2007 ANNUAL REPORT

Lam Soon (Hong Kong) Limited

A Member of the Hong Leong Group Malaysia

(Stock Code : 411)

Lam Soon
Superior
Brands Products

香港名牌
HONG KONG
TOP BRAND

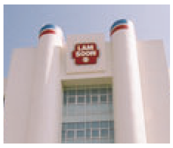
haomama.com 好媽媽

WebCare Award
無障礙優異網站

中国名牌
2004.9 — 2007.9
CHINA TOP BRAND

榮譽獎項
超級品牌
香港
2005/2006

CONTENTS



CORPORATE INFORMATION

HONORARY CHAIRMAN

WHANG Tar Choung #

with effect from 11 October 2006

BOARD OF DIRECTORS

KWEK Leng Hai *(Chairman)*
LEUNG Wai Fung *(Group Managing Director)**
WHANG Sun Tze, Ph.D.
LO Kwong Chi, Clement
TAN Lim Heng
TSANG Cho Tai
DING Wai Chuen
IRIE Yasuaki
IKEDA Hiromi — alternate director to IRIE Yasuaki

* *with effect from 1 September 2006*

COMPANY SECRETARY

CHENG Man Ying

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

PKF
Certified Public Accountants

REGISTERED OFFICE

21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong

DATE OF INCORPORATION

13 May 1961

DATE OF LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED

30 October 1972

STOCK CODE

411

SHARE REGISTRAR AND TRANSFER OFFICE

Hongkong Managers and Secretaries Limited
Citicorp Centre, 26th Floor, 18 Whitfield Road, Causeway Bay, Hong Kong

INTERNET WEB SITES

Lam Soon Hong Kong Group
http://www.lamsoon.com

Haomama.com Club
Hong Kong
http://www.haomama.com
Mainland China
http://www.haomama.com.cn

Detergent Division
http://www.love2clean.com

Edible Oil Division
http://www.lamsoonoil.com

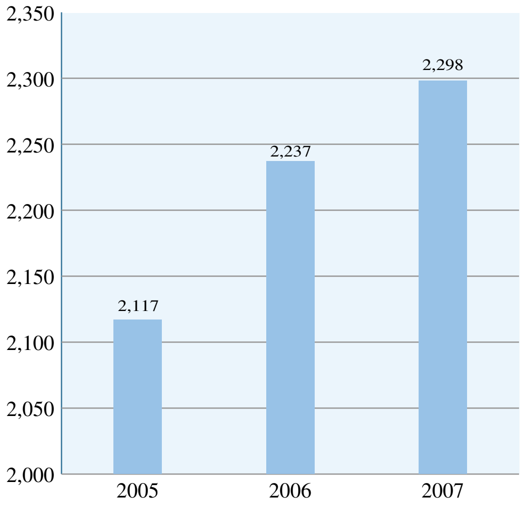
Flour Division
http://www.hkflourmills.com

Packaging Division
Taiwan
http://www.lamsoon.com.tw
Mainland China
http://www.zhuhai-lamsoon.com

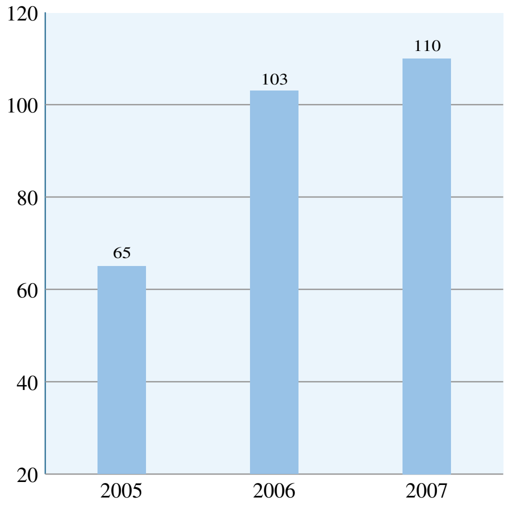
Lam Soon e-Bidding
http://ebidding.lamsoon.com

Hong Leong Group Malaysia
http://www.hongleong.com

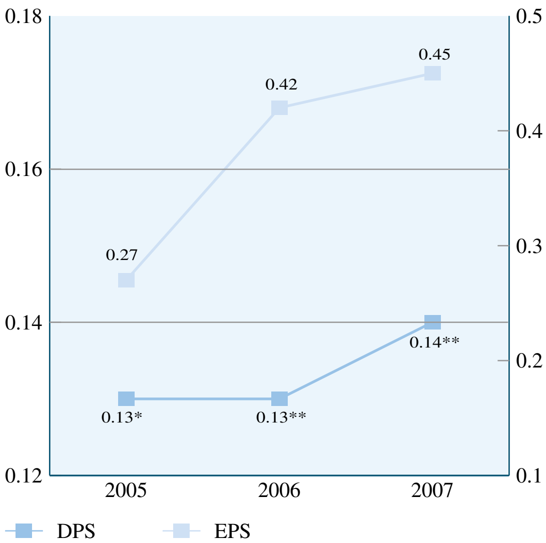
Turnover *(HK$ million)*



Profit Attributable to Shareholders *(HK$ million)*



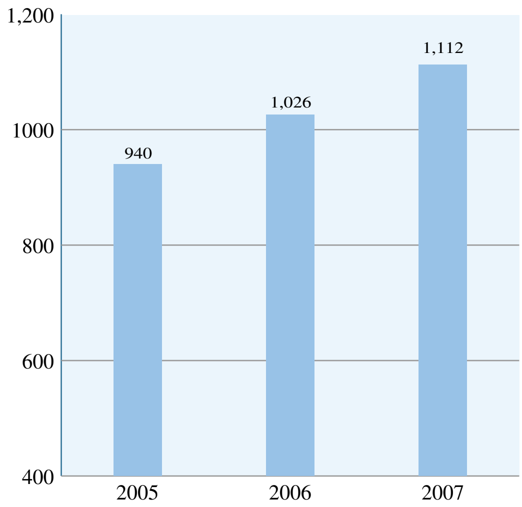
Earnings per Share and Dividend per Share *(HK$)*



* Dividends for 18 months ended 30 June 2005

** Dividends for 12 months ended 30 June 2006 and 30 June 2007

Net Asset Value *(HK$ million)*



Consolidated Results

(In HK$ million)	Year ended 30 June 2004	2005	2006	**2007**
Turnover	2,009	2,117	2,237	**2,298**
GP%	19%	17%	17%	**15%**
Profit before taxation	78	106	126	**102**
Taxation	(24)	(36)	(15)	**8**
Profit before minority interests	54	70	111	**110**
Minority interests	(6)	(5)	(8)	**—**
Profit attributable to shareholders of the Company	48	65	103	**110**

Consolidated Assets and Liabilities

(In HK$ million)	At 30 June 2004	2005	2006	**2007**
Total assets	1,741	1,756	1,734	**1,712**
Total liabilities	(802)	(737)	(623)	**(514)**
Minority interests	(67)	(79)	(85)	**(86)**
Shareholders' equity	872	940	1,026	**1,112**

Key Financial Indicators

	2004	2005	2006	**2007**
Earnings per share *(HK$)*	0.20	0.27	0.42	**0.45**
Dividend per share *(HK$)*	0.06*	0.13**	0.13#	**0.14#**
Net debt to equity	13%	3%	0%	**0%**

Note 1 * Dividends for 12 months ended 31 December 2003

** Dividends for 18 months ended 30 June 2005

Dividends for 12 months ended 30 June 2006 and 30 June 2007

Note 2 The change of financial year end from 31 December to 30 June commenced from the year 2004. The 5-Year Financial Summary based on the old financial year end is on page 126 for easy reference.

I am pleased to report that the Group had completed another good year. We achieved improved returns for our core businesses in Food and Detergent through better management of our premium branded products. This strategy to focus on the premium branded segment to capitalise on the growing economy in China and to meet consumer demands for higher quality food products is positioning us in the right direction. It ensues from our vision of becoming a premier food company in Hong Kong and the PRC with commensurate global high standards and quality.

In this respect, I am encouraged by the progress we had made so far in our food business, and for which we had been recognized in the market with several prestigious brand awards.

Business Review

Our on-going dedicated programmes for improvements in operations, financial and human resources are showing the desired results in market share and profitability for our Group's core products in flour, edible oil and detergent. Our premium brands are now better and wider known in the PRC.

Furthermore, with our brand differentiation, we can offer higher quality products at higher prices, and through increased productivity, we have managed to off-set against the increasing costs of raw materials in our food production. This will give us a much better chance of succeeding in a very competitive market.

However, our Packaging business profitability was stifled this year by the rapidly increasing raw material aluminium cost. We are reviewing the compatibility of our Packaging business to our main focus of building a pure food company.

For expansion, we are supported by our strong and healthy balance sheet with net cash on hand of HK$151 million at the end of our financial year. This has opened up for us possibilities of expanding in the chosen segments for higher end food business.

Financial Results

The Group achieved a turnover of HK$2,298 million with a net profit attributable to shareholders of HK$110 million, an increase of 7% over the corresponding period last year. Basic earnings per share increased from HK$0.42 to HK$0.45.

During the year, the Group achieved 13% growth in sales of its top six core brands, including Knife and Red Lantern edible oil, Golden Statue and American Roses flour, as well as AXE and Labour detergent. Our branded goods sales account for 33% of Group's total sales and we are aiming to increase this percentage further in the coming years.

Financial Results *(continued)*

Our sales in China are becoming more prominent increasing by 10% to approximately HK$1.6 billion, or 69% of the Group total sales. A key initiative we had undertaken is our recent construction of a production plant for flour in Qingzhou aimed at serving the north-eastern part of the PRC beyond our present southern PRC coverage.

The Board of Directors has proposed a final dividend of HK$0.08 per share, which together with the interim dividend of HK$0.06 already paid would result in a total dividend for the year of HK$0.14 per share (HK$0.13 per share for the year ended 30 June 2006).

Prospects

Our transformation into a premier food company offering high quality products is progressing well. This is timely to meet the increasing market demand for safe, reliable, healthy and better quality food products associated with greater affluence of consumers in the PRC.

With more than 50 years of heritage and an established reputation for high quality products that have been well received in Hong Kong, the Group will further expand into strategic PRC regions where there are robust economic growth. To maximise the opportunities in such areas, we have, apart from relying on our existing branded premium products, put more resources into research for developing new innovative products to cater for different customer needs.

No doubt the business we are in is competitive but we are encouraged by the success so far of our premium branded products. We believe that with the right combination of proper execution of our business strategy, our strong balance sheet and our effort to anticipate market changing demands, we should be able to face the challenges ahead and make further progress in the fast growing market in the PRC.

Appreciation

It is my pleasure to make this, my first report, as Chairman of the Board and I would like to thank my fellow directors for their contribution and support throughout the year. I would like also to express our appreciation and thanks to the previous Chairman Mr. WHANG Tar Choung, now retired, for his valued counsel and guidance in the years past.

To our management and staff, I would like them to know that their hard work, dedication and commitment to performance excellence are much appreciated. Their efforts are vital to the Group's success to transform into a premier food company with well-known and trusted brand names associated with quality and healthy living.

We are mindful and appreciative of the support and trust of our customers, bankers and shareholders whose confidence in us has enabled the Group to grow from strength to strength.

KWEK Leng Hai
Chairman

Hong Kong, 4 September 2007

CORPORATE HIGHLIGHTS

Corporate Events

MARCHING INTO A NEW ERA

* October 2006 – Mr. Kwek Leng Hai was appointed as Chairman of the Board of Directors

* Following establishing plants in Shekou, Panyu, Zhuhai and Jiangsu, Lam Soon has performed the Foundation Laying Ceremony of the new plant in Shandong in August 2007, signifying its first step expanding to the Northern market of China.

Honours & Awards

GLORIOUS HISTORY IN HONOURS & AWARDS

The Group continues to strengthen its equities by achieving various honours & awards on its management standard and core brands

* June 2007 – Shenzhen Lam Soon Edible Oils Company, Limited was awarded “The Best Brand Enterprise Award 2007 (Greater China)”

* June 2007 – Shekou Lam Soon Flour Mills Company Limited was awarded “Certificate Award for the Best Brand Enterprise 2007 (Greater China)”

* February 2007 – Our Group accredited “ACCA Approved Employer”

* 2004 to 2010 – Golden Statue was awarded “The China Top Brands” by Quality Surveillance Inspection in China

* September 2006 – Knife was awarded “10 Favorite Brands” by Wellcome Supermarket

* Awarded “Hong Kong Top Brand” by The Chinese Manufacturers’ Assocation of Hong Kong & Hong Kong Brand Development Council jointly

2005 – Labour

2004 – American Roses

2003 – Golden Statue

2002 – Red Lantern

2000 – AXE

1999 – Knife

Honours & Awards

* Superbrands

2005/2006 – AXE

2002/2003 – Lam Soon & Knife

* "Super Brand Award" Gold Prize

* "Trusted Brand Award" Gold Prize

1999 to 2006 – Knife

* "WebCare Award" by Internet Professional Association
- www.haomama.com
  2005 & 2006 (Gold Prize), 2004 (Secondary Level Award), 2002 (Primary Level Award)
- www.haomama.com.cn
  2005 & 2006 (Gold Prize), 2004 (Primary Level Award)
- www.lamsoon.com
  2006 (Gold Prize), 2005 (Silver Prize), 2004 (Primary Level Award)
- www.hkflourmills.com
  2005 & 2006 (Silver Prize), 2004 (Primary Level Award)
- www.lamsoonoil.com
  2006 (Gold Prize), 2005 (Silver Prize)
- www.love2clean.com
  2005 & 2006 (Silver Prize)

Quality & Certification

* ISO 9001:2000 Certification
- Jiangsu Lam Soon Flour Mills Company Limited
- Guangzhou Lam Soon Homecare Products Limited
- Shenzhen Lam Soon Edible Oils Company, Limited
- Shekou Lam Soon Flour Mills Company Limited
- Zhuhai LSO Ends Packaging Limited
- Lam Soon Ball Yamamura Inc.
- Lam Soon Industries Inc.

* HACCP Food Safety Certification
- Jiangsu Lam Soon Flour Mills Company Limited
- Shenzhen Lam Soon Edible Oils Company, Limited
- Shekou Lam Soon Flour Mills Company Limited

* China Environmental Labelling Certification
Guangzhou Lam Soon Homecare Products Limited

CONTRIBUTION TO THE SOCIETY AND CREATE BRIGHT FUTURE TOGETHER

Community Participation & Sponsorship

* May 2007 – Knife Brand raised funds for The Community Chest of Hong Kong by the program of "Mother's Day Jingle Ring Tone Download"
* July 2007 – "Peter and the Wolf Charity Concert" organized by The Boys' & Girls' Clubs Association of Hong Kong
* November 2006 – Community Chest (New Territories) Walk for Millions, Deep Bay Link
* June 2006 – Sponsored to install an emergency helpline in country park at Clear Water Bay, Sai Kung (near Ng Fai Tin) in Hong Kong
* Since 1995 – The Better Hong Kong Foundation

REACHING OUR CUSTOMERS AND CONSUMERS

Product Promotion & Exhibition

* May 2007 – "Love for Mother in a Song: Children Signing Carnival" on Mother's Day held in Hong Kong
* May 2007 – "Beauty Care for Mother Campaign" held in Shenzhen, Guangzhou, Dongguan and Foshan
* May 2007 – "The 10th China International Trade Fair for Bakery and Confectionery" held in Shanghai
* December 2006 – "Hong Kong Brands and Products Expo 2006" in Victoria Park, Hong Kong
* October 2006 – Knife Brand full range olive oil was endorsed by Spanish Chamber of Commerce in Hong Kong as the "Recommended Olive Oil of Spanish Festival 2006"

FOOD


刀唛
KNIFE BRAND
香港名牌
HONG KONG
TOP BRAND
亚洲信誉品牌
好妈妈健康新标准
给孩子最好的

Operation Review

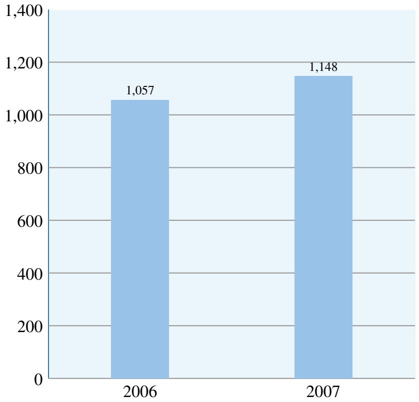
Food Segment

Food Segment had accomplished 9% growth in sales and 6% growth in operating profits during the financial year. Our premium brands in edible oil and flour, including Knife, Red Lantern, American Roses, and Golden Statue, expanded its distribution networks beyond Hong Kong and Southern China. The segment had achieved 31% sales growth in its premium brands in four strategic cities in China, namely Shenzhen, Guangzhou, Shanghai, and Beijing.

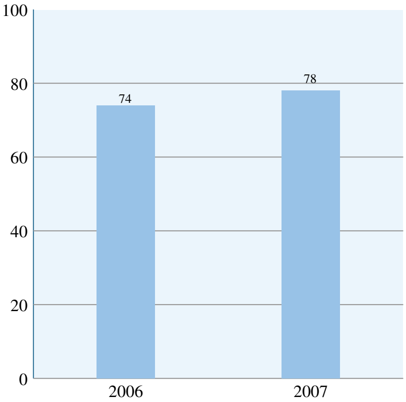
Knife Brand is the leading edible oil brand in Hong Kong with the highest market share for more than a decade. Its sales in China continued to maintain double-digit growth. It was amongst the first to receive the "Trusted Brand Award Gold Prize" in April 2006 and had received the award for the past consecutive six years as Hong Kong and Asia's "Super Brand Award Gold Prize" granted by Reader's Digest.

