ANNUAL REPORT
2007

CHINA BEST
國華集團

# CHINA BEST GROUP HOLDING LIMITED

(Incorporated in Bermuda with limited liability)

*(Stock Code : 370)*

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Ms. Ma Jun Li *(Chairman)*
Mr. Ng Tang *(Deputy Chairman)*
Mr. Zhang Da Qing *(Chief Executive Officer)*
Mr. Ren Zheng
Ms. Cheung Hoi Ping
Mr. Zhang Jun

### Independent Non-Executive Directors

Ms. Chung Kwo Ling
Mr. Sun Yeung Yeung
Mr. Lee Yuen Kwong

## Company Secretary

Mr. Ho Wing Kuen

## Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

## Head Office and Principal Place of Business in Hong Kong

Rm. 3405, Bank of America Tower
12 Harcourt Road
Central
Hong Kong

## Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Hong Kong

## Principal Banker

Standard Chartered Bank

## Principal Share Registrars and Transfer Office

Butterfield Corporate Services Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

## Hong Kong Branch Share Registrars and Transfer Office

Tricor Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from, Tuesday, 27th May, 2008 to Friday, 30th May, 2008 (both days inclusive), during which period no transfer of shares will be registered.




# Chairman's Messages

The Group accomplished better achievements in implementing its strategy of making the coke business as core development after carrying out the development and construction of its coke plant for more than two years. The management efficiency and effectiveness of the coke project invested in by the Group in Shanxi are progressively improving, where Coke Furnace No. 2 of the second phase project commenced production in February 2007. Through its good networks and relationships with both the Shanxi Provincial Government and various business sectors, the Group strove to explore new cooperation opportunities to broaden its coke business portfolio step by step. Furthermore, the Group also expanded into other coal-producing provinces for carrying out new mergers and acquisitions.

The Group acquired a 51% interest in Shanxi Changxing Yuci Coking Co., Limited in 2005, making it the controlling shareholder of Shanxi Changxing. We completed all our capital contributions in August 2007. However, the Chinese party of the said investment is still waiting for the issuance of a State-owned land use right certificate of the production plant to finish all the legal procedures.

Currently, the annual coke production capacity of Shanxi Changxing is 600,000 tons. The second phase of the plant's 300,000 ton capacity expansion plan was completed and commenced production in February 2007. Despite the rapid rise in the market prices of coke and the benefits contributed from the economies of scale for the expanded production during the period under review, the Group yet reported a loss in its results for 2007 as compared to the previous year due to the increase in raw materials and depreciation costs. However, its results was greatly improved.

The business operation of Shanxi Changxing was gradually improving. The management and operating efficiency was enhanced during the past years. It is expected that its results performance will be significantly improved in 2008, thus helping the Group to accomplish its objective of becoming a leading "fully-integrated" coke-producing enterprise in China continuously.

Furthermore, by taking advantage of the sustained growth of the Chinese economy and the boom of the stock market in the first half of the year, the Group allocated and utilized the surplus funds in a right and prudent manner, which have already brought substantial profit contributions to the results of the Group.

## Future Prospect

In February last year, Shanxi Changxing reached an annual production capacity of 600,000 tons, while the utilization rate of such capacity was achieved as expected, compounded by the commencement of trial production by the related coal processing business. The Group anticipates that its operating efficiency can further be enhanced if the designed capacity of the project can be fully utilized and the sales turnover increases. The Group also commits its human resources to the project so as to raise its management efficiency, and endeavours to proceed with the project targeting to bring profit contributions for the Group in the coming year.


# Chairman's Messages

The sustained growth of China's economy gives an impetus to the steady development of the local steel and other related industries including automotive manufacturing industry and infrastructure construction, thus creating a stable and persistent demand in the coke industry and resulting in an increase in the prices of coke recently. The Group finds optimistic about the development of the coke industry in the long run, and is fully confident in the future development of coke as a major energy. The Group will continue to take the coke manufacturing as its core business, strive to identify other investment and cooperation opportunities for strengthening its coke business portfolio by steps. The Group will also commence another stage of mergers and acquisitions and explore opportunities for expanding into the upstream mineral resources and downstream coal chemical processing industry. On 3rd March, 2008, the Group entered into a non-legally binding memorandum of understanding, with an intent to acquire an interest in Qipanjing Mining in Inner Mongolia. Due diligence was carried out for this project as well. On 22nd April, 2008, the Group entered into an underwriting agreement with an underwriter on an open offer of shares to raise not less than HK$223,000,000 for enhancing the Group's financial position. The Group intend to apply for general working capital purpose but not excluding for feasible acquisition(s) the Group may encounter or contemplate in the future.

In short, the Group had in substance achieved a better result comparing with last year if excluded the two non-cash items such as the share-based payment and impairment loss on property, plant and equipment which presented only in accordance with Accounting Standards; and basically break-even for the year ended 31st December 2007.

**Ma Jun Li**
*Chairman*
Hong Kong, 29th April, 2008

# Management Discussion and Analysis

For the year ended 31st December, 2007, the consolidated turnover of the Group amounted to HK$288,863,000 (Year ended 31st December, 2006: HK$97,130,000). Total gross profit/loss was approximately HK$8,617,000 (Year ended 31st December, 2006: loss HK$9,613,000). For the year ended 31st December, 2007, the Group recorded net loss attributable to equity holders of the Company HK$81,547,000 (Year ended 31st December, 2006: HK$45,768,000).

The financial results for current year have greatly improved comparing with the previous corresponding year.

## Business Review

### Coke Business

From 1st July, 2005, Shanxi Changxing coke enterprise was consolidated into the accounts of China Best Group. The turnover of the Group's coke business was HK$272,098,000 for the year ended 31st December, 2007 (2006: HK$84,642,000). Total gross profit/loss was HK$4,453,000 for the year ended 31st December, 2007 (2006: loss HK$13,015,000).

Currently, the annual coke production capacity of Shaxi Changxing is 600,000 tons. The second phase of the plant's 300,000 ton capacity expansion plan was completed and commenced production in February 2007. Despite the rapid rise in the market prices of coke and the benefits contributed from the economies of scale for the expanded production during the period under, the Group yet reported a loss in its results for 2007 as compared to the previous year due to the increase in raw materials and depreciation costs. However, its results was greatly improved.

Regarding the Shanxi Changxing's production facilities, the Group adopted a prudent approach for recognition of an impairment loss HK$58 million. The recoverable amount of these assets has been determined by the basis of value in use.

### Freight Forwarding Business

The turnover of the Group's international forwarding agency business was HK$16,765,000 for the year ended 31st December, 2007 (Year ended 31st December, 2006: HK$12,488,000), representing a increase of 34% as compared to the previous year. Total gross profit was HK$4,160,000 profit, (Year ended 31st December, 2006: HK$3,402,000), an increase of HK$0.8 million comparing with the previous year.

The Group's freight forwarding business was stabilized since 2006. Though international freight forwarding business turnover had been improved, the operating profit margin is thinner than previous corresponding year. Meanwhile, the Group is actively seeking business opportunity with strategy partner in freight forwarding business in China.

### Securities Investment

The total transaction volume of the Group's securities investment business was HK$959,565,000 for the year ended 31st December, 2007 (Year ended 31st December, 2006: HK$559,065,000), representing an increase of 71% as compared to the previous year. The realised and unrealised gain on investment held for trading amounted to HK$71,522,000 (2006: HK$9,891,000) for investments held for trading during the year under review.

# Management Discussion and Analysis

### Liquidity and Cashflow Resources

The gearing ratio maintained is at 4.41 (31st December, 2006: 0.93) and the current ratio increased from 0.58 to 0.71. The calculation of gearing ratio is based on interest bearing borrowings of HK$131,360,000 (31st December, 2006: HK$67,647,000) and the equity attributable to equity holders of the Company of HK$29,813,000 (31st December, 2006: HK$72,885,000) at the balance sheet date. The calculation of current ratio is based on the current assets of HK$294,867,000 (31st December, 2006: HK$153,521,000) and the current liabilities of HK$414,754,000 (31st December, 2006: HK$264,952,000) at the balance sheet date.

On 22nd April, 2008, the Group entered into an open offer underwriting agreement with KCG Securities Asia Limited to raise not less then HK$223,000,000. We believe the open offer can strengthen our financial position enable the Company to have sufficient and readily available financial resources for general working capital of the Group and but not excluding for feasible acquisition(s) for the Group may encounter or contemplate in the future.

### Capital Expenditure

For the year under review, the Group incurred a total capital expenditure of HK$24,829,000 (2006: HK$57,707,000), which was funded by its own financial resources and bank borrowings. HK$22,042,000 was spent on development of the production facilities in Shanxi, Mainland China and the balance of HK$2,756,000 was spent mainly on furniture & fixtures/office equipment/motor vehicles in other areas.

### Exposure to Fluctuations in Exchange Rates

The Group's monetary assets, loans and transactions are principally denominated in Hong Kong dollars, US dollars and Renminbi. During the year, there was no significant fluctuation in the exchange rates of the Hong Kong dollars and US dollars. The appreciation in the currency value of the Renminbi contributed positively to the Group's bottom line. The Group did not engage in significant derivative activities and did not commit to any financial instruments to hedge its balance sheet exposure in 2007.

### Change of Directorship

On 5th June, 2007, Mr. Zhang Da Qing had been appointed as Executive Director and Chief Executive Officer of the Group. At the same time, Mr. Wang Da Yang had resigned as Executive Director and Chief Executive Officer as well as Mr. Leung Chung Tak Barry was resigned as non-executive director of the Company.

## Business Prospect

The Group is principally engaged in coke processing, international air and sea freight forwarding and the provision of logistics services as well as trading of securities. In order to strengthen the core business – coke processing, we continue to dig out investment opportunities and select strategic partners for business development especially in this recovery of economic environment.

Furthermore, we will also develop our business to be the leader of the newly growing business coal mining and coke processing. The Group had decided to re-locate more resources to occupy our unique market position in China especially in Shanxi and Inner Mongolia. Through our group's international exposure in management & financing, and followed the National policy of PRC, we are confident to develop successful business model to obtain high contribution and stable revenue from coal mining and coke processing in the future.

# Management Discussion and Analysis

On 3rd March 2008, the Group entered into a non-legally binding memorandum of understanding "MOU" with Asset Rich International Limited and for the possible acquisition of a controlling interest in a coal mining and a coke processing venture. Inner Mongolia Qipanjing Coking Co., Ltd and Inner Mongolia Qipanjing Mining Co. Ltd. The Board confirms that such project is still in the negotiation stage and no formal agreement has been entered into by the Company in respect thereof.

### Recent development

The Board considered that there was a favourable indication for the recent upward trend of coking market, this would be favourable for our acquisition.

### Short-term strategy

The Group has decided to acquire coal mines and more coke processing factories in PRC. Due to the typical nature of the business, the financial structure will be capital intensive. At the development stage of Merger and Acquisition, the Group's major assets will be non-current nature.

### Long-term strategy

The Group has planned to be the leader of the newly growing business coal mining and coke processing especially in PRC. With comparative advantages such as contemporary international management exposure and financing experience plus deeply understanding the trend of coking business for PRC National policy, the Group is confident to develop a successful business model to obtain high growth rate and stable revenue from coke processing in the future.

Since PRC is a major coke producer and exporter in the international market, future development prospect of coke industry is considered to be optimistic. In the overseas market, the boosting global steel industry, Japanese economy recovery and the fact that coke production in Europe and the United States being restrained by stringent environmental legislations and obsolescence of production facilities together created buoyant demand for coke.

## Pledge of Assets

At the balance sheet date, the Group's assets of HK$275,363,000 (31st December, 2006: HK$84,149,000) were pledged to banks to secure general banking facilities granted to the Group and the post dated bills payable.

## Employee and Human Resources Policy

As at 31st December, 2007, the Group had approximately 530 staff (31st December, 2006: 530). The geographical location of this staff force based including Hong Kong, Overseas Countries and Mainland China. The Group is well acquainted with the importance of the maintaining high calibre and competent employees by implementing a strict recruitment policy accordingly. The remuneration of employees was in line with the market trend, and attractive rewards such as discretionary bonuses and staff options were offered to instil a place of loyalty of the Company. Total staff cost incurred for the year ended 31st December, 2007 was approximately HK$17,110,000 (year ended 31st December, 2006: HK$9,240,000).


# Corporate Governance Report

The board of directors ("Board") of the Company is pleased to present this Corporate Governance Report in the Group's annual report for the year ended 31st December, 2007.

