# Wonson International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 651)

# annual report 2007

# Contents

# Corporate Information

**BOARD OF DIRECTORS**

**Executive directors**

Mr. Chau On Ta Yuen *(Chairman)*
Mr. Tang Chi Ming
Mr. Zhang Shi Hong

**Independent non-executive directors**

Ms. Chan Ling, Eva
Mr. Chan Sek Nin, Jackey
Mr. Sin Chi Fai

**COMPANY SECRETARY**

Mr. Ngai Man Wo

**AUDITORS**

Deloitte Touche Tohmatsu
$35^{th}$ Floor, One Pacific Place
88 Queensway
Hong Kong

**PRINCIPAL BANKERS**

Hongkong & Shanghai Banking Corporation Limited
Hang Seng Bank Limited

**REGISTERED OFFICE**

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

**PRINCIPAL OFFICE**

Unit 1103, 11/F., China Merchants Tower, Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

**PRINCIPAL SHARE REGISTRAR**

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton HM11
Bermuda

**BRANCH REGISTRAR IN HONG KONG**

Tricor Abacus Limited
$26^{th}$ Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

# Chairman's Statement

Dear Shareholders,

The Company and its subsidiaries (the "Group") recorded an audited consolidated turnover of approximately HK$5.20 million for the year ended 31 December 2007 when compared to HK$8.35 million in 2006, a decrease of 37.72% and loss attributable to the shareholders of approximately HK$54.63 million for the year ended 31 December 2007 when compared to HK$61.79 million in 2006, a decrease of 11.59%.

The Board of Directors does not recommend the payment of dividend for the year ended 31 December 2007.

In conclusion, I would like to thank all shareholders and staff for your continued support and look forward to improving the Group's performance.

**Chau On Ta Yuen**
*Chairman*

28 April 2008

# Management Discussion and Analysis

## BUSINESS REVIEW

### Overview

For the year under review, the Group's turnover amounted to approximately HK$5.20 million (2006: HK$8.35 million) representing a decrease of 37.72% as compared to that of 2006. The Group recorded a loss attributable to shareholders of HK$54.63 million (2006: HK$61.79 million) for the year ended 31 December 2007. During the current year, the business of metals trading represents the revenue of the Group.

The global economy continued to thrive in 2007. At the same time, China's metals demand was continued to increase and put significant upward pressure on metals prices, particularly after the U.S. Dollar continued to decline in purchasing power.

For the year ended 31 December 2007, the net loss amounted to approximatcly HK$54.63 million, representing a decrease of 11.59% as compared with the corresponding period last year. Such improvement was mainly attributable to the decrease in the administrative expenses of approximately HK$5.49 million as well as the impairment losses on available-for-sale investments and loan to an investee company only incurred in last year amounted to approximately HK$13.49 million and HK$18.57 million, respectively, which then offset with the increase of loss in fair value changes on investments held for trading of approximately HK$19.66 million. The fair value changes on investments held for trading has no cash flow effect and represent the changes in fair value recognized directly in profit or loss in the period in which they arise.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group had cash and bank balances of approximately HK$84.80 million (31 December 2006: HK$10.20 million) and is denominated in Hong Kong dollars. The current ratio (defined as a ratio of current assets to current liabilities) as at 31 December 2007 was approximately 6.52 (31 December 2006: 50.2). Apart from the convertible notes payable amounted to approximately HK$46.23 million and margin loan payable approximately of HK$51.76 million, the Group has no other loans or borrowings outstanding. Hence, the gearing ratio (defined as non-current liabilities and loan payables divided by total shareholders' equity) was 0.338 at 31 December 2007.

On 15 March 2007, the Company entered into the following agreements with a placing agent:

(a) The underwriting agreement pursuant to which the placing agent agreed to place up to 100,000,000 new shares of a nominal value of HK$0.01 each on a fully-underwritten basis at the price of HK$0.16 per share (the "Underwriting Agreement"). The placing of shares pursuant to the Underwriting Agreement was completed on 12 April 2007.

(b) The placing agreement pursuant to which the placing agent agreed to place up to a maximum of 500,000,000 new shares on a best-efforts basis at the price of HK$0.16 per share (the "Placing Agreement"). The placing of shares pursuant to the Placing Agreement was completed on 21 May 2007.

(c) The convertible notes placing agreement pursuant to which the placing agent would place the convertible notes (the "Convertible Notes") with principal amount of not more than HK$150 million with an initial conversion price of HK$0.17 (adjusted to HK$0.017 upon the split of shares on 3 July 2007) on a best-efforts basis (collectively refer as the "Convertible Notes Placing Agreement"). The coupon rate of Convertible Notes was 4% per annum. The Convertible Notes Placing Agreement was completed on 18 May 2007 and the maturity date of the Convertible Notes is two years from the date of completion.

The cash flow position of the Group for the year ended 31 December 2007 is set out in the financial statements on pages 26 and 27.

## SEGMENT INFORMATION

The segment information for the Group for the year ended 31 December 2007 is set out in the financial statements on pages 47 to 49.

## CHARGES ON GROUP ASSETS

As at 31 December 2007, there was no asset of the Group being pledged (2006: nil).

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Hong Kong Dollar. The Group has not been subject to exchange rate fluctuation exposure and thus no financial instruments have been adopted for hedging purpose.

## NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

Save as the acquisition (the "Acquisition") disclosed in the announcement dated 14 November 2007, there was no new business, material acquisitions and disposals of subsidiaries and associated companies in the financial year under review. The details of the Acquisition are set out in the financial statements on page 63.

## POST BALANCE SHEET EVENTS

The post balance sheet subsequent events for the Group for the year ended 31 December 2007 are set out in the financial statements on page 63.

## LITIGATION

During the financial year under review, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Group.

## HUMAN RESOURCES

The Group had around 10 employees as at 31 December 2007. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

## RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in note 27 to the financial statements on page 62.

## CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

As at 31 December 2007, the Group had no significant contingent liabilities and capital commitment. (2006: nil).

## PROSPECTS

The principal activities of the Group are the metals trading and investments in securities. The performance of these businesses has not been satisfactory in recent years. In order to improve the earnings of the Group in the long run, the Directors consider that the diversification of business into new area of high-growth potential will be in the best interest of the Group and its shareholders. With the economic booming development in the PRC's market, the vessel market is currently facing with steady, persistent and strong demands. In view of the continued increase in the manufacturing cost of overseas vessel manufacturing enterprises, such as in Japan and Korea, whereas the vessel manufacturing techniques of the vessel manufacturers in the PRC continued to improve and progress, in addition to the manufacturing costs maintaining at a low level, the vessel manufacturing industry in the PRC has indicated an increasing trend. The Directors consider that there is substantial room for growth in the manufacturing of vessels in the PRC.

The Group has penetrated into the market of shipbuilding business in the PRC through acquisition. Upon the completion of acquiring Inpax Group in April 2008, the Group held 100% shareholding interest in Inpax Group, which engaged in (i) production and operation of metal vessel manufacturing, vessels ancillary products and equipment; (ii) reparation of vessels; and (iii) manufacture of cranes and electric appliances. The Directors believe the acquisition would strengthen the earning base of the Group and bring growth to the Group's business.

At this stage, the Directors have no plan to discontinue the Company's existing businesses even though its performance has not been satisfactory. The Directors will continue to reinforce the Group's financial position so that it would be fully prepared to seize suitable investment opportunities when they arise.

# Report on Corporate Governance

The Group has recognized the importance of transparency and accountability, and believes that shareholders can be benefited from good corporate governance. The Company aims to achieve good standard of corporate governance, and thus during the year the Group has complied with most of the code provisions ("Code Provision") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") except for the following deviations:

(i) Code Provision A.2.1

The Company had been deviated from the Code Provision A.2.1 as the roles of the Chairman and Chief Executive Officer are not separated. Mr. Chau On Ta Yuen is in charge of the overall management of the Company and performs the role of a Chief Executive Officer of the Company as this would allow the Company to have more effective planning and execution of business strategies.