The Group is also one of the premium specialty flour suppliers in Hong Kong and China. American Roses is best known for its quality in the production of cakes and dim-sum, while Golden Statue has been regarded as the best flour products for bread and awarded as one of "The China Top Brands". Most of the 4-star and 5-star hotels as well as the most prestigious restaurants in Hong Kong and China are customers of these two premium brands.

Turnover — Food Segment *(HK$ million)*



Profit from operation — Food Segment *(HK$ million)*



DETERGENT


斧頭牌
AXE
家居清潔專家
Household Cleaning Expert
乾乾淨淨好寫意
AXE家居清潔系列

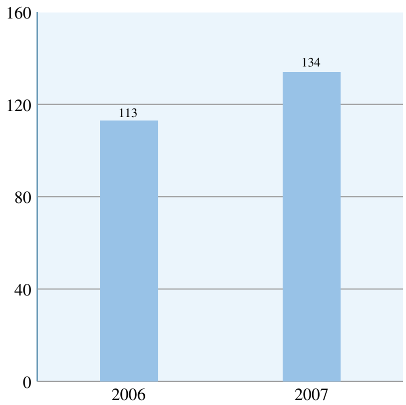
Operation Review *(continued)*

Detergent Segment

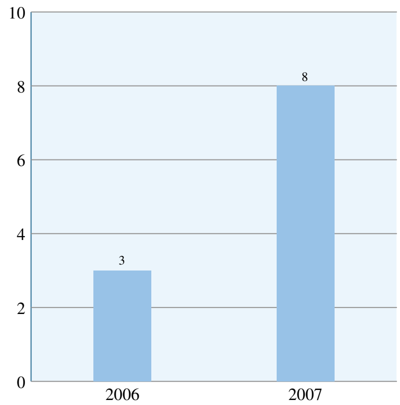
The Detergent Segment had performed well and achieved 19% sales growth for the year. Its operating profits had also increased from HK$3 million to HK$8 million during the year.

The Group has enhanced the brand equity of its flagship brands, AXE and Labour by launching new innovative products while maintaining its high quality standard. In December 2006, AXE and Labour were granted the Certificate for Product Exemption from Quality Surveillance Inspection in China. This recognition demonstrates the outstanding and reliable quality of the Group's products and also strengthenes its brand image in China.

Turnover — Detergent Segment *(HK$ million)*



Profit from operation — Detergent Segment *(HK$ million)*



PACKAGING

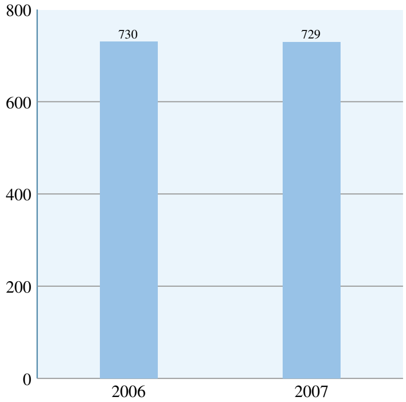
Operation Review *(continued)*

Packaging Segment

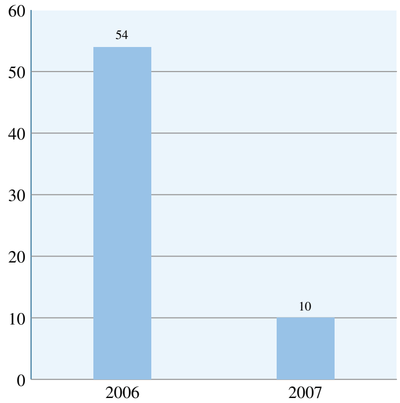
The Packaging Segment had experienced very challenging conditions during the year. In particular, the increased aluminum costs could not be fully reflected in our selling prices under the keen market competition environment. However, the situation has been improving since the second half of the financial year.

Owing to the implementation of management programmes in enhancing productivity and improving financial management, the Packaging Segment was still able to maintain the sales volume and a healthy financial position, despite the operating profits having declined to HK$10 million mainly due to the increased aluminum costs and an exceptional loss during the year.

Turnover — Packaging Segment *(HK$ million)*



Profit from operation — Packaging Segment *(HK$ million)*



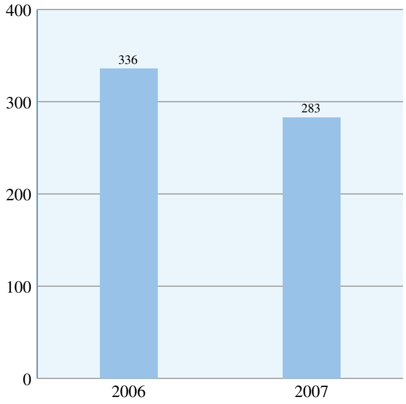
DISTRIBUTION

Operation Review *(continued)*

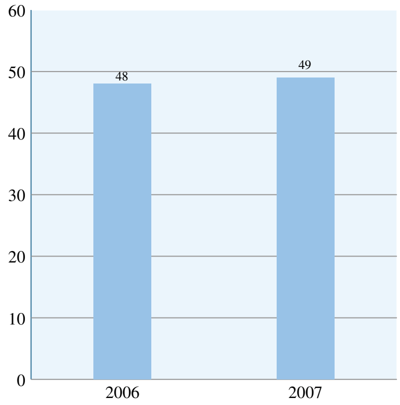
Distribution Segment

Despite intensive competitive operating environment in Hong Kong, with increasing rental and distribution costs, the Distribution Segment managed to increase its operating profit margins to 17%. The segment maintained over 35% market share in each of its specialty products. Management will continue to put forth its relentless effort in further enhancing the supply chain management to achieve higher profit.

Turnover — Distribution Segment *(HK$ million)*



Profit from operation — Distribution Segment *(HK$ million)*



Operation Review *(continued)*

Human Resources and Training

As at 30 June 2007, there were approximately 1,700 employees in the Group (30 June 2006: 1,800). As an equal opportunity employer, employees are remunerated according to the nature of their duties and responsibilities and the prevailing market conditions. Annual increment and year-end performance bonus mechanism were incorporated in the Group's remuneration policy to retain, motivate and reward individuals for their contributions to the Group. The Company also operates a Share Option Scheme for granting of options to eligible employees and a total of 5,400,000 share options were granted on 25 July 2006.

Relation with Shareholders and Investors

The Company encourages two-way communication with its stakeholders. Extensive information about the Group's activities is provided in the Annual and Interim Reports, which are sent to the shareholders. The Group also maintains a number of websites for the Group and several of its subsidiaries in providing a wide range of information on the Group and its businesses.

Relation with Community

During the year, the Group continued to support a wide spectrum of community services targeted at providing for the needy in Hong Kong, the PRC and beyond. The Group had supported the activities organized by The Better Hong Kong Foundation and had participated in the Community Chest Walks for Millions.

Financial Review

For the year ended 30 June 2007, the Group's turnover by activities and their respective profit from operations are reported as follows:

	Turnover		Results	
In HK$ million	**2007**	2006	**2007**	2006
Food *(Note)*	**1,148**	1,057	**78**	74
Detergent	**134**	113	**8**	3
Packaging	**729**	730	**10**	54
Distribution	**283**	336	**49**	48
Others	**4**	1	**(38)**	(45)
	2,298	2,237	**107**	134
Net interest expenses			**(5)**	(8)
Taxation			**8**	(15)
Minority interests			**—**	(8)
Net Profit			**110**	103

Note : The result of Food Segment is the sum of (i) operating profit of HK$75 million (2006: HK$71 million) and (ii) share of profit of a jointly controlled entity of HK$3 million (2006: HK$3 million).

Group result

Turnover for the year ended 30 June 2007 was HK$2,298 million as compared with HK$2,237 million of last year, resulting mainly from the revenue growth of Food and Detergent businesses which benefited from the robust China market. The close-down of unprofitable frozen business line also led to a decrease in turnover of HK$45 million.

The Group's earnings increased by 7% to HK$110 million from HK$103 million for last year, mainly attributable to the strong performance of the Food Segment, which improved to HK$78 million from HK$74 million for last year. The results had included tax refunds of approximately HK$20 million. However, the Packaging Segment experienced very challenging market conditions in Taiwan during the year. The increasing aluminum costs could not be fully passed on to its customers due to market competition. Its profit decreased to HK$10 million (2006: HK$54 million).

Financial Review *(continued)*

Liquidity and financial resources

The Group has maintained a strong financial position. Total borrowings further decreased to HK$142 million (30 June 2006: HK$162 million). After deducting deposit and cash on hand of HK$293 million (30 June 2006: HK$258 million), the Group was in a positive cash position of HK$151 million (30 June 2006: HK$96 million), with nil gearing at the end of the financial year.

Debt maturity profile of the Group at 30 June 2007 was as follows:

	2007	2006
	HK$'000	*HK$'000*
Borrowings repayable within 1 year	**142,104**	162,101
Cash and Deposit on hands	**293,134**	257,854
Net Cash Total	**151,030**	95,753

The Group maintained a healthy balance sheet with total net assets of HK$1,197 million at 30 June 2007 (30 June 2006: HK$1,111 million) and shareholders' equity of HK$1,112 million (30 June 2006: HK$1,026 million).

Management of the Group's financing and treasury activities are centralised at the corporate level. The use of financial instruments is strictly controlled and is solely for managing the Group's interest rate and foreign currency exchange rate exposure in connection with its borrowings.

With bank deposit and cash in hand as well as available banking facilities, the Group maintains a strong and sound liquidity position, having sufficient financial resources to fund its recurring operating activities, its present investments as well as future investment opportunities.

Financial Review *(continued)*

Foreign currency exposure

As the majority of the Group's borrowings carries interest at floating rates and is denominated in Hong Kong dollars, the Group's exposure to exchange rate fluctuation was insignificant.

The Group has operations spreading over China, Hong Kong, and Taiwan. Local costs and revenue are primarily denominated in Renminbi, Hong Kong dollars, and Taiwan dollars respectively, and some in US dollars. The Group considers its foreign exchange exposure for the local operations to be minimal.

Charge on group assets

Details of the charge on Group assets are set out in note 17 to the financial statements.

Project commitments

Details of the project commitments are set out in note 38 to the financial statements.

Kwek Leng Hai

Aged 54, Chairman of the Company since 12 October 2006 and has been a Non-Executive Director of the Company since appointment to the Board in 1997.

Mr. Kwek is the President and CEO of Guoco Group Limited, a Hong Leong Group company listed in the Main Board of The Stock Exchange of Hong Kong Limited. He qualified as a chartered accountant of the Institute of Chartered Accountants in England and Wales.

Mr. Kwek is a director of Hong Leong Company (Malaysia) Berhad, the ultimate holding company of the Company. He is the brother-in-law of Dr. Whang Sun Tze, a Non-Executive Director of the Company.

Leung Wai Fung

Aged 51, Executive Director of LSHK with effect from 11 July 2005. Mr. Leung has been designated as the Group Managing Director with effect from 1 September 2006.

Mr. Leung joined LSHK in 1997 and had assumed the positions of Group Chief Financial Officer and Chief Operating Officer of Distribution Segment. He was appointed as Executive Director of the Board in June 2002. In March 2004, Mr. Leung resigned from LSHK and assumed a senior management position with a Hong Leong Group company.

Mr. Leung holds a Bachelor Degree in Business Administration from Simon Fraser University and an Executive Master's Degree in Business Administration (EMBA) from Fudan University School of Management. He has over 20 years experience in the areas of business management, strategic planning and development as well as acquisitions and mergers.

He had worked in Hong Kong and overseas with multinationals, including The East Asiatic (EAC), British Petroleum (BP), Inchcape Pacific, Hiram Walker-Allied Vintners in the U.S.A. and Canada, and Hostess Frito-Lay (snack food division of Pepsi-Cola) in Canada. Before joining the LSHK Group in 1997, Mr. Leung was the General Manager of Guoco Investments (China) Limited.

Whang Sun Tze

Ph.D.

Aged 63, Non-Executive Director of LSHK since appointment to the Board in 1984.

Dr. Whang holds a Doctorate Degree in Chemical Engineering. He is the son of Mr. Whang Tar Choung, a substantial shareholder of the Company, and the brother-in-law of Mr. Kwek Leng Hai.

Lo Kwong Chi, Clement

Aged 62, Independent Non-Executive Director of LSHK since 1993 and Non-Executive Director of LSHK since appointment to the Board in 1975.

Mr. Lo is a solicitor by profession and was admitted to practice both in Hong Kong and England in 1970.

Tan Lim Heng

Aged 59, Non-Executive Director of LSHK since appointment to the Board in 1997.

Mr. Tan is an Executive Director of Guoco Group Limited and is the Managing Director of Dao Heng Securities Limited and Dao Heng Commodities Limited. Mr. Tan holds a Bachelor of Science first class honours degree in engineering from University of Surrey and a Master of Science degree in management from Massachusetts Institute of Technology. He had previously worked in Geneva in 1974 with the United Nations Conference on Trade and Development. He had also served in the Singapore Civil Service as a Colombo Plan Scholar 1975-1978 before coming to work in Hong Kong with a financial services company and a major U.S. bank. Mr. Tan has extensive experience in property investment, financial and investment management services.

Tsang Cho Tai

Aged 57, Non-Executive Director of LSHK since appointment to the Board in 1997.

Mr. Tsang was appointed as Independent Non-Executive Director of LSHK in 1999 and re-designated as Non-Executive Director in 2004.

Mr. Tsang joined Guoco Group Limited in 1989 and is the chief financial officer of the Guoco Group. Prior to that he was an associate of an international firm of accountants. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants as well as an associate member of the Institute of Chartered Accountants in England and Wales.

Ding Wai Chuen

Aged 47, Independent Non-Executive Director of LSHK since appointment to the Board in 2004. Mr. Ding is a Partner of Grant Thornton, Certified Public Accountants. He is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certificate Public Accountants.

Mr. Ding had worked for international firms of accountants in England and in Hong Kong for over 11 years before joining the Hong Kong Institute of Certified Public Accountants ("HKICPA") in 1994 as the Head of the Professional Compliance Division. His main responsibilities at the HKICPA were monitoring and enforcing compliance with the HKICPA's professional standards. Mr. Ding is recently appointed by the Hong Kong SAR Government as a member of the Financial Reporting Review Panel of the Financial Reporting Council. Since 2002, Mr. Ding has been appointed by the PRC Ministry of Finance as a member of the Advisory Group of Foreign Experts for the development of PRC's Independent Auditing Standards. Since the beginning of 2007, he has been involved, as an advisor, in the joint projects between HKICPA and PRC Ministry of Finance for the comparison of Hong Kong and PRC accounting and auditing standards. Mr. Ding was appointed by the Hong Kong SAR Government of the PRC as a member of the Commission on Strategic Development in November 2005 and as a member of the Central Policy Unit Panel on the Pan-Pearl River Delta in January 2006. Mr. Ding has been a committee member of a number of Committees of the HKICPA, responsible for enacting and enforcing of the accounting standards of the HKICPA.

Irie Yasuaki

Aged 46, Independent Non-Executive Director of LSHK since appointment to the Board in May 2007.

Mr. Irie holds a Bachelor of Social Science Degree from Hitotsubashi University and has over 20 years experience in the food and retail industry in the Asia Pacific region.

Ikeda Hiromi

Aged 50, Alternate Director to Mr. Irie Yasuaki.

Mr. Ikeda holds a Bachelor Degree in Agriculture. He is the Manager of Grain Department of Grain & Oils Division of Mitsui & Co., Ltd.

Corporate Governance Practices

The Board has adopted the key provisions of the Code of Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 to the Listing Rules, which provides guidelines to reinforce our corporate governance principles. Continuous efforts are made to review and enhance the Group's internal control policy and procedures in light of local and international developments to instill best practices. The Company had complied throughout the year ended 30 June 2007 with all the provisions of the CGP Code, except that the non-executive directors were not appointed for a specific term. However, they are subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the articles of association of the Company. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CGP Code.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions.

Having made specific enquiry of all directors of the Company, they have complied with the required standard set out in the Model Code for the year.

Board of Directors

Composition of the Board

The directors of the Company during the year and up to the date hereof are set out in the Directors' Report on page 34.

Board Meetings and Attendance

During the year, four board meetings were held. Mr. KWEK Leng Hai, Mr. LEUNG Wai Fung, Dr. WHANG Sun Tze, Mr. LO Kwong Chi, Clement, Mr. TAN Lim Heng, Mr. TSANG Cho Tai and Mr. DING Wai Chuen attended all four meetings. Mr. MATSUMURA Hirokazu who resigned on 10 May 2007 (personally or represented by his alternate director, Mr. IKEDA Hiromi) attended four meetings. Mr. IRIE Yasuaki who was appointed on 10 May 2007 attended one meeting. Mr. WHANG Tar Choung, Mr. NG Ping Kin, Peter, Mr. James ENG, Jr. and Mr. HO King Cheung who retired on 11 October 2006 attended two meetings.

Board of Directors *(continued)*

Operations of the Board

The Board determines the corporate mission and broad strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Decisions involving financial statements, dividend policy, material contracts and major investments and divestments are reviewed and subject to approval by the Board. Other main roles of the Board are to ensure that adequate internal control systems and management information systems are in place, including being in compliance with every aspect of provisions of applicable laws, regulations, rules, directives and guidelines to create value for its shareholders, to ensure that the Company has adequate management to achieve the Company's strategic objectives.

Independence of the Independent Non-Executive Directors

The Company received confirmation of independence from each of the independent non-executive Directors for the year pursuant to Rule 3.13 of the Listing Rules. Up to and as at the date of this report, the Company still considers the independent non-executive Directors independent.

