ASIA TELEMEDIA LIMITED
亞洲電信媒體有限公司

(In Liquidation)
(Incorporated in Hong Kong with limited liability)
(Stock Code: 376)

Annual Report 2007

Contents

Corporate Information

JOINT AND SEVERAL LIQUIDATORS

Patrick COWLEY
Edward Simon MIDDLETON

DIRECTORS

Executive:

LU Ruifeng
YIU Hoi Ying

Independent Non-Executive:

LI Chun
LU Ning
LAU Hak Lap (resigned on 15 April 2010)

AUDITORS

Graham H.Y. Chan & Co.
Unit 1, 15th Floor
The Center
99 Queen's Road Central
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REGISTERED OFFICE

8th Floor, Prince's Building
10 Chater Road
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SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

STOCK CODE

376

Independent Auditor's Report

GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)
HONG KONG

TO THE SHAREHOLDERS OF ASIA TELEMEDIA LIMITED (In Liquidation)
(incorporated in Hong Kong with limited liability)

We were engaged to audit the consolidated financial statements of Asia TeleMedia Limited (in Liquidation) (the "Company") set out on pages 7 to 61, which comprise the consolidated and the Company's balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

APPOINTMENT OF THE JOINT AND SEVERAL LIQUIDATORS

A winding-up petition against the Company was filed on 5 June 2007, and a winding-up order was made by the High Court of Hong Kong on (the "Court") 18 March 2008. The trading in the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 18 March 2008. Messrs Edward Simon Middleton and Patrick Cowley were appointed as the Joint and Several Liquidators of the Company (the "Liquidators") on 14 January 2009, pursuant to an Order of the Court. Further explained in note 2 to the financial statements, the Liquidators have been obliged to prepare these financial statements on the basis of the books and records which came into their possession following their appointment.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter described in the "Basis for disclaimer of opinion" below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditor's Report

BASIS FOR DISCLAIMER OF OPINION

1. Completeness of information

A winding-up order was made against the Company on 18 March 2008 and the Liquidators were appointed on 14 January 2009. The Liquidators only have access to the books and records of the Company that were left behind by the directors and management of the Company for the purpose of preparing the consolidated financial statements. In consequence, we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the assets, liabilities, income and expenses appearing in the financial statements. There were no satisfactory audit procedures that we could adopt to obtain sufficient appropriate audit evidence regarding the accuracy and completeness of the assets, liabilities, income and expenses of the Company and of the Group, and the adequacy of disclosures in these financial statements.

2. Loss of accounting records in the PRC representative offices

The consolidated financial statements and the financial statements of the Company contain financial information of the representative offices located in Beijing and Shenzhen (the "PRC representative offices"). The PRC representative offices were closed and the accounting records could not be retrieved. As a consequence, we were unable to obtain all information that we required in relation to our audit and were also unable to carry out other satisfactory auditing procedures that we considered necessary to obtain adequate assurance regarding the assets and liabilities of the PRC representative offices of approximately HK$10,903,000 and HK$1,936,000 respectively and the loss contributed by the PRC representative offices for the year of approximately HK$32,798,000, and the adequacy of disclosures in these financial statements. The specific balances where we could not carry out satisfactory auditing procedures are as follows:

– Write off of property, plant and equipment amounting to approximately HK$694,000;

– Write off of a deposit with an agency of approximately HK$28,880,000;

– Write off of a sundry deposit of approximately HK$254,000;

– Bank balance (general account) of approximately HK$496,000; and

– Other payables and accrued charges of approximately HK$1,936,000.

Any adjustments to the above balances would affect the net liabilities of the Group and the Company as at 31 December 2007 and the loss for the year then ended.

3. **Directors' emoluments**

We were unable to carry out auditing procedures necessary to obtain adequate assurance regarding directors' emoluments of HK$1,564,000 as set out in note 10 to the financial statements. This is not in accordance with the requirements of Section 161A of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

As explained in note 2 to the financial statements, the Company submitted a resumption proposal on 17 December 2010 (updated on 25 March 2011) and subsequently amended by a written submission to the Stock Exchange on 31 March 2011 (together the "Resumption Proposal"). By a letter dated 1 April 2011, the Stock Exchange informed the Company that it was allowed to proceed with the Resumption Proposal, subject to prior compliance with the conditions to the satisfaction of Listing Division within six months from the date of the Stock Exchange's letter. These conditions are explained in note 2 to the financial statements.