The manner in which the principles and code provisions in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") are applied and implemented are explained in the following parts of this Corporate Governance Report:

## CORPORATE GOVERNANCE PRACTICES

The Group strives to attain and maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Group's corporate governance principles emphasize a quality Board, effective internal control and accountability to shareholders.

The Board of the Company believes that good corporate governance practices are increasingly important for maintaining and promoting shareholder value and investor confidence.

The Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange") ("Listing Rules") sets out the principles of good corporate governance ("Principles") and two levels of corporate governance practices:

(a) code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or give considered reasons for deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Throughout the year ended 31st December, 2007, the Company has complied with the code provisions set out in the CG Code, save for the deviations from code provisions A.4.1 and E.1.2 which are explained in the relevant paragraphs in this Report.

The Company has also put in place certain Recommended Best Practices as set out in the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure they comply with the CG Code and align with the latest developments.




# Corporate Governance Report

## BOARD OF DIRECTORS

### RESPONSIBILITIES

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors should take decisions objectively in the best interests of the Company.

The Board sets policy direction and approves strategies/operational plans to ensure effective functioning and growth of the Company, in the interests of all shareholders.

Every director shall ensure that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the interests of the Company ad its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

## DELEGATION OF MANAGEMENT FUNCTIONS

The Board undertakes responsibility for decision making in major Company matters, including: the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed.

Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

## BOARD COMPOSITION

The composition of the Board ensures a balance of skills and experience appropriate to the requirements of the business of the Company and to the exercising of independent judgement.

The Board currently comprises 9 members, consisting of 6 executive directors and 3 independent non-executive directors.

The list of all directors is set out under "Corporate Information" on page 2 and all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.


# Corporate Governance Report

Members of the Board are unrelated to one another.

During the year ended 31st December, 2007, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his/her independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

All directors, including non-executive directors and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functions. Independent non-executive directors are invited to serve on the Audit, Nomination, Risk Management and Remuneration Committees of the Company.

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's Bye-laws. The Nomination Committee is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors. Details of the Nomination Committee and its works performed during the year ended 31st December, 2007 are set out in the "Board Committees" section below.

In accordance with the Company's Bye-laws which were amended by a special resolution at the annual general meeting held on 30th May, 2007 for the purpose of compliance with the CG Code, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting after appointment.

Code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Although the non-executive directors are not appointed for a specific term, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Bye-laws.

## TRAINING FOR DIRECTORS

Each newly appointed director receives a comprehensive, formal and tailored induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

Continuing briefings and professional development to directors will be arranged whenever necessary.

### Board Meetings

*Number of Meetings and Directors' Attendance*

During the year ended 31st December, 2007, four regular Board meetings were held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The attendance records of each director at the meetings of the Board, Nomination Committee, Remuneration Committee, Risk Management Committee and Audit Committee during the year ended 31st December, 2007 are set out below:

| | Attendance/Number of Meetings | | | | |
|---|---|---|---|---|---|
| Name of Directors | Board Regular | Nomination Committee | Remuneration Committee | Audit Committee | Risk Management Committee |
| Ma Jun Li *(Chairman)* | 4/4 | 1/1 | 1/1 | N/A | 1/1 |
| Ng Tang | 4/4 | 1/1 | 1/1 | N/A | 1/1 |
| Zhang Da Qing *(Chief Executive Officer)* | 3/3 | N/A | N/A | N/A | 1/1 |
| Wang Da Yong *(Chief Executive Officer)* | 1/1 | N/A | N/A | N/A | N/A |
| Ren Zheng | 2/4 | N/A | N/A | N/A | N/A |
| Cheung Hoi Ping | 2/4 | N/A | N/A | N/A | N/A |
| Zhang Jun | 2/4 | N/A | N/A | N/A | N/A |
| Chung Kwo Ling | N/A | 1/1 | 1/1 | 2/2 | 1/1 |
| Sun Yeung Yeung | N/A | 1/1 | 1/1 | 1/2 | 1/1 |
| Lee Yuen Kwong | N/A | 1/1 | 1/1 | 2/2 | 1/1 |

*Practices and Conduct of Meetings*

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

# Corporate Governance Report

The Chief Executive Officer and Company Secretary attend almost all regular Board meetings and when necessary, other Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable period of time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting.

The Company's Bye-Laws also contain provisions requiring directors to abstain from voting (or not be counted in the quorum) at meetings for approving transactions in which such directors or any of their associates have material interest.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company fully supports the division of responsibility between the Chairman of the Board and the Chief Executive Officer to ensure a balance of power and authority.

The positions of the Chairman and Chief Executive Officer are held by Ms. Ma Jun Li and Mr. Wang Da Yong and Mr. Zhang Da Qing respectively. Their respective responsibilities are clearly defined and set out in writing.

The Chairman provides leadership and is responsible for the effective functioning of the Board in accordance with good corporate governance practice. With the support of the senior management, the Chairman is also responsible for ensuring that the directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

## BOARD COMMITTEES

The Board has established four committees, namely, Nomination Committee, Remuneration Committee, Risk Management Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expenses.

## NOMINATION COMMITTEE

The Nomination Committee comprises 2 executive directors and 3 independent non-executive directors, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members.

The principal duties of the Nomination Committee include:

- To review the structure, size and composition of the Board and make recommendations regarding any proposed changes;
- To develop and formulate relevant procedures for nomination and appointment of directors and senior management;
- To identify suitable candidates for appointment as directors and senior management;
- To make recommendations to the Board on appointment or re-appointment of and succession planning for directors and senior management; and
- To assess the independence of the independent non-executive directors.

The Nomination Committee carries out the process of selecting and recommending candidates for directorships and senior management by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of such individuals, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

During the year ended 31st December, 2007, the Nomination Committee had reviewed the composition of the Board and nominated Zhang Da Qing to be appointed as our CEO and executive director of the Group for the Board's approval after carried out the above process of selecting.

The attendance records of the Nomination Committee are set out under "Board Committees Meetings" on page 11.

In accordance with the Company's Bye-laws, Mr. Ren Zheng, Mr. Zhang Jun and Mr. Lee Yuen Kwong shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming 2007 annual general meeting.

The Nomination Committee recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 29th April, 2008 contains detailed information of the directors standing for re-election.


# Corporate Governance Report

## REMUNERATION COMMITTEE

The Remuneration Committee comprises five members, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members. The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the individual performance and the operating results of the Company as well as the market conditions and practice.

During the year ended 31st December, 2007, the Remuneration Committee had reviewed the existing remuneration packages of each of Directors and recommend the new remuneration of CEO of the Group, Mr Zhang Da Qing, for the Board's approval.

The attendance records of the Remuneration Committee are set out under "Board Committees Meetings" on page 11.

The Remuneration Committee normally meets for reviewing the remuneration policy and structure and determination of the annual remuneration packages of the executive directors and the senior management and other related matters when needs arise. The Human Resources Division is responsible for collection and administration of the human resources data and making recommendations to the remuneration committee for consideration. The Remuneration Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about these recommendations on remuneration policy and structure and remuneration packages.

## RISK MANAGEMENT COMMITTEE

The Risk Management Committee comprises 3 executive directors and 3 independent non-executive directors, namely Ms. Ma Jun Li as Chairman of the Committee and Mr. Ng Tang, Mr. Zhang Da Qing, Mr. Sun Yeung Yeung, Mr. Lee Yuen Kwong and Ms. Chung Kwo Ling as members. The Risk Management Committee primarily focuses on raising the level of management awareness of, and accountability for the business risks faced by the Group's business operations. In meeting its responsibilities, the Committee seeks to put in place policies and procedures to provide a framework for identification and management of risks.

The Risk Management Committee normally meets for prioritizing and accelerating those risk management strategies that are critical to the advancement of the Group's objectives and ensuring that sufficient resources and appropriate level of support from the management are allocated. The Risk Management Committee shall consult the Chairman and/or the Chief Executive Officer of the Company about the effectiveness of their recommendations and escalate to the Board of any risks relating to material transactions in the ordinary course of business and unusual transactions exceed the scope of principal business activities of the Group.

The Risk Management Committee met once during the year ended 31st December, 2007 reviewed and monitored the effectiveness of the systems of internal control to ensure that the policies and procedures in place are adequately sufficient.




## AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors, namely Ms. Chung Kwo Ling, Mr. Sun Yeung Yeung and Mr. Lee Yuen Kwong. Among the committee members, two of them possess the appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

(a) To review the financial statements and reports and consider any significant or unusual items raised by the qualified accountant, internal auditor or external auditors before submission to the Board.

(b) To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

(c) To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the year ended 31st December, 2007 to review the financial results and reports, financial reporting and compliance procedures, report of Internal Auditor on the Company's internal control and risk management review and processes and the re-appointment of the external auditors.

The Company's annual results for the year ended 31st December, 2007 has been reviewed by the Audit Committee.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Model Code throughout the year ended 31st December, 2007.

The Company also has established written guidelines on no less exacting than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31st December, 2007.

The directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensuring that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory requirements and applicable accounting standards are complied with.

# Corporate Governance Report

The Management provides such explanation and information to the Board so as to enable the Board to make an informed assessment of the financial information and position of the Company put to the Board for approval.

## AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the "Report of the Auditors" on page 27.

An analysis of the remuneration paid to the external auditors of the Company is shown on note 11 of the "Notes to Financial Statements" on page 54.

## INTERNAL CONTROL

During the year under review, the Company engaged its auditors, Deloitte Touche Tohmatsu to initiate an independent review covering the financial, operational, compliance and risk management aspects of the finance and major operational functions for the Group. Report from auditors were presented to and reviewed by the Audit Committee.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

The key elements of the Group's internal control system include the following:

- the organizational structure is clearly defined with distinct lines of authority and control responsibilities.
- a comprehensive financial accounting system has been established to provide for performance measurement indicators and to ensure compliance with relevant rules.
- the senior management shall prepare annual plans on financial reporting, operations and compliance aspects by reference to potential significant risks.
- unauthorized expenditures and release of confidential information are strictly prohibited.
- specific approval by executive director prior to commitment is required for all material matters.
- the management shall review and evaluate the control process and monitor any risk factors on a regular basis and report to the Audit Committee on any findings and measures to address the variances and identified risks.

# Corporate Governance Report

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company believes that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Group also recognises the importance of transparency and timely disclosure of corporate information which enables shareholders and investors to make the best investment decision.

The Company continues to enhance communications and relationships with its investors. Enquiries from investors are dealt with in an informative and timely manner. Investors may write directly to the Company at its principal place of business in Hong Kong for any inquiries.

To promote effective communication, the Company maintains a website at www.cbgroup.com.hk, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

Code provision E.1.2 stipulates that the Chairman should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committee (as appropriate) or in their absence, another member of such committee or his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent Board committee should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

Ms. Ma Jun Li was unable to attend the last annual general meeting due to business trip, but Deputy Chairman, Mr. Ng Tang attended to answer questions on her behalf at the annual general meeting. She will use her endeavours to attend all future shareholders' meetings of the Company.

## SHAREHOLDER RIGHTS

To safeguard the shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors.

The rights of shareholders and the procedures for demanding a poll on resolutions at shareholders' meetings are contained in the Company's Bye-Laws. Details of such rights to demand a poll and the poll procedures were included in all circulars to shareholders and will be explained during the proceedings of meetings.

Poll results will be published in newspapers on the business day following the shareholders' meeting at which voting is taking on a poll and posted on the websites of the Company and of the Stock Exchange.


# Directors and Senior Management

**Ms. Ma Jun Li**

*Chairman*

Aged 44. She was elected as Chairman of the Board from 25th November, 2005. Ms. Ma has extensive experience in corporate and administration management in both PRC and Hong Kong. Ms. Ma is the spouse of the former Chairman of the Company, Mr. Wang Jian Hua.

**Mr. Ng Tang**

*Deputy Chairman and Executive director*

Aged 46. He has over 14 years' experience in corporate management both in Hong Kong and the PRC. He graduated in The East China University of Politics and Law Department（中國華東政法學院法律專業（大專））and was the manager of 中國汽工業進出口廈門公司from early 1990 to August, 1992. He was also appointed managing director of 中國汽車工業進口（香港）有限公司since May, 1995. Mr. Ng is currently an independent non-executive director of Sungreen International Holdings Limited.

**Mr. Zhang Da Qing**

*Chief Executive Officer and Executive director*

Aged 47, appointed on 5th June, 2007, is an Executive Director and Chief Executive Officer of the Company. Mr. Zhang had worked in various departments of Air China Limited（中國國際航空公司）for many years and had abundant experience. Mr. Zhang was mainly responsible for the duties of management, administration and finance. Mr. Zhang has been appointed as a director of a subsidiary, Shanxi Changxing Yuci Coking Co., Limited（山西省榆次長興焦化有限公司）("Shanxi Changxing") in August 2006 and then as an executive Director and chief executive officer on 5th June, 2007.

