substantial Shareholder	Number of issued ordinary shares of the Company held	Percentage of issued share capital of the Company
Madam Ju Ching Lan <sup>(1)</sup>	13,446,595	10.31%
Gorich Holdings Limited ("Gorich") <sup>(2)</sup>	9,240,044	7.08%
Max Point Holdings Limited ("Max Point") <sup>(3)</sup>	7,764,240	5.95%

Notes:

- (1) Of the 13,446,595 Shares, 11,359,015 Shares are held by Mr. Deacon Chiu. Madam Ju Ching Lan is the spouse of Mr. Deacon Chiu. The interests of Mr. Deacon Chiu in the Company is stated under the section headed "Directors' Interests" above.
- (2) Gorich is wholly-owned by Mr. Daniel Tat Jung Chiu. The interests of Mr. Daniel Tat Jung Chiu in the Company is stated under the section headed "Directors' Interests" above.
- (3) The entire share capital of Max Point is beneficially owned by Mr. Chan Wai Ki.
- (4) All interests disclosed above represent long positions in the Shares

Save as disclosed above, the Company had not been notified of any other interests or short positions representing 5% or more of the Company's issued share capital at 31st December, 2007.



# DIRECTORS' REPORT

## CONFIRMATION OF INDEPENDENCE

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

## DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$40,000.

## MAJOR CUSTOMERS AND SUPPLIERS

Aggregate sales of the Group's five largest and the Group's largest customer accounted for approximately 91% and 69% of total turnover, respectively.

Aggregate purchases of the Group's five largest and the Group's largest supplier accounted for approximately 53% and 21% of total purchases, respectively.

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

## CORPORATE GOVERNANCE

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

## AUDIT COMMITTEE

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

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

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

### **EMOLUMENT POLICY**

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

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible participants, details of the scheme is set out in note 39 to the consolidated financial statements.

### **EVENTS SUBSEQUENT TO BALANCE SHEET DATE**

Details of significant events occurring after the balance sheet date are set out in note 49 to the consolidated financial statements.

### **AUDITOR**

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

On behalf of the Board

#### **Duncan Chiu**

Managing Director and Chief Executive Officer

Hong Kong, 25th April, 2008

# CORPORATE GOVERNANCE REPORT

## COMMITMENT TO CORPORATE GOVERNANCE

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

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31st December, 2007.

## THE BOARD OF DIRECTORS

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

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

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

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

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

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

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

# CORPORATE GOVERNANCE REPORT

The Board met on four occasions during 2007. The attendance of individual Directors at the Board meetings is set out in the table below.

	Number of meetings attended	Attendance rate
<b>Executive Directors</b>		
Deacon Te Ken Chiu J.P. (Chairman)	4/4	100%
Mr. Duncan Chiu (Managing Director and Chief Executive Officer)	4/4	100%
Mr. Dennis Chiu	0/4	0%
<b>Non-executive Directors</b>		
Tan Sri Dato' David Chiu	0/4	0%
Mr. Daniel Tat Jung Chiu	0/4	0%
Mr. Derek Chiu	3/4	75%
Mr. Desmond Chiu	1/4	25%
Ms Margaret Chiu	0/4	0%
Ms Min Tang (appointed on 1st January 2007)	1/4	25%
<b>Independent Non-executive Directors</b>		
Dr. Lee G Lam	3/4	75%
Mr. Ryan Yen Hwung Fong (resigned on 30th September, 2007)	3/4	N/A
Mr. Hing Wah Yim	3/4	75%
Mr. Eugene Yun Hang Wang (appointed on 1st December, 2007)	1/4	N/A

## CORPORATE GOVERNANCE

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

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

The Company has complied with Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31st December, 2007, with deviations from code provision A.4.1 of the Code in respect of the service term and rotation of Directors.

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

# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROL

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

## COMMUNICATION WITH SHAREHOLDERS

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

## AUDITORS' REMUNERATION

For the year ended 31st December, 2007, the Auditors of the Company received approximately HK\$903,000 for audit service (2006: HK\$674,000).

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Directors confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31st December, 2007.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

The Statement of the Auditors of the Company regarding their reporting responsibilities on the financial statements is set out in the Report of the Auditors on pages 22 to 23.

## AUDIT COMMITTEE

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

# CORPORATE GOVERNANCE REPORT

The Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the consolidated financial statements. The Committee comprises three independent non-executive directors, namely, Dr. Lee G. Lam, Mr. Hing Wah Yim and Mr. Eugene Yun Hang Wang and one non-executive director, Mr. Derek Chiu.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditors in matters within the scope of the group audit. Two meetings were held during the financial year ended 31st December, 2007.

The Group's interim report for the six months ended 30th June, 2007 and the annual report for the year ended 31st December, 2007 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

During the financial year ended 31st December, 2007, two meeting, were held by the Audit Committee. The individual attendance record of each member of the Audit Committee is as follows:

	<b>Number of meetings attended</b>	<b>Attendance rate</b>
Dr. Lee G. Lam (Chairman)	2/2	100%
Mr. Ryan Yen Hwung Fong (resigned on 30th September 2007)	1/2	N/A
Mr. Derek Chiu	2/2	100%
Mr. Hing Wah Yim (appointed as an audit committee member on 18 September 2007)	1/2	N/A
Mr. Eugene Yun Hang Wang (appointed on 1st December 2007)	1/2	N/A

## REMUNERATION COMMITTEE

The Company had established a Remuneration Committee with written terms of reference pursuant to the provisions set out in the Code. The committee comprised two independent non-executive directors, namely Dr. Lee G. Lam, Mr. Eugene Yun Hang Wang and the Managing Director, Mr. Duncan Chiu of the Company. The Remuneration Committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management. A meeting was held during the financial year ended 31st December, 2007.

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

During the financial year ended 31st December, 2007, one meeting was held by the Remuneration Committee. The individual attendance record of each member of the Remuneration Committee is as follows:

	<b>Number of meetings attended</b>	<b>Attendance rate</b>
Mr. Duncan Chiu (Chairman)	1/1	100%
Dr. Lee G. Lam	1/1	100%
Mr. Ryan Yen Hwung Fong (resigned on 30th September 2007)	0/1	N/A
Mr. Eugene Yun Hang Wang (appointed on 1st December 2007)	1/1	N/A

## Deloitte. 德勤

### TO THE MEMBERS OF FAR EAST HOLDINGS INTERNATIONAL LIMITED

#### 遠東控股國際有限公司

(Formerly known as Far East Technology International Limited 遠東科技國際有限公司)  
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Far East Holdings International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 93, which comprise the consolidated and the Company balance sheets as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

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

## INDEPENDENT AUDITOR'S REPORT

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

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

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
Certified Public Accountants

Hong Kong  
25th April, 2008



# CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2007

	NOTES	Continuing operations		Discontinued operation		Total	
		2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Gross proceeds	7	<b>77,128,645</b>	66,305,735	-	18,949,636	<b>77,128,645</b>	85,255,371
Sales of goods	6	<b>27,706,741</b>	33,502,783	-	18,949,636	<b>27,706,741</b>	52,452,419
Property rental income	6	<b>1,160,966</b>	1,033,189	-	-	<b>1,160,966</b>	1,033,189
Cost of sales		<b>(25,948,543)</b>	(30,990,767)	-	(20,937,398)	<b>(25,948,543)</b>	(51,928,165)
Gross profit (loss)		<b>2,919,164</b>	3,545,205	-	(1,987,762)	<b>2,919,164</b>	1,557,443
Dividend income from available-for-sale investment		<b>237,419</b>	165,669	-	-	<b>237,419</b>	165,669
Dividend income from held-for-trading investment		<b>1,360,914</b>	529,058	-	-	<b>1,360,914</b>	529,058
Increase in fair value of held-for-trading investments		<b>3,903,265</b>	3,595,402	-	-	<b>3,903,265</b>	3,595,402
Other income	8	<b>3,342,597</b>	3,086,424	-	254,141	<b>3,342,597</b>	3,340,565
Selling and distribution costs		<b>(134,019)</b>	(244,282)	-	(93,205)	<b>(134,019)</b>	(337,487)
Administrative expenses		<b>(15,590,561)</b>	(14,909,293)	-	(843,792)	<b>(15,590,561)</b>	(15,753,085)
Finance costs	11	<b>(1,206,786)</b>	(613,678)	-	(47,176)	<b>(1,206,786)</b>	(660,854)
Other expenses		-	(127,278)	-	(17,840)	-	(145,118)
Gain on disposal of available-for-sale investments		<b>608,909</b>	-	-	-	<b>608,909</b>	-
Imputed interest on debt component of convertible note		<b>195,886</b>	700,846	-	-	<b>195,886</b>	700,846
Decrease in fair value of embedded derivative of convertible note		-	(387,668)	-	-	-	(387,668)
Gain on conversion of convertible notes		<b>3,660,123</b>	-	-	-	<b>3,660,123</b>	-
Increase in fair value of investment properties	17	<b>10,488,900</b>	1,422,269	-	-	<b>10,488,900</b>	1,422,269
Gain on disposal of a jointly controlled entity		-	13,566,390	-	-	-	13,566,390
Gain on disposal of subsidiaries and discontinued operation	12 & 42	-	-	-	5,575,474	-	5,575,474
Gain on disposal of interest in an associate	21	<b>28,322,820</b>	16,804,646	-	-	<b>28,322,820</b>	16,804,646
Net gain (loss) on deemed disposal of an associate	21	<b>40,687,735</b>	(1,648,160)	-	-	<b>40,687,735</b>	(1,648,160)
Share of results of associates		<b>17,455,559</b>	(11,763,146)	-	-	<b>17,455,559</b>	(11,763,146)
Profit before taxation	13	<b>96,251,925</b>	13,722,404	-	2,839,840	<b>96,251,925</b>	16,562,244
Taxation credit (charge)	14	<b>592,093</b>	(371,654)	-	-	<b>592,093</b>	(371,654)
Profit for the year		<b>96,844,018</b>	13,350,750	-	2,839,840	<b>96,844,018</b>	16,190,590
Attributable to:							
Equity holders of the Company						<b>97,388,003</b>	15,962,052
Minority interests						<b>(543,985)</b>	228,538
						<b>96,844,018</b>	16,190,590
Dividend, paid	15					-	-
Earnings per share – basic	16						
– From continuing and discontinued operations						<b>87.5 HK cents</b>	14.6 HK cents
– From continuing operations						<b>87.5 HK cents</b>	12.0 HK cents
Earnings per share – diluted	16					<b>74.4 HK cents</b>	N/A

# CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	NOTES	2007 HK\$	2006 HK\$
<b>NON-CURRENT ASSETS</b>			
Investment properties	17	24,230,000	41,040,000
Property, plant and equipment	18	15,916,020	11,734,867
Prepaid lease payments	19	24,203,079	1,131,911
Interests in associates	21	103,343,924	39,593,645
Available-for-sale investments	22	38,852,163	12,512,564
Other non-current assets	23	5,270,343	–
Deposits paid for acquisition of property		–	2,700,260
Investment in convertible notes	24	–	4,962,049
		<b>211,815,529</b>	<b>113,675,296</b>
<b>CURRENT ASSETS</b>			
Prepaid lease payments	19	653,137	82,439
Held-for-trading investments	25	43,037,774	38,023,174
Inventories	26	6,515,532	6,444,064
Trade and other receivables	27	1,123,398	3,528,446
Amount due from a director	28	22,102,762	–
Amount due from an associate	29	639,629	639,629
Amount due from a minority shareholder	30	2,319,650	4,746,762
Amounts due from related companies	31	4,486,932	16,143,448
Tax prepaid		121,173	103,649
Pledged bank deposits	32 & 44	–	4,209,560
Deposits held at financial institutions	32	10,889,735	3,171,212
Bank balances and cash	32	82,686,579	40,526,459
		<b>174,576,301</b>	<b>117,618,842</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	33	10,598,332	10,159,489
Amounts due to directors	34	1,476,187	1,391,687
Amount due to a minority shareholder	30	297,038	297,038
Amounts due to related companies	31	1,593,635	1,619,438
Bank and other loans – due within one year	36	9,014,618	10,886,860
Obligations under a finance lease – due within one year	37	136,044	119,925
		<b>23,115,854</b>	<b>24,474,437</b>
<b>NET CURRENT ASSETS</b>		<b>151,460,447</b>	<b>93,144,405</b>
		<b>363,275,976</b>	<b>206,819,701</b>

# CONSOLIDATED BALANCE SHEET

At 31st December, 2007

	NOTES	2007 HK\$	2006 HK\$
<b>CAPITAL AND RESERVES</b>			
Share capital	38	<b>1,304,506</b>	1,094,506
Reserves		<b>326,793,873</b>	187,981,414
<hr/>			
Equity attributable to equity holders of the Company		<b>328,098,379</b>	189,075,920
Minority interests		<b>17,107,688</b>	16,476,689
<hr/>			
		<b>345,206,067</b>	205,552,609
<hr/>			
<b>NON-CURRENT LIABILITIES</b>			
Bank and other loans			
– due after one year	36	<b>17,633,489</b>	–
Obligations under a finance lease			
– due after one year	37	<b>113,905</b>	249,949
Deferred taxation	41	<b>322,515</b>	1,017,143
<hr/>			
		<b>18,069,909</b>	1,267,092
<hr/>			
		<b>363,275,976</b>	206,819,701
<hr/>			

The financial statements on pages 24 to 93 were approved and authorised for issue by the Board of Directors on 25th April, 2008 and are signed on its behalf by:

**Duncan Chiu**  
DIRECTOR

**Derek Chiu**  
DIRECTOR

# BALANCE SHEET

At 31st December, 2007

	NOTES	2007 HK\$	2006 HK\$
<b>NON-CURRENT ASSETS</b>			
Investment properties	17	5,180,000	4,640,000
Property, plant and equipment	18	229,098	885,151
Investments in subsidiaries	20	13,193,769	13,193,767
Interests in associates	21	12,822,635	13,786,211
Amounts due from subsidiaries	35	55,634,871	54,358,769
Available-for-sale investments	22	12,485,106	2,982,304
Other non-current assets	23	5,270,343	–
Investment in convertible notes	24	–	4,962,049
		<u>104,815,822</u>	<u>94,808,251</u>
<b>CURRENT ASSETS</b>			
Held-for-trading investments	25	42,707,650	36,966,776
Other receivables		152,168	100,545
Amount due from a director	28	22,102,762	–
Amount due from an associate	29	639,629	639,629
Amount due from a related company	31	4,486,932	–
Pledged bank deposits	32	–	4,209,560
Deposits held at financial institutions	32	10,889,735	3,171,212
Bank balances and cash	32	62,276,138	24,760,038
		<u>143,255,014</u>	<u>69,847,760</u>
<b>CURRENT LIABILITIES</b>			
Other payables		3,276,142	1,605,714
Amounts due to directors	34	1,476,187	1,391,687
Amounts due to related companies	31	1,593,635	1,619,438
Amounts due to subsidiaries	35	19,047,309	540,496
Bank and other loans	36	8,283,319	10,886,860
Obligations under a finance lease – due within one year	37	136,044	119,925
		<u>33,812,636</u>	<u>16,164,120</u>
<b>NET CURRENT ASSETS</b>			
		<u>109,442,378</u>	<u>53,683,640</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	38	1,304,506	1,094,506
Reserves	40	212,839,789	147,147,436
		<u>214,144,295</u>	<u>148,241,942</u>
<b>NON-CURRENT LIABILITY</b>			
Obligations under a finance lease – due after one year	37	113,905	249,949
		<u>214,258,200</u>	<u>148,491,891</u>

Duncan Chiu  
DIRECTOR

Derek Chiu  
DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2007

	Attributable to equity holders of the Company								
	Share capital	Share premium	Exchange reserve	Investment revaluation reserve	Share option reserve	Retained profits	Total	Minority interests	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January, 2006	995,007	109,742,622	1,298,441	2,184,640	4,249,740	52,743,510	171,213,960	15,772,931	186,986,891
Loss on fair value change of available-for-sale investments	-	-	-	(2,059,426)	-	-	(2,059,426)	-	(2,059,426)
Exchange differences arising on translation of overseas operations	-	-	2,566,135	-	-	-	2,566,135	475,220	3,041,355
Share of post-acquisition reserve movement of an associate	-	-	(163,611)	-	-	-	(163,611)	-	(163,611)
Net income (loss) recognised directly in equity	-	-	2,402,524	(2,059,426)	-	-	343,098	475,220	818,318
Profit for the year	-	-	-	-	-	15,962,052	15,962,052	228,538	16,190,590
Realised on disposal of subsidiaries	-	-	(626,059)	-	-	-	(626,059)	-	(626,059)
Total recognised income and expense for the year	-	-	1,776,465	(2,059,426)	-	15,962,052	15,679,091	703,758	16,382,849
Recognition of equity-settled share based payments	-	-	-	-	2,182,869	-	2,182,869	-	2,182,869
Bonus shares issued	99,499	(99,499)	-	-	-	-	-	-	-
At 31st December, 2006	1,094,506	109,643,123	3,074,906	125,214	6,432,609	68,705,562	189,075,920	16,476,689	205,552,609
Loss on fair value change of available-for-sale investments	-	-	-	(90,822)	-	-	(90,822)	-	(90,822)
Exchange differences arising on translation of overseas operations	-	-	7,733,008	-	-	-	7,733,008	1,174,984	8,907,992
Share of post-acquisition reserve movement of an associate	-	-	4,536,645	-	-	-	4,536,645	-	4,536,645
Net income (loss) recognised directly in equity	-	-	12,269,653	(90,822)	-	-	12,178,831	1,174,984	13,353,815
Transfer to profit or loss on conversion of convertible notes	-	-	-	341,942	-	-	341,942	-	341,942
Transfer to profit or loss on sales of available-for-sale investments	-	-	-	137,773	-	-	137,773	-	137,773
Profit for the year	-	-	-	-	-	97,388,003	97,388,003	(543,985)	96,844,018
Total recognised income and expense for the year	-	-	12,269,653	388,893	-	97,388,003	110,046,549	630,999	110,677,548
Recognition of equity-settled share based payments	-	-	-	-	514,266	-	514,266	-	514,266
Transfer to retained profit upon cancellation of share options	-	-	-	-	(5,896,040)	5,896,040	-	-	-
Issue of new shares upon placement	210,000	28,980,000	-	-	-	-	29,190,000	-	29,190,000
Transaction costs attributable to issue of new shares	-	(728,356)	-	-	-	-	(728,356)	-	(728,356)
At 31st December, 2007	1,304,506	137,894,767	15,344,559	514,107	1,050,835	171,989,605	328,098,379	17,107,688	345,206,067

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

NOTES	2007 HK\$	2006 HK\$
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	<b>96,251,925</b>	16,562,244
Adjustments for:		
Amortisation of prepaid lease payments	<b>653,137</b>	204,179
Finance costs	<b>1,206,786</b>	660,854
Imputed interest income on debt component of convertible notes	<b>(195,886)</b>	(700,846)
Interest income	<b>(2,831,053)</b>	(1,132,567)
Scrip dividend received from available-for-sale investments	43 <b>(237,419)</b>	(165,669)
Scrip dividend received from held-for-trading investments	43 <b>(699,303)</b>	–
Depreciation	<b>2,783,411</b>	3,223,671
Gain on conversion of convertible notes	<b>(3,660,123)</b>	–
Gain on disposal of subsidiaries and discontinued operations	–	(5,575,474)
Gain on disposal of interest in an associate	<b>(28,322,820)</b>	(16,804,646)
Gain on disposal of a jointly controlled entity	–	(13,566,390)
Net (gain) loss on deemed disposal of an associate	<b>(40,687,735)</b>	1,648,160
Impairment loss on interests in an associate	–	240
Gain on disposal of available-for-sale investments	<b>(608,909)</b>	–
Loss on disposal of property, plant and equipment	–	17,409
Share of results of an associate	<b>(17,455,559)</b>	11,763,146
Write off of amount due from an associate	–	22,104
Share-based payment expense	<b>514,266</b>	2,182,869
Increase in fair value of held-for-trading investments	<b>(3,903,265)</b>	(3,595,402)
Increase in fair value of investment properties	<b>(10,488,900)</b>	(1,422,269)
Decrease in fair value of embedded derivative of convertible notes	–	387,668
Operating cash flows before movements in working capital	<b>(7,681,447)</b>	(6,290,719)
Decease (increase) in inventories	<b>395,512</b>	(692,416)
Increase in held-for-trading investments	<b>(412,032)</b>	(1,053,348)
Decrease (increase) in trade and other receivables	<b>2,636,998</b>	(1,074,426)
Decrease in amount due from a minority shareholder	<b>2,738,156</b>	1,030,147
(Decrease) increase in trade and other payables	<b>(110,294)</b>	2,041,838
Increase in amount due to a minority shareholder	–	30,192
Cash used in operations	<b>(2,433,107)</b>	(6,008,732)
People's Republic of China Enterprise Income tax paid	<b>(112,209)</b>	(139,330)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(2,545,316)</b>	(6,148,062)

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2007

NOTES	2007 HK\$	2006 HK\$
<b>INVESTING ACTIVITIES</b>		
Interest received	1,728,291	1,132,567
Decrease (increase) in amount due from related companies	11,656,516	(993,748)
Acquisition of property, plant and equipment	(3,915,712)	(1,599,627)
Acquisition of investment properties	–	(3,577,731)
Acquisition of available-for-sale investments	(17,969,577)	(10,488,657)
Acquisition of other non-current assets	(4,856,537)	–
Acquisition and addition in associates	(888,380)	(236,704)
Proceeds from disposal of investment property	27,298,900	–
Proceeds from disposal of interest in an associate	34,520,865	23,863,242
Proceeds on disposal of available-for-sale investments	1,683,257	–
Net cash outflow arising on disposal of subsidiary	–	(139,187)
Dividend received from an associate	130,058	4,247,246
Increase in prepaid lease payment	(24,210,000)	–
Decrease in pledged bank deposits	4,209,560	641,820
Increase in deposits held at financial institutions	(7,718,523)	(3,116,548)
Decrease in deposits paid for acquisition of property	–	739,793
Increase in amount due from a director	(21,000,000)	–
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>668,718</b>	<b>10,472,466</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	29,190,000	–
Expenses on issue of shares	(728,356)	–
(Decrease) increase in amounts due to related companies	(25,803)	62,350
Increase (decrease) in amounts due to directors	84,500	(680,730)
Decrease in amount due to a jointly controlled entity	–	(507,550)
New bank and other loans raised	38,569,077	39,759,877
Repayment of bank and other loans	(22,807,830)	(44,176,584)
Repayment of obligations under a finance lease	(119,925)	(106,760)
Interest paid on bank and other loans	(1,166,703)	(607,606)
Interest paid on finance lease	(40,083)	(53,248)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>42,954,877</b>	<b>(6,310,251)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>41,078,279</b>	<b>(1,985,847)</b>
<b>CASH AND CASH EQUIVALENTS BROUGHT FORWARD</b>	<b>40,526,459</b>	<b>41,573,679</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>1,081,841</b>	<b>938,627</b>
<b>CASH AND CASH EQUIVALENTS CARRIED FORWARD, represented by bank balances and cash</b>	<b>82,686,579</b>	<b>40,526,459</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 1. GENERAL

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

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

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

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

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

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

The Group has not early adopted the following new standard, amendment, revisions or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company are in the process of assessing the potential impact and so far concluded that the application of these standards, amendment, revisions or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions <sup>3</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>4</sup>
HK(IFRIC)-Int 13	Customer Loyalty Programmes <sup>5</sup>
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st March, 2007

<sup>4</sup> Effective for annual periods beginning on or after 1st January, 2008

<sup>5</sup> Effective for annual periods beginning on or after 1st July, 2008

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Basis of consolidation**

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

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

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

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

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

### **Investments in subsidiaries**

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

### **Interests in associates**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Interests in associates** (continued)

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

Interests in associates are included in the Company's balance sheet at cost less any identified impairment loss.