As at 31 December 2007, the Group and the Company had incurred a consolidated loss attributable to equity holders of the Company of approximately HK$47,603,000 and HK$50,109,000 respectively, had net current liabilities of approximately HK$78,551,000 and HK$90,622,000 respectively and had deficiency of shareholders' funds of approximately HK$77,197,000 and HK$85,079,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis on the assumption that the Resumption Proposal will be successfully completed and that in the foreseeable future and the financial position of the Group will be substantially improved as all liabilities of the Company will be discharged through the implementation of a scheme to be proposed by the Company under Section 166 of the Companies Ordinance of Hong Kong (the "Scheme").

The financial statements do not include any adjustments which would result from a failure to complete the Resumption Proposal and to approve the Scheme by the Company's Scheme Creditors and the Court; and other approvals to be obtained from shareholders, the Court and the Hong Kong regulatory authorities.

If the Resumption Proposal could not be completed, further adjustments might have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. We consider that appropriate disclosures have been made accordingly. However, in view of the extent of the uncertainties relating to the completion of the Resumption Proposal as at the balance sheet date, we disclaim our opinion in respect of material uncertainty relating to the going concern basis.

Independent Auditor's Report

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters described in the "Basis for disclaimer of opinion" above and the "Material uncertainty relating to the going concern basis" as described above, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2007 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the Hong Kong Companies Ordinance.

REPORT ON MATTERS UNDER SECTIONS 141(4) AND 141(6) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the limitation on our work set out in the basis for disclaimer of opinion paragraph of this report:

– We have not obtained all the information and explanations that we considered necessary for the purpose of our audit;

– We were unable to determine whether proper books of accounts have been kept; and

– We have not received proper returns adequate for our audit from representative offices not visited by us.

Graham H.Y. Chan & Co.
Certified Public Accountants (Practising)
Unit 1, 15/F, The Center,
99 Queen's Road Central,
Hong Kong
3 June 2011

Consolidated Income Statement

For the year ended 31 December 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Revenue	*7*	**10,742**	5,600
Other operating income	*8*	**3,495**	1,600
Staff costs	*9*	**(14,370)**	(7,363)
Impairment loss on other receivables, deposits and prepayments		**(29,134)**	(48)
Other operating expenses		**(14,228)**	(11,840)
Finance costs	*12*	**(4,108)**	(4,083)
Loss before tax		**(47,603)**	(16,134)
Income tax	*13*	**–**	–
Loss for the year	*14, 15*	**(47,603)**	(16,134)
Dividend	*16*	**–**	–
Loss per share	*17*		
Basic		**(3.15) cents**	(1.11) cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	*18*	**380**	1,069
Trading rights	*20*	**544**	815
Statutory deposits for financial services business	*23(a)*	**430**	430
		1,354	2,314
Current assets			
Trade receivables	*21*	**20,568**	26,343
Other receivables, deposits and prepayments	*23(b)*	**2,806**	28,518
Loan receivables	*22*	**–**	–
Bank balances – trust and segregated accounts	*23(c)*	**54,348**	62,438
Bank balances (general accounts) and cash	*23(d)*	**18,964**	12,432
		96,686	129,731
Current liabilities			
Trade payables	*24*	**72,886**	86,090
Other payables and accrued charges	*23(e)*	**21,226**	17,458
Loan payables	*25*	**60,084**	58,084
Amounts due to directors	*26*	**20,912**	28,737
Obligations under finance leases – due within one year	*27*	**129**	79
		175,237	190,448
Net current liabilities		**(78,551)**	(60,717)
Total assets less current liabilities		**(77,197)**	(58,403)
Non-current liabilities			
Obligations under finance leases – due after one year	*27*	**–**	136
Net liabilities		**(77,197)**	(58,539)
Capital and reserves			
Share capital	*28*	**308,701**	291,505
Reserves		**(385,898)**	(350,044)
Total capital deficiency		**(77,197)**	(58,539)