(ii) Code Provision A.4.1

The Company has deviated from Code Provision A.4.1. Although the independent non-executive directors are subject to retirement by rotation at the Company's annual general meeting pursuant to the bye-laws of the Company, they were not appointed for a specific term.

(iii) Code Provision E.1.2

The then Chairman, Mr. Chiu Kong, did not attend the 2007 annual general meeting held on 27 June 2007.

## THE BOARD OF DIRECTORS

The Board's primary responsibilities are to formulate the Company's long-term corporate strategy, to oversee the management and to evaluate the performance of the Group.

The Board meets regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. For the year ended 31 December 2007, 31 board meetings were held. The individual attendance of each Director is set out below:

| Name | Number of board meetings attended |
|---|---|
| **Executive directors:** | |
| Mr. Chau On Ta Yuen<br>*(appointed on 19 September 2007)* | 4/31 |
| Mr. Tang Chi Ming<br>*(appointed on 9 March 2007)* | 17/31 |
| Mr. Zhang Shi Hong<br>*(appointed on 5 December 2007)* | 2/31 |
| Mr. Chen Zhong Min<br>*(appointed on 19 September 2007 and resigned on 5 December 2007)* | 3/31 |
| Ms. Cheung Sze Man<br>*(resigned on 2 November 2007)* | 19/31 |
| Mr. Chiu Kong<br>*(retired on 29 June 2007)* | 2/31 |
| Mr. Hui Richard Rui<br>*(resigned on 1 June 2007)* | 13/31 |
| Mr. Tsui Ching Hung<br>*(resigned on 1 June 2007)* | 9/31 |
| Mr. Chung Nai Ting<br>*(resigned on 9 March 2007)* | 0/31 |
| Mr. Tse Lanny Cheuk Ming<br>*(resigned on 9 March 2007)* | 1/31 |

**Independent non-executive directors:**

| | |
|---|---|
| Mr. Sin Chi Fai | 2/31 |
| Ms. Chan Ling, Eva *(appointed on 9 March 2007)* | 2/31 |
| Mr. Chan Sek Nin, Jackey *(appointed on 12 April 2007)* | 2/31 |
| Mr. Chan Sze Hung *(resigned on 9 March 2007)* | 0/31 |
| Mr. Miu Frank H. *(resigned on 12 April 2007)* | 0/31 |

When the Board considers any material transaction in which a substantial shareholder or a Director has a conflict of interest, a board meeting is held and Independent Non-executive Directors who have no material interest in the transaction present at such board meeting. At the meeting, the Director who has interest in the transaction is required to abstain from voting.

## CHAIRMAN

The Board appointed Mr. Chau On Ta Yuen as the Chairman, who is responsible for the leadership and effective running of the Board to achieve its primary responsibilities. With the support of the Executive Directors, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and that all Directors receive adequate and reliable information on a timely manner. The Chairman also encourages Directors to be fully engaged in the Board's affair and make contribution to the Board's functions.

## BOARD COMPOSITION

The Board comprises of three executive directors and three independent non-executive directors at the date of this report. The independent non-executive directors constitute half of the Board. In addition, one of the independent non-executive directors possesses appropriate accounting qualifications and financial management expertise. The Directors are considered to have a balance of knowledge and experience appropriate for the requirements of the business of the Group. The independent non-executive directors serve the important function of ensuring and monitoring the basis of an effective corporate governance framework. The Board considers that each independent non-executive director is independent in character and judgment and that they all meet the specific independent criteria as required by the Listing Rules.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the requirement of Rule 3.13 of the Listing Rules, the Board confirmed that the Company has received written confirmation from each of all three independent non-executive directors of their independence and considers them to be independent throughout the year.

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") set out in Appendix 10 of the Listing Rules regarding Directors' securities transactions. Based on specific enquiry of all the Directors of the Company, the Directors have complied with the required standards as set out in the Model Code for the year ended 31 December 2007.

## NOMINATION OF DIRECTORS

The nomination of directors should take into consideration of the nominee's qualification, experience, ability and potential contributions to the Company. Three meetings were held during the year to discuss appointment of new directors. The Company is currently considering the setting up of a nomination committee.

## REMUNERATION COMMITTEE

The Company has set up the Remuneration Committee ensuring that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The Remuneration Committee was set up on 21 September 2007, which is comprised of three independent non-executive directors, Ms. Chan Ling, Eva, Mr. Chan Sek Nin, Jackey and Mr. Sin Chi Fai and the Chairman of the Remuneration Committee is Ms. Chan Ling, Eva. No meeting was held during the year ended 31 December 2007.

The terms of reference of the Remuneration Committee are consistent with the terms set out in the Code. No Director is involved in deciding his own remuneration.

**Audit Committee**

The Company established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The terms of the Audit Committee are consistent with the terms set up in the Code.

The Audit Committee comprises all three Independent Non-executive Directors, and the chairman of the Audit Committee, Ms. Chan Ling, Eva possesses a professional accountancy qualification and has substantial experience in accounting and financial matters.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditors in matters concerning the Group's audit.

Two meetings were held during the year ended 31 December 2007. The individual attendance of each member is set out below:

| Name of member | Number of committee meetings attended |
|---|---|
| Chan Ling, Eva | 2/2 |
| Chan Sek Nin, Jackey | 2/2 |
| Sin Chi Fai | 2/2 |

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

## AUDITORS' REMUNERATION

For the year ended 31 December 2007, the Auditors of the Company received approximately HK$1,267,000 for audit services and HK$30,600 for tax and consultancy services.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards.

The Directors, having made appropriate enquiries, consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

## INTERNAL CONTROL

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls, and risk management functions.

The Group maintains a centralized cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility.

## COMMUNICATION WITH SHAREHOLDERS

Shareholders are encouraged to attend shareholders' meetings. The Chairman and/or the Directors are available to answer questions on the Group's businesses at the meetings. In respect of each substantially separate issue at a general meeting, a separate resolution is proposed by the chairman of that meeting. Shareholders are also informed the procedure to demand voting by poll.

On behalf of the Board

**Chau On Ta Yuen**
*Director*

28 April 2008

# Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 30 and 31 to the consolidated financial statements, respectively.

## RESULTS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 23.

The directors do not recommend the payment of a dividend.

The Company did not have any reserves available for distribution.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the year in share capital of the Company are set out in note 24 to the consolidated financial statements.

## DIRECTORS

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

**Executive directors:**

| | |
|---|---|
| Mr. Chau On Ta Yuen - Chairman | (appointed on 19 September 2007) |
| Mr. Tang Chi Ming | (appointed on 9 March 2007) |
| Mr. Zhang Shi Hong | (appointed on 5 December 2007) |
| Mr. Chen Zhong Min | (appointed on 19 September 2007 and resigned on 5 December 2007) |
| Ms. Cheung Sze Man | (resigned on 2 November 2007) |
| Mr. Chiu Kong - Chairman | (retired on 29 June 2007) |
| Mr. Hui Richard Rui - Deputy Chairman | (resigned on 1 June 2007) |
| Mr. Tsui Ching Hung | (resigned on 1 June 2007) |
| Mr. Chung Nai Ting | (resigned on 9 March 2007) |
| Mr. Tse Lanny Cheuk Ming | (resigned on 9 March 2007) |

***Independent non-executive directors:***

| | |
|---|---|
| Mr. Sin Chi Fai | |
| Ms. Chan Ling, Eva | (appointed on 9 March 2007) |
| Mr. Chan Sek Nin, Jackey | (appointed on 12 April 2007) |
| Mr. Chan Sze Hung | (resigned on 9 March 2007) |
| Mr. Miu Frank H. | (resigned on 12 April 2007) |

In accordance with Clause 86(2) of the Company's Bye-laws, Mr. Chau On Ta Yuen and Mr. Zhang Shi Hong will retire and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Clause 87 of the Company's Bye-laws, Ms. Chan Ling, Eva and Mr. Sin Chi Fai will retire by rotation and are eligible for re-election at the forthcoming annual general meeting.