### **Interests in jointly controlled entities**

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

### **Investment properties**

Investment properties held to earn rentals and/or for capital appreciation.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Investment properties** (continued)

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

#### *Leasehold land held for undetermined future use*

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

### **Property, plant and equipment**

Property, plant and equipment including building held for use for administrative purpose are stated at cost less subsequent accumulated depreciation and any identified impairment loss.

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

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

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

### **Paintings and other display items**

Paintings and other display items are stated at cost less any identified impairment loss.

### **Impairment of tangible assets**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Inventories**

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

### **Share-based payment transactions**

#### **Equity-settled share-based payment transactions**

*Share options granted to employees after 7th November, 2002 and vested on or after 1st January, 2005*

The fair value of services received determined by reference to the fair value of the share options granted at the grant date is expensed on a straight-line basis over the vesting period or recognised as an expense in full at the grant date when the share options granted vest immediately with a corresponding increase in equity (share option reserve).

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

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

### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for merchandises sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of merchandise is recognised when goods are delivered and title has passed.

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasing

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

#### *The Group as lessor*

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

#### *The Group as lessee*

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

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

#### *Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire contract is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies (continued)

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

### Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Retirement benefit costs

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

### Borrowing costs

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

### Financial instruments

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

### Financial assets

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

#### *Financial assets held for trading*

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets held for trading (including derivative financial assets) are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Financial instruments** (continued)

#### **Financial assets** (continued)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a director, amount due from an associate, amount due from a minority shareholder, amounts due from related companies, deposits held at financial institutions, bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

##### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

##### *Available-for-sale financial assets*

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

##### *Investment in convertible notes*

Convertible notes are regarded as hybrid instruments, consisting of a debt component and embedded derivative components. At the date of acquisition, the fair value of the debt component is estimated using the prevailing market interest rate for similar non-convertible debt and is recognised as an available-for-sale financial assets. The fair value of the embedded derivative components are calculated using the Black-Scholes pricing model. The gain arising from the excess of the fair value (determined at initial recognition using valuation techniques whose variables were based solely on observable market data) over the cost of acquisition of the convertible notes at the date of acquisition (gain on initial recognition) is credited to the carrying amount of the convertible notes. The gain on initial recognition is recognised to profit or loss over the maturity period of the convertible notes on a straight line basis. On derecognition or disposal of the convertible notes, the unamortized portion of the gain on initial recognition is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

#### Financial assets (continued)

##### *Investment in convertible notes (continued)*

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

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

##### *Impairment of financial assets*

Financial assets, other than those held for trading, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Financial instruments** (continued)

#### **Financial assets** (continued)

##### *Impairment of financial assets* (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

#### **Financial liabilities and equity**

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 4. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank and other loans disclosed in note 36 and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 5. FINANCIAL INSTRUMENTS

### 5a. Categories of financial instruments

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
<b>Financial assets</b>				
Held-for-trading investments	<b>43,037,774</b>	38,023,174	<b>42,707,650</b>	36,966,776
Loans and receivables (including cash and cash equivalents)	<b>124,248,685</b>	72,965,516	<b>156,182,235</b>	87,239,753
Available-for-sale investments	<b>38,852,163</b>	12,512,564	<b>12,485,106</b>	2,982,304
Investment in convertible note	–	4,962,049	–	4,962,049
<b>Financial liabilities</b>				
Amortised cost	<b>40,613,299</b>	24,354,512	<b>33,676,592</b>	16,044,195
Obligation under a finance lease	<b>249,949</b>	369,874	<b>249,949</b>	369,874

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### 5b. Financial risk management objectives and policies

The Group's financial instruments include available-for-sale investments, investment in convertible notes, held-for-trading investments, trade and other receivables, amount due from a director, amount due from an associate, amount due from a minority shareholder, amounts due from related companies, pledged bank deposits, deposits held at financial institutions, bank balances and cash, trade and other payables, amounts due to directors, amount due to a minority shareholder, amounts due to related companies, bank and other loans, and obligations under a finance lease. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### Market risk

##### (i) Currency risk

The Group and the Company maintain bank balances, and bank and other loans denominated in US dollars and Japanese Yen. Since the fluctuation of Hong Kong dollars and US dollars are minimal under the Linked Exchange Rate System, the management consider the Group mainly expose to the currency of Japanese Yen. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
<b>Assets</b>				
US dollars	8,153,732	2,877,325	6,056,655	909,220
Japanese Yen	5,515	178,472	5,515	178,472
	<u>8,159,247</u>	<u>3,055,797</u>	<u>6,062,170</u>	<u>1,087,692</u>
<b>Liabilities</b>				
US dollars	–	8,402,447	–	8,402,447
Japanese Yen	8,283,319	2,484,413	8,283,319	2,484,413
	<u>8,283,319</u>	<u>10,886,860</u>	<u>8,283,319</u>	<u>10,886,860</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### 5b. Financial risk management objectives and policies (continued)

#### Market risk (continued)

#### (i) Currency risk (continued)

##### Sensitivity analysis

The Group and the Company are mainly exposed to Japanese Yen.

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in functional currency of respective group entities against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where Hong Kong dollars strengthen 5% against the relevant currency. For a 5% weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
<b>Profit for the year</b>				
Japanese Yen	<b>394,181</b>	109,807	<b>394,181</b>	109,807

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

#### (ii) Interest rate risk

The Group's and the Company's cash flow interest rate risk relates primarily to the bank deposits, deposits held at financial institutions and variable-rate bank borrowings (see note 36 for details of these borrowings). The fair value interest rate risk relates primarily to obligations under finance lease (note 37) and debt component of convertible notes (note 24).

The Group and the Company currently do not have an interest rate hedging policy to hedge against its exposures. However, the management closely monitors interest rate exposures and will consider entering into interest rate swap transactions to hedge significant interest rate risk should the risk arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### 5b. Financial risk management objectives and policies (continued)

#### Market risk (continued)

#### (ii) Interest rate risk (continued)

The Group cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Lending Rate arising from the Group's Hong Kong dollar borrowings.

#### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For bank balances and variable-rate bank borrowings, the analysis is prepared assuming the amount of assets and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

In respect of the debt component of the convertible notes, if interest rates had been 50 basis points higher and all other variables were held constant, the Group's and the Company's investment revaluation reserve for the year ended 31st December, 2006 would decrease by HK\$72,485. If interest rates had been 50 basis points lower and all other variables were held constant, the Group's and the Company's investment revaluation reserve for the year ended 31st December, 2006 would increase by HK\$73,661. No effect is noted in current year as a result of conversion of convertible notes during the year. The effect is attributable to the Group's and the Company's exposure to fair value change on the debt component of the convertible notes.

In respect of bank deposits, deposits held at financial institutions, and variable-rate bank borrowings, if interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's and the Company's profit for the year ended 31st December, 2007 would increase/decrease by HK\$3,346,410 and HK\$3,244,128 (2006: increase/decrease by HK\$1,640,541 and HK\$852,220) respectively. This is mainly attributable to the Group's and the Company's exposure to interest rates on its variable-rate bank borrowings.

The Group's and the Company's sensitivity to interest rates has increased during the current year mainly due to the increase in bank balances and cash.

## 5. FINANCIAL INSTRUMENTS (continued)

### 5b. Financial risk management objectives and policies (continued)

#### Market risk (continued)

#### (iii) Other price risk

The Group and the Company are exposed to equity security price risk on the held for trading investments, available-for-sale investments, investment in convertible note. The Group and the Company are required to estimate the fair value of the derivative component of convertible notes at each balance sheet date with changes in fair value to be recognised in the consolidated income statement as long as the convertible notes are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in stock price, exercise price, volatility, time to maturity and dividend yield. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange of Hong Kong Limited. The management manages the exposure to price risk by maintaining a portfolio of investments with different risk and return profiles.

#### *Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective listed equity instruments had been 5% higher/lower:

- profit of the Group and the Company for the year ended 31st December, 2007 increase/decrease by HK\$2,151,889 and HK\$2,135,383 (2006: increase/decrease by HK\$1,901,159 and HK\$1,998,339) respectively as a result of the changes in fair value of held-for-trading investments; and
- investment valuation reserve of the Group and the Company would increase/decrease by HK\$1,192,608 and HK\$624,255 (2006: increase/decrease by HK\$625,628 and HK\$149,115) respectively for as a result of the changes in fair value of available-for-sale investments.

If the underlying equity share price of the derivative component of convertible notes had been 5% higher/lower and all other variables were held constant, the Group's and the Company's profit in year 2006 (as a result of changes in fair value of derivation component of convertible notes) would increase by HK\$79,292 and decrease by HK\$78,527 respectively. No effect is noted in current year as a result of conversion of convertible notes during the year.

In management's opinion, the sensitivity analyses on derivative component of convertible notes are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the derivative component involves multiple variables and certain variables are interdependent.

The Group's and the Company's sensitivity to available-for-sale investments and held-for-trading investments has not changed significantly from the prior year.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### 5b. Financial risk management objectives and policies (continued)

#### Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group's and the Company's credit risk is primarily attributable to its trade and other receivables, debt component of convertible notes, amounts due from related companies, amount due from a minority shareholder, amount due from an associate and amount due from a director.

There is concentration of credit risk in respect of other receivables, debt component of convertible notes, amount due from a director, amount due from an associate and amount due from a related company.