**Mr. Ren Zheng**

*Executive director*

Aged 34. Mr. Ren graduated from the San Francisco State University in the United States with a Master degree of engineering. He is responsible of the business development of the Group in China..

**Ms. Cheung Hoi Ping**

*Executive director*

Aged 38. Ms. Cheung was appointed as an executive director of the Company in 2003. She has several years of experience in the field of education business. She graduated from Harvard University, U.S.A. with a master degree in education.




# Directors and Senior Management

**Mr. Zhang Jun**

*Executive director*

Aged 40. He has appointed as an executive director in 1st April, 2005. Mr. Zhang is principally engaged in coke trading and investment. He had worked in the Foreign Trade and Economic Co-operation Office of Shanxi Provincial Government in the People's Republic of China for the administration of coke export for five years. Graduated from Remin University of China, Mr. Zhang holds a Bachelor of Industrial Economics. He is currently a graduate Master of Public Administration. Mr. Zhang is currently a director of Shanxi Coke Investment Holdings Co., Ltd.

**Mr. Sun Yeung Yeung**

*Independent non-executive director*

Aged 35. He has been appointed as an independent non-executive director and an audit committee member of the Company in 2003. Mr. Sun has over 8 years of experience in corporate finance. He graduated from the Central Lancashire, United Kingdom with a master degree in business administration.

**Mr. Lee Yeung Kwong**

*Independent non-executive director*

Aged 46. He has been appointed as an independent non-executive director and an audit committee member of the Company. Mr. Lee is a Certified Public Accountant and has been practicing since 1990. Graduated from the University of Sunderland, the United Kingdom, he holds a Bachelor of Arts in Business Studies. He has over 21 years' experience in accounting, auditing, taxation and management consulting. He is also the independent non-executive director of listed companies in Hong Kong namely, Global Bio-chem Technology Group Company Limited and FAVA International Holdings Limited.

**Ms. Chung Kwo Ling**

*Independent non-executive director*

Aged 35. She has over 10 years of experience in the PRC, Hong Kong and international trading business.

**Mr. Wang Jian Hua**

*Group BOD Advisor*

Aged 45. Mr. Wang Jian Hua is the former Chairman of the Company. He has extensive experience in investment and corporate management in the area of high-technology in the PRC. He was appointed as managing director of Beijing Zhongxie Tiandi Investment Consultant Company Limited（北京中協天地投資顧問有限公司）in August, 1997. He has been involved in the investment of Beijing Zhongxie Tiandi Investment Consultant Company Limited （北京中協天地投資顧問有限公司）in Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited（北京市天橋北大青鳥科技股份有限公司）, a joint stock limited company incorporated in the PRC with limited liability and its shares are listed on the Shanghai Stock Exchange in the PRC and was appointed as director of the latter company since December, 1998. He participated actively in the acquisition of Weifang Beida Jade Bird Huaguang Technology Company Limited（濰坊北大青鳥華光科技股份有公司）by Beijing Tianqias Beida Jade Bird Sci-Tech（北京市天橋北大青鳥科技股份有限公司）and was appointed as a director of Weifang Beida Jade Bird Huaguang Technology Company Limited（濰坊北大青鳥華光科技股份有限公司）in March, 2000.

**Mr. Ho Wing Kuen**

*Financial Controller and Company Secretary*

Aged 46. He has over 21 years of experience in accounting and auditing and financial management. He holds a master degree in business administration and a degree in China Law. He is also an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants.


# Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its associate and principal subsidiaries are set out in notes 16 and 39, respectively, to the consolidated financial statements.

## RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 29 of the annual report.

## INVESTMENT PROPERTY

The Group's investment property at 31st December, 2007 were revalued by an independent firm of professional property valuers on a fair value basis. Details of the investment property of the Group during the year are set out in note 13 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## DISTRIBUTABLE RESERVES OF THE COMPANY

At 31st December, 2007, in the opinion of the directors, the Company had no reserves available for distribution to shareholders (2006: Nil).




# Directors' Report

## DIRECTORS

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

### Executive directors:

Ms. Ma Jun Li *(Chairman)*
Mr. Ng Tang *(Deputy Chairman)*
Mr. Zhang Da Qing *(Chief Executive Officer) (appointed on 5th June, 2007)*
Mr. Wang Da Yong *(Chief Executive Officer) (resigned on 5th June, 2007)*
Mr. Ren Zheng
Ms. Cheung Hoi Ping
Mr. Zhang Jun

### Non-executive director

Mr. Leung Chung Tak, Barry *(resigned on 5th June, 2007)*

### Independent non-executive directors:

Ms. Chung Kwo Ling
Mr. Sun Yeung Yeung
Mr. Lee Yuen Kwong

In accordance with the clauses 86(2) and 87(1) of the Company's Bye-laws, Mr. Zhang Da Qing, Mr. Ren Zheng, Mr. Zhang Jun and Mr. Lee Yuen Kwong will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

The term of office of each independent non-executive director is the period up to his/her retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company considers all of the independent non-executive directors are still independent.


# Directors' Report

## DIRECTORS' INTERESTS IN SHARES AND SHORT POSITIONS IN SHARES

As at 31st December, 2007, the interests and short positions of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

### Long position

Ordinary shares of HK$0.05 each

| Name of directors | | Capacity | Interest in shares | Percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Ms. Ma Jun Li | *Note 1* | Deemed Interest | 2,201,860,000 | 35.48% |
| Mr. Ng Tang | *Note 2* | Interest by attribution | 30,864,000 | 0.50% |
| Mr. Ren Zheng | | Beneficial owner | 2,000,000 | 0.03% |

*Notes:*

1. The shares represent deemed interest of Ms. Ma Jun Li by virtue of her spouse, Mr. Wang Jian Hua, being a substantial shareholder of the Company having a notifiable interest in the Company of such 2,113,872,000 shares were held by Best Chance Holdings Limited. By virtue of the SFO, Mr. Wang Jian Hua holding more than one third of voting rights of Best Chance Holdings Limited. Furthermore, 87,988,000 shares are held and beneficially owned by Mr. Wang Jian Hua.

2. 30,864,000 shares were held by Power Win Group Limited. By virtue of the SFO, Mr. Ng Tang holding more than one third of voting rights of Power Win Group Limited, was deemed to be interested in the same 30,864,000 shares held by Power Win Group Limited.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, as at 31st December, 2007, none of the directors, nor their associates, had any interests or short positions in any shares, underlying shares or convertible bonds of the Company or any of its associated corporations.




## SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 32 to the consolidated financial statements.

The following table discloses movements in the share options of the Company during the year:

### The 2002 Scheme

| | Date of grant | Exercisable period | Exercise price | Number of share options: Outstanding at 1.1.2007 | Granted during the year | Exercised during the year | Surrendered/ Lapsed during the year | Outstanding at 31.12.2007 |
|---|---|---|---|---|---|---|---|---|
| Employees | 5.10.2004 | 5.10.2004 to 5.10.2014 | 0.0712 | 15,000,000 | – | (13,000,000) | (1,000,000) | 1,000,000 |
| | 26.9.2005 | 26.9.2005 to 25.9.2015 | 0.083 | 27,200,000 | – | (22,000,000) | – | 5,200,000 |
| | 20.8.2007 | 20.8.2007 to 20.8.2017 | 0.141 | – | 90,000,000 | – | – | 90,000,000 |
| Sub-total | | | | 42,200,000 | 90,000,000 | (35,000,000) | (1,000,000) | 96,200,000 |
| Other eligible persons | 23.9.2004 | 23.9.2004 to 23.9.2014 | 0.070 | 190,000,000 | – | – | (190,000,000) | – |
| | 5.10.2004 | 5.10.2004 to 5.10.2014 | 0.0712 | 67,000,000 | – | (42,000,000) | – | 25,000,000 |
| | 26.9.2005 | 26.9.2005 to 25.9.2015 | 0.083 | 381,000,000 | – | (80,000,000) | – | 301,000,000 |
| | 20.8.2007 | 20.8.2007 to 20.8.2017 | 0.141 | – | 121,000,000 | – | – | 121,000,000 |
| | 7.9.2007 | 7.9.2007 to 7.9.2017 | 0.154 | – | 60,000,000 | – | – | 60,000,000 |
| | 28.9.2007 | 28.9.2007 to 28.9.2017 | 0.166 | – | 20,000,000 | – | – | 20,000,000 |
| Sub-total | | | | 638,000,000 | 201,000,000 | (122,000,000) | (190,000,000) | 527,000,000 |
| Total | | | | 680,200,000 | 291,000,000 | (157,000,000) | (191,000,000) | 623,200,000 |

# Directors' Report

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the option holdings above, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO, other than the interests disclosed in "Directors' Interests in Shares and Short Positions in Shares", the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

### Long position

Ordinary shares of HK$0.05 each of the Company

| Name of shareholders | Capacity | Interest in shares | Percentage of the Company's issued share capital |
|---|---|---|---|
| Mr. Wang Jian Hua | Controlled corporation *(Note 1)* | 2,113,872,000 | 34.06% |
| | Beneficial owner | 87,988,000 | 1.42% |
| Best Chance Holdings Limited | Beneficial owner *(Note 1)* | 2,113,872,000 | 34.06% |
| Chu Yuet Wah | Controlled corporation *(Note 2)* | 1,963,872,000 | 31.64% |
| Ma Siu Fong | Controlled corporation *(Note 2)* | 1,963,872,000 | 31.64% |
| Kingston Finance Limited | Security Interest *(Note 2)* | 1,963,872,000 | 31.64% |
| Asset Managers (China) Fund Co., Ltd | Beneficial owner | 841,110,376 | 13.55% |
| Asset Investors Co., Ltd | Controlled corporation *(Note 3)* | 841,110,376 | 13.55% |
| Asset Managers (Asia) Company Limited | Controlled corporation *(Note 3)* | 841,110,376 | 13.55% |
| Asset Managers Co, Ltd | Controlled corporation *(Note 3)* | 841,110,376 | 13.55% |

# Directors' Report

*Notes:*

1. 2,113,872,000 shares were held by Best Chance Holdings Limited. By virtue of the SFO, Mr. Wang Jian Hua holding more than one third of the voting rights of Best Chance Holdings Limited, was deemed to be interested in the same 2,113,872,000 shares of the Company.

2. Best Chance Holdings Limited beneficially holding 2,113,872,000 shares in the Company, has partially pledged 1,963,872,000 shares to Kingston Finance Limited. By virtue of the SFO, Ms. Chu Yuet Wah and Ms. Ma Siu Fong beneficially owned 51% and 49% respectively of the voting shares of Kingston Finance Limited were deemed to have security interest in the same 1,963,872,000 shares of the Company.

3. Asset Managers (China) Fund Co., Ltd was owned as to 50% by Asset Investors Co., Ltd (which was owned as to 50.1% by FR Holding Co., Ltd.) and 50% by Asset Managers (Asia) Company Limited (which was owned as at 70% by Asset Managers Co., Ltd.). FR Holding Co., Ltd. was a wholly owned subsidiary of Asset Managers Co., Ltd. By virtue of the SFO, Asset Investors Co., Ltd, Asset Managers (Asia) Company Limited, Asset Managers Co., Ltd and FR Holding Co., Ltd. were deemed to be interested in the interests held by Asset Managers (China) Fund Co., Ltd.

Save as disclosed above, the Company has not been notified of any other relevant interests or short position in the issued share capital of the Company as at 31st December, 2007.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers for the year ended 31st December, 2007 were less than 30% of the total sales. The aggregate purchase attributable to the Group's five largest suppliers for the year ended 31st December, 2007 were less than 30% of the total purchases.

## EMOLUMENT POLICY

The Board established the Remuneration Committee in accordance with the Listing Rules. The Committee comprises Ms. Ma Jun Li, Mr. Ng Tang, Ms. Chung Kwo Ling, Mr. Sun Yeung Yeung and Mr. Lee Yuen Kwong.

Summary of duties and works of the Remuneration Committee is set out in the "Corporate Governance Report" in this annual report.

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 32 to the consolidated financial statements.

## 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 a pro-rata basis to existing shareholders.


# Directors' Report

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the directors, the Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

## POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 36 to the consolidate financial statements.

## AUDITORS

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

On behalf of the Board

Ma Jun Li
*CHAIRMAN*
29th April, 2008

# Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF CHINA BEST GROUP HOLDING LIMITED
**國華集團控股有限公司**
*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of China Best Group Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 77, which comprise the consolidated balance sheet as at 31st December, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of 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.