All of the remaining directors continue in office.

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

## BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of directors as at the date of this report are set out below:

**Executive Directors**

**Mr. Chau On Ta Yuen**, aged 60, graduated from Xiamen University majoring in Chinese Language and literature. He is currently the managing director of Wealthy Sea Group (H.K.) Limited; and the director of Sunbase International (Holdings) Limited and Asia Pacific Hi-Technology Investment (Holdings) Limited. He is also the director of Century Epitech Company Limited. Mr. Chau is also an independent non-executive director of Everpride Biopharmaceutical Company Limited and Wonderful World Holdings Limited, which are listed on the Growth Enterprise Market and the Main Board of the Stock Exchange of Hong Kong Limited respectively. From March 2000 to November 2006, he was appointed as the executive director and the vice chairman of Everbest Century Holdings Limited (now known as Everbest Energy Holdings Limited) which is listed on the Main Board of the Stock Exchange of Hong Kong Limited. He is member of the Chinese People Political Consultative Conference of the People Republic of China and the vice chairman of Hong Kong Federation of Fujian Associations.

**Mr. Tang Chi Ming**, aged 35, was appointed as director of the Company in March 2007. He holds a Bachelor of Science degree in Business Administration from the Salem International University, the United States of America. Mr. Tang has developed considerable experience in corporate management, information technology consulting, property and securities investments by serving key position and directorship in private enterprises. He is also an executive director of Trasy Gold Ex Limited, the shares of which are listed on the GEM board of The Stock Exchange of Hong Kong Limited.

**Mr. Zhang Shi Hong**, aged 38, has over 15 years of experience in finance, credit management and investment management. He has worked for the head office of the Bank of China for around nine years and was mainly responsible for credit management. He also pursued investment management in various corporations in China. Mr. Zhang holds a Master degree in Economics.

### Independent Non-executive Directors

**Ms. Chan Ling, Eva**, aged 42, was appointed as director of the Company in March 2007. She is also the Chairman of the Audit Committee and Remuneration Committee of the Company. She has 20 years of experience in auditing, accounting and finance in both international accounting firms and listed companies. She is a member of the Institute of Chartered Accountants in Australia, a fellow member of the Association of Chartered Certified Accountants and also a practicing member of the Hong Kong Institute of Certified Public Accountants. She is also an executive director of China Strategic Holdings Limited which shares are listed on the main board of The Stock Exchange of Hong Kong Limited, an independent non-executive director of Trasy Gold Ex Limited which shares are listed on the GEM board of The Stock Exchange of Hong Kong Limited, the deputy chairman of China Enterprises Limited which shares are trading on the over-the-counter (OTC) securities markets in the United States and a director of MRI Holdings Limited which shares are listed on the Australian Securities Exchange.

**Mr. Chan Sek Nin, Jackey**, aged 51, was appointed as director of the Company in April 2007. He is also a member of the Audit Committee and Remuneration Committee of the Company. He obtained a Diploma in Economics from the Lingnan College (now known as the Lingnan University) in Hong Kong. Mr. Chan is presently holding the capacity of chief operating officer in Hanny Holdings Limited and has over 15 years of solid experience in sales and marketing in connection with the media industry by holding senior positions in TVB. He also has extensive experience in property development, project management and strategic alliance management by holding senior positions in other private and public listed companies.

**Mr. Sin Chi Fai**, aged 48, was appointed as director of the Company in November 2006. He is also a member of the Audit Committee and Remuneration Committee of the Company. He obtained a Diploma in Banking from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University). Mr. Sin is a director and shareholder of a company engaged in the distribution of data storage media and computer related products to Asian countries. He has over 11 years' experience in banking field and has over 11 years' sales and marketing experience in information technology industries. He is also an independent non-executive director of Hanny Holdings Limited and Wing On Travel (Holdings) Limited, the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which are required (a) to be recorded in the register required to be kept under Section 352 of the SFO; or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 31 December 2007, there were no share options outstanding under the Company's share option scheme.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than disclosed in note 25 to the consolidated financial statements, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following persons, not being a Director or chief executive of the Company, had interests or short positions in the shares and underlying shares of the Company as recorded in the register (the "Register") maintained by the Company pursuant to Section 336 of the SFO:

| Name of shareholder | Long/Short position | Capacity | Number of ordinary shares held | Number of underlying shares (convertible notes) held | Approximately percentage of the issued shares held |
|---|---|---|---|---|---|
| Million King Investments Limited (Note) | Long position | Beneficial owner | Nil | 20,000,000,000 | 116.29% |

(Note) Pursuant to an announcement dated 14 November 2007, the Company entered into agreement and conditionally agreed to acquire 100% interest in INPAX Technology Limited from Million King Investments Limited at a consideration of HK$3,500,000,000, which partially satisfied by issuing convertible note of HK$3,000,000,000. Million King Investments Limited, a company incorporated in the British Virgin Islands with limited liability whose shares are held by Hei Liang Ci (18%), Lee Chi Kong (18%), Li Kecheng (17%), Yiu Yat On (10%), Tang Qi (10%), Cheng Man For (17%) and Kwan Shan (10%). Cheng Man For and Kwan Shan are nominee holders of the shareholding in the Million King and on behalf of Li Jun.

Other than as disclosed above, the Company has not been notified of any other interest or short positions in the shares and underlying shares of the Company as at 31 December 2007.

## SHARE OPTIONS, CONVERTIBLE NOTE PAYABLE OR SIMILAR RIGHTS

Details of the convertible note payable and share option scheme as at 31 December 2007 were set out in notes 23 and 25, respectively.

## EMOLUMENT POLICY

The emolument policy of the employee of the Company is set up by the executive directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Board of Directors, having regard to their responsibility to the Company, their qualifications, experiences and past remuneration, the Company's performance and current market situation.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 25 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchase attributable to the Group's largest supplier and five largest suppliers taken together accounted for 100% and 100%, respectively, of the Group's total purchase for the year.

The aggregate amount of turnover attributable to the Group's largest customer and five largest customers taken together accounted for 94% and 100%, respectively of the Group's total turnover for the year.

None of the directors, their associates or shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) has an interest in any of the Group's largest supplier and customers.

## PRE-EMPTIVE RIGHTS

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

## CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2007 with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. Further information on the Company's corporate governance practice including any deviations from the Code is set out in the Corporate Governance Report on pages 8 to 13.

## POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 29 to the consolidated financial statements.

## SUFFICIENCY OF PUBLIC FLOAT

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

## AUDITOR

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

On behalf of the Board

**Zhang Shi Hong**
*Director*

Hong Kong, 28 April 2008

# Independent Auditor's Report

**Deloitte.**
**德勤**

**TO THE MEMBERS OF WONSON INTERNATIONAL HOLDINGS LIMITED**
**和成國際集團有限公司**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Wonson International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 65, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

**TO THE MEMBERS OF WONSON INTERNATIONAL HOLDINGS LIMITED**
**和成國際集團有限公司**
*(incorporated in Bermuda with limited liability)*