The Group and the Company manages its credit risk and concentration of risk by closely monitoring the granting of credit. The Group and the Company also reviews the recoverable amount of each individual financial assets at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

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

#### Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group and the Company rely on bank borrowings as a significant source of liquidity. As at 31st December, 2007, the Group and the Company has available unutilised short-term bank loan facilities of approximately HK\$20,738,000 (2006: HK\$24,987,000). Details of which are set out in note 36.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### 5b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

Liquidity tables

#### THE GROUP

	Repayable on demand and less than 1 month HK\$	1-3 months HK\$	3 months to 1 year HK\$	1-5 years HK\$	5+ years HK\$	Total undiscounted cash flows HK\$	Carrying amount at 31.12.2007 HK\$
<b>2007</b>							
Trade and other payables	10,598,332	-	-	-	-	10,598,332	10,598,332
Amounts due to directors	1,476,187	-	-	-	-	1,476,187	1,476,187
Amount due to a minority shareholder	297,038	-	-	-	-	297,038	297,038
Amounts due to related companies	1,593,635	-	-	-	-	1,593,635	1,593,635
Bank and other loans	122,252	228,163	9,299,782	5,016,912	17,663,711	32,330,820	26,648,107
Obligations under a finance lease	13,334	26,668	120,006	120,006	-	280,014	249,949
	<b>14,100,778</b>	<b>254,831</b>	<b>9,419,788</b>	<b>5,136,918</b>	<b>17,663,711</b>	<b>46,576,026</b>	<b>40,863,248</b>
	Repayable on demand and less than 1 month HK\$	1-3 months HK\$	3 months to 1 year HK\$	1-5 years HK\$	5+ years HK\$	Total undiscounted cash flows HK\$	Carrying amount at 31.12.2006 HK\$
<b>2006</b>							
Trade and other payables	10,159,489	-	-	-	-	10,159,489	10,159,489
Amounts due to a director	1,391,687	-	-	-	-	1,391,687	1,391,687
Amount due to a minority shareholders	297,038	-	-	-	-	297,038	297,038
Amounts due to related companies	1,619,438	-	-	-	-	1,619,438	1,619,438
Bank and other loans	40,934	81,868	11,255,264	-	-	11,378,066	10,886,860
Obligations under a finance lease	13,334	26,668	120,006	280,014	-	440,022	369,874
	<b>13,521,920</b>	<b>108,536</b>	<b>11,375,270</b>	<b>280,014</b>	<b>-</b>	<b>25,285,740</b>	<b>24,724,386</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### 5b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

Liquidity tables (continued)

#### THE COMPANY

	Repayable on demand and less than 1 month HK\$	1-3 months HK\$	3 months to 1 year HK\$	1-5 years HK\$	5+ years HK\$	Total undiscounted cash flows HK\$	Carrying amount at 31.12.2007 HK\$
<b>2007</b>							
Other payables	3,276,142	-	-	-	-	3,276,142	3,276,142
Amounts due to directors	1,476,187	-	-	-	-	1,476,187	1,476,187
Amounts due to related companies	1,593,635	-	-	-	-	1,593,635	1,593,635
Amounts due to subsidiaries	19,047,309	-	-	-	-	19,047,309	19,047,309
Bank and other loans	8,421	16,843	8,359,111	-	-	8,384,375	8,283,319
Obligations under a finance lease	13,334	26,668	120,006	120,006	-	280,014	249,949
	<b>25,415,028</b>	<b>43,511</b>	<b>8,479,117</b>	<b>120,006</b>	<b>-</b>	<b>34,057,662</b>	<b>33,926,541</b>
	Repayable on demand and less than 1 month HK\$	1-3 months HK\$	3 months to 1 year HK\$	1-5 years HK\$	5+ years HK\$	Total undiscounted cash flows HK\$	Carrying amount at 31.12.2006 HK\$
<b>2006</b>							
Other payables	1,605,714	-	-	-	-	1,605,714	1,605,714
Amounts due to a director	1,391,687	-	-	-	-	1,391,687	1,391,687
Amounts due to related companies	1,619,438	-	-	-	-	1,619,438	1,619,438
Amounts due to subsidiaries	540,496	-	-	-	-	540,496	540,496
Bank and other loans	40,934	81,868	11,255,264	-	-	11,378,066	10,886,860
Obligations under a finance lease	13,334	26,668	120,006	280,014	-	440,022	369,874
	<b>5,211,603</b>	<b>108,536</b>	<b>11,375,270</b>	<b>280,014</b>	<b>-</b>	<b>16,975,423</b>	<b>16,414,069</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 5. FINANCIAL INSTRUMENTS (continued)

### 5c. Fair value of financial instruments

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

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

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

The fair value of an option-based derivative is estimated using option pricing model.

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

## 6. REVENUE

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

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Sales of goods	<b>27,706,741</b>	33,502,783	-	18,949,636	<b>27,706,741</b>	52,452,419
Property rental income	<b>1,160,966</b>	1,033,189	-	-	<b>1,160,966</b>	1,033,189
	<b>28,867,707</b>	34,535,972	-	18,949,636	<b>28,867,707</b>	53,485,608

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

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

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

Principal activities of the remaining segments are as follows:

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

Segment information about these businesses is presented below.

### 2007

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial-manufacturing and sales of garment HK\$	Industrial-manufacturing and sales of commodity concrete HK\$	
Gross proceeds	<u>48,260,938</u>	<u>1,160,966</u>	<u>27,706,741</u>	–	<u>77,128,645</u>
Revenue	<u>–</u>	<u>1,160,966</u>	<u>27,706,741</u>	–	<u>28,867,707</u>
<b>RESULTS</b>					
Segment results	<u>1,450,709</u>	<u>8,958,457</u>	<u>(1,475,085)</u>	–	<u>8,934,081</u>
Other income					3,342,597
Finance costs					(1,206,786)
Unallocated expenses					(1,284,081)
Gain on disposal of interest in an associate					28,322,820
Net gain on deemed disposal of an associate					40,687,735
Share of results of associates					17,455,559
Profit before taxation					96,251,925
Taxation credit					592,093
Profit for the year					<u>96,844,018</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2007

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial- manufacturing and sales of garment HK\$	Industrial- manufacturing and sales of commodity concrete HK\$	
<b>ASSETS</b>					
Segment assets	82,273,586	26,603,322	20,276,466	-	129,153,374
Tax prepaid					121,173
Interests in associates					103,343,924
Unallocated corporate assets					153,773,359
Consolidated total assets					<u>386,391,830</u>
<b>LIABILITIES</b>					
Segment liabilities	3,306,139	541,245	6,641,927	-	10,489,311
Deferred taxation					322,515
Bank and other loans					26,648,107
Unallocated corporate liabilities					3,725,830
Consolidated total liabilities					<u>41,185,763</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2007

	Continuing operations			Discontinued operation	Unallocated	Consolidated
	Securities investment and trading	Property development and investment	Industrial-manufacturing and sales of garment	Industrial-manufacturing and sales of commodity		
				concrete		
HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
<b>OTHER INFORMATION</b>						
Capital additions	12,249	2,423,093	141,240	-	33,105,927	35,682,509
Depreciation	254,496	121,155	2,313,821	-	93,939	2,783,411
Amortisation of prepaid lease	-	-	90,114	-	563,023	653,137
Scrip dividend income from available-for-sale investments	237,419	-	-	-	-	237,419
Scrip dividend income from held-for-trading investments	699,303	-	-	-	-	699,303
Increase in fair value of held-for-trading investments	3,903,265	-	-	-	-	3,903,265
Gain on disposal of available-for-sale investments	608,909	-	-	-	-	608,909
Imputed interest on debt component of convertible notes	195,886	-	-	-	-	195,886
Gain on conversion of convertible notes	3,660,123	-	-	-	-	3,660,123
Increase in fair value of investment properties	-	10,488,900	-	-	-	10,488,900
Allowance for inventories	-	-	987,078	-	-	987,078

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2006

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial-manufacturing and sales of garment HK\$	Industrial-manufacturing and sales of commodity concrete HK\$	
Gross proceeds	31,769,763	1,033,189	33,502,783	18,949,636	85,255,371
Revenue	–	1,033,189	33,502,783	18,949,636	53,485,608
<b>RESULTS</b>					
Segment results	(6,501,812)	2,073,328	6,094	(2,942,599)	(7,364,989)
Other income					3,340,565
Finance costs					(660,854)
Unallocated expenses					(1,287,682)
Gain on disposal of a jointly controlled entity					13,566,390
Gain on disposal of interest in subsidiaries					5,575,474
Gain on disposal of interest in an associate					16,804,646
Net loss on deemed disposal of an associate					(1,648,160)
Share of results of associates					(11,763,146)
Profit before taxation					16,562,244
Taxation charge					(371,654)
Profit for the year					16,190,590



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2006

	Continuing operations			Discontinued operation	Consolidated HK\$
	Securities investment and trading HK\$	Property development and investment HK\$	Industrial-manufacturing and sales of garment HK\$	Industrial-manufacturing and sales of commodity concrete HK\$	
<b>ASSETS</b>					
Segment assets	61,125,995	40,855,995	24,773,013	-	126,755,003
Tax prepaid					103,649
Interests in associates					39,593,645
Unallocated corporate assets					64,841,841
Consolidated total assets					<u>231,294,138</u>
<b>LIABILITIES</b>					
Segment liabilities	1,627,715	818,468	7,825,506	-	10,271,689
Deferred taxation					1,017,143
Bank and other loans					10,886,860
Unallocated corporate liabilities					3,565,837
Consolidated total liabilities					<u>25,741,529</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Business segments (continued)

2006

	Continuing operations			Discontinued operation	Unallocated	Consolidated
	Securities investment and trading	Property development and investment	Industrial-manufacturing and sales of garment	Industrial-manufacturing and sales of commodity concrete		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
<b>OTHER INFORMATION</b>						
Capital additions	436,196	3,577,731	1,163,431	-	-	5,177,358
Depreciation	277,044	-	2,748,640	197,987	-	3,223,671
Amortisation of prepaid lease payments	-	-	82,439	121,740	-	204,179
Scrip dividend income for available-for-sale investment	165,669	-	-	-	-	165,669
Increase in fair value of held-for-trading investments	3,595,402	-	-	-	-	3,595,402
Imputed interest on debt component of convertible notes	700,846	-	-	-	-	700,846
Increase in fair value of investment properties	-	1,422,269	-	-	-	1,422,269

### Geographical segments

The Group's operations are located in Hong Kong, the PRC and Japan.