The financial statements on pages 7 to 61 were approved and authorised for issue by the Joint and Several Liquidators on 3 June 2011 and are signed on its behalf by:

Edward Simon Middleton
Joint and Several Liquidator
acting as agent without personal liability

Patrick Cowley
Joint and Several Liquidator
acting as agent without personal liability

Balance Sheet

As at 31 December 2007

	Note	**2007 HK$'000**	2006 HK$'000
Non-current assets			
Property, plant and equipment	*18*	**285**	978
Investments in subsidiaries	*19*	**5,258**	5,320
Amounts due from subsidiaries	*19*	**–**	–
		5,543	6,298
Current assets			
Other receivables, deposits and prepayments	*23(b)*	**2,805**	28,513
Bank balances (general accounts) and cash	*23(d)*	**13,723**	10,588
		16,528	39,101
Current liabilities			
Other payable and accruals	*23(e)*	**20,767**	16,958
Loan payables	*25*	**60,084**	58,084
Amounts due to subsidiaries	*19*	**5,258**	5,320
Amounts due to directors	*26*	**20,912**	28,737
Obligations under finance leases – due within one year	*27*	**129**	79
		107,150	109,178
Net current liabilities		**(90,622)**	(70,077)
Total assets less current liabilities		**(85,079)**	(63,779)
Non-current liabilities			
Obligations under finance leases – due after one year	*27*	**–**	136
Net liabilities		**(85,079)**	(63,915)
Capital and reserves			
Share capital	*28*	**308,701**	291,505
Reserves	*30*	**(393,780)**	(355,420)
Total capital deficiency		**(85,079)**	(63,915)

Edward Simon Middleton
Joint and Several Liquidator
acting as agent without personal liability

Patrick Cowley
Joint and Several Liquidator
acting as agent without personal liability

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Share capital	Share premium account	Asset revaluation account	Share option reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2006	291,505	30,797	2,650	650	(368,256)	(42,654)
Loss for the year and total recognised income and expenses	–	–	–	–	(16,134)	(16,134)
Recognition of equity-settled share based payments	–	–	–	249	–	249
Forfeiture of share options	–	–	–	(6)	6	–
As at 31 December 2006	291,505	30,797	2,650	893	(384,384)	(58,539)
Loss for the year and total recognised income and expenses	–	–	–	–	(47,603)	(47,603)
Issue of shares for cash under share option plan	17,196	11,598	–	(5,448)	–	23,346
Recognition of equity-settled share based payments	–	–	–	5,599	–	5,599
Forfeiture of share options	–	–	–	(1,044)	1,044	–
As at 31 December 2007	308,701	42,395	2,650	–	(430,943)	(77,197)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007	2006
	HK$'000	HK$'000
Operating activities		
Loss for the year	**(47,603)**	(16,134)
Adjustments for:		
Finance costs	**4,108**	4,083
Share-based payment expense	**5,599**	249
Recovery of impairment loss on trade receivables	**(18)**	(15)
Impairment loss on other receivables, deposits and prepayments	**29,134**	48
Impairment loss on property, plant and equipment	**155**	–
Loss on dissolution of an associate	**–**	18
Depreciation of property, plant and equipment	**529**	726
Amortisation of trading rights	**271**	271
Loss on disposal of property, plant and equipment	**693**	–
Gain on disposal of other intangible assets	**–**	(115)
Operating cash flow before changes in working capital	**(7,132)**	(10,869)
Decrease/(increase) in trade receivables	**5,793**	(19,028)
(Increase)/decrease in other receivables, deposits and prepayments	**(3,422)**	6,473
Decrease/(increase) in bank balances – trust and segregated accounts	**8,090**	(28,738)
(Decrease)/increase in trade payables	**(13,204)**	41,939
(Decrease)/increase in other payables and accrued charges	**(316)**	1,312
Net cash used in operating activities	**(10,191)**	(8,911)
Interest paid	**(8)**	–
Net cash used in operating activities	**(10,199)**	(8,911)
Investing activities		
Purchase of property, plant and equipment	**(688)**	(22)
Net proceeds from disposal of other intangible assets	**–**	615
Advance to an associate	**–**	(3)
Net cash (used in)/from investing activities	**(688)**	590
Financing activities		
Interest paid for obligations under finance leases	**(16)**	(16)
Repayments of obligations under finance leases	**(86)**	(86)
Issue of share capital	**23,346**	–
Increase in loan payables	**2,000**	–
(Decrease)/increase in amounts due to directors	**(7,825)**	16,956
Net cash from financing activities	**17,419**	16,854
Net increase in cash and cash equivalents	**6,532**	8,533
Cash and cash equivalents at 1 January	**12,432**	3,899
Cash and cash equivalents at 31 December represented by:		
Bank balances (general accounts) and cash	**18,964**	12,432