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

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


# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st 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.

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements, which indicates that as of 31st December, 2007 the Group had total liabilities which exceeded its total assets by approximately HK$14.3 million and incurred loss of approximately HK$81.4 million for the year then ended. These conditions, along with other matters as set forth in note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29th April, 2008




# Consolidated Income Statement

*For the year ended 31st December, 2007*

| | *NOTES* | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|---|
| Revenue | 6 | 288,863 | 97,130 |
| Cost of sales | | (280,246) | (106,743) |
| Gross profit (loss) | | 8,617 | (9,613) |
| Other income | *8(a)* | 6,209 | 5,188 |
| Administrative expenses | | (41,112) | (40,643) |
| Selling and distribution expenses | | (20,156) | (9,352) |
| Fair value gain on investments held for trading | | 71,522 | 9,891 |
| Impairment loss on property, plant and equipment | *14* | (58,000) | (6,533) |
| Finance costs | *8(b)* | (20,143) | (8,314) |
| Share-based payment expense | | (24,087) | – |
| Share of results of associate | | 641 | (412) |
| Loss before taxation | *9* | (76,509) | (59,788) |
| Taxation | *11* | (4,888) | (795) |
| Loss for the year | | (81,397) | (60,583) |
| Attributable to: | | | |
| Equity holders of the Company | | 81,547 | (45,768) |
| Minority interests | | 150 | (14,815) |
| | | (81,397) | (60,583) |
| Loss per share | *12* | | |
| – Basic | | 1.3 HK cents | 0.8 HK cent |
| – Diluted | | N/A | N/A |

# Consolidated Balance Sheet

*At 31st December, 2007*

| | NOTES | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| Non-Current Assets | | | |
| Investment property | 13 | 1,700 | 1,500 |
| Property, plant and equipment | 14 | 118,326 | 151,068 |
| Prepaid lease payments | 15 | 3,876 | 3,725 |
| Interests in associate | 16 | 4,363 | 3,722 |
| Available-for-sale investments | 17 | 8,850 | 8,850 |
| Club debentures | 18 | 1,168 | 514 |
| | | 138,283 | 169,379 |
| Current Assets | | | |
| Inventories | 19 | 20,878 | 4,785 |
| Trade and other receivables | 20 | 33,172 | 19,263 |
| Prepaid lease payments | 15 | 172 | 19 |
| Short-term loan receivables | 21 | 18,212 | 5,976 |
| Investments held for trading | 22 | 180,756 | 70,820 |
| Deposits placed with security brokers | 23 | 579 | 1,657 |
| Pledged bank deposits | 24 | 20,519 | 24,349 |
| Bank balances and cash | 25 | 20,579 | 26,652 |
| | | 294,867 | 153,521 |
| Current Liabilities | | | |
| Trade and other payables | 26 | 234,782 | 223,043 |
| Taxation payable | | 5,599 | 795 |
| Margin loan payables | 23 | 75,726 | – |
| Other borrowings | 27 | 98,647 | 41,114 |
| | | 414,754 | 264,952 |
| Net Current Liabilities | | (119,887) | (111,431) |
| Total Assets less Current Liabilities | | 18,396 | 57,948 |
| Non-Current Liability | | | |
| Other borrowings | 27 | 32,719 | 26,533 |
| | | (14,323) | 31,415 |
| Capital and Reserves | | | |
| Share capital | 28 | 310,299 | 302,449 |
| Reserves | | (280,486) | (229,564) |
| Equity attributable to equity holders of the Company | | 29,813 | 72,885 |
| Minority interests | | (44,136) | (41,470) |
| | | (14,323) | 31,415 |

The financial statements on pages 29 to 77 were approved and authorised for issue by the Board of Directors on 29th April 2008 and are signed on its behalf by:

**MA JUN LI**
*DIRECTOR*

**NG TANG**
*DIRECTOR*




# Consolidated Statement of Changes in Equity

*For the year ended 31st December, 2007*

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$'000* | Share premium *HK$'000* | Contributed surplus *HK$'000* *(note)* | Translation reserve *HK$'000* | Share options reserve *HK$'000* | Accumulated loss *HK$'000* | Total *HK$'000* | Minority interests *HK$'000* | Total *HK$'000* |
| At 1st January, 2006 | 273,299 | 115,500 | 1,996 | (595) | 38,604 | (369,849) | 58,955 | (26,268) | 32,687 |
| Exchange differences arising from translation of foreign operations and recognised directly in equity | – | – | – | (454) | – | – | (454) | (387) | (841) |
| Loss for the year | – | – | – | – | – | (45,768) | (45,768) | (14,815) | (60,583) |
| Total recognised expenses for the year | – | – | – | (454) | – | (45,768) | (46,222) | (15,202) | (61,424) |
| Exercise of share options | 5,000 | 8,700 | – | – | (5,400) | – | 8,300 | – | 8,300 |
| Forfeiture of share options | – | – | – | – | (513) | 513 | – | – | – |
| Shares issued at premium | 24,150 | 28,497 | – | – | – | – | 52,647 | – | 52,647 |
| Share issue expenses | – | (795) | – | – | – | – | (795) | – | (795) |
| At 31st December, 2006 | 302,449 | 151,902 | 1,996 | (1,049) | 32,691 | (415,104) | 72,885 | (41,470) | 31,415 |
| Exchange differences arising from translation of foreign operations and recognised directly in equity | – | – | – | 2,006 | – | – | 2,006 | (2,816) | (810) |
| Loss for the year | – | – | – | – | – | (81,547) | (81,547) | 150 | (81,397) |
| Total recognised income and expenses for the year | – | – | – | 2,006 | – | (81,547) | (79,541) | (2,666) | (82,207) |
| Recognition of equity settled share-based payments | – | – | – | – | 24,087 | – | 24,087 | – | 24,087 |
| Exercise of share options | 7,850 | 11,717 | – | – | (7,185) | – | 12,382 | – | 12,382 |
| Forfeiture of share options | – | – | – | – | (7,844) | 7,844 | – | – | – |
| At 31st December, 2007 | 310,299 | 163,619 | 1,996 | 957 | 41,749 | (488,807) | 29,813 | (44,136) | (14,323) |

*Note:* The contributed surplus of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation prior to the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited in 1996 and the nominal value of the Company's shares issued in exchange.


# Consolidated Cash Flow Statement

*For the year ended 31st December, 2007*

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Loss before taxation | (76,509) | (59,788) |
| Adjustments for: | | |
| Allowance on inventories | 995 | 948 |
| Depreciation of property, plant and equipment | 9,193 | 5,678 |
| Dividend income from listed securities | (195) | (615) |
| Fair value gain on investments held for trading | (71,522) | (9,891) |
| Finance costs | 20,143 | 8,314 |
| Gain on disposal of property, plant and equipment | (142) | (73) |
| Impairment loss on property, plant and equipment | 58,000 | 6,533 |
| Impairment loss on trade receivables | 1,962 | 370 |
| Recovery of bad debts | (474) | – |
| Increase in fair value of investment property | (200) | (40) |
| Interest income | (1,845) | (2,144) |
| Release of prepaid lease payments | 171 | 82 |
| Share-based payments expense | 24,087 | – |
| Share of results of associates | (641) | 412 |
| Operating cash flows before movements in working capital | (36,977) | (50,214) |
| (Decrease) increase in inventories | (16,744) | 1,410 |
| (Decrease) increase in trade and other receivables | (13,780) | 250 |
| Increase in investments held for trading | (38,414) | (38,889) |
| Decrease (increase) in deposits placed with security brokers | 1,078 | (1,657) |
| Decrease in trade and other payables | 8,695 | 80,344 |
| Cash used in operation | (96,142) | (8,756) |
| Tax paid | (84) | – |
| NET CASH USED IN OPERATING ACTIVITIES | (96,226) | (8,756) |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (42,178) | (57,707) |
| Advance of short-term loan receivables | (40,508) | (43,776) |
| Purchase of club debentures | (654) | – |
| Repayment of short-term loan receivables | 28,272 | 37,800 |
| Decrease (increase) in pledged bank deposits | 5,569 | (13,220) |
| Proceeds on disposal of property, plant and equipment | 1,363 | 1,597 |
| Interest received | 1,845 | 2,144 |
| Dividend income from listed securities | 195 | 615 |
| Deferred consideration received from the disposal of a subsidiary | – | 9,000 |
| NET CASH USED IN INVESTING ACTIVITIES | (46,096) | (63,547) |




# Consolidated Cash Flow Statement

*For the year ended 31st December, 2007*

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| FINANCING ACTIVITIES | | |
| Other borrowings raised | **63,967** | 41,114 |
| Increase in margin loan payables | **75,726** | – |
| Proceeds from issue of shares, net of expenses | **12,382** | 60,152 |
| Interest paid | **(13,057)** | (6,303) |
| Repayment of other borrowings | **(5,132)** | (22,833) |
| Advance from a minority shareholder | **–** | 1,155 |
| NET CASH FROM FINANCING ACTIVITIES | **133,886** | 73,285 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(8,436)** | 982 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | **26,652** | 28,676 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **2,363** | (3,006) |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash | **20,579** | 26,652 |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability. 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 activities of its principal associate and subsidiaries are set out in notes 16 and 39 respectively.

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

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors have given careful consideration to the future liquidity of the Group in light of the consolidated net current liabilities of approximately HK$119.9 million and consolidated net liabilities of approximately HK$14.3 million at 31st December, 2007.

Against this background, the directors have given careful consideration to the liquidity position and financial performance of Shanxi Changxing Yuci Coking Co., Limited ("Shanxi Changxing"), a 51% owned subsidiary of the Group, which sustained net current liabilities of approximately HK$246.0 million at 31st December, 2007 and loss for the year of approximately HK$104.4 million. Shanxi Changxing is currently focusing on strengthening its operations of manufacturing and sale of coke, and the management of Shanxi Changxing is implementing active cost-saving and value-adding measures to improve its operating cash flows and financial position.

At the same time, the directors are considering various options to raise new equity funds for the Group. Subsequent to the balance sheet date, as set out in note 36, the Company proposed to raise an amount of approximately HK$232.72 million but not more than approximately HK$256.13 million, before expenses, by way of an Open Offer to the qualifying shareholders (the "Open Offer") to provide new fundings to the Group.

On the basis that the Group can improve its operating results and cash flows through the implementation of the measures described above and the Open Offer can be successfully completed, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.




# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 3. 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 1st January, 2007.

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

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

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. 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.

The Group has not early applied the following new and revised standards or interpretations that have been issued 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 1st January, 2009
[2] Effective for annual periods beginning on or after 1st July, 2009
[3] Effective for annual periods beginning on or after 1st March, 2007
[4] Effective for annual periods beginning on or after 1st January, 2008
[5] Effective for annual periods beginning on or after 1st July, 2008

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

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

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

## 4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by 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 business acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investments in associate

An associate is an entity over which the investor 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 net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

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.

### Revenue recognition

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

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

Income from provision of freight forwarding agency services is recognised when the services are rendered.

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

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

### Investment properties

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

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

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment properties *(Continued)*

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

### Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress, are stated at cost less subsequent depreciation and impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account 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.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### Leasing

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

*The Group as lessor*

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

*The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the relevant lease term. 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Leasing *(Continued)*

*Leasehold land and building*

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

### Foreign currencies

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

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

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

### Retirement benefit schemes

Payments to defined contribution retirement benefit plans, the Mandatory Provident Fund Scheme ("MPF Scheme") and state-managed retirement benefit schemes are charged as an expense when employees have rendered services entitling them to the contributions.

### Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income or a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are deducted in reporting the related expense.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

### Financial instruments

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

**Financial assets**

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*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 debts instruments.

*Financial assets at FVTPL*

The Group's financial assets at FVTPL comprise financial asset classified as 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 FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

*Loans and receivables*

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

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL or loans and receivables.

For available-for-sale debt investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, 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).

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Impairment of financial assets*

Financial assets, other than those at FVTPL, 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 all other financial assets, objective evidence of impairment could include:

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of trade 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 of 90 days, 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 trade 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 a trade 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.

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.

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.

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

**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. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*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 gain or losses.

*Financial liabilities*

The Group's financial liabilities, including trade and other payables, margin loan payables and other borrowings, are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

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

**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 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 or payable is recognised in profit or loss.

### Share-based payment transactions

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

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

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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



## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Share-based payment transactions *(Continued)*

**Equity-settled share-based payment transactions** *(Continued)*

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

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

*Share options granted to consultants*

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share options reserve).