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

	Sales revenue by geographical market					
	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Hong Kong	<b>7,982,310</b>	7,382,899	-	-	<b>7,982,310</b>	7,382,899
The PRC	<b>934,681</b>	423,331	-	18,949,636	<b>934,681</b>	19,372,967
Japan	<b>19,950,716</b>	26,729,742	-	-	<b>19,950,716</b>	26,729,742
	<b>28,867,707</b>	34,535,972	-	18,949,636	<b>28,867,707</b>	53,485,608

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments (continued)

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

	Carrying amount of segment assets	
	2007 HK\$	2006 HK\$
Hong Kong	<b>103,376,908</b>	100,445,917
The PRC	<b>25,776,466</b>	26,309,086
	<b>129,153,374</b>	126,755,003

### Additions to property, plant and equipment, investment properties, prepaid lease payment and other non-current assets

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Hong Kong	<b>35,541,269</b>	733,861	-	-	<b>35,541,269</b>	733,861
The PRC	<b>141,240</b>	4,443,497	-	-	<b>141,240</b>	4,443,497
	<b>35,682,509</b>	5,177,358	-	-	<b>35,682,509</b>	5,177,358

## 8. OTHER INCOME

Included in other income are:

	Continuing operations		Discontinued operation		Consolidated	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Interest income from banks and financial institutions	<b>1,728,291</b>	1,132,567	-	-	<b>1,728,291</b>	1,132,567
Interest income from a director	<b>1,102,762</b>	-	-	-	<b>1,102,762</b>	-
	<b>2,831,053</b>	1,132,567	-	-	<b>2,831,053</b>	1,132,567

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the twelve (2006: twelve) directors was as follows:

### 2007

	Other emoluments					Total emoluments HK\$
	Fees HK\$	Salaries and other benefits HK\$	Performance related incentive payments	Retirement benefits schemes contributions	Share-based payment expense	
			HK\$	HK\$	HK\$	
Deacon Te Ken Chiu, J.P.	15,000	-	-	-	-	15,000
Mr. Duncan Chiu	15,000	472,000	600,000	12,000	363,011	1,462,011
Mr. Dennis Chiu	15,000	-	-	-	-	15,000
Tan Sri Dato' David Chiu	15,000	-	-	-	-	15,000
Mr. Daniel Tat Jung Chiu	15,000	-	-	-	-	15,000
Mr. Derek Chiu	15,000	-	-	-	-	15,000
Mr. Desmond Chiu	15,000	389,000	-	12,000	-	416,000
Ms. Margaret Chiu	15,000	-	-	-	-	15,000
Ms. Min Tang	120,000	-	-	-	-	120,000
Dr. Lee G Lam	120,000	-	-	-	-	120,000
Mr. Ryan Yen Hwung Fong	90,000	-	-	-	-	90,000
Mr. Hing Wah Yim	80,000	-	-	-	-	80,000
Mr. Eugene Wang Yun Hang	10,000	-	-	-	-	10,000
	<b>540,000</b>	<b>861,000</b>	<b>600,000</b>	<b>24,000</b>	<b>363,011</b>	<b>2,388,011</b>

In addition to above, the rateable value of the property provided to Mr. Duncan Chiu as director's quarters during the year is HK\$768,000. No such director quarters was provided to Mr. Duncan Chiu in year 2006.

### 2006

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2006: one) was executive director and one (2006: one) was non-executive director whose emoluments are included in note 9 above. The emoluments of the remaining three (2006: three) individuals were within the band of HK\$nil and HK\$1,000,000 and as follows:

	<b>2007</b>	2006
	<b>HK\$</b>	HK\$
Salaries and other benefits	<b>936,214</b>	910,878
Retirement benefits schemes contributions	<b>35,262</b>	34,809
Share-based payment expense	<b>30,251</b>	128,404
	<b>1,001,727</b>	1,074,091

## 11. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Interests on:						
Bank loans						
– wholly repayable within five years	<b>413,043</b>	122,495	–	–	<b>413,043</b>	122,495
– not wholly repayable within five years	<b>420,152</b>	–	–	–	<b>420,152</b>	–
Other loans wholly repayable within five years	<b>333,508</b>	437,935	–	47,176	<b>333,508</b>	485,111
Obligations under a finance lease	<b>40,083</b>	53,248	–	–	<b>40,083</b>	53,248
	<b>1,206,786</b>	613,678	–	47,176	<b>1,206,786</b>	660,854

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 12. DISCONTINUED OPERATION

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

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

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

In 2006, the carrying amounts of the assets and liabilities of Goldtrack Group at the date of disposal were approximately HK\$14.7 million and HK\$20.9 million respectively.

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

The net liabilities of Goldtrack Group at the date of disposal were disclosed in note 42.

In 2006, the amounts of net cash flows attributable to the operating, investing and financing activities of discontinued operations amounted to inflow of HK\$0.6 million, outflow of HK\$0.9 million, inflow of HK\$0.3 million, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 13. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Profit before taxation has been arrived at after charging (crediting):						
Allowance on inventories (included in cost of sales)	<b>987,078</b>	-	-	-	<b>987,078</b>	-
Amortisation of prepaid lease payments	<b>653,137</b>	82,439	-	121,740	<b>653,137</b>	204,179
Auditor's remuneration	<b>902,632</b>	666,667	-	7,333	<b>902,632</b>	674,000
Cost of inventories recognised as expense	<b>24,931,880</b>	30,938,975	-	20,937,398	<b>24,931,880</b>	51,876,373
Depreciation	<b>2,783,411</b>	3,025,684	-	197,987	<b>2,783,411</b>	3,223,671
Directors' remuneration and other staff costs, including retirement benefits schemes contributions of approximately HK\$969,000 (2006: HK\$1,394,000)	<b>11,847,981</b>	12,719,213	-	1,204,667	<b>11,847,981</b>	13,923,880
Exchange loss (gain), net	<b>507,890</b>	(1,133,387)	-	-	<b>507,890</b>	(1,133,387)
Impairment loss on interests in an associate	-	240	-	-	-	240
Loss on disposal of property, plant and equipment	-	17,409	-	-	-	17,409
Operating lease in respect of rented premise	<b>337,760</b>	327,646	-	-	<b>337,760</b>	327,646
Share of tax of associates (included in share of results of associates)	<b>1,390,762</b>	2,560,396	-	-	<b>1,390,762</b>	2,560,396
Write off of amount due from an associate	-	22,104	-	-	-	22,104
and after crediting:						
Dividend income from available-for-sale investments	<b>237,419</b>	165,669	-	-	<b>237,419</b>	165,669
Rental income from investment properties, less outgoing of HK\$29,585 (2006: HK\$51,791)	<b>1,131,381</b>	981,398	-	-	<b>1,131,381</b>	981,398

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 14. TAXATION CREDIT (CHARGE)

	Continuing operations		Discontinued operation		Consolidated	
	2007	2006	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
The taxation credit (charge) comprises:						
PRC enterprise income tax:						
Current year	(62,080)	(54,967)	-	-	(62,080)	(54,967)
Underprovision in prior years	(40,455)	(2,150)	-	-	(40,455)	(2,150)
	(102,535)	(57,117)	-	-	(102,535)	(57,117)
Deferred taxation (Note 41)	694,628	(314,537)	-	-	694,628	(314,537)
	592,093	(371,654)	-	-	592,093	(371,654)

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

On 16th March, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 24% to 25% for the subsidiary operating in the PRC from 1st January, 2008.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 14. TAXATION CREDIT (CHARGE) (continued)

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

	2007 HK\$	2006 HK\$
Profit before taxation	<u>96,251,925</u>	<u>16,562,244</u>
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	<b>(16,844,087)</b>	(2,898,393)
Tax effect of expenses not deductible for tax purpose	<b>(1,652,753)</b>	(582,485)
Tax effect of income not taxable for tax purpose	<b>16,512,277</b>	6,488,818
Tax effect of utilisation of tax losses previously not recognised	<b>928,765</b>	15,076
Tax effect of tax losses not recognised	<b>(1,140,479)</b>	(1,578,453)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	<b>(16,811)</b>	28,794
Tax effect of share of results of associates	<b>3,054,723</b>	(2,058,551)
Underprovision in prior years	<b>(40,455)</b>	(2,150)
Others	<b>(209,087)</b>	215,690
Taxation credit (charge) for the year	<u><b>592,093</b></u>	<u>(371,654)</u>

## 15. DIVIDEND

The final dividend in respect of year ended 31st December, 2007 of HK2 cents (2006: Nil) per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 16. EARNINGS PER SHARE

### For both continuing and discontinued operations

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

	2007 HK\$	2006 HK\$
<b>Earnings</b>		
Earning for the purpose of basic and diluted earnings per share profit for the year attributable to equity holders of the Company	<b>97,388,003</b>	15,962,052
Less: Profit for the year from discontinued operation	–	(2,839,840)
Profit for the year from continuing operations, representing earnings for the purpose of basic earnings per share	<b>97,388,003</b>	13,122,212
Effect of dilutive potential shares of associates based on dilution of their earnings per share	<b>(11,611,893)</b>	–
Earnings for the purpose of diluted earnings per share	<b>85,776,110</b>	13,122,212
	<b>2007</b>	2006

### Number of shares

Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>111,291,691</b>	109,450,595
Effect of dilutive potential ordinary shares on share options	<b>4,033,849</b>	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>115,325,540</b>	109,450,595

The weighted average number of ordinary shares for the purpose of basic earnings per share in year 2006 has been adjusted for the bonus shares issued in prior year.

In 2006, no diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price for shares. No adjustment has been made for the potential ordinary shares of the associate as the effect in 2006 is anti-dilutive.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 16. EARNINGS PER SHARE (continued)

### From discontinued operations

In 2006, basic earnings per share for discontinued operation is 2.6 HK cents per share, based on the profit for that year from discontinued operation of HK\$2.8 million. The denominator used was the same as that detailed above for basic earnings per share.

## 17. INVESTMENT PROPERTIES

	THE GROUP HK\$	THE COMPANY HK\$
AT VALUATION		
At 1st January, 2006	36,040,000	4,640,000
Additions during the year	3,577,731	–
Increase in fair value recognised in income statement	1,422,269	–
	<hr/>	<hr/>
At 31st December, 2006	41,040,000	4,640,000
Disposals during the year	(27,298,900)	–
Increase in fair value recognised in income statement	10,488,900	540,000
	<hr/>	<hr/>
At 31st December, 2007	<u>24,230,000</u>	<u>5,180,000</u>

The carrying value of investment properties shown above comprises:

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Land in Hong Kong				
Medium-term lease	<b>18,730,000</b>	36,040,000	<b>5,180,000</b>	4,640,000
Land outside Hong Kong				
Medium-term lease	<b>5,500,000</b>	5,000,000	–	–
	<hr/> <b>24,230,000</b> <hr/>	<hr/> 41,040,000 <hr/>	<hr/> <b>5,180,000</b> <hr/>	<hr/> 4,640,000 <hr/>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 17. INVESTMENT PROPERTIES (continued)

The investment properties were fair valued at 31st December, 2007 and 2006 by DTZ Debenham Tie Leung Limited, an independent firm of valuers not connected with the Group. DTZ Debenham Tie Leung Limited is member of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation of HK\$11,000,000 (2006: HK\$29,100,000) and HK\$13,230,000 (2006: HK\$11,940,000) were arrived at by considering the capitalised income to be derived from properties and by reference to market evidence of transaction prices for similar properties, respectively.