1 CORPORATE INFORMATION

Asia TeleMedia Limited (In Liquidation) (the "Company") is a limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") but have been suspended from trading since 18 March 2008.

The address of the registered office and the principal place of business of the Company was 2808, One Exchange Square, Central, Hong Kong. This office was surrendered to the landlord on 17 June 2008. The registered office and the principal place of business is now the office of the Joint and Several Liquidators of the Company (the "Liquidators") at 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company, and all values are rounded to the nearest thousand except when otherwise indicated.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 19.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Liquidators have received no cooperation from the directors of the Company who are responsible for preparing the financial statements of the Company. As a result and in the absence of such cooperation, the Liquidators have been obliged to prepare these financial statements on the basis of the books and records which came into their possession following their appointment.

The Company and its subsidiaries (the "Group") incurred a consolidated loss attributable to equity holders of the Company of approximately HK$47,603,000 for the year ended 31 December 2007 (2006: approximately HK$16,134,000) and the Company incurred a loss attributable to equity holders of the Company of approximately HK$50,109,000 (2006: approximately HK$15,544,000). As at 31 December 2007, the Company and the Group had net current liabilities of approximately HK$90,622,000 and HK$78,551,000 (2006: approximately HK$70,077,000 and HK$60,717,000) respectively, and deficiency of shareholders' funds of approximately HK$85,079,000 and HK$77,197,000 (2006: approximately HK$63,915,000 and HK$58,539,000), respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's and the Group's ability to continue as a going concern. Therefore, the Company and the Group may be unable to realise their assets and discharge their liabilities in the normal course of business.

A winding-up petition was filed against the Company on 5 June 2007, and a winding-up order was made by the High Court of Hong Kong (the "Court") on 18 March 2008. Messrs Edward Simon Middleton and Patrick Cowley were appointed as the Joint and Several Liquidators of the Company on 14 January 2009 pursuant to an Order of the Court.

As such, the Liquidators do not have the same knowledge of the financial affairs of the Group as the directors of the Company would have, particularly in relation to the transactions entered into by the Group prior to their appointment date.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

Trading in the Company's shares on the Stock Exchange has been suspended since 18 March 2008. The Company was placed into the third stage of delisting procedures in accordance with Practice Note 17 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") on 8 July 2010.

The Liquidators circulated an invitation for restructuring proposals to a number of potential investors and received a number of such proposals. The Liquidators have ultimately accepted the restructuring proposal of Gainhigh Holdings Limited (the "Investor"), a company incorporated in the British Virgin Islands with limited liability. On 14 July 2009, a letter of intent (the "First Letter") jointly issued by the Investor and its controlling shareholder, Mr. Ko Chun Shun Johnson (the "Guarantor") was accepted by the Liquidators (acting as agents for and on behalf of the Company without personal liability) to confirm their interests in a capital and debt restructuring and a subscription of new securities and convertible notes to be issued by the Company with a view to enabling the resumption of trading in the shares of the Company on the Stock Exchange (the "Proposed Restructuring"). Pursuant to the First Letter, the Liquidators granted the Investor an exclusive right to negotiate the detailed terms and implementation of the Proposed Restructuring of the Company (the "Restructuring Agreement") for a period up to 13 April 2010.