### Impairment losses (other than goodwill)

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

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

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 4, management has made the following estimates that have the most significant effect on the amounts recognised in the financial statements in the next financial year are discussed below.

### Estimated impairment of property, plant and equipment

During the year, impairment loss on property, plant and equipment of approximately HK$58.0 million with respect to Shanxi Changxing was recognised in the consolidated income statement. Determining whether property, plant and equipment are impaired requires an estimation of the recoverable amount of the property, plant and equipment. Such estimation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Details of the recoverable amount calculation are set out in note 14.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, impairment loss may arise. As at 31st December, 2007, the carrying amount of trade receivables is approximately HK$20.2 million (2006: HK$13.1 million) (net of allowance for doubtful debts of approximately HK$4.6 million (2006: HK$3.1 million)).

### Allowances for inventories

The management of the Group reviews the inventories listing on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow moving inventory items that are no longer suitable for use in production amounting to approximately HK$1.0 million (2006: HK$0.9 million). The management estimates the net value for such items based primarily on the latest invoice prices and current market conditions.

## 6. REVENUE

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| International air and sea freight forwarding | **16,765** | 12,488 |
| Manufacture and sales of coke | **272,098** | 84,642 |
| | **288,863** | 97,130 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

For management purpose, the Group is currently organised into three operating divisions – (i) international air and sea freight forwarding; (ii) securities trading and (iii) manufacture and sales of coke. These divisions are the basis on which the Group reports its primary segment information.

| | International air and sea freight forwarding HK$'000 | Securities trading HK$'000 | Manufacture and sales of coke HK$'000 | Others HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **For the year ended 31st December, 2007** | | | | | |
| Revenue | 16,765 | – | 272,098 | – | 288,863 |
| Segment result | 1,740 | 71,522 | (100,249) | – | (26,987) |
| Unallocated corporate expenses | | | | | (12,142) |
| Other income | | | | | 6,209 |
| Finance costs | | | | | (20,143) |
| Share-based payments expense | – | – | (10,297) | (13,790) | (24,087) |
| Share of results of associate | 641 | – | – | – | 641 |
| Loss before taxation | | | | | (76,509) |
| Taxation | | | | | (4,888) |
| Loss for the year | | | | | (81,397) |
| **At 31st December, 2007** | | | | | |
| ASSETS | | | | | |
| Segment assets | 11,404 | 196,051 | 159,778 | – | 367,233 |
| Interests in associate | | | | | 4,363 |
| Unallocated corporate assets | | | | | 61,554 |
| Total assets | | | | | 433,150 |
| LIABILITIES | | | | | |
| Segment liabilities | 5,902 | 5,601 | 223,279 | – | 234,782 |
| Unallocated corporate liabilities | | | | | 212,691 |
| Total liabilities | | | | | 447,473 |

| | International air and sea freight forwarding HK$'000 | Securities trading HK$'000 | Manufacture and sales of coke HK$'000 | Others HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **For the year ended 31st December, 2007** | | | | | |
| OTHER INFORMATION | | | | | |
| Additions to property, plant and equipment | 31 | – | 22,042 | 2,756 | 24,829 |
| Depreciation of property, plant and equipment | 26 | – | 8,882 | 285 | 9,193 |
| Release of prepaid lease payments | – | – | 171 | – | 171 |
| Gain on disposal of property, plant and equipment | – | – | (142) | – | (142) |
| Net impairment loss on trade receivables | – | – | 1,962 | – | 1,962 |
| Allowance on inventories | – | – | 995 | – | 995 |
| Impairment loss on property, plant and equipment | – | – | 58,000 | – | 58,000 |
| Fair value gain on investments held for trading | – | (71,522) | – | – | (71,522) |




# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### (a) Business segments *(Continued)*

| | International air and sea freight forwarding *HK$'000* | Manufacture Securities trading *HK$'000* | and sales of coke *HK$'000* | Others *K$'000* | Consolidated *K$'000* |
|---|---|---|---|---|---|
| **For the year ended 31st December, 2006** | | | | | |
| Revenue | 12,488 | – | 84,642 | – | 97,130 |
| Segment result | 740 | 9,891 | (37,853) | – | (27,222) |
| Unallocated corporate expenses | | | | | (29,028) |
| Other income | | | | | 5,188 |
| Finance costs | | | | | (8,314) |
| Share of results of associate | (412) | – | – | – | (412) |
| Loss before taxation | | | | | (59,788) |
| Taxation | | | | | (795) |
| Loss for the year | | | | | (60,583) |
| **At 31st December, 2006** | | | | | |
| ASSETS | | | | | |
| Segment assets | 9,608 | 84,356 | 165,462 | – | 259,426 |
| Interests in associate | | | | | 3,722 |
| Unallocated corporate assets | | | | | 59,752 |
| Total assets | | | | | 322,900 |
| LIABILITIES | | | | | |
| Segment liabilities | 5,033 | 7 | 210,155 | – | 215,195 |
| Unallocated corporate liabilities | | | | | 76,290 |
| Total liabilities | | | | | 291,485 |

| | International air and sea freight forwarding *HK$'000* | Manufacture Securities trading *HK$'000* | and sales of coke *HK$'000* | Others *K$'000* | Consolidated *K$'000* |
|---|---|---|---|---|---|
| **For the year ended 31st December, 2006** | | | | | |
| OTHER INFORMATION | | | | | |
| Additions to property, plant and equipment | 9 | – | 56,175 | 1,523 | 57,707 |
| Depreciation of property, plant and equipment | 23 | – | 4,977 | 678 | 5,678 |
| Release of prepaid lease payments | – | – | 82 | – | 82 |
| (Gain) loss on disposal of property, plant and equipment | – | – | (119) | 46 | (73) |
| Impairment loss on trade receivables | – | – | 370 | – | 370 |
| Allowance on inventories | – | – | 948 | – | 948 |
| Impairment loss on property, plant and equipment | – | – | 6,533 | – | 6,533 |
| Fair value gain on investments held for trading | – | (9,891) | – | – | (9,891) |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### (b) Geographical segments

The Group's international air and sea freight forwarding are carried out in North and South America, while the manufacture and sales of coke is carried out in the People's Republic of China ("PRC").

The following provides an analysis of the Group's revenue by geographic markets based on location of customers, irrespective of the origin of the goods and services:

| | Revenue | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| North and South America | **7,796** | 6,421 |
| PRC | **272,098** | 84,642 |
| Others | **8,969** | 6,067 |
| | **288,863** | 97,130 |

The following is an analysis of the carrying amount of assets and capital additions analysed by the geographical area in which the assets are located:

| | Carrying amount of segment assets | | Capital additions | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| North and South America | **3,323** | 2,479 | **–** | – |
| Hong Kong | **119,041** | 80,746 | **6** | 1,484 |
| PRC | **241,322** | 174,056 | **24,792** | 56,214 |
| Others | **3,547** | 2,145 | **31** | 9 |
| | **367,233** | 259,426 | **24,829** | 57,707 |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 8. (a) OTHER INCOME

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Interest income | **1,845** | 2,144 |
| Dividend income from listed securities classified as held for trading | **195** | 615 |
| Increase in fair value of investment property | **200** | 40 |
| Gain on disposal of property, plant and equipment | **142** | 73 |
| Recovery of bad debts | **474** | – |
| Sundry income | **3,353** | 2,316 |
| | **6,209** | 5,188 |

## (b) FINANCE COSTS

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Interest on borrowings wholly repayable within five years: | | |
| Other borrowings | **18,420** | 8,314 |
| Margin loan payables | **1,723** | – |
| | **20,143** | 8,314 |

## 9. LOSS BEFORE TAXATION

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Loss before taxation has been arrived at after charging (crediting): | | |
| Staff costs | | |
| – directors' emoluments *(note 10(a))* | **2,055** | 2,005 |
| – share-based payments expense *(note 29)* | **10,297** | – |
| – other staff costs | **6,678** | 9,080 |
| – retirement benefits scheme contributions, excluding directors | **135** | 160 |
| Total staff costs | **19,165** | 11,245 |
| Depreciation of property, plant and equipment | **9,193** | 5,678 |
| Release of prepaid lease payments | **171** | 82 |
| Auditors' remuneration | **1,400** | 1,087 |
| Gain on disposal of property, plant and equipment | **(142)** | (73) |
| Impairment loss on trade receivables | **1,962** | 370 |
| Allowance on inventories | **995** | 948 |
| Equity-settled consultancy services *(note 29)* | **13,790** | – |
| Cost of inventories recognised as an expense | **259,671** | 97,657 |
| Exchange loss (gain) | **1,870** | (215) |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the 11 (2006: 10) directors were as follows:

| | | Other emoluments | | |
|---|---|---|---|---|
| | Fees | Salaries and other benefits | Retirement benefits scheme contributions | Total emoluments |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| For the year ended 31st December, 2007 | | | | |
| Executive directors | | | | |
| Ms. Ma Jun Li | – | 247 | – | 247 |
| Mr. Ng Tang, David | – | 585 | 27 | 612 |
| Mr. Ren Zheng | – | 385 | 12 | 397 |
| Ms. Cheung Hoi Ping | – | – | – | – |
| Mr. Zhang Jun | – | 120 | – | 120 |
| Mr. Zhang Da Qing | – | 352 | 7 | 359 |
| Mr. Wang Da Yong | – | – | – | – |
| | – | 1,689 | 46 | 1,735 |
| Non-executive directors | | | | |
| Ms. Chung Kwo Ling | 90 | – | – | 90 |
| Mr. Sun Yeung Yeung | 90 | – | – | 90 |
| Mr. Lee Yuen Kwong | 90 | – | – | 90 |
| Mr. Leung Chung Tak, Barry | 50 | – | – | 50 |
| | 320 | – | – | 320 |
| Total | 320 | 1,689 | 46 | 2,055 |




## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

### (a) Directors' emoluments *(Continued)*

For the year ended 31st December, 2006

| | | Other emoluments | | |
|---|---|---|---|---|
| | Fees | Salaries and other benefits | Retirement benefits scheme contributions | Total emoluments |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Executive directors | | | | |
| Ms. Ma Jun Li | – | 235 | – | 235 |
| Mr. Ng Tang, David | – | 585 | 27 | 612 |
| Mr. Ren Zheng | – | 390 | 12 | 402 |
| Ms. Cheung Hoi Pint | – | – | – | – |
| Mr. Wang Da Yong | – | 250 | 6 | 256 |
| Mr. Zhang Jun | – | 120 | – | 120 |
| | – | 1,580 | 45 | 1,625 |
| Non-executive directors | | | | |
| Ms. Chung Kwo Ling | 90 | – | – | 90 |
| Mr. Sun Yeung Yeung | 90 | – | – | 90 |
| Mr. Lee Yuen Kwong | 90 | – | – | 90 |
| Mr. Leung Chung Tak, Barry | 110 | – | – | 110 |
| | 380 | – | – | 380 |
| Total | 380 | 1,580 | 45 | 2,005 |

During the year ended 31st December, 2007 and 2006, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group.

No directors waived any emoluments for the year ended 31st December, 2007 and 2006.

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are set out in (a) above. The aggregate emoluments of the remaining two (2006: three) individuals were as follows:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **11,271** | 1,638 |
| Retirement benefits scheme contributions | **62** | 76 |
| | **11,333** | 1,714 |

The emoluments of each of the employees are less than HK$1,000,000 for both years.

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 11. TAXATION

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | **4,888** | 795 |

Pursuant to the relevant laws and regulations in the PRC, the income tax for Shanxi Changxing is calculated at the statutory income tax rate of 33% (2006: 33%) on the assessable profit and it is exempted from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years ("Tax Holiday"). No provision for PRC income tax has been made in the consolidated financial statements as Shanxi Changxing has no assessable profit since its date of incorporation.

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 16th March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for subsidiaries established in the PRC from 1st January, 2008.