Relationship among the Members of the Board

The family relationships among the members of the Board are disclosed under "Directors' Profile" on pages 24 to 26 of this annual report.

Chairman and Chief Executive Officer

The roles of Chairman and Chief Executive Officer are undertaken independently by Mr. KWEK Leng Hai and Mr. LEUNG Wai Fung respectively.

Mr. KWEK Leng Hai is primarily responsible for ensuring the efficient functioning of the Board, which focuses on the Group's broad strategic direction and macro oversight of the management. Mr. LEUNG Wai Fung is responsible for the management of the Company in accordance with the strategies approved by the Board of Directors.

Non-Executive Directors

The non-executive directors are not appointed for a specific term but their terms of office are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Company's articles of association.

Remuneration of Directors

The Remuneration Committee ("RC") was established on 1 July 2005 with written terms of reference made pursuant to the relevant provisions of the CGP Code. The terms of reference of the RC adopted by the Board are available on the Company's website (www.lamsoon.com).

The RC comprises Messrs. KWEK Leng Hai (Chairman of the Company and Chairman of the RC), LO Kwong Chi, Clement and DING Wai Chuen. The latter two are independent non-executive directors of the Company.

The principal role of the RC is to make recommendations to the Board on the policy and structure for all remuneration of directors and senior management, and to determine the specific remuneration packages of the executive director and all senior management, including benefits in kind, pension rights and compensation payment, including any compensation payable for loss or termination of their office or appointment, and making recommendations to the Board of the remuneration of non-executive directors. The RC would also consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

During the year, two RC meetings were held, which were attended by all members. At these meetings, the remuneration packages of the executive director and senior management for the year were reviewed.

Nomination of Directors

The Board is responsible for the selection and recommendation of candidates for directorship of the Company. Reference would be made to the skills, experience, professional integrity and time commitments of the proposed candidate, the Company's needs and other applicable statutory requirements. The Board would also review the size, structure and composition of the Board.

During the year, at one of the meetings of the board of directors, nomination of director to the Board was reviewed and discussed.

Auditors' Remuneration

For the year ended 30 June 2007, the external auditors of the Group charged approximately HK$1,438,000 for audit service (including HK$120,000 for payroll audit) and there was no non-audit service rendered by the external auditors.

Audit Committee

The Board Audit Committee ("BAC") was established in December 1998 with written terms of reference. On 1 July 2005, the terms of reference were revised to align with the provisions under the CGP Code. The terms of reference of the BAC are available on the Company's website (www.lamsoon.com).

The BAC comprises of Messrs. LO Kwong Chi, Clement (Chairman of the BAC), TSANG Cho Tai and DING Wai Chuen. Messrs. LO Kwong Chi, Clement and DING Wai Chuen are independent non-executive directors of the Company.

The BAC oversees the financial process and the adequacy and effectiveness of the Company's system of internal control. The BAC meets with the Company's external auditors and the internal auditors for their evaluations of the internal control system. It also reviews interests in contracts and connected transactions. The BAC reviews the financial statements of the Company and the consolidated financial statements of the Group and the auditors' report thereon and submits its views to the Board.

During the year, three BAC meetings were held. Messrs. LO Kwong Chi, Clement, TSANG Cho Tai and DING Wai Chuen attended three meetings. Mr. NG Ping Kin, Peter, who retired on 11 October 2006 attended two meetings. The following is a summary of the work performed by the BAC during the year:

— reviewed the adequacy and effectiveness of the Group's systems of internal control and enterprise risk management;

— reviewed the consolidated financial statements of the Group and results;

— reviewed the external auditors' report thereon;

— reviewed the appropriateness of the Group's accounting policies;

— reviewed at various times the potential impact of the generally accepted accounting principles in Hong Kong on the Company's accounts; and

— reviewed and recommended to the Board on the approval of the external audit fee proposal for the Group.

A statement by the external auditors on their reporting responsibilities is set out on pages 47 to 48 of the annual report.

The directors of the Company have acknowledged their responsibility for preparing the financial statements for the year.

Internal Control

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss and manages rather than eliminates risks associated with its business activities.

The Board, recognising its responsibilities in ensuring sound internal controls, has developed a risk management framework for the Group to assist in:

— identifying the significant risks faced by the Group in the operating environment as well as evaluating the impact of such risks identified;

— developing the necessary measures for managing these risks; and

— monitoring and reviewing the effectiveness of such measures.

The Board has entrusted the BAC with the responsibility to oversee the implementation of the risk management framework of the Group. In discharging this responsibility, the BAC, assisted by the Group Internal Audit Department:

— periodically evaluates identified risks for their continuing relevance in the operating environment and inclusion in the risk management framework;

— assesses adequacy of action plans and control systems developed to manage these risks; and

— monitors the performance of management in executing the action plans and operating the control systems.

These on-going processes have been in place for the year under review, and reviewed periodically by the BAC.

The controls built into the risk management framework are intended to manage and not expected to eliminate all risks of failure to achieve business objectives but to provide reasonable and not absolute assurance against material misstatement of management and financial information or against financial losses and fraud.

Internal Control *(continued)*

In the associated companies and jointly controlled companies, the Board nominates representatives to sit as directors and take a proactive stance in assessing the performance of the entity with the goal of safeguarding the investment of the Group. Where practical, the Group may request functional, financial and operating information as well as assurance that such information have been prepared in accordance with reporting standards and have been derived from control environments acceptable to the Group.

The Board, through the BAC, has conducted an annual review on the Group's internal control system and considers that it is adequate and effective. The Board is satisfied that the Group has fully complied with the provisions on internal controls as set out in the CGP Code.

The directors submit their annual report together with the audited financial statements of the Company and its subsidiaries for the year ended 30 June 2007.

Principal Activities

The Company is an investment holding company and the principal activities of the subsidiaries are set out on pages 120 to 125.

Subsidiaries

Details of the Company's subsidiaries are set out on pages 120 to 125.

Financial Statements

The profit of the Group for the year, the state of affairs of the Company and of the Group as at 30 June 2007 and the Group's cash flows and statement of changes in equity for the year then ended are set out in the financial statements on pages 49 to 125.

Final Dividend

The Directors will recommend to the shareholders for approval at the forthcoming annual general meeting a final dividend of HK$0.08 per share. This, together with the interim dividend of HK$0.06 per share paid on Thursday, 22 March 2007, will amount to a total of HK$0.14 per share for the year (HK$0.13 per share for the year ended 30 June 2006). Subject to shareholders' approval, the final dividend will be payable on Thursday, 15 November 2007 to the shareholders whose names appear on the register of members on Wednesday, 14 November 2007.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 8 November 2007 to Wednesday, 14 November 2007, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents, accompanied by the relevant share certificates must be lodged with the Company's Share Registrars and Transfer Office — Hongkong Managers and Secretaries Limited at Citicorp Centre, 26th Floor, 18 Whitfield Road, Causeway Bay, Hong Kong not later than 4:00 p.m. on Wednesday, 7 November 2007.

Share Capital

Movements in share capital during the year are set out in Note 35 to the financial statements.

Reserves

Movements in reserves during the year are set out in Note 37 to the financial statements.

Fixed Assets

Movements in fixed assets during the year are set out in Note 17 to the financial statements.

Directors

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

KWEK Leng Hai, *Chairman**
LEUNG Wai Fung, *Group Managing Director***
WHANG Sun Tze*
LO Kwong Chi, Clement#
TAN Lim Heng*
TSANG Cho Tai*
DING Wai Chuen#
IRIE Yasuaki#
— appointed on 10 May 2007
IKEDA Hiromi
— alternate director to IRIE Yasuaki
— alternate director to MATSUMURA Hirokazu and ceased to be his alternate director on 10 May 2007
WHANG Tar Choung, *Chairman**
— retired on 11 October 2006
NG Ping Kin, Peter, *Vice Chairman*#
— retired on 11 October 2006
James ENG, Jr. *
— retired on 11 October 2006
HO King Cheung*
— retired on 11 October 2006
MATSUMURA, Hirokazu#
— resigned on 10 May 2007
YONG Weng Chye
— alternate director to WHANG Tar Choung and ceased to be his alternate director on 11 October 2006

** *Executive director*
* *Non-executive director*
# *Independent non-executive director*

Directors *(continued)*

In accordance with the provisions of article 78 of the Company's articles of association, Messrs. KWEK Leng Hai, TAN Lim Heng and TSANG Cho Tai shall retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the provisions of article 79 of the Company's articles of association, Mr. IRIE Yasuaki shall retire and being eligible, offers himself for re-election at the forthcoming annual general meeting.

The Company received confirmation of independence in respect of the year from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. Up to and as at the date of this report, the Company still considers the independent non-executive directors to be independent.

Directors' Service Contracts

No directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries, within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, holding company or fellow subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

Connected Transactions

GIMC Services Agreement

GIMC Limited ("GIMC") is an indirect wholly-owned subsidiary of Hong Leong Company (Malaysia) Berhad ("HLCM") and by virtue of the Securities and Futures Ordinance, a substantial shareholder of the Company, which is deemed to be interested in 73.58% of share capital in the Company. A service agreement (the "Original GIMC Services Agreement") and a supplemental service agreement (the "Supplemental GIMC Services Agreement") were entered into between the Company and GIMC on 27 June 2003 and 17 January 2006 respectively. A summary of the terms of the Original GIMC Services Agreement and as amended and supplemented by the Supplemental GIMC Services Agreement (together, the "GIMC Services Agreement") is as follows:

(a) GIMC would provide the Company with services including the overview of the Group's strategies and planning, oversight of investment and financial management disciplines, treasury and risk management and development, development of quality and productivity programmes, guidance in respect of operating practices and procedures, and overview of planning and development of management information systems;

(b) the Company would pay to GIMC services fees, subject to an annual cap of HK$10,000,000 (the "Annual Cap"), comprising a monthly charge of HK$50,000 (or such other amount as may be agreed from time to time between GIMC and the Company) and an annual fee equal to 3 percent of the annual consolidated profit before tax of the Company for each of the three financial years ended/ending 30 June 2006, 30 June 2007 and 30 June 2008; and

(c) the GIMC Services Agreement is for a term of three years commenced on 1 July 2005 and may be renewed thereafter for a consecutive term of three years by the Company serving written notice to GIMC at least three months prior to the expiration of the current terms, subject to GIMC's agreement to such renewal.

In the event that the aggregate service fees payable by the Company to HLCM or any of its associated companies for the provision of similar services, if any, exceeded the Annual Cap during any of the three financial years ended/ending 30 June 2006, 30 June 2007 and 30 June 2008, the Company would be required to re-comply with the Listing Rules and be subject to strict compliance with the disclosure requirement therein; and GIMC would have the right to terminate the GIMC Services Agreement immediately.

Connected Transactions *(continued)*

GIMC Services Agreement *(continued)*

The independent non-executive directors of the Company reviewed the transactions under the GIMC Services Agreement (the "GIMC Transactions") during the year and confirmed that:

(1) the GIMC Transactions were entered into:

— in the ordinary and usual course of business of the Company;

— on terms no less favourable to the Company than the terms available from independent third parties; and

— in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole;

(2) The auditors of the Company have reviewed the GIMC Transactions and confirmed that the transactions (i) had received the approval of the Board of Directors of the Company; (ii) had been entered into in accordance with the terms of the GIMC Services Agreement; and (iii) had not exceeded the annual cap disclosed in the announcement of the Company dated 17 January 2006.

Share Option Scheme

The Company obtained shareholders' approval on 18 April 2006 to modify the share option scheme of the Company (the "Share Option Scheme") to provide for the satisfaction of the exercise of options through issue of new shares of the Company or transfer of existing issued shares of the Company (the "Existing Shares"). A trust for the Share Option Scheme (the "Trust") was established in July 2006 pursuant to a trust deed (the "Trust Deed") between the Company and a trustee of the Trust (the "Trustee") to acquire the Existing Shares for the purpose of the Share Option Scheme. The Company or its subsidiaries will make loans to the Trust from time to time to enable the Trust to acquire the Existing Shares for the purpose of the Trust.

The grant of options to the directors of the Company or its subsidiaries (who are deemed to be connected persons of the Company under the Listing Rules) pursuant to the Share Option Scheme and the grant of loans to the Trust from time to time constitute continuing connected and possible discloseable transactions for the Company under Chapter 14A of the Listing Rules. For the purpose of compiling with the Listing Rules, a cap of HK$90 million was set as the maximum subsisting amount of loans to be provided by the Lam Soon Group to the Trust.

Connected Transactions *(continued)*

Share Option Scheme *(continued)*

The independent non-executive directors of the Company reviewed the grant of options and the grant of loans during the year and confirmed that:

(1) during the year, 5,400,000 options were granted to a director and other employees of the Group pursuant to the Share Option Scheme; and

(2) Lam Soon Group granted loans of HK$6,829,000 to the Trust for the year ended 30 June 2007. The maximum subsisting amount of loans outstanding during the year ended 30 June 2007 was also HK$6,829,000 which did not exceed the cap amount of HK$90 million, or its equivalent in other currencies. The grant of loans were entered into:

— in the ordinary and usual course of business of the Company;

— on normal commercial terms; and

— in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Management Contracts

Except the GIMC Services Agreement disclosed in the section of "Connected Transactions" above, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or subsisted during the year.

Directors' Interests in Shares, Underlying Shares and Debentures

As at 30 June 2007, the directors of the Company have the following interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules:

(A) The Company

Name of director	Nature of interest	Number of shares/ underlying shares held	*Notes*	Total	Approximate percentage of total issued share capital of the Company
KWEK Leng Hai	Personal	2,300,000		2,300,000	0.95%
LEUNG Wai Fung	Personal	2,400,000	*(a)*	2,400,000	0.99%
WHANG Sun Tze	Personal	27,123,743			
	Corporate	19,326	*(b)*		
	Persons acting in concert	150,790,035	*(c) & (d)*	177,933,104	73.12%
LO Kwong Chi, Clement	Personal	403,754		403,754	0.17%
TAN Lim Heng	Personal	274,000		274,000	0.11%
DING Wai Chuen	Personal	10,000		10,000	0.00%

Directors' Interests in Shares, Underlying Shares and Debentures

(continued)

(B) Associated corporations

Name of associated corporation	Name of director	Nature of interest	Number of shares/ underlying shares held	*Notes*	Total	Approximate percentage of total issued share capital of associated corporation
Hong Leong Company (Malaysia) Berhad	KWEK Leng Hai	Personal	420,500		420,500	2.62%
Guoco Group Limited	KWEK Leng Hai	Personal	3,800,775		3,800,775	1.16%
	TAN Lim Heng	Personal	559,230		559,230	0.17%
	TSANG Cho Tai	Personal	1,000		1,000	0.00%
GuocoLand Limited	KWEK Leng Hai	Personal	19,851,140		19,851,140	2.98%
	WHANG Sun Tze	Family	66,600		66,600	0.01%
	TAN Lim Heng	Personal	1,000,000		1,000,000	0.15%
	TSANG Cho Tai	Personal	200,000		200,000	0.03%
Hong Leong Bank Berhad	KWEK Leng Hai	Personal	3,955,700		3,955,700	0.26%
	WHANG Sun Tze	Family	129,000		129,000	0.01%
Hong Leong Financial Group Berhad	KWEK Leng Hai	Personal	2,316,800		2,316,800	0.22%
	WHANG Sun Tze	Family	534,092		534,092	0.05%
	TAN Lim Heng	Personal	245,700		245,700	0.02%
Hong Leong Industries Berhad	KWEK Leng Hai	Personal	189,812		189,812	0.07%
	WHANG Sun Tze	Family	105,600		105,600	0.05%
GuocoLand (Malaysia) Berhad	KWEK Leng Hai	Personal	226,800		226,800	0.03%
	TAN Lim Heng	Personal	326,010		326,010	0.05%
Hume Industries (Malaysia) Berhad	WHANG Sun Tze	Family	12,667		12,667	0.01%
HLG Capital Berhad	KWEK Leng Hai	Personal	500,000		500,000	0.41%
BIL International Limited	TAN Lim Heng	Personal	100,000		100,000	0.01%

Directors' Interests in Shares, Underlying Shares and Debentures *(continued)*

(B) Associated corporations *(continued)*

Notes:

(a) The interests of Mr. LEUNG Wai Fung represent the interests in 200,000 ordinary shares of the Company and 2,200,000 underlying shares in respect of the share options granted by the Company exercisable within 30 months following the notification of entitlement to confirm the vesting and the number of options exercisable.

(b) The interests disclosed represent the corporate interests of Dr. WHANG Sun Tze in 18,457 ordinary shares and 869 ordinary shares in the Company held by SGR Investment Company, Limited ("SGR") and T.C. Whang & Company (Private) Limited ("T.C. & Co.") respectively. Dr. WHANG Sun Tze holds 95.41% and 59.52% interests in SGR and T.C. & Co. respectively.

(c) The total interests disclosed herein represent the interests in 177,914,647 ordinary shares of the Company which the respective parties held by virtue of Section 317 of the SFO in relation to the interests in shares pursuant to the shareholders' agreement and the supplemental agreement both dated 27 May 1997 entered into by Guoinvest International Limited ("Guoinvest") and, inter alia, Dr. WHANG Sun Tze (alias: WHANG Siong Tiat), Mr. WHANG Tar Choung, Madam TEO Joo Yee, T.C. & Co. and Raven Investment Company, Limited ("Raven") and the Novation Agreement dated 5 September 2003 entered into by Guoinvest, GuoLine International Limited (a sister subsidiary of Guoinvest), Dr. WHANG Sun Tze (alias: WHANG Siong Tiat), Mr. WHANG Tar Choung, Madam TEO Joo Yee, T.C. & Co. and Raven.