Pursuant to a second letter of intent dated 23 July 2010 (the "Second Letter") which was terminated and superseded by a third letter of intent dated 17 December 2010 (the "Third Letter") and a side letter dated 28 February 2011 (the "Side Letter"), the Liquidators granted an exclusive right to the Investor to negotiate the Proposed Restructuring up to the date on which (i) the listing of the Company's shares on the Stock Exchange is cancelled, (ii) the signing of the Restructuring Agreement, or (iii) the Investor withdraws from negotiations on the Proposed Restructuring whichever is the earliest (the "Exclusivity Period").

Up to the date of the publication of these financial statements, the Investor has funded (i) a sum of HK$12.5 million to the Company to meet the professional costs and expenses incurred in connection with the Proposed Restructuring; and (ii) HK$3 million to an escrow agent as a deposit (subject to it being refundable under certain conditions). On 22 September 2009, a facility agreement was entered into between Mansion House Financial Holdings Limited ("MHF"), a wholly-owned subsidiary of the Company, and the Investor. The Investor agreed to provide an interest-bearing term loan facility of up to HK$8 million to the Group as secured by all the issued shares of Mansion House Securities (F.E.) Limited ("MHSFE"), which is an indirect wholly-owned subsidiary of the Company, to finance the regulatory and general working capital requirements of the Group. On 21 September 2010, the Investor approved the injection of the HK$8 million as equity by MHF to MHSFE. MHF further entered into an Amendment Agreement dated 14 October 2010 and an Amendment and Restatement Agreement dated 23 November 2010 with the Investor to amend certain terms of the facility agreement dated 22 September 2009 and for an additional interest-bearing loan facility of up to HK$15,700,000. The facility amount was further increased by HK$15 million pursuant to an Amendment Agreement dated 21 February 2011 and was fully utilised as at 28 February 2011.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

The Company submitted a resumption proposal on 17 December 2010 (updated on 25 March 2011) and subsequently amended by a written submission to the Stock Exchange on 31 March 2011 (together the "Resumption Proposal"). By a letter dated 1 April 2011, the Stock Exchange informed the Company that it was allowed to proceed with the Resumption Proposal, subject to prior compliance with the following conditions to the satisfaction of the Listing Division within six months from the date of the Stock Exchange's letter:

(i) completion of the subscription of new shares and convertible notes by the Investor, the scheme of arrangement (the "Scheme") between the Company and its creditors and all transactions under the Resumption Proposal;

(ii) recruitment of qualified institutional sales (as evidenced by the signing of binding contractual agreements);

(iii) inclusion in the circular to shareholders of a pro forma balance sheet upon completion of the transactions under the Resumption Proposal and provision of a comfort letter from the auditors under Rule 4.29 of the Listing Rules;

(iv) publication of all outstanding financial results; and

(v) permanent stay of the winding-up order and the release and discharge of the Liquidators.

The Company shall also comply with the Listing Rules and all applicable laws and regulations in Hong Kong and the Company's place of incorporation. The Stock Exchange may modify the resumption conditions if the Company's situation changes.

On 27 May 2011, the Company announced that an agreement for the implementation of the Proposed Restructuring which comprises capital restructuring, subscription of new shares and convertible notes, the Scheme and group reorganisation, was entered into on 15 April 2011 among the Company, the Liquidators (acting as agents for and on behalf of the Company without personal liability), the Investor and the Guarantor (the said agreement as the "Restructuring Agreement"). The principal elements of the Restructuring Agreement are as follows:

(a) Capital restructuring

The Company will undergo capital restructuring, involving share consolidation, capital reduction, capital cancellation and authorised share capital increase.

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(Continued)*

(b) Subscription of new shares and convertible notes

Under the Restructuring Agreement, the Investor will contribute HK$172 million to subscribe for the new shares at a subscription price of HK$0.62 each, representing a total consideration of HK$79.5 million and the convertible notes issued by the Company with a principal amount of HK$92.5 million and tenure of five years bearing no interest and convertible into new shares at an initial conversion price of HK$0.62 per new share.