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

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Loss before taxation | **(76,509)** | (59,788) |
| Tax credit at the income tax rate of 33% | **(25,248)** | (19,730) |
| Tax effect of share of results of associates | **(211)** | 136 |
| Tax effect of expenses that are not deductible in determining taxable profit | **28,133** | 3,256 |
| Tax effect of income that is not taxable in determining taxable profit | **(739)** | (823) |
| Tax effect of utilisation of tax loss not previously recognised | **(6,149)** | (892) |
| Tax effect of tax losses not recognised | **14,616** | 17,347 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(5,514)** | 1,501 |
| Taxation charge for the year | **4,888** | 795 |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 11. TAXATION *(Continued)*

The major deferred tax liabilities (assets) recognised and movements thereon during the current year and prior year are summarised below:

| | Accelerated tax depreciation | Tax losses | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at 1st January, 2006 | 75 | (75) | – |
| Charge (credit) to consolidated income statement for the year | 108 | (108) | – |
| Balance at 31st December, 2006 | 183 | (183) | – |
| Charge (credit) to consolidated income statement for the year | (13) | 13 | – |
| Balance at 31st December, 2007 | 170 | (170) | – |

At 31st December, 2007, the Group has unutilised tax losses of HK$236,675,000 (2006: HK$209,537,000) available for offset against future profits. A deferred tax asset has been recognised in respect of tax losses of HK$971,000 (2006: HK$1,045,000). No deferred tax asset has been recognised of the remaining tax losses due to the unpredictability of future profit streams. The tax losses attributable to subsidiaries in Hong Kong of HK$142,260,000 (2006: HK$160,108,000) will not expire under the current tax legislation in Hong Kong and all other tax losses will expire from 2008 to 2010.

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 12. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to equity holders of the Company of HK$81,547,000 (2006: loss of HK$45,768,000) and on the weighted average number of 6,137,846,427 (2006: 5,905,076,564) ordinary shares in issue during the year.

No diluted loss per share is presented for the years ended 31st December, 2007 and 2006 as the share options were anti-dilutive.

## 13. INVESTMENT PROPERTY

| | *HK$'000* |
|---|---|
| FAIR VALUE | |
| At 1st January, 2006 | 1,460 |
| Increase in fair value | 40 |
| At 31st December, 2006 | 1,500 |
| Increase in fair value | 200 |
| At 31st December, 2007 | 1,700 |

The fair value of the Group's investment property at 31st December, 2007 has been arrived at on the basis of a valuation carried out on that date by Knight Frank Petty Limited, a form of independent qualified professional valuers. Knight Frank Petty Limited is a member of the Hong Kong Institute of Surveyors ("HKIS"). The valuation was arrived at using the direct comparison method, by reference to market evidence of transaction prices for similar properties.

The investment property was under medium-term lease and situated in Hong Kong. The Group's property interest held for capital appreciation purposes is measured using the fair value model and is classified and accounted for as investment property.


# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Construction in progress | Buildings | Plant and machinery | Leasehold improvements | Furniture and fixtures | Office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| COST | | | | | | | | |
| At 1st January, 2006 | 11,091 | 53,626 | 56,651 | 235 | 787 | 1,300 | 7,371 | 131,061 |
| Exchange realignment | 410 | 1,982 | 1,984 | 3 | 38 | 36 | 244 | 4,697 |
| Additions | 53,476 | – | 185 | 110 | 36 | 94 | 3,806 | 57,707 |
| Disposals/written off | – | – | (300) | (70) | (19) | (161) | (1,381) | (1,931) |
| Reclassification | (5,608) | 1,566 | 4,042 | – | – | – | – | – |
| At 31st December, 2006 | 59,369 | 57,174 | 62,562 | 278 | 842 | 1,269 | 10,040 | 191,534 |
| Exchange realignment | 4,283 | 4,125 | 4,093 | 7 | 11 | 64 | 143 | 12,726 |
| Additions | 20,500 | – | 745 | – | – | 272 | 3,312 | 24,829 |
| Disposals/written off | – | (626) | – | – | (268) | (47) | (1,423) | (2,364) |
| Reclassification | (42,768) | 13,801 | 28,967 | – | – | – | – | – |
| At 31st December, 2007 | 41,384 | 74,474 | 96,367 | 285 | 585 | 1,558 | 12,072 | 226,725 |
| DEPRECIATION AND IMPAIRMENT LOSS | | | | | | | | |
| At 1st January, 2006 | – | 663 | 24,068 | 154 | 675 | 786 | 1,305 | 27,651 |
| Exchange realignment | – | 57 | 851 | 1 | 35 | 25 | 42 | 1,011 |
| Provided for the year | – | 1,782 | 2,452 | 74 | 37 | 146 | 1,187 | 5,678 |
| Impairment loss recognised for the year | 6,533 | – | – | – | – | – | – | 6,533 |
| Eliminated on disposals/written off | – | – | (73) | (70) | (15) | (119) | (130) | (407) |
| At 31st December, 2006 | 6,533 | 2,502 | 27,298 | 159 | 732 | 838 | 2,404 | 40,466 |
| Exchange realignment | 471 | 279 | 933 | 3 | 12 | 8 | 177 | 1,883 |
| Provided for the year | – | 2,313 | 5,185 | 75 | 11 | 203 | 1,406 | 9,193 |
| Impairment loss recognised for the year | – | – | 58,000 | – | – | – | – | 58,000 |
| Eliminated on disposals/written off | – | (22) | – | – | (234) | (38) | (849) | (1,143) |
| At 31st December, 2007 | 7,004 | 5,072 | 91,416 | 237 | 521 | 1,011 | 3,138 | 108,399 |
| CARRYING VALUES | | | | | | | | |
| At 31st December, 2007 | 34,380 | 69,402 | 4,951 | 48 | 64 | 547 | 8,934 | 118,326 |
| At 31st December, 2006 | 52,836 | 54,672 | 35,264 | 119 | 110 | 431 | 7,636 | 151,068 |

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

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | |
|---|---|
| Buildings | Over the shorter of the term of the lease or 20 – 30 years |
| Plant and machinery | 5% – 10% |
| Leasehold improvements | 15% or over the term of the lease, whichever is shorter |
| Furniture and fixtures | 10% – 33.33% |
| Office equipment | 10% – 20% |
| Motor vehicles | 16.67% – 33.33% |

At 31st December, 2006, the directors, after considering the economic conditions, market situations and the liquidity position of Shanxi Changxing, reviewed the carrying value of Shanxi Changxing's production facilities, including construction in progress, buildings, and plant and equipment, in the PRC, with reference to their fair values less costs to sell based on independent professional valuation and determined that the recoverable amounts of the assets have declined below their carrying values. Accordingly, the carrying value of construction in progress related to the facilities on the new line of by-product of coke was reduced by HK$6,533,000 to reflect this impairment for the year ended 31st December, 2006.

During the year, the Group also carried out a review of the recoverable amount of Shanxi Changxing's production facilities, having regard to the implementation of active cost-saving and value-adding measures to improve its operating cash flows and financial position. The review led to the recognition of an impairment loss of HK$58,000,000, that has been recognised in profit or loss. The recoverable amount of the relevant assets has been determined on the basis of their value in use. The discount rate used in measuring value in use was 19.3% per annum.

As at 31st December, 2007, legal title to buildings with carrying values of HK$69,402,000 (2006: HK$54,672,000) has not been granted by relevant government authorities. In the opinion of the directors, the formal title to these buildings will be granted to Shanxi Changxing in due course.

## 15. PREPAID LEASE PAYMENTS

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| The Group's prepaid lease payments comprise land in the PRC under medium-term land use rights | **4,048** | 3,744 |
| Analysed for reporting purposes as: | | |
| Non-current asset | **3,876** | 3,725 |
| Current asset | **172** | 19 |
| | **4,048** | 3,744 |

## 16. INTERESTS IN ASSOCIATE

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Cost of investment | **3,678** | 3,678 |
| Share of post-acquisition profits | **685** | 44 |
| | **4,363** | 3,722 |

Particulars of the associate at 31st December, 2007 are as follows:

| Name of associate | Form of business structure | Place of registration and operation | Proportion of nominal value of registered capital held indirectly by the Group<br>% | Principal activities |
|---|---|---|---|---|
| Shanghai International Airlines Services Co. Ltd. ("Shanghai Airlines") | Sino-foreign equity joint ventures | PRC | 40 | Provision of air freight forwarding business |

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

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Total assets | **21,095** | 20,109 |
| Total liabilities | **(10,187)** | (10,804) |
| Net assets | **10,908** | 9,305 |
| Group's share of net assets of associate | **4,363** | 3,722 |

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Revenue | **20,649** | 21,186 |
| Profit (loss) for the year | **1,603** | (1,030) |
| Group's share of profit (loss) of associate for the year | **641** | (412) |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 17. AVAILABLE-FOR-SALE INVESTMENTS

| | 2007 & 2006<br>*HK$'000* |
|---|---|
| Unlisted equity securities | 38,250 |
| Less: impairment losses recognised | (29,400) |
| | 8,850 |

In 2002, the Group, through an acquisition of a wholly-owned subsidiary, acquired 30,000,000 promoters' shares in Beijing Beida Jade Bird Universal Sci-Technology Company ("BBJB") (the "Promoters' Shares") of RMB0.01 each at a consideration of HK$38,250,000, which is equivalent to 2.53% of total issued share capital (including H shares and Promoters' Shares) of BBJB.

BBJB is a joint stock company with limited liability incorporated in the PRC with its H shares listed on the Growth Enterprise Market of the Stock Exchange (the "GEM Board"). The promoters' Shares were unlisted share capital issued by BBJB when it was initially listed on the GEM Board in 2000. According to the Company Law in the PRC, the Promoters' Shares were not transferable within three years from the date of incorporation of BBJB on 29th March, 2000. Upon expiry of the three years lock up period on 28th March, 2003, those Promoters' Shares could be applied for listing on the GEM Board. The Group has been informed by BBJB that BBJB is in the process of applying for listing of the Promoters' Shares on the GEM Board and the application is still under progress. In the opinion of the directors, this investment will be able to enhance the strategic relationship between the Group and BBJB.

An impairment loss of approximately $29,400,000 was recognised in the consolidated income statement in prior years as a result of its decrease in the recoverable amounts.

## 18. CLUB DEBENTURES

| | **2007**<br>***HK$'000*** | 2006<br>*HK$'000* |
|---|---|---|
| Club debentures, at cost | **1,168** | 514 |

The above club debentures represent club memberships in PRC golf clubs. The club debentures are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates are significant. The directors are of the opinion that its fair values cannot be measured reliably.

## 19. INVENTORIES

| | **2007**<br>***HK$'000*** | 2006<br>*HK$'000* |
|---|---|---|
| Raw materials | **15,706** | 4,575 |
| Finished goods | **5,172** | 210 |
| | **20,878** | 4,785 |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 20. TRADE AND OTHER RECEIVABLES

The Group allows its trade customers with credit periods normally ranging from 30 days to 90 days. Included in trade and other receivables are trade receivables with the following aged analysis:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0-30 days | **16,896** | 7,138 |
| 31-60 days | **1,275** | 831 |
| 61-90 days | **2,014** | 4,285 |
| Over 90 days | **–** | 806 |
| Trade receivables | **20,185** | 13,060 |
| Advance to suppliers | **8,174** | 1,732 |
| Deposits and prepayments | **3,108** | 3,087 |
| Pledged deposits | **1,705** | 1,384 |
| | **33,172** | 19,263 |

Included in trade receivables are bills receivables with aggregate carrying amount of HK$534,000 (2006: HK$3,984,000).

Before accepting any new customer, the Group uses a system to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed on a regular basis. Minimal amount of the trade receivables that are neither past due nor impaired have the best credit under the credit system used by the Group.

At 31st December, 2006 included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$806,000 (2007: nil) which are past due at the reporting date and aged over 90 days for which the Group has not provided for impairment loss. The Group did not hold any collateral over these balances.

The Group has provided fully for all receivables over 90 days because historical experience is such that receivables that are past due beyond years are generally not recoverable.

### Movement in allowance for doubtful debts

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **3,117** | 2,747 |
| Impairment loss recognised on receivables | **1,962** | 370 |
| Recovery of bad debts | **(474)** | – |
| Balance at end of the year | **4,605** | 3,117 |




# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 21. SHORT-TERM LOAN RECEIVABLES

The amounts are unsecured, repayable within one year and carried variable-rate interest at Hong Kong Prime Rate plus spread ranging from 4% to 5% (2006: nil) per annum for amounts of HK$7,000,000 (2006: nil) and carried fixed interest at 8% per annum for amount of HK$11,212,000 (2006: HK$5,976,000). The terms of the receivables ranged from three to twelve months.

Before making any advances, the Group will understand the potential debtor's credit quality and defines its credit limits. Loan receivables are advanced to debtors with an appropriate credit history. Credit limits attributed to debtors are reviewed regularly.

Included in the loan receivables balances is an aggregate amount of HK$18,212,000 (2006: nil) which are past due at the reporting date which the Group has not provided for impairment loss. In addition, the Group does not hold any collateral over these balances.

### Age of loan receivables which are past due but not impaired

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Within 90 days | 5,000 | – |
| 90 to 180 days | 11,212 | – |
| Over 180 days | 2,000 | – |
| | 18,212 | – |

The Group has not provided for those receivables as there has not been significant change in credit quality and the amounts are fully settled subsequent to the balance sheet date.