The investment properties of the Group and the Company includes an amount of HK\$5,180,000 and HK\$5,180,000 (2006: HK\$4,640,000 and HK\$4,640,000), the title of which has not been transferred to the Group and the Company and is still registered in the name of the vendor companies which are controlled by certain directors as trustee for the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 18. PROPERTY, PLANT AND EQUIPMENT

	Building in Hong Kong held under medium term lease HK\$	Building in PRC held under medium term lease HK\$	Leasehold improvements HK\$	Exhibits and display items HK\$	Lifts, electrical and office equipment HK\$	Trams, coaches and motor vehicles HK\$	Total HK\$
<b>THE GROUP</b>							
<b>COST</b>							
At 1st January, 2006	-	12,264,927	272,328	-	33,083,414	9,067,987	54,688,656
Currency realignment	-	454,896	-	-	1,212,559	288,839	1,956,294
Additions	-	-	-	427,690	18,227	1,153,710	1,599,627
Disposals	-	-	-	-	(151,782)	-	(151,782)
Disposal of subsidiaries (Note 42)	-	(2,275,051)	-	-	(7,922,368)	(9,022,921)	(19,220,340)
At 31st December, 2006	-	10,444,772	272,328	427,690	26,240,050	1,487,615	38,872,455
Currency realignment	-	823,181	-	-	1,874,488	44,574	2,742,243
Additions	4,039,390	-	1,720,607	-	855,975	-	6,615,972
Transfer to other non-current assets	-	-	-	(427,690)	-	-	(427,690)
At 31st December, 2007	4,039,390	11,267,953	1,992,935	-	28,970,513	1,532,189	47,802,980
<b>DEPRECIATION AND IMPAIRMENT</b>							
At 1st January, 2006	-	3,958,430	108,455	-	27,475,108	8,401,729	39,943,722
Currency realignment	-	146,290	-	-	1,007,893	281,518	1,435,701
Provided for the year	-	536,495	27,468	13,884	2,259,391	386,433	3,223,671
Eliminated on disposals	-	-	-	-	(134,373)	-	(134,373)
Eliminated on disposal of subsidiaries (Note 42)	-	(1,147,076)	-	-	(7,919,641)	(8,264,416)	(17,331,133)
At 31st December, 2006	-	3,494,139	135,923	13,884	22,688,378	805,264	27,137,588
Currency realignment	-	294,302	-	-	1,641,793	43,750	1,979,845
Provided for the year	93,939	505,865	140,027	-	1,766,692	276,888	2,783,411
Transfer to other non-current assets	-	-	-	(13,884)	-	-	(13,884)
At 31st December, 2007	93,939	4,294,306	275,950	-	26,096,863	1,125,902	31,886,960
<b>CARRYING VALUES</b>							
At 31st December, 2007	3,945,451	6,973,647	1,716,985	-	2,873,650	406,287	15,916,020
At 31st December, 2006	-	6,950,633	136,405	413,806	3,551,672	682,351	11,734,867

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 18. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements HK\$	Exhibits and display items HK\$	Office equipment HK\$	Motor vehicle HK\$	Total HK\$
<b>THE COMPANY COST</b>					
At 1st January, 2006	272,329	–	157,156	576,800	1,006,285
Additions	–	427,690	8,506	–	436,196
At 31st December, 2006	272,329	427,690	165,662	576,800	1,442,481
Additions	–	–	12,249	–	12,249
Transfer to other non-current assets	–	(427,690)	–	–	(427,690)
At 31st December, 2007	272,329	–	177,911	576,800	1,027,040
<b>DEPRECIATION</b>					
At 1st January, 2006	108,462	–	85,304	86,520	280,286
Provided for the year	27,468	13,884	62,652	173,040	277,044
At 31st December, 2006	135,930	13,884	147,956	259,560	557,330
Provided for the year	53,996	–	27,460	173,040	254,496
Transfer to other non-current assets	–	(13,884)	–	–	(13,884)
At 31st December, 2007	189,926	–	175,416	432,600	797,942
<b>CARRYING VALUES</b>					
At 31st December, 2007	82,403	–	2,495	144,200	229,098
At 31st December, 2006	136,399	413,806	17,706	317,240	885,151

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

Building in Hong Kong	over the shorter of the lease term and estimated useful life of 50 years
Buildings in the PRC	over the shorter of the lease term and estimated useful life of 50 years
Leasehold improvements	10%
Lifts, electrical and office equipment	10% – 20%
Trams, coaches and motor vehicles	20% – 30%

The carrying value of motor vehicle of the Group and the Company includes an amount of HK\$144,200 (2006: HK\$317,240) in respect of assets held under a finance lease.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 19. PREPAID LEASE PAYMENTS

	THE GROUP	
	2007	2006
	HK\$	HK\$
<hr/>		
The prepaid lease payments comprise the following leasehold land held under medium term leases:		
Land in Hong Kong	<b>23,646,977</b>	–
Land in the PRC	<b>1,209,239</b>	1,214,350
	<hr/>	<hr/>
	<b>24,856,216</b>	1,214,350
	<hr/>	<hr/>
Analysed for reporting purposes as		
Current	<b>653,137</b>	82,439
Non-current	<b>24,203,079</b>	1,131,911
	<hr/>	<hr/>
	<b>24,856,216</b>	1,214,350
	<hr/>	<hr/>

## 20. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2007	2006
	HK\$	HK\$
<hr/>		
Unlisted shares, at cost	<b>15,055,522</b>	15,055,520
Less: Impairment loss recognised	<b>(1,861,753)</b>	(1,861,753)
	<hr/>	<hr/>
	<b>13,193,769</b>	13,193,767
	<hr/>	<hr/>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 20. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries of the Company at 31st December, 2007 and 2006 are as follows:

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Direct	Indirect	
Brentford Investments Inc.	Republic of Liberia/ Hong Kong	US\$200 Ordinary shares	100%	–	Securities investment
Cathay Motion Picture Studios Limited	Hong Kong/ Hong Kong	HK\$3,000,000 Ordinary shares	100%	–	Property investment
China Entertainment (Jiangsu) Development Ltd.	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Investment holding
Epoch Sino Investments Limited	British Virgin Islands/ Hong Kong	US\$10 Ordinary shares	100%	–	Investment holding
Far East Art and Cultural Corporation Limited	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Property investment
Far East Capital Management Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	100%	–	Inactive
Far East Holdings China Limited	Hong Kong/ Hong Kong	HK\$2 Ordinary shares	100%	–	Investment holding
Far East Technology International Limited (formerly known as Far East Holdings International Limited)	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	–	100%	Inactive
Far East Holdings (Jiangsu) Limited	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	–	100%	Investment holding
Golden Star Investment Limited (Note)	Hong Kong/ Hong Kong	HK\$1 Ordinary share	100%	–	Inactive



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 20. INVESTMENTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or registration/ operations	Paid up issued share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Direct	Indirect	
Jiangsu Bang Bang Silky Fashion Manufacturer Co., Ltd.	PRC/PRC*	US\$3,940,000 Paid up registered capital	–	51%	Manufacturing and sales of garment products
Jubilee Star Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	100%	Inactive
Kwong Ming Amusement Company, Limited	Hong Kong/ Hong Kong	HK\$1,000 Ordinary shares HK\$448,000 Deferred shares	100%	–	Inactive
Marvel Star Group Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	100%	–	Investment holding
Panlong Investments (Holdings) Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Investment holding
Panlong Asset Management Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Inactive
Panlong Far East Auction Company Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	–	51%	Inactive
Peterfame Company Limited	Hong Kong/ Hong Kong	HK\$10,000 Ordinary shares	100%	–	Property investment
Power Profit Far East Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	100%	–	Investment holding
River Joy Limited	Hong Kong/ Hong Kong	HK\$1 Ordinary share	100%	–	Property investment
Skydynamic Holding Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary share	100%	–	Property investment

\* Sino-foreign equity joint venture

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

Note: The company is incorporated in current year. No other change in percentage holding noted for other subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 21. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Cost of investment in associates				
Listed in Hong Kong	<b>12,670,635</b>	13,786,211	<b>12,670,635</b>	13,786,211
Unlisted in Hong Kong	<b>152,000</b>	–	<b>152,000</b>	–
Share of post-acquisition reserves, net of dividends received	<b>90,521,289</b>	25,807,434	–	–
	<b>103,343,924</b>	39,593,645	<b>12,822,635</b>	13,786,211
Market value of listed associate	<b>182,587,751</b>	259,724,592	<b>182,587,751</b>	259,724,592

Particulars of associates of the Group at 31st December, 2007 and 2006 are as follows:

Name of associate	Place of incorporation/ operation	Proportion of nominal value of issued ordinary share capital held by the Group		Principal activity
		2007	2006	
Chinasoft International Limited ("Chinasoft")	Cayman Islands/ PRC	<b>13.18%</b>	19.78%	Provision of information technology services
Vigor Capital Limited	Hong Kong/ Hong Kong	<b>19%</b>	–	Inactive

In January 2007, the Group disposed of 20,000,000 (2006: 20,000,000) shares of Chinasoft for a consideration of HK\$34,520,865, resulting in a gain on disposal of HK\$28,322,820 (2006: HK\$16,804,646). In addition, during the year, the Group has further acquired 330,000 (2006: 240,000) shares of Chinasoft.

In April 2007, Chinasoft entered into a subscription agreement with ABN AMRO Bank N.V., London Branch ("ABN AMRO"). Under the subscription agreement, ABN AMRO has conditionally agreed to subscribe for a total of 32,300,000 new shares of Chinasoft at the price of HK\$1.70 per share. The new shares were allotted and issued as fully paid to ABN AMRO on 30th April, 2007.

In August 2007, Chinasoft allotted and issued 170,868,617 new shares to the shareholders of Hinge Global Resources Inc ("HGR") at the price of HK\$1.85 per share for the acquisition of approximately 97.35% equity interest of HGR.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 21. INTERESTS IN ASSOCIATES (continued)

In November 2007, pursuant to a resolution passed by the directors of Chinasoft on 4th July, 2006 and after the achievement of the revenue and the entering into a master contract with Microsoft as described in the announcement of Chinasoft dated 4th July, 2006, 7,918,782 new shares of Chinasoft were allotted and issued on 6th November, 2007 as fully paid to Opportune Technology Development Company Limited ("Opportune Technology") as the second portion of consideration shares of HK\$1.97 each for the acquisition of the Mobile and Embedded Division of Opportune Technology.

During the year ended 31st December, 2007, Chinasoft has issued a total of 19,933,500 shares for the exercise of share options.

The Group's shareholding in Chinasoft has decreased from 19.78% to 13.18%, resulting in a cumulative gain on deemed disposal of HK\$40,687,735.

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

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

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Total assets	<b>1,457,783</b>	652,361
Total liabilities	<b>(628,715)</b>	(421,837)
Net assets	<b>829,068</b>	230,524
Group's share of net assets of associates	<b>103,343</b>	39,594
Revenue	<b>839,023</b>	355,947
Profit (loss) for the year	<b>126,688</b>	(62,183)
Group's share of profit (loss) of associates for the year	<b>17,456</b>	(11,763)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 22. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments of the Group and the Company at 31st December, 2007 comprise:

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
Equity securities listed in Hong Kong	<b>23,852,163</b>	12,512,564	<b>12,485,106</b>	2,982,304
Unlisted equity securities in Hong Kong	<b>15,000,000</b>	–	–	–
	<b>38,852,163</b>	12,512,564	<b>12,485,106</b>	2,982,304
Fair value of listed equity securities	<b>23,852,163</b>	12,512,564	<b>12,485,106</b>	2,982,304

The above unlisted investment represents investment in unlisted equity securities issued by an unlisted entity incorporated in the Hong Kong which operates in the money lending industry. This investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably.