(d) The interests of person acting in concert disclosed represent the deemed interests of Dr. WHANG Sun Tze in 150,790,035 ordinary shares in the Company referred to in Note (c) above.

All the interests disclosed in sections (A) and (B) above represent long position in the ordinary shares of the Company or any of its associated corporations save as otherwise specified in the notes above.

Save as disclosed herein, none of the director of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Options

At 1 July 2006, there were no outstanding options pursuant to the current share option scheme approved by the shareholders on 23 May 2003 and subsequently amended and approved by the shareholders on 18 April 2006 (the "Share Option Scheme") or any other share options scheme of the Company.

During the year, 5,400,000 options were granted to a director and other employees of the Group pursuant to the Share Option Scheme, particulars of which are as follows:

Date of grant	Grantees	No. of options	Price on date of grant per share *HK$*	Exercise price per share *HK$*	
25 July 2006	LEUNG Wai Fung *(director)*	2,200,000	4.50	4.50	*Note*
	Other employees of the Group	3,200,000	4.50	4.50	*Note*

Note: Subject to certain financial and performance targets being met by the grantees during the performance period for the financial years 2005/2006 to 2007/2008, the grantees may, at any time as may be prescribed by the Remuneration Committee at its discretion, be notified (the "Date of Notification") of the vesting of the options and the number of shares comprised in vested options. Thereafter, the grantees shall have an exercise period of up to 30 months following the Date of Notification to exercise the vested options in accordance with the terms of their grant.

During the year, no options were vested, exercised, lapsed nor cancelled. Accordingly, the number of outstanding options remained at 5,400,000 at 30 June 2007.

Certain subsidiaries of Hong Leong Company (Malaysia) Berhad, the Company's ultimate holding company have made arrangements under which eligible directors of the Company may acquire shares in the respective companies concerned. No person who at any time during the year were directors of the Company held shares acquired in pursuance of the arrangements.

Apart from the foregoing, there was no arrangement to which the Company or any of its subsidiaries, holding company or fellow subsidiaries was a party to enable the directors to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders and Other Persons' Interests in Shares

As at 30 June 2007, the following persons (other than directors of the Company) have interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

	Number of shares held	*Notes*	Approximate percentage of interest
WHANG Tar Choung	177,914,647	*(A)+(B)*	73.11%
Raven Investment Company, Limited ("Raven")	177,914,647	*(A)+(C)*	73.11%
T.C. Whang & Company (Private) Limited ("T.C. & Co.")	177,914,647	*(A)+(D)*	73.11%
TEO Joo Yee	177,914,647	*(A)+(E)*	73.11%
Hong Leong Company (Malaysia) Berhad ("HLCM")	179,049,647	*(A)+(F)+(G)*	73.58%
QUEK Leng Chan	179,049,647	*(A)+(F)+(G)*	73.58%
HL Holdings Sdn Bhd ("HLH")	179,049,647	*(A)+(F)+(G)*	73.58%
Hong Leong Investment Holdings Pte Ltd ("HLIH")	179,049,647	*(A)+(F)+(G)*	73.58%
Kwek Holdings Pte Ltd ("KH")	179,049,647	*(A)+(F)+(G)*	73.58%
Davos Investment Holdings Private Limited ("Davos")	179,049,647	*(A)+(F)+(G)*	73.58%
KWEK Leng Kee	179,049,647	*(A)+(F)+(G)*	73.58%

Substantial Shareholders and Other Persons' Interests in Shares *(continued)*

Notes:

(A) The total interests disclosed herein represent the interests in 177,914,647 ordinary shares of the Company which the respective parties held by virtue of Section 317 of the SFO in relation to the interests in shares pursuant to the shareholders' agreement and the supplemental agreement both dated 27 May 1997 entered into by Guoinvest International Limited ("Guoinvest") and, inter alia, Dr. WHANG Sun Tze (alias: WHANG Siong Tiat), Mr. WHANG Tar Choung, Madam TEO Joo Yee, T.C. & Co. and Raven and the Novation Agreement dated 5 September 2003 entered into by Guoinvest, GuoLine International Limited ("GuoLine", a sister subsidiary of Guoinvest), Dr. WHANG Sun Tze (alias: WHANG Siong Tiat), Mr. WHANG Tar Choung, Madam TEO Joo Yee, T.C. & Co. and Raven.

(B) The interests disclosed comprise (i) own interest of Mr. WHANG Tar Choung in 5,337,637 ordinary shares in the Company; and (ii) the deemed interest in 172,577,010 ordinary shares in the Company held by other parties referred to in Note (A) above.

(C) The interests disclosed comprise (i) own interest of Raven in 1,221,205 ordinary shares in the Company; and (ii) the deemed interest in 176,693,442 ordinary shares in the Company held by other parties referred to in Note (A) above.

(D) The interests disclosed comprise (i) own interest of T.C. & Co. in 869 ordinary shares in the Company; and (ii) the deemed interest in 177,913,778 ordinary shares in the Company held by other parties referred to in Note (A) above.

(E) The interests disclosed comprise (i) own interest of Madam TEO Joo Yee in 4,222,534 ordinary shares in the Company; and (ii) the deemed interest in 173,692,113 ordinary shares in the Company held by other parties referred to in Note (A) above.

(F) The interests disclosed comprise (i) the corporate interests in 140,008,659 ordinary shares in the Company held through GuoLine; (ii) the deemed interest in 37,905,988 ordinary shares in the Company held by other parties referred to in Note (A) above; and (iii) own interest of Richly Choice Development Limited, a wholly-owned subsidiary of the Company, in 1,135,000 ordinary shares in the Company.

(G) Both Guoinvest and GuoLine are wholly-owned subsidiaries of GuoLine Capital Assets Limited which in turn is a wholly-owned subsidiary of HLCM. By virtue of Section 316(2) of the SFO, HLCM was 49.11% owned by Mr. QUEK Leng Chan (2.43%) and HLH (46.68%) which was in turn wholly-owned by Mr. QUEK Leng Chan. HLCM is held as to 34.49% by HLIH. Mr. KWEK Leng Kee holds 41.92% interest in Davos which in turn holds 33.59% interest in HLIH and KH holds 49% interest in HLIH.

All the interests disclosed under this section represent long position in the ordinary shares of the Company.

Save as disclosed herein, no other person (other than directors of the Company) has an interest or a short position in the shares or underlying shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Purchase, Sale or Redemption of the Company's Listed Shares

During the year, a wholly-owned subsidiary of the Company, as the trustee for a trust set up for the purpose of acquiring existing shares of the Company to satisfy the exercise of options which may be granted pursuant to the Share Option Scheme adopted on 23 May 2003 and amended on 18 April 2006, purchased 1,393,000 shares of the Company on the Stock Exchange at a total consideration of HK$6,829,000.

Save as disclosed above, during the year the Company had not redeemed, and neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares.

Major Customers and Suppliers

The sales amount attributable to the Group's 5 largest customers combined accounted for less than 30% of the Group's total turnover for the year.

The purchases amount attributable to the Group's 5 largest suppliers combined accounted for less than 30% of the Group's total purchases for the year.

At no time during the year have the directors or their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Corporate Governance

Code on Corporate Governance Practices

During the year, the Company had complied with the relevant provisions set out in the Code on Corporate Governance Practices (the "CGP Code") based on the principles set out in Appendix 14 to the Listing Rules, save for the following:

— the non-executive directors were not appointed for a specific term. However, they are subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the articles of association of the Company. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CGP Code.

Model Code for Securities Transactions by Directors

The Company had adopted the Model Code as the code of conduct regarding directors' securities transactions.

Having made specific enquiry of all directors of the Company, they have complied with the required standard set out in the Model Code throughout the year.

Corporate Governance *(continued)*

Board Audit Committee

The Board Audit Committee ("BAC") comprises Messrs. LO Kwong Chi, Clement (Chairman of the BAC), TSANG Cho Tai and DING Wai Chuen. Messrs. LO Kwong Chi, Clement and DING Wai Chuen are independent non-executive directors. The BAC has reviewed with management the accounting policies and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the audited consolidated financial statements of the Group for the year ended 30 June 2007 and the auditors' report thereon and submits them to the Board.

Details of the role of and work performed by the BAC are set out in the Corporate Governance Report on page 30.

Remuneration Committee

The Remuneration Committee ("RC") comprises Messrs. KWEK Leng Hai (Chairman of the Company and Chairman of the RC), LO Kwong Chi, Clement and DING Wai Chuen. The latter two are independent non-executive directors.

Details of the role of and work performed by the RC are set out in the Corporate Governance Report on page 29.

Sufficiency of Public Float

At all times during the year, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors.

Auditors

A resolution to re-appoint the retiring auditors, Messrs. PKF, Certified Public Accountants, is to be proposed at the forthcoming annual general meeting.

By Order of the Board
KWEK Leng Hai
Chairman

Hong Kong, 4 September 2007

PKF

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
LAM SOON (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Lam Soon (Hong Kong) Limited ("the Company") set out on pages 49 to 125, which comprise the consolidated and the Company balance sheets as at 30 June 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 financial statements are free from material misstatement.

Auditor's Responsibility *(continued)*

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 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.

PKF
Certified Public Accountants

Hong Kong, 4 September 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	7	**2,298,205**	2,237,058
Cost of sales		**(1,960,074)**	(1,852,904)
Gross profit		**338,131**	384,154
Other income	8	**37,612**	29,200
Selling and distribution expenses		**(164,913)**	(167,122)
Administrative expenses		**(102,535)**	(107,546)
Other operating expenses		**(4,355)**	(8,175)
Operating profit		**103,940**	130,511
Net interest expenses	9	**(4,610)**	(7,725)
Share of profit of a jointly controlled entity	22	**2,908**	2,624
Profit before taxation	10	**102,238**	125,410
Taxation	12	**7,860**	(14,713)
Profit for the year		**110,098**	110,697
Attributable to:			
Shareholders of the Company	14	**109,882**	102,989
Minority interests		**216**	7,708
Profit for the year		**110,098**	110,697
Appropriations:	15		
Final dividend paid in respect of 2005/06		**17,001**	17,035
Interim dividend paid in respect of 2006/07		**14,517**	14,601
		31,518	31,636
Earnings per share (HK$)	16		
Basic		**0.45**	0.42
Diluted		**0.45**	N/A
Proposed final dividend	15	**19,468**	17,035

CONSOLIDATED BALANCE SHEET

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Fixed assets	17(a)	**693,943**	725,959
Leasehold lands	18	**52,020**	47,931
Intangible assets	19	**2,175**	3,676
Interest in associates	21	**24,581**	24,581
Interest in a jointly controlled entity	22	**59,921**	57,013
Available-for-sale financial assets	23	**741**	614
Deferred tax assets	13(a)	**13,321**	9,335
		846,702	869,109
CURRENT ASSETS			
Inventories	24(a)	**301,214**	265,774
Debtors, deposits and prepayments	25	**258,471**	317,675
Bills receivable		**1,376**	5,750
Loan receivable	26	**—**	9,665
Amount due from a jointly controlled entity	22	**7,867**	8,316
Financial assets at fair value through profit or loss	27	**2,922**	—
Derivative financial instruments	28	**—**	77
Deposits with financial institutions — pledged		**51**	90
Cash and cash equivalents	29	**293,083**	257,764
		864,984	865,111
CURRENT LIABILITIES			
Bank loans	30	**142,104**	162,101
Creditors, deposits received and accruals	31	**321,249**	343,826
Bills payable		**5,427**	9,881
Tax payable		**6,430**	63,922
Other current liabilities	32	**28,087**	27,344
		503,297	607,074
NET CURRENT ASSETS		**361,687**	258,037
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,208,389**	1,127,146
NON-CURRENT LIABILITIES			
Employee benefit obligations	33(a)	**1,210**	4,630
Deferred tax liabilities	13(a)	**9,598**	10,626
Other non-current liabilities	34	**354**	451
		11,162	15,707
NET ASSETS		**1,197,227**	1,111,439
CAPITAL AND RESERVES			
Share capital	35	**243,354**	243,354
Reserves	37(a)	**868,356**	782,700
Equity attributable to shareholders of the Company		**1,111,710**	1,026,054
Minority interests		**85,517**	85,385
TOTAL EQUITY		**1,197,227**	1,111,439

Approved and authorised for issue by the Board of Directors on 4 September 2007.

LEUNG Wai Fung
DIRECTOR

WHANG Sun Tze
DIRECTOR

BALANCE SHEET

At 30 June 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Fixed assets	17(b)	**1,108**	1,096
Investment in subsidiaries	20	**1,253,796**	1,253,796
Amounts due from subsidiaries	20	**1,422,625**	146,645
Available-for-sale financial assets	23	**234**	107
		2,677,763	1,401,644
CURRENT ASSETS			
Other debtors, deposits and prepayments	25	**510**	672
Derivative financial instruments	28	**—**	77
Cash and cash equivalents	29	**41,953**	28,638
		42,463	29,387
CURRENT LIABILITIES			
Bank loans	30	**10,000**	22,500
Other creditors, deposits received and accruals	31	**6,035**	9,270
Other current liabilities	32	**54**	54
		16,089	31,824
NET CURRENT ASSETS/(LIABILITIES)		**26,374**	(2,437)
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,704,137**	1,399,207
NON-CURRENT LIABILITIES			
Amounts due to subsidiaries	20	**1,468,457**	123,152
Deferred tax liabilities	13(b)	**124**	115
Other non-current liabilities	34	**99**	155
		1,468,680	123,422
NET ASSETS		**1,235,457**	1,275,785
CAPITAL AND RESERVES			
Share capital	35	**243,354**	243,354
Reserves	37(b)	**992,103**	1,032,431
TOTAL EQUITY		**1,235,457**	1,275,785

Approved and authorised for issue by the Board of Directors on 4 September 2007

LEUNG Wai Fung
DIRECTOR

WHANG Sun Tze
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Equity attributable to shareholders of the Company *HK$'000*	Minority interests *HK$'000*	**Total** ***HK$'000***
Total equity at 1 July 2006	1,026,054	85,385	**1,111,439**
Change in fair value of available-for-sale financial assets	127	—	**127**
Exchange differences arising on translation of financial statements of foreign operations	15,006	(84)	**14,922**
Net gains/(losses) recognised directly in equity	15,133	(84)	**15,049**
Profit for the year	109,882	216	**110,098**
Total recognised income for the year	125,015	132	**125,147**
Purchase of own shares for share option scheme	(6,829)	—	**(6,829)**
Equity settled share-based transaction	569	—	**569**
Release on disposal of subsidiaries	(1,581)	—	**(1,581)**
Dividends paid	(31,518)	—	**(31,518)**
Total equity at 30 June 2007	1,111,710	85,517	**1,197,227**
Total equity at 1 July 2005, as previously reported	940,071	79,503	1,019,574
Effect of adopting new accounting standards	16,053	—	16,053
Total equity at 1 July 2005, as restated	956,124	79,503	1,035,627
Change in fair value of available-for-sale financial assets	2	—	2
Exchange differences arising on translation of financial statements of foreign operations	(1,425)	(1,826)	(3,251)
Net losses recognised directly in equity	(1,423)	(1,826)	(3,249)
Profit for the year	102,989	7,708	110,697
Total recognised income for the year	101,566	5,882	107,448
Dividends paid	(31,636)	—	(31,636)
Total equity at 30 June 2006	1,026,054	85,385	1,111,439

	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit	**103,940**	130,511
Adjustments for:		
Depreciation and amortisation	**66,579**	66,849
Provision for doubtful debts written back	**(1,355)**	(508)
(Reversal of provision)/provision for obsolete inventories	**(1,873)**	3,383
Loss on disposal of club debenture	**—**	10
Gain on disposal of subsidiaries	**(802)**	—
(Gain)/loss on disposal of fixed assets	**(1,642)**	308
Unrealised loss on financial assets at fair value through profit or loss	**198**	—
Unrealised gain on derivative financial instruments	**—**	(77)
(Decrease)/increase in liability for defined benefit retirement plans	**(3,368)**	501
Increase/(decrease) in short-term employee benefit	**743**	(138)
Equity settled share-based transactions	**569**	—
Interest paid	**(10,064)**	(10,234)
Exchange adjustments	**(12,692)**	(11,423)
Operating profit before working capital changes	**140,233**	179,182
(Increase)/decrease in inventories	**(33,567)**	10,209
Decrease/(increase) in amount due from a jointly controlled entity	**449**	(1,052)
Decrease in debtors, deposits and prepayments	**60,742**	2,640
Decrease/(increase) in bills receivable	**4,374**	(5,750)
Decrease in derivative financial instruments	**77**	—
Decrease in pledged deposits with financial institutions	**39**	689
(Decrease)/increase in creditors, deposits received and accruals	**(21,951)**	4,125
Decrease in bills payable	**(4,454)**	(12,556)
Cash generated from operations	**145,942**	177,487
Tax paid		
Hong Kong profits tax paid	**(39,212)**	(6,473)
Overseas tax paid	**(13,873)**	(7,562)
NET CASH FROM OPERATING ACTIVITIES	**92,857**	163,452
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**4,828**	2,844
Dividend received from a jointly controlled entity	**—**	3,000
Repayment received from loan receivable	**9,665**	2,333
Sales proceeds of club debenture	**—**	168
Refund of club debenture	**—**	75
Purchase of fixed assets	**(16,987)**	(18,386)
Payment for leasehold lands	**(4,106)**	—
Acquisition of additional interest in a subsidiary	**(2,175)**	—
Purchase of financial assets at fair value through profit or loss	**(3,120)**	—
Net proceeds from disposal of fixed assets	**6,110**	2,282
NET CASH USED IN INVESTING ACTIVITIES	**(5,785)**	(7,684)

	2007 *HK$'000*	2006 *HK$'000*
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in bank loans	**(19,997)**	(102,412)
Purchase of own shares for share option scheme	**(6,829)**	—
Decrease in obligations under finance leases	**(99)**	(98)
Dividends paid	**(31,518)**	(31,636)
NET CASH USED IN FINANCING ACTIVITIES	**(58,443)**	(134,146)
INCREASE IN CASH AND CASH EQUIVALENTS	**28,629**	21,622
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**257,764**	235,585
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**6,690**	557
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**293,083**	257,764
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	**293,083**	257,764

1. General Information

Lam Soon (Hong Kong) Limited is a limited liability company incorporated in Hong Kong. The registered office and the principal place of business of the Company is located at 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong. During the year, the Group was involved in the following principal activities:

- manufacturing and distribution of a broad range of food products
- manufacturing and distribution of household cleaning products
- manufacturing and supply of easy-open-end and aluminium cans for beverage industry
- trade and distribution of a wide range of products

2. Significant Accounting Policies

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules). A summary of the significant accounting policies adopted by the Group is set out below.