## 22. INVESTMENTS HELD FOR TRADING

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Held for trading investments: | | |
| Listed equity securities in Hong Kong | 180,756 | 70,820 |
| Market value of listed equity securities | 180,756 | 70,820 |



## 23. DEPOSITS PLACED WITH SECURITY BROKERS/MARGIN LOAN PAYABLES

The deposits placed with security brokers carry interest at approximately 3% (2006: 3%) per annum and are repayable on demand.

The margin loan payables carry interest at prevailing market rates with an effective interest rate of 6-8% (2006: nil) per annum and are repayable on demand.

## 24. PLEDGED BANK DEPOSITS

The pledged bank deposits were pledged to lenders to secure facilities granted to the Group and carried prevailing fixed interest rates of 2.55% (2006: 2.7%) per annum. The pledge will be released upon the settlement of the relevant short term bank borrowings.

## 25. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and bank balances that are interest-bearing at prevailing market interest rates ranging from 0.25% to 1.5%(2006: 2.25% to 2.75%) per annum and have original maturity of three months or less.

## 26. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade and bills payables with the following aged analysis:

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| 0-30 days | **13,486** | 4,731 |
| 31-60 days | **4,243** | 3,324 |
| 61-90 days | **21,664** | 23,959 |
| Over 90 days | **28,873** | 29,337 |
| Trade and bills payables | **68,266** | 61,351 |
| Receipt in advance from customers | **114,595** | 101,301 |
| Accrued charges and other payables | **32,410** | 28,024 |
| Construction payables | **15,018** | 32,367 |
| Government grants | **4,493** | – |
| | **234,782** | 223,043 |

Included in construction payables are bills payables with aggregate carrying amount of HK$2,720,000 (2006: HK$6,203,000).

During the year, the Group received government grants of HK$3,423,000 (2006: nil) and HK$1,070,000 (2006: nil) in relation to the construction of environmental facilities and as subsidy to the finance costs to be incurred on borrowings raised during the year. These amounts are presented separately in the balance sheet.

## 26. TRADE AND OTHER PAYABLES *(Continued)*

The amount of HK$3,423,000 related to the construction of environmental facilities is to be released to income over the useful lives of the assets and the amount HK$1,070,000 relating to subsidy to the finance costs is recognised in the same period as those expenses are charged in the consolidated income statement and is deducted in reporting the related expenses.

As at 31st December, 2007, the environmental facilities are still in construction phase and no amount of the above government grant is recognised in the consolidated income statement and an amount of HK$133,000 is credited to the consolidated income statement as subsidy to the finance costs.

## 27. OTHER BORROWINGS

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Fixed rate other borrowings | **131,366** | 67,647 |
| Analysed as: | | |
| Secured | **32,719** | 26,533 |
| Unsecured | **98,647** | 41,114 |
| | **131,366** | 67,647 |
| Carrying amount repayable: | | |
| On demand or within one year | **98,647** | 41,114 |
| More than one year, but not exceeding two years | **32,719** | 26,533 |
| | **131,366** | 67,647 |
| Less: Amounts due within one year shown under current liabilities | **(98,647)** | (41,114) |
| Amounts due after one year | **32,719** | 26,533 |

The ranges of effective interest rates (which also equal to contracted interest rates) on the Group's fixed rates borrowings are as follows:

| | 2007 | 2006 |
|---|---|---|
| Effective interest rate: | | |
| Other borrowings | **6% to 36% per annum** | 9.34% to 36% per annum |

There are no borrowings that are denominated in currencies other than the functional currencies of the relevant group entities.

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 28. SHARE CAPITAL

| | Notes | Number of shares '000 | Value HK$'000 |
|---|---|---|---|
| Authorised: | | | |
| Ordinary shares of HK$0.05 each at 1st January, 2006, 31st December, 2006 and 31st December, 2007 | | 12,000,000 | 600,000 |
| Issued and fully paid: | | | |
| Ordinary shares of HK$0.05 each | | | |
| At 1st January, 2006 | | 5,465,986 | 273,299 |
| Exercise of share options | *(a)* | 100,000 | 5,000 |
| Issue of shares by way of private placement | *(b)* | 483,000 | 24,150 |
| At 31st December, 2006 | | 6,048,986 | 302,449 |
| Exercise of share options | *(c)* | 157,000 | 7,850 |
| At 31st December, 2007 | | 6,205,986 | 310,299 |

(a) During the year ended 31st December, 2006, the Company issued 100,000,000 ordinary shares of HK$0.05 each at a cash consideration of HK$0.083 per share pursuant to the exercise of the share options granted.

(b) On 23rd March, 2006, a placing and subscription agreement was entered into among Best Chance Holdings Limited ("Best Chance"), the Company and a placing agent ("Placing Agent") under which (i) Best Chance has appointed the Placing Agent to place 483,000,000 ordinary shares of HK$0.05 each ("Placing Shares") in the Company at a price of HK$0.109 per Placing Share; and (ii) Best Chance to subscribe for 483,000,000 new ordinary shares of HK$0.05 each ("Subscription Shares") in the Company at a price of HK$0.109 per Subscription Share. The issued price of HK$0.109 represented a discount of 15.5% to the closing price of HK$0.129 per share on 22nd March, 2006. The Subscription Shares were issued under the general mandate granted to the directors of the Company on 27th May, 2005. The net proceeds of HK$51,850,000 shall be used for general working capital purpose. The transaction was completed on 31st March, 2006.

Best Chance is a company wholly-owned by Mr. Wang Jian Hua, the spouse of Ms. Ma Jun Li, the Chairlady and an executive director of the Company.

Details of the above are set out in the announcements to the shareholders of the Company dated 24th March, 2006 and 3rd April, 2006.

(c) During the year, the Company issued 157,000,000 shares at a cash consideration of HK$0.083 or HK$0.0712 per share pursuant to the exercise of the share options granted.

The shares issued during the year rank pari passu with the then existing shares in issue in all respects.

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 29. SHARE OPTION SCHEME

### The 2002 Scheme

On 18th March, 2002, the Company adopted the 2002 Scheme (the "2002 Scheme") under which the board of directors may at its discretion offer to any director (including non-executive director), employee, suppliers, customers, any person or entity that provides research, development or other technological support to the Group, shareholders of any member of the Group or any entity in which the Group holds an equity interests and any other group or classes of persons or entities who have contributed to the development and growth of the Group ("Participant") to subscribe for shares in the Company in accordance with the terms of the 2002 Scheme. The principal purpose of the 2002 Scheme is to provide incentive or rewards for the participant's contributions to the Group.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Scheme and any other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company in issue as at the date of adoption of the 2002 Scheme, unless a refresh approval from the shareholders of the Company has been obtained. However, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Scheme and any other share option schemes of the Company shall not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The subscription price of the option shares granted under the 2002 Scheme shall be a price to be determined by the directors of the Company being not less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; (iii) the nominal value of a share.

The total number of shares issued and may be issued upon exercise of the options granted to any individual under the 2002 Scheme and any other share option schemes of the Company must not exceed 1% of the shares in issue.

The 2002 Scheme does not contain any requirement of a minimum period and the board of directors may in its absolute discretion impose a minimum period requirement for each option granted will be made by the board of directors on a case by case basis and will not be made to the advantage of the Participants.

The 2002 Scheme will remain in force for a period of ten years commencing from the date of adoption of the 2002 Scheme, after which no further options will be granted but the options which are granted during the life of the 2002 Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the 2002 Scheme shall in all other respects remain in full force and effect in respect thereof.

Options granted under the 2002 Scheme must be taken up within 21 days of the date of grant. Upon acceptance of the option, the grantee shall pay HK$1 to the Company as consideration for the grant.

## 29. SHARE OPTION SCHEME *(Continued)*

### The 2002 Scheme *(Continued)*

**For the year ended 31st December, 2007**

The following table discloses movements in the Company's share options granted under the 2002 Scheme during the year ended 31st December, 2007:

| | Date of grant | Exercisable period | Exercise price *HK$* | Number of share options: Outstanding at 1.1.2007 | Granted during the year | Exercised during the year | Forfeited during the year | Outstanding at 31.12.2007 |
|---|---|---|---|---|---|---|---|---|
| Employees | 5.10.2004 | 5.10.2004 to 5.10.2014 | 0.0712 | 15,000,000 | – | (13,000,000) | (1,000,000) | 1,000,000 |
| | 26.9.2005 | 26.9.2005 to 25.9.2015 | 0.083 | 27,200,000 | – | (22,000,000) | – | 5,200,000 |
| | 20.8.2007 | 20.8 2007 to 20.8.2017 | 0.141 | – | 90,000,000 | – | – | 90,000,000 |
| Sub-total | | | | 42,200,000 | 90,000,000 | (35,000,000) | (1,000,000) | 96,200,000 |
| Other eligible persons | 23.9.2004 | 23.9.2004 to 23.9.2014 | 0.070 | 190,000,000 | – | – | (190,000,000) | – |
| | 5.10.2004 | 5.10.2004 to 5.10.2014 | 0.0712 | 67,000,000 | – | (42,000,000) | – | 25,000,000 |
| | 26.9.2005 | 26.9.2005 to 25.9.2015 | 0.083 | 381,000,000 | – | (80,000,000) | – | 301,000,000 |
| | 20.8.2007 | 20.8.2007 to 20.8.2017 | 0.141 | – | 121,000,000 | – | – | 121,000,000 |
| | 7.9.2007 | 7.9.2007 to 7.9.2017 | 0.154 | – | 60,000,000 | – | – | 60,000,000 |
| | 28.9.2007 | 28.9.2007 to 28.9.2017 | 0.166 | – | 20,000,000 | – | – | 20,000,000 |
| Sub-total | | | | 638,000,000 | 201,000,000 | (122,000,000) | (190,000,000) | 527,000,000 |
| | | | | 680,200,000 | 291,000,000 | (157,000,000) | (191,000,000) | 623,200,000 |
| Exercisable at the end of the year | | | | | | | | 623,200,000 |
| Weighted average exercise price (HK$) | | | | 0.078 | 0.145 | 0.079 | 0.070 | 0.112 |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 29. SHARE OPTION SCHEME *(Continued)*

### The 2002 Scheme *(Continued)*

**For the year ended 31st December, 2006**

The following table discloses movements in the Company's share options granted under the 2002 Scheme during the year ended 31st December, 2006:

| | Date of grant | Exercisable period | Exercise price *HK$* | Outstanding at 1.1.2006 | Granted during the year | Exercised during the year | Forfeited during the year | Outstanding at 31.12.2006 |
|---|---|---|---|---|---|---|---|---|
| | | | | Number of share options | | | | |
| Employees | 19.9.2002 | 19.9.2002 to 19.9.2006 | 0.119 | – | – | – | – | – |
| | 5.10.2004 | 5.10.2004 to 5.10.2014 | 0.0712 | 24,000,000 | – | – | (9,000,000) | 15,000,000 |
| | 26.9.2005 | 26.9.2005 to 25.9.2015 | 0.083 | 36,700,000 | – | – | (9,500,000) | 27,200,000 |
| Sub-total | | | | 60,700,000 | – | – | (18,500,000) | 42,200,000 |
| Other eligible persons | 23.9.2004 | 23.9.2004 to 23.9.2014 | 0.070 | 190,000,000 | – | – | – | 190,000,000 |
| | 5.10.2004 | 5.10.2004 to 5.10.2014 | 0.0712 | 67,000,000 | – | – | – | 67,000,000 |
| | 26.9.2005 | 26.9.2005 to 25.9.2015 | 0.083 | 481,000,000 | – | (100,000,000) | – | 381,000,000 |
| Sub-total | | | | 738,000,000 | – | (100,000,000) | – | 638,000,000 |
| | | | | 798,700,000 | – | (100,000,000) | (18,500,000) | 680,200,000 |
| Exercisable at the end of the year | | | | | | | | 680,200,000 |
| Weighted average exercise price (HK$) | | | | 0.079 | – | 0.083 | 0.077 | 0.078 |

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$0.217 (2006: HK$0.155).