## 23. OTHER NON-CURRENT ASSETS

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
Paintings and other display items, at cost	<b>5,270,343</b>	–	<b>5,270,343</b>	–

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 24. INVESTMENT IN CONVERTIBLE NOTES

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
Unlisted convertible notes				
– debt component	–	6,298,519	–	6,298,519
– derivative component	–	1,222,811	–	1,222,811
	–	7,521,330	–	7,521,330
– gain on initial recognition	–	(2,559,281)	–	(2,559,281)
	–	4,962,049	–	4,962,049

In August 2006, the Company acquired convertible notes of Golife Concept Holding Company Ltd (formerly known as “Satellite Devices Corporation”) with a principal amount of HK\$8.3 million which were not traded on an active market, from a third party at consideration of HK\$4.98 million. The convertible notes were fair valued at the date of acquisition and at 31st December, 2006 by Greater China Appraisal Limited, an independent firm of valuers not connected to the Group. The valuation of the convertible notes was arrived at based on generally accepted valuation procedures and practices that rely on the use of certain assumptions and consideration of uncertainties. The convertible notes were non-interest bearing with maturity date of 30th July, 2009. In addition, the issuer of the convertible notes has the right to redeem the principal amount or any part of the outstanding principal amount at any time. The directors believe that the fair value of this early redemption option is immaterial.

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

During the year, all convertible notes were converted into the listed shares of Golife Concept Holding Company Limited. The aggregate market value of the listed shares at the date of conversion amounted to HK\$9,160,000. These listed shares are classified as available-for-sales investment upon conversion (Note 22).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 25. HELD-FOR-TRADING INVESTMENTS

The held-for-trading investments of the Group and the Company at 31st December, 2007 comprise:

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
Listed equity securities:				
Hong Kong	<b>22,171,627</b>	11,864,842	<b>21,841,503</b>	10,808,444
Overseas	<b>20,866,147</b>	26,158,332	<b>20,866,147</b>	26,158,332
	<b>43,037,774</b>	38,023,174	<b>42,707,650</b>	36,966,776

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

## 26. INVENTORIES

	THE GROUP	
	2007	2006
	HK\$	HK\$
Raw materials	<b>1,700,254</b>	1,917,834
Work in progress	<b>2,914,070</b>	2,476,381
Finished goods	<b>1,901,208</b>	2,049,849
	<b>6,515,532</b>	6,444,064

At the balance sheet dates, inventories of HK\$644,888 (2006: Nil) are carried at net realisable value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 27. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2007 HK\$	2006 HK\$
31 – 60 days	600,967	894,601
Over 90 days	26,222	241,809
Total trade receivables	627,189	1,136,410
Other receivables	496,209	2,392,036
	<b>1,123,398</b>	<b>3,528,446</b>

The carrying amount of trade receivables are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. No allowance for doubtful debts are provided and any uncollectible debts are written off directly.

## 28. AMOUNT DUE FROM A DIRECTOR

Details of amount due from a director are as follows:

Director	Balance at 31.12.2007 HK\$	Balance at 1.1.2007 HK\$	Maximum amount outstanding during the year HK\$
Deacon Te Ken Chiu, J.P. (Director)	22,102,762	–	61,945,945

The amount is unsecured, interest bearing at 3.67% to 6.00% and repayable on demand. The amount has been fully settled subsequent to balance sheet date.

## 29. AMOUNT DUE FROM AN ASSOCIATE

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 30. AMOUNTS DUE FROM/TO MINORITY SHAREHOLDERS

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

The amount due from minority shareholders is trade nature and the aged analysis of the receivable is as follows:

	THE GROUP	
	2007 HK\$	2006 HK\$
1 – 30 days	649,588	2,400,402
31 – 60 days	589,145	1,550,071
61 – 90 days	378,982	796,289
Over 90 days	701,935	–
	<u>2,319,650</u>	<u>4,746,762</u>

The carrying amount of the amount due from minority shareholder is past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

## 31. AMOUNTS DUE FROM/TO RELATED COMPANIES

(a) The amounts due from related companies are unsecured, interest-free and repayable on demand. The related companies are controlled by certain directors of the Company. The amounts comprise:

- (i) an amount of HK\$4,486,932 (2006: HK\$15,149,700) due from 上海錦秋集貿市場經營管理有限公司, a company in which certain directors of the Company have beneficial interest. The amount in current year represents loan repayment from third party received on behalf of the Group.

In 2006, the amount mainly represented sales proceeds of the disposal of a 65% interest in Wuxi Cheerman received on behalf of the Group. The amount was settled during the year. The maximum outstanding balance is HK\$15,149,700 for both years.

- (ii) in 2006, an amount of HK\$993,748 due from 上海錦秋房地產有限公司, a company, in which certain directors of the Company have beneficial interest.

(b) The amounts due to related companies reflected in the Company's balance sheet are unsecured, interest-free and repayable on demand.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

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

Bank balances and deposits held at financial institutions carry interest at market rates which range from 0.70% to 6.82% (2006: 2.50% to 3.93%). The pledged deposits carry fixed interest rates which range from 3.885% to 5.94% (2006: 2.75% to 5.81%).

## 33. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	2007 HK\$	2006 HK\$
0 – 30 days	180,121	–
31 – 60 days	–	520,114
Over 90 days	51,823	3,077
Total trade payables	231,944	523,191
Other payables	10,366,388	9,636,298
	<b>10,598,332</b>	<b>10,159,489</b>

## 34. AMOUNTS DUE TO DIRECTORS

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

## 35. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 36. BANK AND OTHER LOANS

	THE GROUP		THE COMPANY	
	2007	2006	2007	2006
	HK\$	HK\$	HK\$	HK\$
Bank and other loans comprise:				
Secured				
Bank loans	<b>18,364,788</b>	–	–	–
Other loans	<b>8,283,319</b>	10,886,860	<b>8,283,319</b>	10,886,860
	<b>26,648,107</b>	10,886,860	<b>8,283,319</b>	10,886,860
Carrying amount repayable:				
On demand or within one year	<b>9,014,618</b>	10,886,860	<b>8,283,319</b>	10,886,860
More than one year but not exceeding two years	<b>752,840</b>	–	–	–
More than two years but not exceeding five years	<b>2,392,650</b>	–	–	–
More than five years	<b>14,487,999</b>	–	–	–
	<b>26,648,107</b>	10,886,860	<b>8,283,319</b>	10,886,860
Less: amounts due within one year shown under current liabilities	<b>(9,014,618)</b>	(10,886,860)	<b>(8,283,319)</b>	(10,886,860)
	<b>17,633,489</b>	–	–	–

During the year, the bank loans that are denominated in Hong Kong Dollars bear effective interest rates at 3.1% per annum below Hong Kong Prime Lending Rate per annum. The proceeds were used to finance the acquisition of leasehold land and building in Hong Kong and the bank loans are secured by the related asset.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 36. BANK AND OTHER LOANS (continued)

During the year, the other loans that are denominated in USD and YEN bear floating interest rates at 5.565% (2006: 5.605%) per annum and 0.94% (2006: 0.815%) per annum, respectively.

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

	USD Loan	YEN Loan
At 31st December, 2007	–	HK\$8,283,319
At 31st December, 2006	HK\$8,402,447	HK\$2,484,413

## 37. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$

### THE GROUP AND THE COMPANY

Amounts payable under

finance lease:

Within one year **160,008** 160,008 **136,044** 119,925

In the second to fifth year  
inclusive **120,006** 280,014 **113,905** 249,949

Less: Future finance charges **280,014** 440,022 **249,949** 369,874  
**(30,065)** (70,148) – –

Present value of lease obligations **249,949** 369,874 **249,949** 369,874

Less: Amount due within  
one year shown under  
current liabilities **(136,044)** (119,925)

Amount due after one year **113,905** 249,949

The obligations under a finance lease are secured by the Company's motor vehicle. The term of the lease is four years (2006: four years). Interest rates are fixed at 7% per annum (2006: 7% per annum). No arrangements have been entered into for contingent rental payments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 38. SHARE CAPITAL

Details of the share capital of the Company are as follows:

	Number of shares		Share capital	
	2007	2006	2007 HK\$	2006 HK\$
Ordinary shares of HK\$0.01 each:				
Authorised:				
At beginning and end of year	<b>70,000,000,000</b>	70,000,000,000	<b>700,000,000</b>	700,000,000
Issued and fully paid:				
At beginning of year	<b>109,450,595</b>	99,500,671	<b>1,094,506</b>	995,007
Issue of shares on placing agreement	<b>21,000,000</b>	-	<b>210,000</b>	-
Issue of bonus shares	-	9,949,924	-	99,499
At end of year	<b>130,450,595</b>	109,450,595	<b>1,304,506</b>	1,094,506

Notes:

- (a) On 30th November, 2007 and 4th December, 2007, the Company entered into the subscription and supplemental subscription agreements with subscribers, whereas the subscribers entered into placing agreement and the supplemental placing agreement with Orient Securities Limited ("Orient"), an independent third party at the same time. Pursuant to which, Orient would procure the placing to subscribe a maximum of 21,000,000 placing shares at the placing price of HK\$1.39 per share, representing in aggregate 19.19% of the existing issued share capital of the Company as at 4th December 2007. Upon completion of the placing agreement took place on 5th December, 2007, the Company issued 21,000,000 shares of HK\$1.39 per share for a total consideration of HK\$29,190,000.
- (b) Pursuant to an ordinary resolution passed at annual general meeting on 23rd May, 2006, 9,949,924 ordinary shares were issued and allotted on 30th May, 2006 as fully paid up by way of one for ten bonus issue ("Bonus Issue") in respect of which an amount of HK\$99,499 was applied to the credit of the share premium account.

The new ordinary shares rank pari passu with the existing shares in all respect.

Details of the Company's placement and bonus issue of shares are set out in circulars of the Company dated 4th December, 2007 and 28th April, 2006, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 39. SHARE OPTION SCHEME

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

At 31st December, 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 2,118,348 (2006: 13,337,720) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 39. SHARE OPTION SCHEME (continued)

Details of the share options outstanding at 31st December, 2007 as follows:

Capacity of grantee	Grant date	Adjusted exercise price HK\$	Exercisable period (both days inclusive)	Number of Share Options				
				Balance at 1.1.2007	Granted during the year	Exercised during the year	Cancelled during the year	Balance at 31.12.2007
Directors	21/7/2005	1.153	21st July, 2005 to 20th July, 2015	7,259,372	-	-	(7,259,372)	-
	21/4/2006	1.2182	23rd May, 2006 to 22nd May, 2016	1,980,000	-	-	(1,980,000)	-
	21/4/2006	1.2182	23rd May, 2007 to 22nd May, 2017	1,980,000	-	-	(1,980,000)	-
Employees	21/7/2005	1.153	21st July, 2005 to 20th July, 2015	468,348	-	-	-	468,348
	21/4/2006	1.2182	23rd May, 2006 to 22nd May, 2016	825,000	-	-	-	825,000
	21/4/2006	1.2182	23rd May, 2007 to 22nd May, 2017	825,000	-	-	-	825,000
				<u>13,337,720</u>	<u>-</u>	<u>-</u>	<u>(11,219,372)</u>	<u>2,118,348</u>

No share option was granted or exercised, during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 39. SHARE OPTION SCHEME (continued)

Details of the share options granted on 21st July, 2005 and 21st April, 2006 and outstanding at 31st December, 2006, as adjusted for the effect of the bonus issue, are as follows:

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

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

	2006
Share price	HK\$1.34
Exercise price	HK\$1.34
Expected volatility	49.74%
Expected life	4 years & 5 years
Risk-free rate	4.51% & 4.60%
Expected dividend yield	-

Expected volatility was determined by using the historical volatility of the Company's share price from 2002 to 2005.