(a) Basis of preparation of financial statements

The consolidated financial statements for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and a jointly controlled entity.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— Financial instruments classified as financial assets at fair value through profit or loss *(see note 2(k))*;

— Available-for-sale financial assets *(see note 2(m))*;

— Derivative financial instruments *(see note 2(p))*;

— Certain fixed assets *(see note 2(e))*.

2. Significant Accounting Policies *(continued)*

(a) Basis of preparation of financial statements *(continued)*

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

(b) Revenue recognition

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

Rental income from operating leases is recognised on a straight-line basis over the terms of the respective leases.

Interest income is recognised using the effective interest method.

Income from management services, advertising and promotion services are recognised at the time when the services are provided.

(c) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

2. Significant Accounting Policies *(continued)*

(c) Translation of foreign currencies *(continued)*

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars (HK$) at the average exchange rates for the year. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into HK$ at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

(d) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

2. Significant Accounting Policies *(continued)*

(e) Fixed assets

Fixed assets are stated at cost or valuation less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after a fixed asset has been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

No depreciation is provided in respect of land held on freehold. Depreciation on other fixed assets is calculated to write down their costs to their estimated residual values on a straight-line basis over their estimated useful lives at the following annual rates:

Buildings and leasehold improvements	$1\,^{2}/_{3}\%$ — $33\,^{1}/_{3}\%$
Other fixed assets	5% — $33\,^{1}/_{3}\%$

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in profit or loss.

(f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

2. Significant Accounting Policies *(continued)*

(f) Leased assets *(continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(r). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is stated at cost less accumulated amortisation and identified impairment and is amortised on a straight-line basis over the period of the lease term.

(g) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to prepare for their intended use, are capitalised as a part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. The capitalisation rate for the year is based on the actual cost of the related borrowings.

All other borrowing costs are charged to profit or loss in the period in which they are incurred.

2. Significant Accounting Policies *(continued)*

(h) Trademarks

Trademarks are stated at cost or valuation less accumulated amortisation and impairment losses. Amortisation is calculated to write off the cost or valuation of trademarks on a straight-line basis over their estimated useful lives of 5 years.

(i) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses *(see note 2(r))*.

2. Significant Accounting Policies *(continued)*

(j) Associates and jointly controlled entity

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in associates and jointly controlled entities recognised for the year *(see notes 2(q) and 2(r))*.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

(k) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss.

2. Significant Accounting Policies *(continued)*

(l) Debtors, deposits and prepayments

Debtors, deposits and prepayments are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts *(see note 2(r))*, except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts *(see note 2(r))*.

(m) Available-for-sale financial assets

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 investment is disposed of or determined to be impaired *(see note 2(r))*, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss.

When the fair value of unlisted securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(o) Creditors, deposits received and accruals

Creditors, deposits received and accruals are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(v)(i), financial liabilities are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. Significant Accounting Policies *(continued)*

(p) Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

(q) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment *(see note 2(r))*. In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(r) Impairment of assets

(i) Impairment of receivables and available-for-sale financial assets

— Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

2. Significant Accounting Policies *(continued)*

(r) Impairment of assets *(continued)*

(i) Impairment of receivables and available-for-sale financial assets (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale financial assets, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss and is not reversed through profit or loss. Any subsequent increase in the fair value of such assets are recognised directly in equity. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— interests in leasehold land held for own use under operating leases;

— intangible assets;

— investment in subsidiaries, associates and jointly controlled entities; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2. Significant Accounting Policies *(continued)*

(r) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. Significant Accounting Policies (continued)

(s) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour and an attributable proportion of production overheads. Net realisable value represents the estimated selling price less all further costs to completion and direct selling costs.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(u) Employee benefits

(i) Defined contribution retirement plans

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, central pension plans applicable to employees in the People's Republic of China and contributions payable under the Labour Pension Act in Taiwan, are recognised as an expense in the income statement as incurred.

2. Significant Accounting Policies *(continued)*

(u) Employee benefits *(continued)*

(ii) Defined benefit retirement plans

The Group's net obligations in respect of defined benefit retirement plans are calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rates are the interest rates at balance sheet date of long term government bonds that have maturity dates approximating the terms of the Group's obligations and Central Trust of China where the pension fund is deposited. The calculation is performed by a qualified actuary using the projected unit credit cost method. When the benefits of a plan are improved, the portion of the increased benefits relating to past services by employees are recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Unclaimed annual leave

Obligation in respect of unclaimed annual leave of employees is calculated based on the estimated average number of days of unclaimed annual leave, the average amount of basic salary per employee and the total number of employees at 30 June 2007. When the unclaimed annual leave is utilised, the obligation will be released accordingly.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. Significant Accounting Policies *(continued)*

(u) Employee benefits *(continued)*

(iv) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share option reserve within equity. The fair value is measured at grant date using the Black-Scholes model, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the share options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to revenue reserve).

(v) Termination benefits

Termination benefits are recognised when and only when the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic probability of withdrawal.

2. Significant Accounting Policies *(continued)*

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(v)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

2. Significant Accounting Policies *(continued)*

(w) Income tax

Income tax expense 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 net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the 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 difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative 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, and interest in a jointly controlled entity, 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. Significant Accounting Policies *(continued)*

(x) Related parties

A party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group. Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. Application of Hong Kong Financial Reporting Standards

During the year, the HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group.

(a) Estimated effect of changes in accounting policies for the years presented

The adoption of the new and revised HKFRSs in note 3(b) did not have any financial impact on the consolidated and company financial statements for the years presented.

3. Application of Hong Kong Financial Reporting Standards *(continued)*

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

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKAS 37, Provisions, contingent liabilities and contingent assets. No provisions were made in respect of these guarantees unless it was more likely than not that the guarantees would be called upon.

With effect from 1 January 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that should be recognised in accordance with HKAS 37. Further details of the new policy are set out in note 2(v)(i).

This change in accounting policy has no material financial effect on the consolidated and company financial statements. Details of the financial guarantees currently issued by the Company are set out in note 39.

The Group has not early applied any new standard or interpretations that have been issued but are not yet effective at the balance sheet date. The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application.

		Effective for accounting periods beginning or after
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007

4. Accounting Estimates and Judgement

Key sources of estimation uncertainty

In the process of applying the Group's accounting policies, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

(a) Depreciation of fixed assets

Fixed assets are depreciated on a straight line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual value involve management's estimation.

The Group assesses annually the residual value and the useful life of the fixed assets and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year.

(b) Impairment of fixed assets, goodwill and other non-current assets

Determining whether fixed assets, goodwill and other non-current assets are impaired requires an estimation of the value in use of the cash-generating units to which fixed assets, goodwill and other non-current assets have been allocated. The calculation of value in use requires the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate the present value.

(c) Income taxes

At 30 June 2007 and 2006, a deferred tax asset of HK$7,483,000 and HK$6,305,000 in relation to unused tax losses has been recognised respectively as set out in note 13. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$322,070,000 (2006: HK$311,853,000) due to the unpredictability of future taxable profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal or further recognition takes place.

5. Financial Instruments

The Group's major financial instruments include trade and other debtors, trade and other creditors and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its bank borrowings. Bank loans at variable interest rates expose the Group to cash flow interest rate risk. Details of the Group's bank borrowings are disclosed in note 30.

The management keeps monitoring interest rate exposure and considering appropriate measures to address the exposure.

(b) Currency risk

Several subsidiaries of the Company have sales in currency other than the functional currency of the Group ("foreign currency"), which expose the Group to foreign currency risk. In addition, certain trade and other debtors of the Group are denominated in foreign currencies. The management will use forward currency exchange contracts to manage the foreign exchange exposure if necessary.

(c) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 30 June 2007 is the carrying amount of debtors, deposits and prepayments as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has a designated team operating within the framework of the Group's credit policy for credit controls and monitoring to ensure proper action being taken to recover overdue debts. In addition, the Group has regular reviews on the recoverability of each individual trade debt to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, credit exposure is well under control.

5. Financial Instruments *(continued)*

(d) Liquidity risk

The Group's liquidity remained strong as at the balance sheet date. During the year, the Group's primary source of funds was cash derived from operating activities. The management considers that the Group is not exposed to liquidity risk.

(e) Commodity price risk

The Group is exposed to price risk in respect of raw materials used, mainly comprising edible oil, wheat and aluminum. The management will monitor the price movements and take appropriate actions when it is required.

6. Segment Reporting

Business segments

The Group principally operates in four segments and the specific products of each segment are as follows:

(1) Food

Manufacturing and distribution of a broad range of food products including flour, edible oils, vegetable fats and other processed foods for the catering industries.

(2) Detergent

Manufacturing and distribution of household cleaning products including liquid dish washing detergent, laundry powder, fabric softener and floor cleaner.

(3) Packaging

Manufacturing and supply of easy-open-ends and aluminium cans for beverage industry.

6. Segment Reporting *(continued)*

Business segments *(continued)*

(4) Distribution

Trading and distribution of a wide range of products such as flour and detergent products in Hong Kong.

All other operating segments represent the segments which do not meet the quantitative threshold for determining reportable segments. These include investment holding, agency products, e-marketing and property holding activities.

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal geographical areas:

(1) Mainland China

Manufacturing and distribution of flour, edible oils, detergent and packaging products.

(2) Hong Kong

Trading and distribution of flour, detergent, and agency products.

(3) Taiwan

Manufacturing and supply of easy-open-ends and aluminium cans for beverage industry.

6. Segment Reporting *(continued)*

(A) Business segments

For the year ended 30 June 2007

		Food HK$'000	Detergent HK$'000	Packaging HK$'000	Distribution HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
(i)	Turnover							
	External sales	1,147,721	134,454	728,870	283,307	3,853	—	**2,298,205**
	Inter-segment sales	141,642	37,185	—	126	10,144	(189,097)	**—**
		1,289,363	171,639	728,870	283,433	13,997	(189,097)	**2,298,205**
(ii)	Segment results	75,066	8,326	9,565	49,310	(38,327)	—	**103,940**
	Net interest expenses							**(4,610)**
	Share of profit of a jointly controlled entity	2,908	—	—	—	—	—	**2,908**
	Profit before taxation							**102,238**
	Taxation							**7,860**
	Profit for the year							**110,098**
(iii)	Depreciation and amortisation for the year	40,058	1,134	19,766	722	4,899	—	**66,579**
(iv)	Write-back/(charge) of provision for doubtful debts	227	—	1,171	(43)	—	—	**1,355**
(v)	Segment assets	841,528	51,933	597,039	48,917	79,159	—	**1,618,576**
	Interests in a jointly controlled entity and associates	59,921	—	—	—	24,581	—	**84,502**
	Unallocated assets							**8,608**
	Total assets							**1,711,686**
(vi)	Segment liabilities	137,035	33,434	152,175	7,298	6,953	—	**336,895**
	Unallocated liabilities							**177,564**
	Total liabilities							**514,459**
(vii)	Capital expenditure incurred during the year	6,150	105	8,483	732	5,623	—	**21,093**

6. Segment Reporting (continued)

(A) Business segments (continued)

For the year ended 30 June 2006

		Food HK$'000	Detergent HK$'000	Packaging HK$'000	Distribution HK$'000	Others HK$'000	Inter-segment elimination HK$'000	Consolidated HK$'000
(i)	Turnover							
	External sales	1,057,576	113,004	730,126	335,535	817	—	2,237,058
	Inter-segment sales	146,269	35,965	—	460	8,595	(191,289)	—
		1,203,845	148,969	730,126	335,995	9,412	(191,289)	2,237,058
(ii)	Segment results	70,942	3,504	54,002	48,499	(46,436)	—	130,511
	Net interest expenses							(7,725)
	Share of profit of a jointly controlled entity	2,624	—	—	—	—	—	2,624
	Profit before taxation							125,410
	Taxation							(14,713)
	Profit for the year							110,697
(iii)	Depreciation and amortisation for the year	38,735	1,112	16,508	1,205	9,289	—	66,849
(iv)	Write-back/(charge) of provision for doubtful debts	(185)	—	1,225	(532)	—	—	508
(v)	Segment assets	795,429	42,896	605,404	58,940	140,950	—	1,643,619
	Interests in a jointly controlled entity and associates	57,013	—	—	—	24,581	—	81,594
	Unallocated assets							9,007
	Total assets							1,734,220
(vi)	Segment liabilities	146,105	27,088	149,156	13,728	33,010	—	369,087
	Unallocated liabilities							253,694
	Total liabilities							622,781
(vii)	Capital expenditure incurred during the year	5,000	152	11,225	1,626	383	—	18,386

6. Segment Reporting (continued)

(B) Geographical segments

For the year ended 30 June 2007

	Mainland China	**Hong Kong**	**Taiwan**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
External sales	1,582,379	306,574	409,252	**2,298,205**
Segment assets	890,299	217,679	603,708	**1,711,686**
Capital expenditure incurred during the year	12,327	6,355	2,411	**21,093**

For the year ended 30 June 2006

	Mainland China	Hong Kong	Taiwan	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
External sales	1,433,387	357,277	446,394	2,237,058
Segment assets	836,727	291,889	605,604	1,734,220
Capital expenditure incurred during the year	14,455	2,009	1,922	18,386

7. Turnover

The Company is an investment holding company and the principal activities of the subsidiaries are set out on pages 120 to 125.

Turnover represents the net invoiced value of goods supplied to external customers as well as service and rental income. An analysis of the Group's turnover is set out below:

	2007	2006
	HK$'000	*HK$'000*
Sales of goods	**2,290,031**	2,232,458
Service and rental income	**8,174**	4,600
	2,298,205	2,237,058

8. Other Income

	2007	2006
	HK$'000	*HK$'000*
Management fee income	**2,685**	5,914
Sales of scrap	**1,957**	928
Forfeited contributions of defined contribution retirement plans	**—**	615
Provision for doubtful debts written back	**1,355**	508
Net exchange gain	**23,145**	15,142
Miscellaneous	**8,470**	6,093
	37,612	29,200

9. Net Interest Expenses

	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable within five years	**9,422**	10,553
Interest on finance leases	**16**	16
Less: Interest income	**(4,828)**	(2,844)
	4,610	7,725

10. Profit before Taxation

Profit before taxation is arrived at after charging/(crediting):

	2007	2006
	HK$'000	*HK$'000*
Staff costs (including directors' remuneration — *note 11*)		
— Wages, salaries and allowances	**163,578**	172,871
— Equity settled share-based transaction	**569**	—
— Pension costs		
— Defined contribution retirement plans	**8,932**	8,953
— Defined benefit retirement plans *(note 33(a)(v))*	**1,824**	1,884
	174,903	183,708
Auditors' remuneration	**1,438**	1,511
Depreciation of fixed assets	**60,194**	56,965
Amortisation of leasehold lands	**2,709**	2,526
Amortisation of trademarks	**3,676**	7,358
Operating lease rental of properties	**1,493**	1,246
Cost of inventories *(note 24(b))*	**1,960,074**	1,852,904
Net proceeds from disposal of fixed assets	**(6,110)**	(2,282)
Less: Carrying value of fixed assets	**4,468**	2,590
(Gain)/loss on disposal of fixed assets	**(1,642)**	308
Rental income less outgoings	**(8,056)**	(3,509)

11. Directors' and Senior Executives' Emoluments

(a) The directors' emoluments of the Company and its subsidiaries calculated in accordance with Section 161 of the Hong Kong Companies Ordinance are as follows:

	Basic salary/ Directors' fee *HK$'000*	Bonus *HK$'000*	Retirement schemes contributions *HK$'000*	Housing benefits *HK$'000*	Share-based payments *HK$'000*	**2007** ***HK$'000***	2006 *HK$'000*
Executive director							
LEUNG Wai Fung	1,896	956	142	636	241	**3,871**	3,616
Non-executive directors							
WHANG Sun Tze	100	—	—	—	—	**100**	100
KWEK Leng Hai	151	—	—	—	—	**151**	100
TAN Lim Heng	100	—	—	—	—	**100**	100
TSANG Cho Tai	140	—	—	—	—	**140**	140
Alternate director							
IKEDA Hiromi	—	—	—	—	—	**—**	—
Independent non-executive directors							
LO Kwong Chi, Clement	164	—	—	—	—	**164**	140
DING Wai Chuen	150	—	—	—	—	**150**	140
IRIE Yasuaki	14	—	—	—	—	**14**	—
	2,715	956	142	636	241	**4,690**	4,336
Retired/resigned as:							
Executive director							
TSAO Chen, James	—	—	—	—	—	**—**	332
Non-executive directors							
WHANG Tar Choung	1,042	—	—	—	—	**1,042**	150
James ENG, Jr.	28	—	—	—	—	**28**	100
HO King Cheung	28	—	—	—	—	**28**	100
Alternate director							
YONG Weng Chye	—	—	—	—	—	**—**	—
Independent non-executive directors							
NG Ping Kin, Peter	45	—	—	—	—	**45**	160
MATSUMURA Hirokazu	86	—	—	—	—	**86**	14
TAKAGI Shigeyoshi	—	—	—	—	—	**—**	86
	1,229	—	—	—	—	**1,229**	942
Year ended 30 June 2007	3,944	956	142	636	241	**5,919**	
Year ended 30 June 2006	3,450	1,073	134	621	—		5,278

11. Directors' and Senior Executives' Emoluments *(continued)*

(a) *(continued)*

Notes:

(i) Basic salary/Directors' fee – The amounts paid and payable to non-executive directors are directors' fees. Other amounts are basic salaries paid to executive director.