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

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

## OPINION

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

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
28 April 2008

# Consolidated Income Statement

For the year ended 31 December 2007

| | NOTES | 2007 | 2006 |
|---|---|---|---|
| | | HK$'000 | HK$'000 |
| Revenue | 6 | 5,203 | 8,354 |
| Cost of sales | | (4,152) | (5,385) |
| | | 1,051 | 2,969 |
| Other income | 7 | 5,574 | 2,778 |
| Change in fair value of conversion option embedded in convertible note | 18 | 1,282 | — |
| Administrative expenses | | (15,736) | (21,229) |
| Change in fair value of investments held for trading | | (40,848) | (21,184) |
| Impairment loss on available-for-sale investments | 15 | — | (13,489) |
| Impairment loss on loan to an investee company | 16 | — | (18,569) |
| Gain on disposal of subsidiaries | | — | 6,998 |
| Share of losses of jointly controlled entities | | — | (57) |
| Finance costs | 8 | (5,949) | (6) |
| Loss for the year | 10 | (54,626) | (61,789) |
| Loss per share | 13 | | |
| Basic | | (HK0.52) cents | (HK1.16) cents |
| Diluted | | N/A | N/A |

# Consolidated Balance Sheet

At 31 December 2007

| | NOTES | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | 1,133 | 148 |
| Available-for-sale investments | 15 | 18,912 | — |
| Loan to an investee company | 16 | — | — |
| Interest in an associate | 17 | — | — |
| Conversion option embedded in convertible note | 18 | 2,631 | — |
| | | 22,676 | 148 |
| **Current assets** | | | |
| Inventories | | 378 | 846 |
| Other receivables and prepayments | | 4,979 | 773 |
| Loan receivables | 19 | 48,364 | — |
| Investments held for trading | 20 | 231,351 | 136,432 |
| Margin loan receivables | | — | 224 |
| Bank balances and cash | 21 | 84,796 | 10,200 |
| | | 369,868 | 148,475 |
| **Current liabilities** | | | |
| Other payables | | 4,952 | 2,960 |
| Margin loan payables | 22 | 51,759 | — |
| | | 56,711 | 2,960 |
| Net current assets | | 313,157 | 145,515 |
| Total assets less current liabilities | | 335,833 | 145,663 |
| **Non-current liability** | | | |
| Convertible notes payable | 23 | 46,225 | — |
| | | 289,608 | 145,663 |
| **Capital and reserves** | | | |
| Share capital | 24 | 17,198 | 5,316 |
| Reserves | | 272,410 | 140,347 |
| | | 289,608 | 145,663 |

The consolidated financial statements on pages 23 to 65 were approved and authorised for issue by the Board of Directors on 28 April 2008 are signed on its behalf by:

| | |
|---|---|
| **Chau On Ta Yuen** | **Zhang Shi Hong** |
| *DIRECTOR* | *DIRECTOR* |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

| | Share capital HK$'000 | Share premium HK$'000 | Contributed surplus HK$'000 | Translation reserve HK$'000 | Capital reserve HK$'000 | Convertible notes reserve HK$'000 | Investment revaluation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|
| At 1 January 2006 | 26,582 | 312,933 | 507,061 | 5 | 802 | 2,963 | — | (642,889) | 207,457 |
| Loss for the year | — | — | — | — | — | — | — | (61,789) | (61,789) |
| Realised upon disposal of a subsidiary | — | — | — | (5) | — | — | — | — | (5) |
| Total recognised loss for the year | — | — | — | (5) | — | — | — | (61,789) | (61,794) |
| Reduction of nominal amount in connection with share consolidation | (21,266) | — | 21,266 | — | — | — | — | — | — |
| Transfer to accumulated losses from convertible notes reserve | — | — | — | — | — | (2,963) | — | 2,963 | — |
| At 31 December 2006 | 5,316 | 312,933 | 528,327 | — | 802 | — | — | (701,715) | 145,663 |
| Gain on change in fair value change of available-for-sale investments recognised directly in equity | — | — | — | — | — | — | 261 | — | 261 |
| Loss for the year | — | — | — | — | — | — | — | (54,626) | (54,626) |
| Total recognised loss for the year | — | — | — | — | — | — | 261 | (54,626) | (54,365) |
| Issue of shares | 6,000 | 90,000 | — | — | — | — | — | — | 96,000 |
| Transaction costs attributable to issue of shares | — | (2,000) | — | — | — | — | — | — | (2,000) |
| Recognition of equity components of convertible notes payable | — | — | — | — | — | 10,362 | — | — | 10,362 |
| Conversion of convertible notes payable | 5,882 | 94,974 | — | — | — | (6,908) | — | — | 93,948 |
| At 31 December 2007 | 17,198 | 495,907 | 528,327 | — | 802 | 3,454 | 261 | (756,341) | 289,608 |

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

| | 2007 | 2006 |
|---|---|---|
| | HK$'000 | HK$'000 |
| **OPERATING ACTIVITIES** | | |
| Loss for the year | **(54,626)** | (61,789) |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **157** | 47 |
| Change in fair value of conversion option embedded in convertible note | **(1,282)** | — |
| Change in fair value of investments held for trading | **30,135** | 21,184 |
| Gain on disposal of property, plant and equipment | **(280)** | — |
| Interest income | **(5,294)** | (2,778) |
| Finance costs | **5,949** | 6 |
| Impairment loss on available-for-sale investments | **—** | 13,489 |
| Impairment loss on loan to an investee company | **—** | 18,569 |
| Gain on disposal of subsidiaries | **—** | (6,998) |
| Share of losses of jointly controlled entities | **—** | 57 |
| Operating cash flows before movements in working capital | **(25,241)** | (18,213) |
| Decrease in inventories | **468** | 845 |
| (Increase) decrease in other receivables and prepayments | **(4,206)** | 1,391 |
| Increase in investments held for trading | **(125,054)** | (70,958) |
| Decrease (increase) in margin loan receivables | **224** | (224) |
| Increase (decrease) in other payables | **1,992** | (280) |
| Increase in margin loan payables | **51,759** | — |
| Cash used in operations | **(100,058)** | (87,439) |
| Interest received | **5,294** | 1,443 |
| Interest paid | **(2,414)** | (6) |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(97,178)** | (86,002) |

# Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2007

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **INVESTING ACTIVITIES** | | |
| Increase in loan receivables | **(48,364)** | — |
| Purchase of convertible note | **(20,000)** | — |
| Purchase of property, plant and equipment | **(1,212)** | (11) |
| Proceeds from disposal of property, plant and equipment | **350** | — |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(69,226)** | (11) |
| **FINANCING ACTIVITIES** | | |
| Net proceeds from issue of convertible notes payable | **147,000** | — |
| Net proceeds from issue of shares | **94,000** | — |
| Advance from jointly controlled entities | **—** | 12,152 |
| **CASH FROM FINANCING ACTIVITIES** | **241,000** | 12,152 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **74,596** | (73,861) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **10,200** | 84,061 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR**, representing bank balances and cash | **84,796** | 10,200 |

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 30 and 31, respectively.

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

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

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

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

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

The Group has applied the disclosure requirement under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Group has not early applied the following new and revised standards or interpretations that have been issued at the date of this report but are not yet effective.

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

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of consolidation

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

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

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

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

### Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods provided in the normal course of business.

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

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

**Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

**Financial instruments**

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

**Financial assets** (Continued)

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

***Effective interest method***

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss, of which interest income is included in net gains or losses.

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss of the Group includes financial assets held for trading.

A financial asset is classified as held for trading if:

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

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

**Financial assets** (Continued)

*Loans and receivables*

Loans and receivables are non - derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including other receivables, loan receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in impairment loss on financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss and loans and receivables.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

**Impairment of financial assets**

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

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

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

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

Financial asset, such as loan receivables, assets that are assessed for impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, respectively, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

**Impairment of financial assets** (Continued)

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

**Financial liabilities and equity**

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

***Effective interest method***

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

Interest expense is recognised on an effective interest basis, of which the interest expense is included in net gains or losses.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

**Convertible notes**

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in equity (convertible notes reserve).