The Group recognised the total expense of HK\$514,266 during the year (2006: HK\$2,182,869) in relation to equity-settled share-based payment transactions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 40. RESERVES

	Share premium HK\$	Share option reserve HK\$	Investment revaluation reserve HK\$	Retained profits HK\$	Total HK\$
<b>THE COMPANY</b>					
At 1st January, 2006	109,742,622	4,249,740	-	21,391,760	135,384,122
Loss in fair value change of available-for-sale investments	-	-	(2,857,480)	-	(2,857,480)
Recognition of equity-settled share based payments	-	2,182,869	-	-	2,182,869
Bonus share issued	(99,499)	-	-	-	(99,499)
Profit for the year	-	-	-	12,537,424	12,537,424
At 31st December, 2006	<u>109,643,123</u>	<u>6,432,609</u>	<u>(2,857,480)</u>	<u>33,929,184</u>	<u>147,147,436</u>
Loss in fair value change of available-for-sale investments	-	-	(1,690,204)	-	(1,690,204)
Transfer to profit or loss on derecognition of convertible notes	-	-	341,942	-	341,942
Transfer to profit or loss on sale of available-for-sale investments	-	-	137,773	-	137,773
Recognition of equity-settled share based payments	-	514,266	-	-	514,266
Transfer to retained profit upon cancellation of share options	-	(5,896,040)	-	5,896,040	-
Issue of new shares upon placement	28,980,000	-	-	-	28,980,000
Transaction cost attributable to issue of new shares	(728,356)	-	-	-	(728,356)
Profit for the year	-	-	-	38,136,932	38,136,932
At 31st December, 2007	<u><u>137,894,767</u></u>	<u><u>1,050,835</u></u>	<u><u>(4,067,969)</u></u>	<u><u>77,962,156</u></u>	<u><u>212,839,789</u></u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 41. DEFERRED TAXATION

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

	<b>Accelerated tax depreciation</b> HK\$	<b>Revaluation of properties</b> HK\$	<b>Tax losses</b> HK\$	<b>Other temporary difference</b> HK\$	<b>Total</b> HK\$
At 31st December, 2006	17,695	1,588,732	(903,821)	–	702,606
Charge (credit) to income for the year	48,081	291,993	(148,185)	122,648	314,537
At 31st December, 2006	65,776	1,880,725	(1,052,006)	122,648	1,017,143
Charge (credit) to income for the year	43,327	(1,104,998)	489,691	(122,648)	(694,628)
At 31st December, 2007	<u>109,103</u>	<u>775,727</u>	<u>(562,315)</u>	<u>–</u>	<u>322,515</u>

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

At 31st December, 2007, the Group has unused tax losses of approximately HK\$108.5 million (2006: HK\$110.1 million) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$3.2 million (2006: HK\$6.0 million) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$105.3 million (2006: HK\$104.1 million) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At 31st December, 2007, the Company has unused tax losses of approximately HK\$88.9 million (2006: HK\$92.3 million) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 42. DISCONTINUED OPERATION

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

The effects of the disposal were summarised as follows:

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 43. MAJOR NON-CASH TRANSACTIONS

During the year, the Group acquired certain available-for-sale investments of HK\$9,160,000 through conversion of convertible notes (see note 24) and received scrip dividends from available-for-sale investments and held-for-trading investments of HK\$237,419 (2006: HK\$165,669) and HK\$699,303 (2006: Nil), respectively.

In 2006, the Group disposed of its interests in a jointly controlled entity. The disposal proceeds of HK\$15,149,700 was received by a related company on behalf of the Group (see note 31).

## 44. PLEDGE OF ASSETS

At 31st December, 2007:

- (a) margin trading facilities in respect of securities transactions to the extent of approximately HK\$11.9 million (2006: HK\$15.8 million), of which HK\$8.3 million (2006: HK\$7.9 million) had been utilised after considering deposits held by financial institutions, were secured by the listed investments of the Group and the Company of approximately HK\$23.7 million (2006: HK\$31.6 million) and HK\$23.7 million (2006: HK\$30.7 million), respectively;
- (b) overdraft and revolving loan facilities to the extent of approximately HK\$17.1 million (2006: HK\$17.1 million), of which nil had been utilised in both years, were secured by time deposits held by the Company of approximately HK\$4.2 million in year 2006 and by a floating charge over the certain properties of the Company of approximately HK\$10.5 million (2006: HK\$5.5 million); and
- (c) bank loan facilities to the extent of approximately HK\$18.9 million which were borrowed and fully utilised in current year, were secured by the Group's leasehold land and building in Hong Kong with an aggregate carrying value of approximately HK\$27.6 million.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 45. OPERATING LEASE ARRANGEMENTS

### The Group as lessor

Property rental income earned during the year was HK\$1,160,966 (2006: HK\$1,033,189). The properties held have committed tenants for the next two years.

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

	<b>2007</b>	2006
	<b>HK\$</b>	HK\$
Within one year	<b>726,000</b>	1,531,934
In the second to fifth year inclusive	<b>935,733</b>	3,270,604
	<b><u>1,661,733</u></b>	<u>4,802,538</u>

### The Group and the Company as lessee

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

	<b>2007</b>	2006
	<b>HK\$</b>	HK\$
Within one year	<b>253,452</b>	160,920
In the second to fifth year inclusive	<b>52,758</b>	78,780
	<b><u>306,210</u></b>	<u>239,700</u>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 46. RETIREMENT BENEFITS SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% (2006: 5%) of relevant payroll costs to the scheme, which contribution is matched by employees.

	<b>2007</b>	2006
	<b>HK\$</b>	HK\$
Amount contributed and charged to the consolidated income statement	<b>123,913</b>	110,298

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

	<b>2007</b>	2006
	<b>HK\$</b>	HK\$
Amount contributed and charged to the consolidated income statement	<b>845,207</b>	1,283,342

## 47. COMMITMENT

During 2006 and 2007, Jubilee Star Limited ("Jubilee Star"), a subsidiary of the Group and China Aviation Supplies Import and Export Group Corporation ("China Aviation") entered into conditional agreements for the transformation of Beijing Kailan Aviation technology Co. Ltd. ("Beijing Kailan") into an equity joint venture through capital injection. Based on the revised agreement, Jubilee Star agreed to contribute RMB38 million into Beijing Kailan. Upon the fulfillment of conditions set out in the revised joint venture agreement, Jubilee Star and China Aviation will own 20.02% and 79.98% equity interest in Beijing Kailan respectively.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2007

## 48. RELATED PARTY TRANSACTIONS

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

Related party	Nature of transaction	2007 HK\$	2006 HK\$
Minority shareholder of	Sales of goods	19,950,716	26,721,556
a subsidiary	Purchases of materials	1,007,167	1,575,392

The Company performed certain administrative services for its subsidiaries for which a management fee of HK\$1,224,000 (2006: HK\$600,000) was charged to the subsidiaries.

Terms and balances with related parties are set out in notes 8, 28, 29, 30, 31, 34 and 35 and on the balance sheet.

The key management of the Group comprises all directors and three (2006: three) highest paid employees, details of their remuneration are disclosed in notes 9 and 10. The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

## 49. EVENT SUBSEQUENT TO BALANCE SHEET DATE

On 2nd January 2008, Golden Star Investment Limited ("Golden Star"), a subsidiary of the Group, Allied Wealth Holdings Limited ("Allied Wealth"), Mr. Sin Kwok Lam and the Company entered into a conditional sale and purchase agreement. Pursuant to the agreement, Golden Star has conditionally agreed to acquire and the Allied Wealth has conditionally agreed to sell the entire issue share capital of Wealth Trend Investment Limited ("Wealth Trend"), a company incorporated in Hong Kong, and the shareholder's loan owed by Wealth Trend to Allied Wealth, at an aggregate consideration of HK\$40,000,000, and to be satisfied as below:

- (i) HK\$8,000,000 shall be payable by the Golden Star in cash; and
- (ii) HK\$32,000,000 shall be satisfied by allotment of 20,000,000 shares of the Company to Allied Wealth.

Upon completion of the conditions set out in the agreement, the Company will be entitled to the entire issued share capital of Wealth Trend, which in turn holds 65% equity interest of 北京金音源管理科技有限公司, a sino-foreign equity joint venture established in the PRC. The transaction is subsequently completed in February 2008.

The Group is in the process of finalising the relevant financial information of these companies and, accordingly, the financial impact of the above mentioned acquisition to the Group is not disclosed.

# FIVE YEARS FINANCIAL SUMMARY

At 31st December, 2007

	For the year ended 31st December,				2007 HK\$'000
	2003 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2006 HK\$'000	
<b>RESULTS</b>					
Turnover	84,678	73,395	68,898	53,485	<b>28,868</b>
(Loss) profit before taxation	(85,089)	56,378	15,652	16,563	<b>96,252</b>
Taxation	2,692	(526)	(659)	(372)	<b>592</b>
(Loss) profit for the year	(82,397)	55,852	14,993	16,191	<b>96,844</b>
Attributable to:					
Equity holders of the Company	(84,760)	54,809	14,907	15,962	<b>97,388</b>
Minority interests	2,363	1,043	86	229	<b>(544)</b>
	(82,397)	55,852	14,993	16,191	<b>96,844</b>
	As at 31st December,				2007 HK\$'000
	2003 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2006 HK\$'000	

## EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Total assets	319,354	177,954	236,571	231,294	<b>386,392</b>
Total liabilities	(229,766)	(41,176)	(49,584)	(25,741)	<b>(41,186)</b>
	89,588	136,778	186,987	205,553	<b>345,206</b>
Minority interests	(16,411)	(16,329)	(15,773)	(16,477)	<b>(17,108)</b>
Equity attributable to equity holders of the Company	73,177	120,449	171,214	189,076	<b>328,098</b>

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

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

The above financial summary prior to 2005 has not been adjusted to take into account the effect of change in the presentation of turnover to exclude proceeds from sales of securities and dividends from listed securities.

# PARTICULARS OF PROPERTIES HELD BY THE GROUP

At 31st December, 2007

## A. INVESTMENT PROPERTIES

	<b>Location</b>	<b>Group's interests</b>	<b>Approximate site area (sq.ft.)</b>	<b>Existing use</b>	<b>Term of lease</b>
1.	G/F to 3/F, Tung Fai Court, 2 Shui Che Kwun Street, Yuen Long, New Territories (165/750th shares of and in YTL 287 and 349) Hong Kong	100%	7,515	Commercial	Medium
2.	Unit A, B, C, D, E, F, G and H 3rd Floor, Sun Star Castle, Beco da Roma No. 6, Rua de S. Domingos No.13 – 19A and Patio de S Domingos, No. 17 – 19 Macau	100%	3,783	Commercial	Medium

## B. LEASEHOLD LAND AND BUILDINGS

	<b>Location</b>	<b>Group's interests</b>	<b>Approximate site area (sq.ft.)</b>	<b>Existing use</b>	<b>Term of lease</b>
1.	Flat C on 22nd and Car Parking Space No.26 on Level 5 of Tower 3, Tregunter, Tregunter Path, The Peak, Hong Kong (44/12659th shares of and in the Remaining Portion of Inland Lot No.1626, Inland Lot No.1627 and the Extension thereto, Inland Lot No.1929 and the Remaining Portion of Inland Lot No.8306) Hong Kong	100%	3,001	Residential	Medium



## PARTICULARS OF PROPERTIES HELD BY THE GROUP

At 31st December, 2007

### C. LANDS HELD FOR UNDETERMINED FUTURE USE

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