(ii) Bonuses paid/payable for the year are performance related.

(iii) The emoluments for Mr. IRIE Yasuaki represented the amount of emolument payable to him for his services as independent non-executive director for the period from 10 May 2007 to 30 June 2007.

(iv) The emoluments for Mr. MATSUMURA Hirokazu represented the amount of emolument payable to him for his services as independent non-executive director for the period from 1 July 2006 to 9 May 2007.

(v) The emoluments for Mr. WHANG Tar Choung represented the amount of emolument paid and payable to him for his services as non-executive director for the period from 1 July 2006 to 11 October 2006.

(vi) The emoluments for Mr. NG Ping Kin, Peter represented the amount of emolument payable to him for his services as independent non-executive director for the period from 1 July 2006 to 11 October 2006.

(vii) The emoluments for Mr. James ENG, Jr. represented the amount of emolument payable to him for his services as non-executive director for the period from 1 July 2006 to 11 October 2006.

(viii) The emoluments for Mr. HO King Cheung represented the amount of emolument payable to him for his services as non-executive director for the period from 1 July 2006 to 11 October 2006.

(ix) Apart from the directors' fees, the independent non-executive directors received no other emoluments from the Company or any of its subsidiaries.

(x) There was no arrangement under which a director had waived or agreed to waive any emoluments.

11. Directors' and Senior Executives' Emoluments *(continued)*

(b) The five highest paid individuals

The five highest paid individuals included one director, details of whose remuneration are set out above. The remaining employees' emoluments are analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries, housing, other allowances and benefits in kind	**6,936**	6,325
Pension scheme contributions	**130**	106
	7,066	6,431

The number of employees whose remuneration fell within the following bands was:

HK$	**2007**	2006
1,000,001 — 1,500,000	**1**	2
1,500,001 — 2,000,000	**2**	2
2,000,001 — 2,500,000	**1**	—
	4	4

The remuneration of certain individuals represents remuneration received in respect of services rendered to the Company and its Hong Kong and overseas subsidiaries.

12. Taxation

(a) Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the respective estimated assessable profits of the companies operating in Hong Kong.

Overseas taxation represented tax charge on the estimated taxable profits of certain subsidiaries operating in the Mainland China and Taiwan, calculated at the rates prevailing in the respective regions.

Certain subsidiaries operating in the Mainland China are subject to income tax rates ranging from 15% to 27% (2006: 15% to 27%).

Subsidiaries operating in Taiwan are subject to income tax at a maximum rate of 25% (2006: 25%).

(b) The income tax (credit)/expense represents the sum of the tax currently payable and deferred tax. The taxation is made up as follows:

	2007	2006
	HK$'000	*HK$'000*
Current tax:		
Hong Kong taxation	**3,187**	1,915
(Over)/under-provision in respect of prior years	**(19,160)**	114
	(15,973)	2,029
Overseas taxation	**12,147**	12,167
Over-provision in respect of prior years	**(581)**	—
	11,566	12,167
Deferred taxation *(note 13(a))*:		
Current year	**(3,453)**	517
	(7,860)	14,713

During the year, the Group received tax refunds amounting to approximately HK$20,000,000 in respect of two tax cases settled with Hong Kong Inland Revenue Department.

12. Taxation *(continued)*

(c) The tax (credit)/expense for the year can be reconciled to the profit before taxation per income statement as follows:

	2007	2006
	HK$'000	*HK$'000*
Profit before taxation	**102,238**	125,410
Applicable tax rate *(%)*	**17.5**	17.5
Tax on profit before taxation, calculated at the applicable tax rate	**17,892**	21,947
Tax effect of non-deductible expenses in determining taxable profit	**1,986**	2,142
Tax effect of non-taxable revenue in determining taxable profit	**(6,720)**	(5,244)
Tax effect of current year's tax losses not recognised	**5,277**	3,892
Tax effect of prior year's unrecognised tax losses utilised in the year	**(3,489)**	(3,525)
Tax effect of entitlement to tax holiday by overseas subsidiaries	**(3,613)**	(4,585)
Tax effect of profit attributable to a jointly controlled entity	**(509)**	(459)
10% surtax on unappropriated earnings of Taiwan subsidiaries	**2,328**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(869)**	981
(Over)/under-provision in prior years	**(19,741)**	114
Others	**(402)**	(550)
Tax (credit)/expense for the year	**(7,860)**	14,713

13. Deferred Taxation

(a) The Group

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements thereon during the current and prior years are as follows:

	Accelerated tax depreciation	Impairment of fixed assets	Provisions	Trademarks	Tax losses	Future benefit of expenses	Land appreciation tax	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
At 1 July 2005	15,103	(10,485)	(2,129)	1,958	(8,870)	(2,343)	7,855	(406)	683
Charged/(credited) to income statement *(note 12(b))*	(4,034)	1,784	327	(1,133)	2,284	669	—	620	517
Exchange differences	205	(210)	25	—	281	88	(245)	(53)	91
At 30 June 2006	11,274	(8,911)	(1,777)	825	(6,305)	(1,586)	7,610	161	1,291
At 1 July 2006	11,274	(8,911)	(1,777)	825	(6,305)	(1,586)	7,610	161	**1,291**
Charged/(credited) to income statement *(note 12(b))*	(621)	893	(118)	(825)	(1,210)	(532)	—	(1,040)	**(3,453)**
Exchange differences	(1,117)	(395)	(35)	—	32	10	(38)	(18)	**(1,561)**
At 30 June 2007	9,536	(8,413)	(1,930)	—	(7,483)	(2,108)	7,572	(897)	**(3,723)**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2007	2006
	HK$'000	*HK$'000*
Deferred tax liabilities	**9,598**	10,626
Deferred tax assets	**(13,321)**	(9,335)
	(3,723)	1,291

At the balance sheet date, the Group has unused tax losses of HK$352,828,000 (2006: HK$337,073,000) available for offset against future taxable profits. A deferred tax asset has been recognised in respect of HK$30,758,000 (2006: HK$25,220,000) of such losses. No deferred tax assets have been recognised in respect of the remaining HK$322,070,000 (2006: HK$311,853,000) due to the unpredictability of future taxable profit streams. Included in unrecognised tax losses are losses of HK$12,588,000 (2006: HK$4,742,000) that will expire within five years. Other losses may be carried forward indefinitely.

13. Deferred Taxation *(continued)*

(a) The Group *(continued)*

At the balance sheet date, the Group has deductible temporary differences of HK$225,334,000 (2006: HK$230,991,000) arising from impairment of certain fixed assets and leasehold lands being provided on 31 December 2001. A deferred tax asset has been recognised in respect of HK$55,517,000 (2006: HK$58,063,000) of such differences. No deferred tax assets have been recognised in respect of the remaining HK$169,817,000 (2006: HK$172,928,000) due to the unpredictability of future profit streams arising from such assets.

Temporary differences arising in connection with interests in associates and jointly controlled entities are insignificant.

(b) The Company

The components of deferred tax liabilities recognised in the balance sheet and the movements thereon during the current and prior year:

	Accelerated tax depreciation ***HK$'000***
At 1 July 2005	70
Charged to income statement	45
At 30 June 2006	115
At 1 July 2006	**115**
Charged to income statement	**9**
At 30 June 2007	**124**

14. Profit Attributable to Shareholders

Profit attributable to shareholders includes a loss of HK$9,387,000 (2006: loss of HK$16,605,000) which has been dealt with in the financial statements of the Company.

15. Dividends

	2007	2006
	HK$'000	*HK$'000*
2006: Final dividend of HK$0.07 per share paid during the year (period from 1 January 2004 to 30 June 2005: HK$0.07 per share)	**17,001**	17,035
2007: Interim dividend of HK$0.06 per share paid during the year (2006: HK$0.06 per share)	**14,517**	14,601
	31,518	31,636
2007: Final dividend proposed after balance sheet date of HK$0.08 per share (2006: HK$0.07 per share)	**19,468**	17,035

The final dividend proposed after the balance sheet date has not been recognised as liabilities at the balance sheet date.

16. Earnings Per Share

(a) Basic

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of HK$109,882,000 (2006: HK$102,989,000) and the weighted average number of 242,487,253 (2006: 243,354,165) ordinary shares in issue during the year.

(b) Diluted

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company of HK$109,882,000 (2006: HK$102,989,000) and the weighted average number of 242,851,320 (2006: 243,354,165) ordinary shares in issue during the year after adjusting for the effect of all dilutive potential ordinary shares.

17. Fixed Assets

(a) The Group

	Medium term leasehold buildings in Hong Kong and leasehold improvements *HK$'000*	Freehold properties outside Hong Kong *HK$'000*	Long term leasehold buildings outside Hong Kong *HK$'000*	Medium term leasehold buildings outside Hong Kong *HK$'000*	Plant, equipment, furniture and Motor vehicles *HK$'000*	Total ***HK$'000***
Cost or valuation:						
At 1 July 2006	11,403	257,865	1,687	699,327	1,049,302	**2,019,584**
Exchange adjustments	—	(1,263)	—	23,421	32,130	**54,288**
Additions	3,621	—	—	326	13,040	**16,987**
Disposals	—	—	(1,348)	(6,391)	(10,349)	**(18,088)**
At 30 June 2007	15,024	256,602	339	716,683	1,084,123	**2,072,771**
Representing:						
Cost	4,159	60,858	339	716,683	1,084,123	**1,866,162**
Valuation — 1994	—	195,744	—	—	—	**195,744**
— 2000	10,865	—	—	—	—	**10,865**
At 30 June 2007	15,024	256,602	339	716,683	1,084,123	**2,072,771**
Accumulated depreciation:						
At 1 July 2006	3,097	93,854	857	227,657	646,555	**972,020**
Exchange adjustments	—	(437)	—	13,844	17,800	**31,207**
Charge for the year	666	3,089	83	15,917	40,439	**60,194**
Written back on disposals	—	—	(751)	(3,724)	(9,145)	**(13,620)**
At 30 June 2007	3,763	96,506	189	253,694	695,649	**1,049,801**
Impairment:						
At 1 July 2006	—	6,251	—	215,262	100,092	**321,605**
Exchange adjustments	—	(31)	—	5,359	2,094	**7,422**
At 30 June 2007	—	6,220	—	220,621	102,186	**329,027**
Net book value:						
At 30 June 2007	11,261	153,876	150	242,368	286,288	**693,943**

17. Fixed Assets *(continued)*

(a) The Group *(continued)*

	Medium term leasehold buildings in Hong Kong and leasehold improvements	Freehold properties outside Hong Kong	Long term leasehold buildings outside Hong Kong	Medium term leasehold buildings outside Hong Kong	Plant, equipment, furniture and motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:						
At 1 July 2005	11,304	266,236	3,557	684,976	1,035,140	2,001,213
Exchange adjustments	—	(8,536)	—	13,964	9,273	14,701
Additions	99	165	—	1,346	16,776	18,386
Disposals	—	—	(1,870)	(959)	(11,887)	(14,716)
At 30 June 2006	11,403	257,865	1,687	699,327	1,049,302	2,019,584
Representing:						
Cost	538	62,121	1,687	699,327	1,049,302	1,812,975
Valuation — 1994	—	195,744	—	—	—	195,744
— 2000	10,865	—	—	—	—	10,865
At 30 June 2006	11,403	257,865	1,687	699,327	1,049,302	2,019,584
Accumulated depreciation:						
At 1 July 2005	2,514	93,013	1,755	205,060	619,165	921,507
Exchange adjustments	—	(2,983)	—	7,328	1,329	5,674
Charge for the year	583	3,824	122	15,778	36,658	56,965
Written back on disposals	—	—	(1,020)	(509)	(10,597)	(12,126)
At 30 June 2006	3,097	93,854	857	227,657	646,555	972,020
Impairment:						
At 1 July 2005	—	6,455	—	212,057	100,564	319,076
Exchange adjustments	—	(204)	—	3,205	(472)	2,529
At 30 June 2006	—	6,251	—	215,262	100,092	321,605
Net book value:						
At 30 June 2006	8,306	157,760	830	256,408	302,655	725,959

17. Fixed Assets *(continued)*

(a) The Group *(continued)*

Notes:

(1) Certain freehold properties outside Hong Kong were revalued, on an open market value basis, by C. Y. Leung & Company Limited in June 1994. In preparing these financial statements, the Group has availed itself of the transitional provision set out in paragraph 80A of the HKAS 16 "Property, plant and equipment" with the effect that such properties' pre-30 September 1995 professional valuation is retained.

(2) The net book value of freehold properties outside Hong Kong which have been stated in the balance sheet at valuation would have been HK$50,000,000 (2006: HK$54,656,000) had they been carried at cost less accumulated depreciation and impairment loss.

(3) At 30 June 2007, the Group has no fixed assets pledged to banks to secure general banking facilities granted to the Group (2006: net book value of HK$59,435,000).

(4) At 30 June 2007, the net book value of fixed assets held under finance leases amounted to HK$372,000 (2006: HK$432,000).

17. Fixed Assets *(continued)*

(b) The Company

	Office equipment, furniture and motor vehicles *HK$'000*
Cost:	
At 1 July 2005	11,779
Additions	267
Disposals	(2,622)
At 30 June 2006	9,424
Accumulated depreciation:	
At 1 July 2005	10,429
Charge for the year	521
Written back on disposals	(2,622)
At 30 June 2006	8,328
Net book value:	
At 30 June 2006	1,096
Cost:	
At 1 July 2006	**9,424**
Additions	**545**
Disposals	**(865)**
At 30 June 2007	**9,104**
Accumulated depreciation:	
At 1 July 2006	**8,328**
Charge for the year	**533**
Written back on disposals	**(865)**
At 30 June 2007	**7,996**
Net book value:	
At 30 June 2007	**1,108**

At 30 June 2007, the net book value of fixed assets held under finance leases amounted to HK$306,000 (2006: HK$246,000).

18. Leasehold Lands

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 July	**50,457**	51,189
Exchange difference	**2,875**	1,794
Additions	**4,106**	—
Amortisation	**(2,709)**	(2,526)
At 30 June	**54,729**	50,457
Current portion (included in debtors, deposits and prepayments – *note 25*)	**(2,709)**	(2,526)
Non-current portion	**52,020**	47,931

The Group's leasehold lands comprise:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Leasehold lands in Hong Kong:		
Medium-term lease	**15,049**	15,426
Leasehold lands outside Hong Kong:		
Medium-term lease	**39,680**	35,031
	54,729	50,457

19. Intangible Assets

	Group			
	Negative goodwill	Goodwill	Trademarks	Total
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
Cost or valuation:				
At 1 July 2006	—	12,539	38,809	**51,348**
Addition through acquisition of additional equity interest in a subsidiary	—	2,175	—	**2,175**
At 30 June 2007	—	14,714	38,809	**53,523**
Representing:				
Cost	—	14,714	36,809	**51,523**
At directors' valuation in 1972	—	—	2,000	**2,000**
At 30 June 2007	—	14,714	38,809	**53,523**
Accumulated amortisation:				
At 1 July 2006	—	—	35,133	**35,133**
Charge for the year	—	—	3,676	**3,676**
At 30 June 2007	—	—	38,809	**38,809**
Impairment:				
At 1 July 2006 and at 30 June 2007	—	12,539	—	**12,539**
Net book value:				
At 30 June 2007	—	2,175	—	**2,175**

19. Intangible Assets *(continued)*

	Group			
	Negative goodwill *HK$'000*	Goodwill *HK$'000*	Trademarks *HK$'000*	Total *HK$'000*
Cost or valuation:				
At 1 July 2005, as previously reported	(50,084)	12,539	38,809	1,264
Effect of adopting HKFRS 3				
— Elimination of accumulated amortisation	34,069	—	—	34,069
— Adjustment to revenue reserve	16,015	—	—	16,015
At 1 July 2005, as restated and at 30 June 2006	—	12,539	38,809	51,348
Representing:				
Cost	—	12,539	36,809	49,348
At directors' valuation in 1972	—	—	2,000	2,000
At 30 June 2006	—	12,539	38,809	51,348
Accumulated amortisation:				
At 1 July 2005, as previously reported	(34,069)	—	27,775	(6,294)
Effect of adopting HKFRS 3				
— Elimination of accumulated amortisation	34,069	—	—	34,069
As restated	—	—	27,775	27,775
Charge for the year	—	—	7,358	7,358
At 30 June 2006	—	—	35,133	35,133
Impairment:				
At 1 July 2005 and at 30 June 2006	—	12,539	—	12,539
Net book value:				
At 30 June 2006	—	—	3,676	3,676

The amortisation charge for trademarks for the year is included in "other operating expenses" in the consolidated income statement.