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible notes equity reserve until the embedded option is exercised (in which case the balance stated in convertible notes reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible notes reserve will be released to the retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

*Other financial liabilities*

Other financial liabilities of the Group include other payables and margin loan payables which are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Financial instruments** (Continued)

**Derivative financial instruments**

Derivatives (including not-closely related embedded derivatives separated from host contract) are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

**Embedded derivatives**

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

**Derecognition**

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment losses on tangible assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

**Taxation**

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

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 taxation 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 taxation is charged or credited to the consolidated 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Foreign currencies**

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

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

**Inventories**

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**Leasing**

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

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

**Retirement benefits costs**

Payments to the Mandatory Provident Fund Scheme, which is a defined contribution scheme, are charged as an expense when employees have rendered service entitling them to the contributions.

## 4. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debts, which include the margin loan payables, convertible notes payable net of cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

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

## 5. FINANCIAL INSTRUMENTS

### 5a. Categories of financial instruments

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Financial assets | | |
| Fair value through profit or loss | | |
| - Held for trading | **231,351** | 136,432 |
| - Conversion option embedded in convertible note | **2,631** | — |
| Loans and receivables (including cash and cash equivalents) | **138,139** | 11,197 |
| Available-for-sale investments | **18,912** | — |
| Financial liabilities | | |
| Liabilities measured at amortised cost | **102,936** | 2,960 |

## 5. FINANCIAL INSTRUMENTS (Continued)

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

The Group's major financial instruments include available-for-sale investments, conversion option embedded in convertible note, other receivables, loan receivables, investments held for trading, margin loan receivables, bank balances, other payables, margin loan payables and convertible notes payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

The Group's activities expose it primarily to the financial risks of changes in interest rates and equity prices. Market risk exposures are further measured by sensitivity analysis. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate margin loan receivables and margin loan payables, and exposed to fair value interest rate risk in relation to fixed-rate liability component of convertible notes payable and the debt element of convertible note in ITC Corporation Limited (included in available-for-sale investments). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Prime Rate arising from the Group's Hong Kong dollars receivables and payables.

5. **FINANCIAL INSTRUMENTS** (Continued)

5b. **Financial risk management objectives and polices** (Continued)

**Market risk** (Continued)

(i) Interest rate risk (Continued)

*Sensitivity analysis*

(I) The sensitivity analyses below have been determined based on the exposure to interest rates for variable rate margin loan receivables and payables at the balance sheet date. The analysis is prepared assuming the amount of the outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year would increase/decrease by HK$259,000 (2006: decrease/increase by HK$1,100). This is mainly attributable to the Group's exposure to interest rates on its variable-rate margin loan receivables and payables.

(II) The sensitivity analyses below have been determined based on the exposure to interest rates for the debt element of convertible note in ITC Corporation Limited at the balance sheet date. The analysis is prepared assuming the amount of the outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variable were held constant, the Group's investment revaluation reserve would increase/decrease by HK$200,000 (2006: Nil). This is mainly attributable to the Group's exposure to interest rates on its debt element of convertible note in ITC Corporation Limited.

5. **FINANCIAL INSTRUMENTS** (Continued)

5b. **Financial risk management objectives and polices** (Continued)

**Market risk** (Continued)

(ii) Price risk on investments held for trading

The Group is exposed to equity price risk through its investments held for trading. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in the respective Stock Exchange. The management manages this exposure by closely monitoring the price risk and maintaining a portfolio of investments with different risks.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity price risks of investments held for trading at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower and all other variables were held constant, loss for the year ended 31 December 2007 would decrease/increase by HK$11,568,000 (2006: decrease/increase by HK$6,822,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

If the exchange rate for foreign currency denominated equity instruments had been 5% higher/lower and all other variables were held constant, loss for the year ended 31 December 2007 would decrease/increase by HK$382,000 (2006: Nil) as a result of the changes in fair value of financial assets at fair value through profit or loss.

(iii) Price risk on conversion option embedded in convertible note

The Group is required to estimate the fair value of the conversion option embedded in the convertible note at each balance sheet date with changes in fair value to be recognised in the consolidated income statements as long as the convertible note are outstanding. The fair value adjustment will be affected either positively or negatively, amongst others, by the changes in share price volatility of the convertible note issuer, ITC Corporation Limited.

## 5. FINANCIAL INSTRUMENTS (Continued)

### 5b. Financial risk management objectives and polices (Continued)

**Market risk** (Continued)

(iii) Price risk on conversion option embedded in convertible note (Continued)

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to the ITC Corporation Limited's share price volatility at the reporting date only as the directors of the Company consider that the change in market interest rate may not have significant financial impact on the fair value of conversion option.

If the ITC Corporation Limited's share price volatility had been 5% higher/lower and all other variables were held constant, the Group's loss for the year (as a result of changes in fair value of conversion option component of convertible note would decrease/increase by HK$175,000 (2006: Nil).

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

**Credit risk**

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover loan receivables. The Group does not have significant concentration of credit risk on loan receivables as there are several number of borrowers. In addition, the Group reviews the recoverable amount of each individual loan receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk on loan receivables is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

## 5. FINANCIAL INSTRUMENTS (Continued)

### 5b. Financial risk management objectives and polices (Continued)

**Liquidity risk**

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents considered adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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

*Liquidity and interest risk tables*

| | Weighted average effective interest rate | Less than 1 month | 1 to 3 months | 3 months to 1 year | Over 1 year | Adjustment | Carrying amount at 31.12.2007 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| 2007 | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Other payables | — | 4,952 | — | — | — | — | 4,952 |
| Margin loan payables | | | | | | | |
| - variable rates | prime + 3% | 51,759 | — | — | — | — | 51,759 |
| Convertible notes payable | | | | | | | |
| - liability component (note) | 7.95% | — | — | — | 50,000 | (3,775) | 46,225 |
| | | 56,711 | — | — | 50,000 | (3,775) | 102,936 |

## 5. FINANCIAL INSTRUMENTS (Continued)

### 5b. Financial risk management objectives and polices (Continued)

**Liquidity risk** (Continued)

*Liquidity and interest risk tables* (Continued)

| | Weighted average effective interest rate | Less than 1 month | 1 to 3 months | 3 months to 1 year | Over 1 year | Adjustment | Carrying amount at 31.12.2006 |
|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2006** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Other payables | — | 2,960 | — | — | — | — | 2,960 |

Note: This is categorised based on contractual term of redemption obligation at maturity, the holders of the convertible notes can convert the notes into the Company's share anytime.

### 5c. Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities (including available-for-sale unlisted debt securities) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (Black-Scholes pricing model).

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

For management purposes, the Group is currently organised into two operating divisions - metals trading and investments in securities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Metals trading - Trading of metals products.

Investments in securities - Investment in securities held for trading to generate dividends and capital appreciation.

Segment information about these businesses is presented below:

**2007**

| | Metals trading HK$'000 | Trading of securities HK$'000 | Total HK$'000 |
|---|---|---|---|
| Gross proceeds | 5,203 | 133,536 | 138,739 |
| Revenue | 5,203 | — | 5,203 |
| Segment result | 399 | (40,848) | (40,449) |
| Interest income | | | 5,294 |
| Gain on change in fair value of conversion option embedded in convertible note | | | 1,282 |
| Unallocated corporate expenses | | | (14,804) |
| Finance costs | | | (5,949) |
| Loss for the year | | | (54,626) |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### (a) Business segments (Continued)

2006

| | Metals trading HK$'000 | Trading of securities HK$'000 | Total HK$'000 |
|---|---|---|---|
| Gross proceeds | 5,880 | 83,964 | 89,844 |
| Revenue | 5,880 | 2,474 | 8,354 |
| Segment result | 409 | (20,450) | (20,041) |
| Interest income | | | 2,778 |
| Unallocated corporate expenses | | | (19,403) |
| Impairment loss on available-for-sale investments | | | (13,489) |
| Impairment loss on loan to an investee company | | | (18,569) |
| Gain on disposal of subsidiaries | | | 6,998 |
| Share of losses of jointly controlled entities | | | (57) |
| Finance costs | | | (6) |
| Loss for the year | | | (61,789) |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### (a) Business segments (Continued)

Balance sheet

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Segment assets HK$'000** | **Segment liabilities HK$'000** | Segment assets HK$'000 | Segment liabilities HK$'000 |
| Metals trading | **623** | **—** | 1,767 | 2,960 |
| Trading of securities | **291,677** | **51,759** | 136,656 | — |
| Other corporate assets | **100,244** | **51,177** | 10,200 | — |
| | **392,544** | **102,936** | 148,623 | 2,960 |

Other information

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Capital additions | | |
| Metals trading | **—** | 11 |
| Depreciation | | |
| Metals trading | **—** | 47 |
| Gain on disposal of property, plant and equipment | | |
| Metals trading | **280** | — |

### (b) Geographical segments

The Group operates within one geographical segment because its revenue is primarily generated in Hong Kong, all customers of the Group and all identifiable assets of the Group are substantially located in Hong Kong. Accordingly, no geographical segment is presented.