(c) The Scheme

Under the Restructuring Agreement, the Company will apply to the Court for an order to convene a creditors' meeting to consider the Scheme between the Company and its creditors (the "Scheme Creditors"). Upon completion, all the Company's indebtedness (including but not limited to any guarantee or indemnity given by the Company) will be compromised and discharged in full in return for a cash payment of HK$72 million to be distributed in accordance with the terms of the Scheme. This cash payment will be funded by the Company out of the proceeds from the subscription.

(d) Group reorganisation

Under the Restructuring Agreement, upon completion, all the issued shares of several subsidiaries of the Company (the "Excluded Companies") will be transferred to a nominee of the scheme administrators for the benefit of the Scheme Creditors at a nominal consideration of HK$1 and any guarantee or indemnity given by the Company in respect of the obligations or liabilities of each of the Excluded Companies shall be released and discharged in full upon such transfer.

The financial statements of the Group and the Company have been prepared on a going concern basis on the assumption that the Proposed Restructuring of the Company will be successfully completed, and that, following the restructuring, the financial position of the Group and the Company will be substantially improved. The financial statements of the Group and the Company for the year ended 31 December 2007, which have been prepared on the going concern basis, present fairly the results and state of affairs of the Group and the Company.

Should the Group and the Company be unable to achieve a successful restructuring and to continue their businesses as a going concern, adjustments would have to be made to the financial statements to adjust the value of the assets of the Group and the Company to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC) – Int 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of embedded derivatives
HK(IFRIC) – Int 10	Interim financial reporting and impairment
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

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 is required.

However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are set out in notes 6 and 21.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the company's objectives, policies and processes for managing capital. These new disclosures are set out in note 28.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not early applied the following new Standards, Amendments and Interpretations that have been issued but were not effective. The application of these Standards, Amendments and Interpretations will have no material impact on the results and the financial position of the Group.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRSs (Amendments)	Improvements to HKFRSs 2008[6]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[7]
HKFRSs (Amendments)	Improvements to HKFRSs 2010[15]
HKAS 1 (Revised)	Presentation of Financial Statements[8]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[17]
HKAS 23 (Revised)	Borrowing Costs[8]
HKAS 24 (Revised)	Related Party Disclosures[15]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[9]
HKAS 32 (Amendment)	Classification of Rights Issues[13]
HKAS 32 & 1 (Amendment)	Puttable Financial Instruments and Obligation Arising on Liquidation[8]
HKAS 39 (Amendment)	Eligible Hedged Items[9]
HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets[4]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards[9]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[12]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[14]
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters[16]
HKFRS 1 & HKAS 27 (Amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[8]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[8]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[12]
HKFRS 3 (Revised)	Business Combinations[9]
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments[8]
HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets[16]

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 8	Operating Segments[8]
HKFRS 9	Financial Instruments[18]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[11]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[1]
HK(IFRIC) – Int 12	Service Concession Arrangements[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[2]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[15]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[8]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[9]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[10]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[14]

[1] *Effective for annual periods beginning on or after 1 March 2007*
[2] *Effective for annual periods beginning on or after 1 January 2008*
[3] *Effective for annual periods beginning on or after 1 July 2008*
[4] *Effective for reclassification on or after 1 July 2008*
[5] *Effective for annual periods beginning on or after 1 October 2008*
[6] *Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009*
[7] *Effective for annual periods beginning on or after 1 January 2010, unless otherwise specified*
[8] *Effective for annual periods beginning on or after 1 January 2009*
[9] *Effective for annual periods beginning on or after 1 July 2009*
[10] *Effective for transfers on or after 1 July 2009*
[11] *Effective for annual periods ending on or after 30 June 2009*
[12] *Effective for annual periods beginning on or after 1 January 2010*
[13] *Effective for annual periods beginning on or after 1 February 2010*
[14] *Effective for annual periods beginning on or after 1 July 2010*
[15] *Effective for annual periods beginning on or after 1 January 2011*
[16] *Effective for annual periods beginning on or after 1 July 2011*
[17] *Effective for annual periods beginning on or after 1 January 2012*
[18] *Effective for annual periods beginning on or after 1 January 2013*

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes in the titles of the financial statements) and was effective from 1 January 2009, with earlier application permitted. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will only include details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard has introduced the statement of comprehensive income: it presents all items of income and expenses recognised in profit or loss, together with all other items of recognised income and expenses recognised directly in equity, either in one single statement, or in two linked statements.