19. Intangible Assets *(continued)*

Impairment tests for cash-generating units containing goodwill

The carrying amount of goodwill is allocated to edible oil operations. The recoverable amount of the respective cash-generating unit (CGU) is determined based on a value in use calculation. This calculation uses cash flow projections based on financial budgets approved by management. The key assumptions for the value in use calculation are those relating to the discount rate, forecast growth rates and the expected changes to selling prices and direct costs during the period. The discount rate used for the value in use calculation is based on the prevailing bank's borrowing rate offered by major financial institutions which reflects the current market assessment of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

20. Interest in Subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1,457,016**	1,469,328
Impairment loss	**(203,220)**	(215,532)
	1,253,796	1,253,796
Amounts due from subsidiaries	**1,422,625**	146,645
	2,676,421	1,400,441
Amounts due to subsidiaries	**(1,468,457)**	(123,152)
	1,207,964	1,277,289

The amounts due from/to subsidiaries are interest-free, unsecured and have no fixed terms of repayment.

Details of the subsidiaries are listed on pages 120 to 125.

20. Interest in Subsidiaries *(continued)*

Details of the unconsolidated subsidiaries are set out below:

Name of company	Issued and fully paid up capital	Place of incorporation/ operation	Percentage of equity holding *Group*	Percentage of equity holding *Company*	Principal activities
Lam Soon America Inc.	US$1,700,000	United States of America	100	100	Liquidated during the year
Camintonn Corporation	Ordinary US$500,000 Preferred US$1,200,000	United States of America	60	—	Liquidated

21. Interest in Associates

	Group 2007 HK$'000	Group 2006 HK$'000
Share of net assets	**24,581**	24,581

Details of the associates are as follows:

Name of company	Place of incorporation and Operation	Percentage of equity holding *Group*	Percentage of equity holding *Company*	Principal activities
Omeron Profits Limited*	British Virgin Islands	50	—	Dormant
Tepac Profits Limited*	British Virgin Islands	50	—	Dormant

* *Companies not audited by PKF*

21. Interest in Associates *(continued)*

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

Financial position

	2007	2006
	HK$'000	*HK$'000*
Total assets	**49,163**	49,163
Total liabilities	**(1)**	(1)
Net assets	**49,162**	49,162
Net assets attributable to the Group	**24,581**	24,581

Results

During the year, there was no turnover nor profit or loss attributable to the Group.

22. Interest in a Jointly Controlled Entity

	Group	
	2007	2006
	HK$'000	*HK$'000*
Share of net assets	**59,921**	57,013
Amount due from a jointly controlled entity	**7,867**	8,316

The amount due from a jointly controlled entity is interest-free, unsecured and repayable on demand.

22. Interest in a Jointly Controlled Entity *(continued)*

Details of the jointly controlled entity are as follows:

Name of company	Place of incorporation/ operation	Percentage of equity holding indirectly	Principal activities
Evergreen Oils & Fats Limited*	Cayman Islands/ Hong Kong	50	Blending and distribution of edible oils, vegetable fats, and shortenings

* *Company not audited by PKF*

Summarised financial information in respect of the Group's jointly controlled entity is set out below:

Financial position

	2007 *HK$'000*	2006 *HK$'000*
Non-current assets	**17,267**	18,542
Current assets	**229,145**	205,731
Total assets	**246,412**	224,273
Current liabilities	**(125,357)**	(108,897)
Non-current liabilities	**(1,213)**	(1,350)
Total liabilities	**(126,570)**	(110,247)
Net assets	**119,842**	114,026
Net assets attributable to the Group	**59,921**	57,013

22. Interest in a Jointly Controlled Entity *(continued)*

Results

	2007	2006
	HK$'000	*HK$'000*
Turnover	**598,854**	594,880
Profit for the year	**5,816**	5,248
Profit for the year attributable to the Group	**2,908**	2,624

23. Available-for-sale Financial Assets

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed equity securities,				
at market value				
— in Hong Kong	**23**	13	**23**	13
— outside Hong Kong	**211**	94	**211**	94
	234	107	**234**	107
Unlisted equity securities,				
at cost	**29,001**	29,001	**24,262**	24,262
Impairment loss	**(29,001)**	(29,001)	**(24,262)**	(24,262)
	—	—	**—**	—
Club debentures, at cost	**787**	787	**—**	—
Impairment loss	**(280)**	(280)	**—**	—
	507	507	**—**	—
	741	614	**234**	107

24. Inventories

(a) Inventories in balance sheet comprise:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**121,256**	110,589
Work in progress	**29,280**	32,855
Finished goods	**111,066**	90,243
Inventories in transit	**18,485**	13,350
Packing materials	**9,644**	7,253
Spare parts	**11,483**	11,484
	301,214	265,774

(b) The analysis of amount of inventories recognised as an expense is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**1,961,947**	1,849,521
Write-(back)/down of inventories	**(1,873)**	3,383
	1,960,074	1,852,904

25. Debtors, Deposits and Prepayments

The aging analysis of trade debtors (net of impairment losses for bad and doubtful debts) is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 – 3 months	**167,256**	166,525	**—**	—
4 – 6 months	**6,881**	936	**—**	—
Total trade debtors	**174,137**	167,461	**—**	—
Other debtors, deposits and prepayments	**81,625**	147,688	**510**	672
Current portion of leasehold lands *(note 18)*	**2,709**	2,526	**—**	—
	258,471	317,675	**510**	672

26. Loan Receivable

During the year, the loan receivable of HK$9,665,000 was fully repaid. The amount in last year was secured and interest-bearing at the range of 2.1 % to 3.5 % per annum.

27. Financial Assets at Fair Value Through Profit or Loss

	Group	
	2007	2006
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss — outside Hong Kong	**2,922**	—

Financial assets at fair value through profit or loss mainly represent trading securities listed in Taiwan.

28. Derivative Financial Instruments

	Group		Company	
	2007	2006	**2007**	2006
	Assets	Assets	**Assets**	Assets
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Forward foreign exchange contracts	**—**	77	**—**	77

At 30 June 2006, the total notional amount of outstanding forward foreign exchange contracts to which the Group was committed amounted to HK$47,299,000. The Group used currency derivatives to manage significant future transactions and cash flows. The Group was a party to a variety of foreign currency forward contracts in the management of its exchange rate exposures. The instruments purchased were primarily denominated in US dollars.

At 30 June 2007, the Group has no outstanding forward foreign exchange contracts.

29. Cash and Cash Equivalents

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash on hand and at banks	**194,240**	189,051	**6,538**	6,490
Time deposits	**98,843**	68,713	**35,415**	22,148
	293,083	257,764	**41,953**	28,638

Cash and cash equivalents which are denominated in a currency other than the functional currency of the group entities are mainly denominated in US dollar.

Cash at banks earns interest at floating rates based on daily bank deposits rates. Time deposits are matured within three months and earn interest at the respective short term deposit rates.

30. Bank Loans

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unsecured bank loans	**142,104**	162,101	**10,000**	22,500

The borrowings are repayable on demand or within one year.

The Group's bank loans are mainly denominated in the functional currency of the group entities they relate.

The Group's bank loans are variable-rate loans which mainly carry interest ranging from Hong Kong Interbank Offered Rate (HIBOR) minus 0.5% to plus 0.5% per annum (2006: HIBOR plus 0.50% to 0.85%).

31. Creditors, Deposits Received and Accruals

The aging analysis of trade creditors is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
0 – 3 months	**213,044**	204,288	**—**	—
4 – 6 months	**23,343**	15,416	**—**	—
Over 6 months	**238**	2,797	**—**	—
Total trade creditors	**236,625**	222,501	**—**	—
Other creditors, deposits received and accruals	**84,624**	121,325	**6,035**	9,270
	321,249	343,826	**6,035**	9,270

32. Other Current Liabilities

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts due to associates	**23,093**	23,093	**—**	—
Employee benefit obligations *(note 33(b))*	**4,896**	4,153	**—**	—
Obligations under finance leases	**98**	98	**54**	54
	28,087	27,344	**54**	54

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

33. Employee Benefit Obligations

The Group operates a number of staff retirement benefit plans comprising three defined contribution retirement plans covering its employees in Hong Kong and Taiwan and two defined benefit retirement plans covering its employees in Taiwan.

The Group's contributions to the defined contribution retirement plan are based on a specified percentage on the basic salary and completed years of service of employees. The Group's contributions under the principal plan covering its employees in Hong Kong are charged to the income statement.

Under the defined benefit retirement plans, the calculation of the retirement benefits to the employees is based on years of service and average monthly salary at the time of retirement. The Group's contributions to the defined benefit retirement plans are calculated as certain percentages of salaries paid to employees and charged to the income statement as incurred. The assets of the plans are held separately from those of the Group in a central fund administered by the relevant government body in Taiwan.

In addition to the retirement plans operated by the Group, the Group is required to contribute respectively to Mandatory Provident Fund, central pension plans and labour pension fund for certain Group's employees in Hong Kong, the People's Republic of China and Taiwan based on applicable rates of monthly salary in accordance with government regulations.

33. Employee Benefit Obligations *(continued)*

(a) Defined benefit retirement plans

The Group makes contributions to two defined benefit retirement plans that provide pension benefits for employees in Taiwan.

(i) The amount recognised in the balance sheet is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Present value of funded obligations	**35,595**	32,149
Fair value of plan assets	**(23,386)**	(19,103)
Net unrecognised actuarial losses	**(10,999)**	(8,416)
	1,210	4,630

(ii) Plan assets consist of the following:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cash	**23,386**	19,103

33. Employee Benefit Obligations *(continued)*

(a) Defined benefit retirement plans *(continued)*

(iii) Movements in present value of funded obligations

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 July	**32,149**	31,677
Benefits paid by the plans	**(1,246)**	(1,067)
Current service cost	**1,029**	1,181
Interest cost	**1,105**	1,085
Actuarial losses	**2,685**	290
Exchange difference	**(127)**	(1,017)
At 30 June	**35,595**	32,149

(iv) Movements in plan assets

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 July	**19,103**	19,048
Group's contributions paid to the plans	**5,192**	1,383
Benefits paid by the plans	**(1,246)**	(1,067)
Actuarial expected return on plan assets	**666**	720
Actuarial losses	**(273)**	(373)
Exchange difference	**(56)**	(608)
At 30 June	**23,386**	19,103

33. Employee Benefit Obligations *(continued)*

(a) Defined benefit retirement plans *(continued)*

(v) Expense recognised in the income statement is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current service cost	**1,029**	1,181
Interest cost	**1,105**	1,085
Expected return on plan assets	**(666)**	(720)
Amortisation of losses	**356**	338
	1,824	1,884

The expense is recognised in the following line items in the income statement:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cost of sales	**1,345**	1,191
Selling and distribution expenses	**149**	182
Administrative expenses	**330**	511
	1,824	1,884

33. Employee Benefit Obligations *(continued)*

(a) Defined benefit retirement plans *(continued)*

(vi) The principal actuarial assumptions used as at 30 June 2007 (expressed as weighted average) are as follows:

Name of subsidiaries which operate the plans	Lam Soon Industries Inc.		Lam Soon Ball Yamamura Inc.	
	2007	2006	**2007**	2006
Actuaries	**KTMC Actuaries Co., Ltd.**		**KTMC Actuaries Co., Ltd.**	
Discount rate	**2.5%**	3.5%	**2.5%**	3.5%
Expected rate of return on plan assets	**2.5%**	3.5%	**2.5%**	3.5%
Future salary increases				
— Next year	**0.3%**	1%	**0.3%**	1%
— Next 2 – 3 years	**—**	0%	**—**	0%
— Thereafter	**—**	1%	**—**	1%

(vii) Historical information

	Group		
	2007	2006	2005
	HK$'000	*HK$'000*	*HK$'000*
Present value of the defined benefit obligations	**35,595**	32,149	31,677
Fair value of plan assets	**(23,386)**	(19,103)	(19,048)
Deficits in the plan	**12,209**	13,046	12,629
Experience adjustments arising on plan liabilities	**619**	593	2,914
Experience adjustments arising on plan assets	**275**	369	412

(b) Short-term employee benefit

As at 30 June 2007, unclaimed annual leaves was HK$4,896,000 (2006: HK$4,153,000) which was included in other current liabilities *(note 32)*.

34. Other Non-Current Liabilities

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Obligations under finance lease payable				
— After one year but within two years	**98**	98	**54**	54
— After two years but within five years	**82**	181	**45**	101
Other payable	**174**	172	**—**	—
	354	451	**99**	155

35. Share Capital

	Number of shares	Nominal value
	'000	*HK$'000*
Authorised:		
At 1 July 2006 and at 30 June 2007		
Shares of HK$1 each	300,000	300,000
Issued and fully paid:		
At 1 July 2006 and at 30 June 2007		
Share of HK$1 each	243,354	243,354

At 30 June 2007, 1,393,000 ordinary shares (2006: Nil) were acquired by the Group to reserve for the Share Option Scheme for the purpose of satisfying the exercise of share options to be granted to eligible employees. The total amount paid to acquire the shares during the year was HK$6,829,000.

Details of the unexpired and unexercised share options at balance sheet date are set out in note 36 to the financial statements.

36. Equity Settled Share-based Transactions

The current share option scheme (the "Share Option Scheme") was approved by the shareholders on 23 May 2003 and subsequently amended and approved by the shareholders on 18 April 2006. Pursuant to the Share Option Scheme, the directors of the Company may invite (i) any employee and director (including non-executive director and independent non-executive director) of any company of the Group; and (ii) any employee of any associated company (the "Eligible Employee") to take up options to subscribe for shares of HK$1 each in the capital of the Company.

The purpose of the Share Option Scheme is to motivate the Eligible Employee and to allow them to participate in the growth of the Company.

The exercise price per share is determined by the directors and being not less than the highest of (a) the average closing price of a share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the day of offer of such option; (b) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the day of offer of such option, which must be a business day; and (c) the nominal value of a share.

The total number of shares available for issue under the Share Option Scheme is 24,335,416 which represents 10% of the issued share capital of the Company at the date of the approval of the Share Option Scheme. The maximum entitlement for any Eligible Employee (not being a substantial shareholder or independent non-executive director) is that the total number of shares issued and to be issued upon exercise of options granted and to be granted in any 12 months period does not exceed one percent of the relevant class of shares in issue. In the event that a grant of option is made to a substantial shareholder or an independent non-executive director of the Company or any of their associate, each of their entitlement of the underlying shares shall not, in 12-month period up to and including the date of grant, (i) exceeds 0.1% in nominal value of the shares; and (ii) having an aggregate value in excess of HK$5 million; unless approved by the shareholders in a general meeting.

Upon acceptance of the option, the grantees shall inform the Company together with a remittance in favour of the Company of HK$1 by way of consideration for the grant within 21 days from the date of offer of option.

There is no minimum period for which an option must be held before it can be exercised.

The Share Option Scheme will remain in force for a period of 10 years commencing on 23 May 2003 to 22 May 2013.

36. Equity Settled Share-based Transactions *(continued)*

(a) The terms and conditions of the grants during the year are as follows, whereby all options are to be settled by physical delivery of shares:

Date of grant	Grantee	Exercise price	Number of share options
25 July 2006	Director	HK$4.5	2,200,000
25 July 2006	Employees	HK$4.5	3,200,000

Each option entitles the holder to subscribe for one ordinary share in the Company. Vesting conditions are subject to certain financial and performance targets being met by the grantees during the performance period for financial years 2005/2006 to 2007/2008, the grantees may, at any time as may be prescribed by the Remuneration Committee at its discretion, be notified (the "Date of Notification") of the vesting of the options and the number of shares comprised in the vested options. Thereafter, the grantees shall have an exercise period of up to 30 months following the Date of Notification to exercise the vested options in accordance with the terms of their grant.

(b) The options outstanding at 30 June 2007 was 5,400,000 (2006: Nil) with an exercise price of HK$4.5 (2006: Nil).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Black-Scholes model.