## 7. OTHER INCOME

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interest on bank deposits | **1,867** | 1,443 |
| Interest on loan receivables | **3,427** | 1,335 |
| Gain on disposal of property, plant and equipment | **280** | — |
| | **5,574** | 2,778 |

## 8. FINANCE COSTS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interest on borrowings wholly repayable within five years: | | |
| Convertible notes payable | **(5,107)** | — |
| Other borrowings | **(842)** | (6) |
| | **(5,949)** | (6) |

## 9. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made since the Group had no assessable profits for both years.

Income tax for the year can be reconciled to the loss for the year per the consolidated income statement as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Loss for the year | **(54,626)** | (61,789) |
| Tax at the domestic income tax rate of 17.5% | **(9,559)** | (10,813) |
| Tax effect of share of results of jointly controlled entities | **—** | 10 |
| Tax effect of expenses not deductible for tax purpose | **10,475** | 9,707 |
| Tax effect of income not taxable for tax purpose | **(2,106)** | (2,223) |
| Tax effect of tax losses not recognised | **1,190** | 3,319 |
| Income tax for the year | **—** | — |

At the balance sheet date, the Group had unused tax losses of approximately HK$25,906,000 (2006: HK$19,108,000) available to offset against future profits. No deferred taxation asset has been recognised due to unpredictability of future profits streams. Tax losses may be carried forward indefinitely.

## 10. LOSS FOR THE YEAR

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging: | | |
| Auditors' remuneration | 1,260 | 945 |
| Depreciation of property, plant and equipment | 157 | 47 |
| Directors' emoluments | 3,237 | 6,812 |
| Contributions to retirement benefits scheme | 131 | 145 |
| Other staff costs | 4,024 | 5,093 |
| Total staff costs | 7,392 | 12,050 |
| Cost of inventories recognised | 4,152 | 5,385 |
| Minimum lease payments under operating leases in respect of rented premises | 1,128 | 2,776 |

## 11. DIRECTORS' EMOLUMENTS

| | 2007 | | | | | 2006 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries and other benefits HK$'000 | Discretionary bonus HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 | Fees HK$'000 | Salaries and other benefits HK$'000 | Discretionary bonus HK$'000 | Retirement benefit scheme contributions HK$'000 | Total HK$'000 |
| Executive: | | | | | | | | | | |
| Mr. Chau On Ta Yuen | — | 340 | — | 3 | 343 | — | — | — | — | — |
| Mr. Chiu Kong* | — | 338 | — | 5 | 343 | — | 1,811 | 100 | 12 | 1,923 |
| Mr. Hui Richard Rui* | — | 447 | — | 4 | 451 | — | 1,073 | 150 | 12 | 1,235 |
| Mr. Tsui Ching Hung* | — | 424 | — | 4 | 428 | — | 1,017 | 100 | 12 | 1,129 |
| Mr. Tang Chi Ming | — | 293 | — | 9 | 302 | — | — | — | — | — |
| Mr. Zhang Shi Hong | — | — | — | — | — | — | — | — | — | — |
| Ms. Cheung Sze Man* | — | 500 | — | 10 | 510 | — | 108 | — | 2 | 110 |
| Mr. Chung Nai Ting* | — | 215 | — | 2 | 217 | — | 780 | 150 | 12 | 942 |
| Mr. Tse Lanny Cheuk Ming* | — | 205 | — | 2 | 207 | — | 728 | 300 | 12 | 1,040 |
| Mr. Chen Zhong Min* | — | 126 | — | 2 | 128 | — | — | — | — | — |
| Independent non-executive: | | | | | | | | | | |
| Mr. Miu Frank H.* | 45 | — | — | — | 45 | 150 | — | — | — | 150 |
| Mr. Sin Chi Fai | 50 | — | — | — | 50 | 8 | — | — | — | 8 |
| Ms. Chan Ling, Eva | 97 | — | — | — | 97 | — | — | — | — | — |
| Mr. Chan Sek Nin, Jackey | 86 | — | — | — | 86 | — | — | — | — | — |
| Mr. Tong Wui Tung | — | — | — | — | — | 125 | — | — | — | 125 |
| Mr. Chan Sze Hung* | 30 | — | — | — | 30 | 150 | — | — | — | 150 |
| | 308 | 2,888 | — | 41 | 3,237 | 433 | 5,517 | 800 | 62 | 6,812 |

* Directors resigned during the year

## 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, five (2006: four) were directors of the Company whose emoluments are included in note 11 above. The emoluments of the remaining highest paid individual in 2006 were as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | — | 980 |
| Retirement benefits scheme contributions | — | 12 |
| | — | 992 |

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

## 13. LOSS PER SHARE

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss for the year attributable to equity holders of the Company | (54,626) | (61,789) |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible notes (net of tax) | 5,107 | N/A |
| Loss for the purposes of diluted loss per share | (49,519) | (61,789) |

## 13. LOSS PER SHARE (Continued)

| | 2007 | 2006 |
|---|---|---|
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic loss per share (note) | **10,437,646** | 5,316,453 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible notes payable | **4,155,359** | N/A |
| Weighted average number of ordinary shares for the purposes of diluted loss per share | **14,593,005** | 5,316,453 |

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share in 2007.

There were no dilutive potential ordinary shares in existence for the year ended 31 December 2006. Accordingly, no diluted loss per share is presented.

Note: The weighted average number of ordinary shares for the purposes of calculating basic loss per share for the year 2006 has been retrospectively adjusted for the effect of the share subdivision approved by the shareholders of the Company at a special general meeting on 29 June 2007 and became effective on 3 July 2007.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 January 2006 | 428 | 785 | 2,067 | 3,280 |
| Additions | — | 11 | — | 11 |
| At 31 December 2006 | 428 | 796 | 2,067 | 3,291 |
| Additions | 996 | 216 | — | 1,212 |
| Disposals | (428) | (796) | (2,067) | (3,291) |
| **At 31 December 2007** | 996 | 216 | — | 1,212 |
| DEPRECIATION | | | | |
| At 1 January 2006 | 380 | 747 | 1,969 | 3,096 |
| Provided for the year | 10 | 9 | 28 | 47 |
| At 31 December 2006 | 390 | 756 | 1,997 | 3,143 |
| Provided for the year | 96 | 61 | — | 157 |
| Eliminated on disposals | (428) | (796) | (1,997) | (3,221) |
| **At 31 December 2007** | 58 | 21 | — | 79 |
| CARRYING VALUES | | | | |
| **At 31 December 2007** | 938 | 195 | — | 1,133 |
| At 31 December 2006 | 38 | 40 | 70 | 148 |

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

| | |
|---|---|
| Leasehold improvements | 10% - 20% |
| Furniture, fixtures and equipment | 10% - 20% |
| Motor vehicles | 12.5% - 25% |

## 15. AVAILABLE-FOR-SALE INVESTMENTS

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Unlisted securities: | | | |
| - Equity securities at cost | (a) | **13,489** | 13,489 |
| Less: impairment loss recognised | | **(13,489)** | (13,489) |
| | | **—** | — |
| - Debt securities | (b) | **18,912** | — |
| Total | | **18,912** | — |

Notes:

(a) The unlisted investment represents approximately a 5.94% interest in the issued share capital of Found Macau Investments International Limited ("Found Macau"), an investment holding company incorporated in the British Virgin Islands. Found Macau was formed to invest in gaming, entertainment and related business in Macau through its subsidiaries. Included in the investment cost is the fair value adjustment of HK$13,489,000 arising from an interest free loan advanced to Found Macau which was considered as deemed capital contribution (see note 16).