## 29. SHARE OPTION SCHEME *(Continued)*

### The 2002 Scheme *(Continued)*

The fair values on the options granted during the year ended 31st December, 2007 were calculated using the Black-Scholes Model. The inputs into the model were as follows:

| | Type I | Type II | Type III |
|---|---|---|---|
| **Grant date** | **20th August, 2007** | **7th September, 2007** | **28th September, 2007** |
| Share price on grant date (HK$) | 0.13 | 0.15 | 0.17 |
| Exercise price (HK$) | 0.141 | 0.154 | 0.166 |
| Expected volatility | 84.88% | 84.91% | 85.48% |
| Risk-free rate | 4.113% | 4.119% | 4.006% |
| Expected dividend yield | – | – | – |
| Fair value per option granted (HK$) | 0.0786 | 0.0919 | 0.0994 |
| Expected life of option (years) | 3.824 | 3.824 | 3.824 |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 48 months. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

As the services to be performed by the consultants are similar to services performed by the employees of the Group, the fair value of such services is also measured with reference to the fair value of share options granted using the Black-Scholes pricing model.

The estimated fair values of HK$10,297,000 and HK$13,790,000 with respect to share options granted to employees and consultants, respectively, were charged to the consolidated income statement during the year ended 31st December, 2007.

The closing price of the Company's shares immediately before 20th August, 2007, 7th September, 2007, and 28th September, 2007 the dates of grant of the 2002 Scheme's option, was HK$0.13, HK$0.15 and HK$0.17, respectively.

## 30. CAPITAL COMMITMENTS

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **14,856** | 38,212 |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 31. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

The Group has made approximately HK$2,259,000 (2006: HK$2,548,000) minimum lease payments under operating leases during the year in respect of office premises.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented office premises which fall due as follows:

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Within one year | 1,054 | 1,704 |
| In the second to fifth years inclusive | – | 174 |
| | 1,054 | 1,878 |

Leases are negotiated for a range of one to two years and rentals are fixed for a range of one to two years.

## 32. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to secure the Group's other borrowings of HK$32,719,000 (2006: HK$26,533,000), margin loan payables of HK$75,726,000 (2006: nil) and bills payables of HK$44,576,000 (2006: HK$49,365,000):

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Investments held for trading | 180,756 | – |
| Bank deposits | 20,519 | 24,349 |
| Buildings | 68,335 | 54,672 |
| Prepaid lease payments | 4,048 | 3,744 |
| Other deposits | 1,705 | 1,384 |
| | 275,363 | 84,149 |

## 33. RETIREMENT BENEFIT SCHEMES

### Hong Kong

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and the MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.




## 33. RETIREMENT BENEFIT SCHEMES *(Continued)*

### Hong Kong *(Continued)*

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by the employees.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at 5% of the employee's basic salary.

Where there are employees who leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there were no significant forfeited contributions, which arose upon employees leaving the MPF Scheme and ORSO Scheme and which are available to reduce the contributions payable in future years.

### PRC

The employees of Shanxi Changxing are members of a state-managed retirement benefit scheme in the PRC. The subsidiary is required to contribute a specified percentage of its payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions under the scheme. No forfeited contributions are available to reduce the contribution payable in the future years.

## 34. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes the other borrowings disclosed in note 27, 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 on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the repayment of existing debt.

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 35. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Financial assets** | | |
| FVTPL | **180,756** | 70,820 |
| Loans and receivables (including cash and cash equivalents) | **81,779** | 73,078 |
| Available-for-sale financial assets | **8,850** | 8,850 |
| **Financial liabilities** | | |
| Amortised cost | **290,376** | 161,365 |

### b. Financial risk management objectives and polices

The Group's major financial instruments include equity investments, borrowings, trade receivable, short-term loan receivables, deposits placed with security brokers, pledged bank deposits, bank balances, trade and other payables and margin loan payables. 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*

(i) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowings (see notes 23, 24 and 27 for details), fixed-rate short-term loan receivables, deposits with security brokers and pledged deposits. The Group currently does not have any interest rate hedging policy. The interest rate and terms of repayment of the other borrowings of the Group are disclosed in note 27.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank deposits, short-term loan receivables, margin loan payables (see notes 24 and 25 for details) and variable rate margin loan payables (see note 23 for details). 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.



## 35. FINANCIAL INSTRUMENTS *(Continued)*

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

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date. For short term loan, bank deposits and margin loan payables, the analysis is prepared assuming the amounts 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 results for the year ended 31st December, 2007 would decrease/increase by HK$240,000 (2006: decrease/increase by HK$133,000). This is mainly attributable to the Group's exposure to interest rates on its margin loan payables.

(ii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Stock Exchange. In addition, the Group has a team to monitor the price risk and will consider hedging the risk exposure should the need arise.

*Sensitivity analysis*

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

If the prices of the respective equity instruments had been 5% higher/lower, the results for the year ended 31st December, 2007 increase/decrease by HK$9,038,000 (2006: increase/decrease by HK$3,541,000) as a result of the changes in fair value of investments held for trading.

In management's opinion, the sensitivity analysis is not representative of the other price risk for the investments in listed equity securities as the year and exposure does not reflects the exposure during the year.

*Credit risk*

As at 31st 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 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 delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt 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 is significantly reduced.

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 35. FINANCIAL INSTRUMENTS *(Continued)*

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

*Credit risk (Continued)*

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Group has monitor and understand the potential credit quality of the short-term loan receivables, ensuring that the credit risk of the Group is monitored.

*Liquidity risk*

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

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

*Liquidity and interest risk tables*

| | Weighted average effective interest rate<br>% | Less than 3 months<br>*HK$'000* | 3-6 months<br>*HK$'000* | 6 months to 1 year<br>*HK$'000* | 1-5 years<br>*HK$'000* | Interest adjustment<br>*HK$'000* | Carrying amount<br>*HK$'000* |
|---|---|---|---|---|---|---|---|
| 2007 | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Trade payables | – | 68,266 | – | – | – | – | 68,266 |
| Other payables | – | 15,018 | – | – | – | – | 15,018 |
| Margin accounts with security broker | 7% | 75,726 | – | – | – | – | 75,726 |
| Other borrowings | | | | | | | |
| – fixed rate | 12.6 | 65,725 | 19,076 | 58,827 | 4,446 | (16,708) | 131,366 |
| | | 224,735 | 19,076 | 58,827 | 4,446 | (16,708) | 290,376 |


# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 35. FINANCIAL INSTRUMENTS *(Continued)*

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

*Liquidity and interest risk tables (Continued)*

| | Weighted average effective interest rate | Less than 3 months | 3-6 months | 6 months to 1 year | 1-5 years | Interest adjustment | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **2006** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade payables | – | 61,351 | – | – | – | – | 61,351 |
| Other payables | – | 32,367 | – | – | – | – | 32,367 |
| Other borrowings | | | | | | | |
| – fixed rate | 12.6 | 1,852 | 14,870 | 27,387 | 27,239 | (3,701) | 67,647 |
| | | 95,570 | 14,870 | 27,387 | 27,239 | (3,701) | 161,365 |

The directors have given careful consideration on the measures currently undertaken by the Group in respect of the Group's liquidity position. As detailed in note 2, the Directors believe that the Group will have sufficient working capital for its future operational requirements.

### c. 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

- the fair value of other financial assets and financial liabilities (including derivative instruments) 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.

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

## 36. POST BALANCE SHEET EVENT

An announcement by the Company on 24th April, 2008, the Company proposed to raise an amount of not less than approximately HK$232.72 million but not more than approximately HK$256.13 million, before expenses, subject to the satisfaction of the conditions of the Open Offer to the qualifying shareholders, by way of an Open Offer.

Further details of which are set out in the announcement of the Company dated 24th April, 2008. The Open Offer has not been completed at the date of this report.

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 37. RELATED PARTY DISCLOSURES

### Compensation of key management personnel

The remunerations of directors and other members of key management were disclosed in note 10.

## 38. BALANCE SHEET OF THE COMPANY

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Total Assets | | |
| Property, plant and equipment | 838 | 1,047 |
| Interests in subsidiaries | 2,000 | 2,000 |
| Other receivables | 7,355 | 637 |
| Amounts due from subsidiaries | 121,630 | 108,151 |
| Bank balances and cash | 3,927 | 1,966 |
| | 135,750 | 113,301 |
| Total Liability | | |
| Trade and other payables | 9,172 | 7,301 |
| | 126,578 | 106,000 |
| Capital and Reserves | | |
| Share capital | 310,299 | 302,449 |
| Reserves *(note)* | (183,721) | (196,449) |
| | 126,578 | 106,000 |

*Note:* Reserves

| | Share premium<br>*HK$'000* | Contributed surplus<br>*HK$'000* | Share options reserve<br>*HK$'000* | Accumulated losses<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|---|
| At 1st January, 2006 | 115,500 | 48,311 | 38,604 | (448,264) | (245,849) |
| Profit for the year and total recognised income expenses for the year | – | – | – | 18,398 | 18,398 |
| Exercise of share options | 8,700 | – | (5,400) | – | 3,300 |
| Forfeiture of share options | – | – | (513) | 513 | – |
| Shares issued at premium | 28,497 | – | – | – | 28,497 |
| At 31st December, 2006 | 151,902 | 48,311 | 32,691 | (429,353) | (196,449) |
| Loss for the year and total recognised expenses for the year | – | – | – | (15,891) | (15,891) |
| Recognition of equity settled share-based payments | – | – | 24,087 | – | 24,087 |
| Exercise of share options | 11,717 | – | (7,185) | – | 4,532 |
| Forfeiture of share options | – | – | (7,844) | 7,844 | – |
| At 31st December, 2007 | 163,619 | 48,311 | 41,749 | (437,400) | (183,721) |

# Notes to the Financial Statements

*For the year ended 31st December, 2007*

## 38. BALANCE SHEET OF THE COMPANY *(Continued)*

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation prior to the listing of the Company's shares on the Main Board of the Stock Exchange in 1996 over the nominal value of the Company's shares issued in exchange thereof.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

## 39. PRINCIPAL SUBSIDIARIES

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

| Name of subsidiary | Place of incorporation and operation | Nominal value of issued and fully paid share capital/ registered capital | Proportion of nominal value of issued share capital/ registered capital held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly % | Indirectly % | |
| Dragon Air Investments Limited | Samoa/ Hong Kong | US$50,000 | – | 100 | Investment holding |
| Fortune Zone International Limited | British Virgin Islands ("BVI")/ | US$1 | 100 | – | Investment holding |
| Funeway Investments Limited | BVI/ Hong Kong | US$1 | 100 | – | Investment holding |
| Heatwave Industries Limited | BVI/ Hong Kong | US$1 | – | 100 | Security investment |
| Jet Air (Singapore) Private Limited | Singapore | S$500,000 | – | 93 | Air freight forwarding and brokers for airline and shipping companies |
| Jet Dispatch Limited | United States of America | US$3,000 | – | 100 | Freight forwarding agent |
| Shanxi Changxing | PRC | RMB84,260,000 | – | 51 | Manufacture and sale of coke |
| Square Profits Group Inc. | BVI | US$1 | 100 | – | Investment holding |

Except for Shanxi Changxing as a sino foreign joint venture in the PRC, all other subsidiaries are limited companies incorporated in the respective jurisdictions.

## 39. PRINCIPAL SUBSIDIARIES *(Continued)*

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.


# Financial Summary

## RESULTS

| | Year ended 31st March, | Nine months ended 31st December, | Year ended 31st December, | | |
|---|---|---|---|---|---|
| | 2004 | 2004 | 2005 | 2006 | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Revenue | 70,971 | 10,198 | 284,466 | 97,130 | **288,863** |
| Loss before taxation | (46,726) | (50,470) | (161,010) | (59,788) | **(76,509)** |
| Taxation | (110) | – | – | (795) | **(4,888)** |
| Loss for the year/period | (46,836) | (50,470) | (161,010) | (60,583) | **(81,397)** |
| Loss attributable to: | | | | | |
| Equity holders of the Company | (46,836) | (50,470) | (136,992) | (45,768) | **(81,547)** |
| Minority interests | – | – | (24,018) | (14,815) | **150** |
| Loss for the year/period | (46,836) | (50,470) | (161,010) | (60,583) | **(81,397)** |

## ASSETS AND LIABILITIES

| | As at 31st March, | As at 31st December, | | | |
|---|---|---|---|---|---|
| | 2004 | 2004 | 2005 | 2006 | **2007** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| Total assets | 98,499 | 84,386 | 219,930 | 322,900 | **433,150** |
| Total liabilities | (10,889) | (30,528) | (187,243) | (291,485) | **(447,473)** |
| | 87,610 | 53,858 | 32,687 | 31,415 | **(14,323)** |
| Equity attributable to equity holders of the Company | 87,610 | 53,858 | 58,955 | 72,885 | **29,813** |
| Minority interests | – | – | (26,268) | (41,470) | **(44,136)** |
| | 87,610 | 53,858 | 32,687 | 31,415 | **(14,323)** |