Fair value of share options and assumptions

Fair value at measurement date	HK$0.91 — HK$1.21
Share price	HK$4.50
Exercise price	HK$4.50
Expected volatility	33.56%
Option life	2.5 years — 4.5 years
Expected dividends yield	2.65%
Risk-free interest (based on Exchange Fund Note)	4.41% — 4.58%

The expected volatility was based on the historic volatility. The expected life used in the model is based on management's best estimate, after taking into account of non-transferability, exercise restrictions and behavioral considerations. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

37. Reserves

(a) The Group

	Share premium HK$'000	Capital reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	ESOP reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	General reserve HK$'000	Revenue reserve HK$'000	Total HK$'000
At 1 July 2005	429,423	16,454	29,360	38	—	—	(23,135)	50,000	210,630	712,770
Net transfer from revenue reserve to capital reserve by subsidiaries	—	1,707	—	—	—	—	—	—	(1,707)	—
Exchange differences arising on translation of financial statements of foreign operations	—	—	—	—	—	—	(1,425)	—	—	(1,425)
Change in fair value of available-for-sale financial assets	—	—	—	2	—	—	—	—	—	2
Profit attributable to shareholders of the Company	—	—	—	—	—	—	—	—	102,989	102,989
2004/05 final dividend paid	—	—	—	—	—	—	—	—	(17,035)	(17,035)
Current year interim dividend paid	—	—	—	—	—	—	—	—	(14,601)	(14,601)
At 30 June 2006	429,423	18,161	29,360	40	—	—	(24,560)	50,000	280,276	782,700
Attributable to:										
Company and subsidiaries	429,423	17,903	29,360	40	—	—	(23,588)	50,000	238,878	742,016
Associates	—	258	—	—	—	—	(972)	—	34,249	33,535
Jointly controlled entity	—	—	—	—	—	—	—	—	7,149	7,149
At 30 June 2006	429,423	18,161	29,360	40	—	—	(24,560)	50,000	280,276	782,700

37. Reserves *(continued)*

(a) The Group *(continued)*

	Share premium HK$'000	Capital reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	ESOP reserve HK$'000	Share option reserve HK$'000	Exchange reserve HK$'000	General reserve HK$'000	Revenue reserve HK$'000	**Total HK$'000**
At 1 July 2006	429,423	18,161	29,360	40	—	—	(24,560)	50,000	280,276	**782,700**
Net transfer from revenue reserve to capital reserve by subsidiaries	—	3,547	—	—	—	—	—	—	(3,547)	**—**
Release on disposal of subsidiaries	—	(1,581)	(483)	—	—	—	—	—	483	**(1,581)**
Change in fair value of available-for-sale financial assets	—	—	—	127	—	—	—	—	—	**127**
Equity settled share-based transaction	—	—	—	—	—	569	—	—	—	**569**
Purchase of own share for Share Option Scheme	—	—	—	—	(6,829)	—	—	—	—	**(6,829)**
Exchange differences arising on translation of financial statements of foreign operations	—	—	—	—	—	—	15,006	—	—	**15,006**
Profit attributable to shareholders of the Company	—	—	—	—	—	—	—	—	109,882	**109,882**
2005/06 final dividend paid	—	—	—	—	—	—	—	—	(17,001)	**(17,001)**
Current year interim dividend paid	—	—	—	—	—	—	—	—	(14,517)	**(14,517)**
At 30 June 2007	429,423	20,127	28,877	167	(6,829)	569	(9,554)	50,000	355,576	**868,356**
Attributable to:										
Company and subsidiaries	429,423	19,869	28,877	167	(6,829)	569	(8,582)	50,000	311,270	**824,764**
Associates	—	258	—	—	—	—	(972)	—	34,249	**33,535**
Jointly controlled entity	—	—	—	—	—	—	—	—	10,057	**10,057**
At 30 June 2007	429,423	20,127	28,877	167	(6,829)	569	(9,554)	50,000	355,576	**868,356**

37. Reserves *(continued)*

(b) The Company

	Share premium *HK$'000*	General reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Share option reserve *HK$'000*	Revenue reserve *HK$'000*	**Total** ***HK$'000***
At 1 July 2005	429,423	50,000	38	—	601,209	1,080,670
Change in fair value of available-for-sale financial assets	—	—	2	—	—	2
Loss for the year	—	—	—	—	(16,605)	(16,605)
2004/05 final dividend paid	—	—	—	—	(17,035)	(17,035)
Current year interim dividend paid	—	—	—	—	(14,601)	(14,601)
At 30 June 2006	429,423	50,000	40	—	552,968	1,032,431
At 1 July 2006	429,423	50,000	40	—	552,968	**1,032,431**
Change in fair value of available-for-sale financial assets	—	—	126	—	—	**126**
Equity settled share-based transaction	—	—	—	569	—	**569**
Loss for the year	—	—	—	—	(9,387)	**(9,387)**
2005/06 final dividend paid	—	—	—	—	(17,035)	**(17,035)**
Current year interim dividend paid	—	—	—	—	(14,601)	**(14,601)**
At 30 June 2007	429,423	50,000	166	569	511,945	**992,103**

37. Reserves *(continued)*

Notes:

(i) The distributable reserve of the Company at 30 June 2007 amounted to HK$511,945,000 (2006: HK$552,968,000).

(ii) According to the applicable law in Taiwan, the Group's subsidiaries in Taiwan have to transfer 10% of the annual profit, if any, to capital reserve.

(iii) The ESOP reserve comprises the purchase consideration for issued shares of the Company acquired for the Share Option Plan for the purpose of satisfying the exercise of share options to be granted to eligible employees.

38. Commitments

(a) The Group had the following commitments not provided for in the financial statements at the balance sheet date:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Authorised capital expenditure and contracted for	**5,085**	2,589
Authorised capital expenditure but not contracted for	**72,500**	—

On 25 January 2007, Lam Soon (China) Holdings Company Limited ("Lam Soon (China)") a wholly-owned subsidiary of the Company, agreed with the Qingzhou Government that Lam Soon (China) undertook an investment project in the Qingzhou City. The investment project included the establishment of a wholly foreign-owned enterprise, named as Lam Soon (Shandong) Food Company Limited, in Mainland China for the development of the food business, acquisition of the land use rights and the construction of manufacturing and storage facilities. The projected investment amount of the investment project will be approximately HK$80 million of which HK$5.5 million was incurred and HK$2.4 million was contracted for during the year.

38. Commitments *(continued)*

(b) At 30 June 2007, the Group committed to supply 2.3 million (2006: 98.5 million) aluminum cans to a customer in Taiwan at a fixed price. Such commitment was covered by a bank guarantee issued to the customer, which amounted to approximately HK$1,645,000 (2006: HK$5,929,000).

(c) At 30 June 2007, the Group has several non-cancelable purchase orders for certain materials with its suppliers with an amount of HK$165,484,000 (2006: HK$198,954,000).

39. Related Party Transactions

The Group had the following material transactions with its related parties during the year:

Related party	Nature of transactions	*Notes*	**2007** **HK$'000**	2006 HK$'000
Jointly controlled entity	Purchases of small package oil	*(i)*	**3,934**	2,772
	Sales of aroma oil	*(ii)*	**56,117**	76,210
	Bottling and refinery income of small package oil	*(iii)*	**34,838**	34,195
	Management fee income	*(iii)*	**2,000**	3,000
	Royalties received for the use of trademarks	*(iv)*	**10,384**	10,006
	Bank guarantee at 30 June	*(v)*	**32,362**	26,912
GIMC Limited("GIMC")	Management fee expenses	*(vi)*	**3,702**	4,388

Other related party transactions are also disclosed in notes 11, 22 and 32.

Notes:

(i) Purchases of small package oil were carried out at cost plus a percentage of profit mark-up.

(ii) Sales of aroma oil was made with reference to the market price.

(iii) Bottling and refinery income of small package oil and management fee income were determined on the basis of the cost and the amount of services performed by the Group.

(iv) Under the trademark license agreement, the royalties received for the use of the trademarks are calculated based on a percentage as may be agreed between the parties from time to time of the gross sales value of licensed products sold by the licensee within Hong Kong and Macau.

39. Related Party Transactions *(continued)*

Notes: (continued)

(v) The Group had two guarantees issued to banks to secure banking facilities of a jointly controlled entity.

(vi) A service agreement and a supplemental service agreement (together, the "GIMC Services Agreement") were entered into between the Company and GIMC Limited ("GIMC"), a subsidiary of Hong Leong Company (Malaysia) Berhad ("HLCM") on 27 June 2003 and 17 January 2006 respectively, for provision of general management services to the Group by GIMC for a term of three years from 1 July 2005.

In the event that the aggregate service fees payable by the Company to HLCM or any of its associated companies for the provision of similar services, if any, exceeded the annual cap of HK$10,000,000 during any of the three financial years ended/ending 30 June 2006, 30 June 2007 and 30 June 2008, the Company would be required to re-comply with the Listing Rules, including seeking the independent shareholders' approval.

40. Non-adjusting Post Balance Sheet Events

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. As a result of the new tax law, it is expected that the income tax rate applicable to the PRC subsidiaries will be reduced from 33% to 25% from 1 January 2008. As some of our PRC subsidiaries were still operating within the tax holidays with an effective tax rate around 15%, it is expected that the effective rate will be increased to 25% over the 5-year transition period. The expected financial effect of the new tax law will be reflected in the 2007/2008 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the consolidated balance sheet in respect of current tax payable.

41. Comparative Figures

Certain comparative figures have been reclassified to conform with presentation adopted in the current year's financial statements.

42. Ultimate Holding Company

The directors consider the ultimate holding company as at 30 June 2007 to be Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia.

The following list contains particulars of principal subsidiaries at 30 June 2007:

Name of company	Issued and fully paid up capital	Place of incorporation/ establishment and operation	Effective percentage of equity holding *Group*	*Company*	Principal activities	*Notes*
Asian Dragon Limited	HK$2	Hong Kong	100	—	Licensee of factory canteen	
Atlantic Techvest Limited	HK$100	Cook Islands	100	100	Management services	
Bio Trading Limited	US$1	British Virgin Islands	100	—	General trading	
Flourtech International Holdings Limited	HK$36,000,000	British Virgin Islands	100	100	Investment holding	
Gladko Industries Limited	HK$2	Hong Kong	100	—	Investment holding	
Global Flour Trader Limited	HK$10,000	Hong Kong	100	—	General trading	
Guangzhou Lam Soon Food Products Limited	HK$10,000,000	People's Republic of China	66	—	In liquidation	*(b)+(d)*
Guangzhou Lam Soon Homecare Products Limited	HK$21,000,000	People's Republic of China	100	—	Processing and trading of detergent products	*(e)*
Guodak Corporation	NT$1,000,000	Taiwan	100	—	Management services	*(b)*
Hong Kong Flourtech Limited	HK$1,000,000	Hong Kong	100	—	Trading and manufacturing	
Hong Kong Flour Mills Limited	Ordinary shares HK$100,000 Deferred shares HK$10,000,000	Hong Kong	100	—	Trading of flour products	

Name of company	Issued and fully paid up capital	Place of incorporation/ establishment and operation	Effective percentage of equity holding		Principal activities	*Notes*
			Group	*Company*		
Jiangsu Lam Soon Flour Mills Company Limited	US$5,000,000	People's Republic of China	100	—	Importing, processing and trading of flour products	*(b)+(e)*
Koon Bow Limited	HK$2	Hong Kong	100	—	Property holding	
Lam Soon (China) Holdings Company Limited	US$1	British Virgin Islands	100	—	Investment holding	
Lam Soon (Pan Yu) Industries Company Limited	HK$2	Hong Kong	100	—	Investment holding	
Lam Soon Ball Yamamura Inc.	Common stock NT$262,436,260 6% redeemable preference shares NT$256,623,740	Taiwan	58	—	Manufacturing and trading of metal containers and other packaging products	*(a)+(b)*
Lam Soon Ceroil Limited	HK$2	Hong Kong	100	—	Investment holding	
Lam Soon Cleaning & Caring Laboratories (Hong Kong) Company Limited (formerly known as Lam Soon 828 Company Limited)	HK$2	Hong Kong	100	—	Trading of detergent products	
Lam Soon Cleaning & Caring Laboratories Company Limited (formerly known as Lam Soon Homecare Products Company Limited)	US$1	British Virgin Islands	100	—	Investment holding	

Name of company	Issued and fully paid up capital	Place of incorporation/ establishment and operation	Effective percentage of equity holding		Principal activities	Notes
			Group	*Company*		
Lam Soon Distribution Agency Limited	HK$2	Hong Kong	100	—	General trading	
Lam Soon Edible Oils (Guangdong) Limited	HK$2	Hong Kong	100	—	Investment holding	
Lam Soon Edible Oils Company Limited	US$1	British Virgin Islands	100	—	Investment holding	
Lam Soon Food Industries (BVI) Limited	HK$11,858,415	British Virgin Islands	100	—	Investment holding	
Lam Soon Food Industries Limited	Ordinary shares HK$83,228,315 Convertible preference shares HK$25,000,000	Bermuda	100	100	Investment holding	*(c)*
Lam Soon Food Supply Company Limited	Ordinary shares HK$1,000 Deferred shares HK$500,000	Hong Kong	100	—	Manufacturing and distribution	
Lam Soon Industries Inc.	NT$616,818,460	Taiwan	100	—	Manufacturing and trading of "easy-open-ends" and other packaging products	*(b)*

Name of company	Issued and fully paid up capital	Place of incorporation/ establishment and operation	Effective percentage of equity holding		Principal activities	*Notes*
			Group	*Company*		
Lam Soon Intellectual Property Limited	US$1	Cook Islands	100	100	Trademark holding	
Lam Soon International Limited	US$1	British Virgin Islands	100	—	Investment holding	
Lam Soon International Trading Limited	HK$2	Hong Kong	100	—	General trading	
Lam Soon Management Services Company Limited	HK$2,000	Hong Kong	100	100	Management services	
Lam Soon Properties Investments Limited	HK$2	Hong Kong	100	100	Investment holding	
Lam Soon Realty Limited	HK$2	Hong Kong	100	—	Property holding	
Lam Soon (Shandong) Food Company Limited	—	People's Republic of China	100	—	Importing, processing and trading of flour products	*(b)+(e)*
Lam Soon Silos Investments Limited	HK$2	Hong Kong	100	—	Investment and trading	
Lam Soon Systems Limited	HK$2	Hong Kong	100	—	Provision of Internet services	
Lam Soon Trademark Limited	US$2	Cook Islands	100	—	Trademark holding	
Lam Soon Trading Company, Limited	HK$500,000	Hong Kong	100	100	General trading	

Name of company	Issued and fully paid up capital	Place of incorporation/ establishment and operation	Effective percentage of equity holding		Principal activities	*Notes*
			Group	*Company*		
LS Golden Oils & Fats Limited	"A" ordinary shares HK$185,000,000 "B" ordinary shares HK$9,900,000 "C" ordinary shares HK$5,100,000	British Virgin Islands	100	—	Investment holding	
LSO (Guangdong) Investments Company Limited	HK$10,000	Hong Kong	100	—	Investment holding	
LSO Investments Limited	HK$85,600,000	British Virgin Islands	100	—	Investment holding	
LSO Investments Limited	US$1	Cayman Islands	100	100	Investment holding	
M.C. Packaging (B.V.I.) Limited	HK$2	British Virgin Islands	97	—	Investment holding	
M.C. Packaging Offshore Limited	HK$8,400	British Virgin Islands	97	97	Investment holding	
Packaging Materials Trading Company Limited	Ordinary shares US$6,329,974 Preference shares US$13,671,326	British Virgin Islands	100	—	Investment holding	
Ravensgate International Limited	HK$200	Hong Kong	97	—	Investment holding	
Richly Choice Development Limited	US$1	British Virgin Islands	100	100	Provision of trustee services	

Name of company	Issued and fully paid up capital	Place of incorporation/ establishment and operation	Effective percentage of equity holding		Principal activities	*Notes*
			Group	*Company*		
Shekou Lam Soon Flour Mills Company Limited	US$27,500,000	People's Republic of China	100	—	Importing, processing and trading of flour products	*(e)*
Shekou Lam Soon Silo Company Limited	US$9,500,000	People's Republic of China	89	—	Provision of silo facilities	*(d)*
Shenzhen Lam Soon Edible Oils Company, Limited	US$12,000,000	People's Republic of China	100	—	Manufacturing, processing and trading of edible oils	*(e)*
Swamex Food Service Limited	"A" ordinary shares HK$220,000 "B" ordinary shares HK$180,000	Hong Kong	100	100	Trading of food products	
Zhuhai LSO Ends Packaging Limited	US$15,000,000	People's Republic of China	100	—	Manufacturing and trading of "easy-open-ends" and other packaging products	*(e)*

Notes:

(a) The redeemable preference shares are redeemable seven years after their date of issue at par value.

(b) Companies not audited by PKF. The aggregate turnover of subsidiaries not audited by PKF accounted for about 28% of the Group's turnover.

(c) The place of operation of this company is in Hong Kong.

(d) The subsidiaries are registered as Equity Joint Ventures under PRC Laws.

(e) The subsidiaries are registered as wholly-owned-foreign companies under PRC Laws.

5-YEAR FINANCIAL SUMMARY

The summaries of results, assets and liabilities of the Group for the last five financial years/period are as follows:

			(Notes a & b)	*(Note c)*	
	1.7.2006 to 30.6.2007	1.7.2005 to 30.6.2006	1.1.2004 to 30.6.2005	1.1.2003 to 31.12.2003	1.1.2002 to 31.12.2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Results					
Turnover	**2,298,205**	2,237,058	3,054,627	2,036,362	1,908,344
Operating profit before interest, taxation, depreciation and amortisation	**170,519**	197,360	232,675	132,971	119,405
Profit attributable to shareholders	**109,882**	102,989	85,125	38,235	17,701
Assets and liabilities					
Non-current assets	**846,702**	869,109	908,870	967,137	1,005,094
Net current assets	**361,687**	258,037	166,856	64,843	32,240
Minority interests	**(85,517)**	(85,385)	(79,503)	(66,159)	(61,927)
Non-current liabilities	**(11,162)**	(15,707)	(56,152)	(99,305)	(151,444)
Shareholders' equity	**1,111,710**	1,026,054	940,071	866,516	823,963

Notes:

(a) The effect of adopting HKAS 17 has been adjusted to the opening balances of fixed assets, leasehold lands and debtors, deposits and prepayments as at 1 January 2004 and 1 July 2005. No restatement of other comparative information has been made as the amounts related to prior years could not be reasonably determined.

(b) On 3 December 2004, the Board of Directors of the Company passed an ordinary resolution to change the financial year end date of the Company from 31 December to 30 June commencing from the year 2004. The reason for the change is to align the financial year end date of the Company with that of its ultimate holding company, Hong Leong Company (Malaysia) Berhad. As a result, the financial period covered the period from 1 January 2004 to 30 June 2005.

(c) The effect of adopting SSAP 12 (revised) has been adjusted to the opening balances of deferred taxation, interest in a jointly controlled entity, revenue reserve and minority interests as at 1 January 2002 and 1 January 2003, the results and movements in exchange reserve for the year ended 31 December 2002. No restatement of other comparative information has been made as the amounts related to prior years could not be reasonably determined.