In view of the recurring operating losses incurred by Found Macau, the directors of the Company reviewed the carrying amount of the unlisted investment based on its expected recoverable amount. Accordingly, an impairment loss of HK$13,489,000 was identified and charged to the consolidated income statement in 2006.

(b) During the year, the Group subscribed convertible note of HK$20,000,000 from ITC Corporation Limited ("ITC 2009 CN"), a 5% convertible note bearing interest at 5% per annum payable semi-annually with maturity on 1 November 2009. ITC Corporation Limited is a public limited company with their shares listed on the Stock Exchange. The Group has classified the debt element of the convertible note as available-for-sale investment and the embedded derivative component as conversion option embedded in convertible note on initial recognition. The fair value of each component of the convertible note on initial recognition and at the balance sheet date are determined by the directors of the Company with reference to the valuation performed by Greater China Appraisal Limited, a firm of independent valuers.

As at 31 December 2007, the fair value for the debt element and conversion option element were approximately HK$18,912,000 and HK$2,631,000. Therefore, an increase in fair value of approximately HK$261,000 for the debt element and an increase in fair value of approximately HK$1,282,000 for conversion option element were recognised in equity and profit and loss during the year, respectively.

The effective interest rate of the debt element is 8.25% per annum.

## 16. LOAN TO AN INVESTEE COMPANY

The loan represents advance made to Found Macau on 8 June 2005. The loan is unsecured, interest free and repayable on demand at the face value of HK$30,000,000 after 8 years from the date of draw down. The loan was measured at fair value at initial recognition and is subsequently carried at amortised cost using the effective interest method. The effective interest rate of the loan is 7.75%.

As mentioned in note 15, the directors of the Company reviewed the carrying amount of the loan based on its expected recoverable amount. Accordingly, an impairment loss of HK$18,569,000 was identified and charged to the consolidated income statement in 2006.

## 17. INTEREST IN AN ASSOCIATE

| | 2007 & 2006<br>HK$'000 |
|---|---|
| Cost of unlisted investment in an associate | — |
| Loan to an associate | 54,050 |
| Less: Impairment loss recognised | (54,050) |
| | — |

In previous years, in view of the recurring operating loss incurred by the associate, which exceeds the Group's investments. Full impairment had been recognised and the Group did not share loss of the associate since then. Details of the Group's associate at 31 December 2007 are set out in note 30.

## 18. CONVERSION OPTION EMBEDDED IN CONVERTIBLE NOTE

As explained in note 15(b), the Group subscribed ITC 2009 CN during the year, an amount of HK$1,349,000 was recognised as conversion option embedded in convertible note upon the subscription which is measured at fair value at initial recognition and changes in fair value are directly recognised in profit or loss in subsequent period.

The fair value of the conversion option embedded in convertible note is based on Black-Scholes pricing model using a rate based on the market interest rate and risk premium of 1.5%.

The Group recognised an increase in fair value of approximately HK$1,282,000 in the year.

## 19. LOAN RECEIVABLES

Loan receivables are unsecured, bearing interest at Hong Kong Prime Rate plus 1% per annum and repayable on demand.

## 20. INVESTMENTS HELD FOR TRADING

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Equity securities listed in Hong Kong | **137,873** | 49,423 |
| Equity securities listed elsewhere | **93,478** | 87,009 |
| | **231,351** | 136,432 |

Details of the investments disclosed pursuant to Section 129(2) of the Companies Ordinance as at 31 December 2007 and 31 December 2006 are as follows:

| Name of company | Country of incorporation | Class of shares held | Attributable equity interest 2007 | 2006 |
|---|---|---|---|---|
| Get Nice Holdings Limited | Cayman Islands | Ordinary | **3.98%** | — |
| ITC Properties Group Limited | Bermuda | Ordinary | **3.41%** | — |
| Pacific Century Regional Developments Limited | Republic of Singapore | Ordinary | **1.61%** | 1.61% |
| Qualipak International Holdings Limited | Bermuda | Ordinary | **—** | 0.19% |

## 21. BANK BALANCES AND CASH

Bank balances and cash comprise cash and demand deposits held by the Group with maturity of three months or less. Bank balances carry interest at an average rate of 1.5% (2006: 1.85%) per annum.

## 22. MARGIN LOAN PAYABLES

The amounts are unsecured, bearing interest at range of Hong Kong Prime rate plus 3% to 6% per annum and repayable on demand.

## 23. CONVERTIBLE NOTES PAYABLE

On 18 May 2007, the Company issued convertible notes with principal amount of HK$150,000,000. The convertible notes carry a coupon rate of 4% per annum and will be matured on 17 May 2009. The convertible notes are denominated in Hong Kong dollars. The conversion price is HK$0.17 per share and subject to anti-dilutive adjustments. The effective interest rate of the liability component is 7.95% per annum.

Unless previously converted by the convertible note holder, the Company will redeem the convertible notes on the maturity date at the principal amount of convertible note then outstanding.

The convertible notes contain two components, liability and equity elements. The equity element is presented in equity under the heading of "Convertible Note Reserve". The fair value of the liability component at the date of issue is HK$139,426,909, which is determined based on the present value of the estimated future cash outflows discounted at the effective interest rate of 7.95% per annum at the balance sheet date, approximate their corresponding carrying amount.

Transaction cost of HK$2,788,538 and HK$211,432 were allocated to the liability component and the equity component at the date of issue, respectively.

During the year, convertible notes of HK$100,000,000 were converted into the Company's ordinary shares of HK$0.001 each (note 24).

The movement of the liability component of the convertible notes payable for the year is set out below:

| | **2007** |
|---|---|
| | **HK$'000** |
| Liability component at the beginning of the year | — |
| Issue of convertible notes | **136,638** |
| Conversion during the year | **(93,948)** |
| Interest charge | **5,107** |
| Interest paid | **(1,572)** |
| Liability component at the end of the year | **46,225** |

## 24. SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | | | **HK$'000** | HK$'000 |
| Ordinary shares of HK$0.001 each | | | | |
| Authorised: | | | | |
| At the beginning of the year | **25,000,000,000** | 25,000,000,000 | **250,000** | 250,000 |
| Increase on 3 July 2007 | **225,000,000,000** | — | **—** | — |
| At the end of the year | **250,000,000,000** | 25,000,000,000 | **250,000** | 250,000 |
| Issued and fully paid: | | | | |
| At the beginning of the year | **531,645,319** | 2,658,226,595 | **5,316** | 26,582 |
| Issue of new shares | | | | |
| - on 12 April 2007 (note a) | **100,000,000** | — | **1,000** | — |
| - on 21 May 2007 (note b) | **500,000,000** | — | **5,000** | — |
| Issued of new shares upon share subdivision on 3 July 2007 (note c) | **10,184,807,871** | — | **—** | — |
| Conversion of convertible notes (note d) | **5,882,352,936** | — | **5,882** | — |
| Share consolidation (note e) | **—** | (2,126,581,276) | **—** | (21,266) |
| At the end of the year | **17,198,806,126** | 531,645,319 | **17,198** | 5,316 |

## 24. SHARE CAPITAL (Continued)

Notes:

(a) On 15 March 2007, the Company entered into an underwriting agreement with a placing agent for placement of 100,000,000 new shares on a fully-underwritten basis at the price of HK$0.16 per share to independent third parties.

(b) On 15 March 2007, the Company also entered into a placing agreement with a placing agent for placement of 500,000,000 new shares on a best-efforts basis at the price of HK$0.16 per share to independent third parties.

(c) Pursuant to an ordinary resolution at the special general meeting on 29 June 2007, each of the existing issued and unissued shares of HK$0.01 each in the share capital of the Company be subdivided into ten shares of HK$0.001 each in the share capital of the Company.

(d) During the year, convertible notes of HK$100,000,000 were converted into 5,882,352,936 ordinary shares of HK$0.001 each of the Company.

(e) Pursuant to a special resolution passed at the special general meeting on 3 March 2006:

    (i) every five shares of HK0.01 each in the issued ordinary share capital of the Company be and are hereby consolidated into one consolidated share of HK$0.05 ("Consolidated Share A"); and

    (ii) every issued Consolidated Share A of the Company be and is hereby reduced in nominal amount by cancelling HK$0.04 of the capital paid up on each issued Consolidated Share A from HK$0.05 to HK0.01 each so as to form one share of HK$0.01 each.

## 25. SHARE-BASED PAYMENT TRANSACTIONS

The Company has a share option scheme (the "Scheme") which was adopted on 27 May 2002 to replace the old scheme adopted in 1998. The Scheme is valid and effective for a period of ten years from the date of adoption.

Pursuant to the Scheme, the Company may grant options to employees (including existing and proposed directors), adviser, consultant, agent, contractor, client and supplier of any members of the Group (collectively the "Participants"). The purpose of the Scheme is to recognise and motivate the contribution of Participants and to provide incentives and help the company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company. No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in twelve month period up to and including the date of grant to such Participant would exceed 1% of the Shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates abstaining from voting. An option may be exercised in accordance with the terms of the Scheme at any time during a period as the board of the directors of the Company (the "Board") may determine which shall not be more than ten years from the date of grant of the option subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option during the period an option may be exercised. The subscription price of the option shall be determined by the Board but in any case shall not be less than the higher of (i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a trading day, (ii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a Share. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

There are no share option granted by the Company and no share option outstanding during both years.

## 26. DISPOSAL OF SUBSIDIARIES

During year 2006, the Group disposed of two subsidiaries, namely Winford Investments Limited ("Winford") and Truewell Asia Limited ("Truewell"), to independent third parties at considerations of USD1 on 30 June 2006 and USD2 on 30 December 2006, respectively. Winford holds 50% equity interest in the jointly controlled entities of the Group whereas Truewell acts as an investment holding company. No disposal of subsidiaries is noted for the year.

The effect of the disposal in 2006 is summarised as follows:

| | HK$'000 |
|---|---|
| Net liabilities disposed of: | |
| Interests in jointly controlled entities | 5,953 |
| Amounts due to jointly controlled entities | (12,152) |
| Other payables | (794) |
| | (6,993) |
| Translation reserve attributable to the Group and released upon disposal | (5) |
| | (6,998) |
| Gain on disposal of subsidiaries | (6,998) |
| Cash consideration | — |

## 27. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefit cost charged to the consolidated income statement represents contributions payable to the scheme by the Group at rate specified in the rules of the scheme.

## 28. OPERATING LEASE COMMITMENTS

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| In respect of rented premises: | | |
| Within one year | 807 | 1,166 |
| In the second to fifth year inclusive | 295 | 1,015 |
| | 1,102 | 2,181 |

Leases are negotiated for an average term of two to three years.

## 29. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group has entered into the following post balance sheet events:

(i) Pursuant to an announcement dated 14 November 2007 and a circular dated 6 February 2008, the board of directors announced that the Company conditionally agreed to acquire from Million King Investments Limited ("Million King"), an independent third party the entire issued share capital of INPAX Technology Limited ("INPAX") at a total consideration of HK$3.5 billion (the "Acquisition"). The sole asset of INPAX is the entire equity interest in Jiangxi Jiangzhou Union Shipbuilding Co., Ltd., a company established in the PRC with limited liability and is principally engaged in vessel manufacturing business. The Acquisition was approved by shareholders of the Company at a special general meeting on 22 February 2008. The Acquisition was completed on 16 April 2008 and details in the announcement dated 18 April 2008.

The consideration of HK$3.5 billion shall be satisfied in: (i) HK$3 billion in convertible notes at a conversion price of HK$0.15 per conversion share to Million King, (ii) HK$0.3 billion in cash and (iii) HK$0.2 billion in cash payable on or before 31 December 2009.

(ii) On 4 February 2008, Giant Wave Limited, an indirect wholly-owned subsidiary of the Company, entered into a disposal agreement with Dragonsford Investment Limited, an independent third party, for the disposal of the ITC 2009 CN at a consideration of HK$20,257,534. Such disposal was completed on 4 February 2008 and a loss of approximately HK$1,286,000 is recognised in the consolidated income statement for the disposal.

## 30. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2007 and 2006 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Issued share capital | Proportion of nominal value of issued share capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly % | Indirectly % | |
| Able King Investment Limited | British Virgin Islands* | 1 ordinary share of US$1 each | 100% | — | Investment holding |
| Acewell Investments Limited | British Virgin Islands* | 1 ordinary share of US$1 each | — | 100% | Investment holding |
| Ample Asset Investment Limited | British Virgin Islands* | 1 ordinary share of US$1 each | — | 100% | Investment holding |
| Global Empire Group Inc | British Virgin Islands* | 1 ordinary share of US$1 each | — | 100% | Investment holding |
| Gold Castle Investments Limited | British Virgin Islands* | 1 ordinary share of US$1 each | — | 100% | Investment holding |
| Giant Wave Limited | Hong Kong | 1 ordinary share of HK$1 each | — | 100% | Securities investment |
| King Force International Limited | British Virgin Islands* | 1 ordinary share of US$1 each | — | 100% | Investment holding |
| Merge Limited** | Hong Kong | 1 ordinary share of HK$1 each | 100% | — | Inactive |
| Northlink Holdings Limited | British Virgin Islands* | 200 ordinary shares of US$1 each | 100% | — | Investment holding |
| Ocean Vision Investments Limited | British Virgin Islands* | 1 ordinary share of US$1 each | — | 100% | Investment holding |
| Premier Win Investments Limited** | British Virgin Islands* | 1 ordinary share of US$1 each | 100% | — | Inactive |
| Wealth Prospect Limited | Hong Kong | 2 ordinary share of HK$1 each | — | 100% | Metals trading |

* The companies are engaged in investment business and have no specific principal place of operation.

** The companies are newly incorporated during 2007.

None of the subsidiaries had any debt securities at 31 December 2007 or at any time during the year.

## 31. PARTICULARS OF ASSOCIATE

Particulars of the Group's associate as at 31 December 2007 and 2006 is as follows:

| Name of associate | Place of incorporation/ operation | Issued share capital | Nominal value of issued share capital held by the Group | Principal activity |
|---|---|---|---|---|
| Chinachem Industries Limited | Hong Kong | 10,000 ordinary shares of HK$1 each | 49% | Investment holding |

# Financial Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | (Note) | | |
| **RESULTS** | | | | | |
| LOSS FOR THE YEAR | **(54,626)** | (61,789) | (51,706) | (2,778) | (199,424) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| TOTAL ASSETS | **392,544** | 148,623 | 211,491 | 42,914 | 154,833 |
| TOTAL LIABILITIES | **(102,936)** | (2,960) | (4,034) | (3,702) | (100,125) |
| NET ASSETS | **289,608** | 145,663 | 207,457 | 39,212 | 54,708 |

Note: The results and the summary of assets and liabilities of the Group for 31 December 2004 have been adjusted upon the adoption of the new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005.