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 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 1 July 2009.

HKFRS 8, which replaces HKAS 14 "Segment Reporting", is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purposes of allocating resources between segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach.

HKFRS 9 "Financial Instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial Instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

– Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

– In relation to financial liabilities, the significant change relates to the financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of the changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. It is required to be applied retrospectively, but if adopted prior to 1 January 2012, an entity will be exempt from the requirement to restate prior period comparative information. The Group is presently studying the implications of applying HKFRS 9. It is impracticable to quantify the impact of HKFRS 9 as at the date of publication of these financial statements.

The Group anticipates that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for trading rights which are measured at revalued amounts, as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's policies. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation

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

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

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

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

(b) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at costs, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of business combination, the excess is recognised immediately in profit or loss.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale or included in a disposal group that is classified as held for sale.

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Intangible assets

Trading rights represent right to trade on the Stock Exchange and Hong Kong Futures Exchange Limited (the "Future Exchange"). They are stated at revalued amount and amortised using the straight-line method over their estimated useful lives.

Trading rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the trading rights' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of determining the recoverable amount of trading rights, the Group estimates the recoverable amount of smallest cash generating unit to which the trading rights belong.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accounted impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When 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.

(d) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Motor vehicles	20%
Computers	20%
Office equipment and furniture	20%
Leasehold improvements	Over the shorter of lease term or 20%

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

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment *(Continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the year in which they are incurred.

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.

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

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

(e) Revenue recognition

Revenue arising from financial services are recognised on the following bases:

- Commission income for broking business is recorded as income on trade date basis.
- Arrangement, management, advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered.
- Interest income from clients is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Interest income from authorised institutions is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Service fees are recognised when the relevant services are rendered.

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Leasing

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

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance lease charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 4(m) below).

(g) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income 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 the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the 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.

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Retirement benefit costs

Payments to Mandatory Provident Fund Scheme and defined contribution retirement plans are charged as expenses as they fall due.

(i) Share-based payment transactions

The Group issues equity-settled share-based payments to certain employees. The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

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

(j) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity has become 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 as loans and receivables. The accounting policies adopted for the Group's financial assets are set out below.

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

Financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, bank balances – trust and segregated accounts and bank balances (general accounts) and cash) are carried at amortised cost using the effective interest rate method, less any identified impairment losses (see accounting policy in respect of impairment on financial assets below), unless the effect of discounting would be immaterial, in which case they are stated at cost less provision for impairment.

Impairment of financial assets

Financial assets 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 loans and receivables, 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 receivables could include the Group's past experience of collecting payments and 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.

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

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 loss 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.

Financial liabilities and equity instruments

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.

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss and other financial liabilities. The Group classifies its financial liabilities into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Other financial liabilities

Other financial liabilities, including trade and other payables, amounts due to directors and subsidiaries, loan payables and obligations under finance leases, are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

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 and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

(k) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash in hand, deposits held at call with banks and short-term bank deposits with an original maturity period of three months or less.

(l) Foreign currencies

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

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Foreign currencies *(Continued)*

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. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

(m) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are interrupted or completed.

(n) Provisions and contingent liabilities

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

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

(o) Related parties

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

(i) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Group;
- has an interest in the company that gives it significant influence over the Group; or
- has joint control over the Group

(ii) the party is a member of key management personnel of the Company or its parent company;

4 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Related parties *(Continued)*

(iii) the party is a close member of the family of any individual referred to in (i) and (ii);

(iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entities resides with, directly or indirectly, the individual referred to in (ii) or (iii);

(v) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

5 KEY SOURCES OF ESTIMATION UNCERTAINTY

In application of the Group's accounting policies, which are described in note 4, the Group is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Going concern

The financial statements have been prepared on a going concern basis, the validity of which depends upon the Company being able to achieve a successful restructuring and continue its business. Details are explained in note 2 to the financial statements above.

Estimated impairment of trade receivables, other receivables, deposits and prepayments, and loan 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, a material impairment loss may arise. As at 31 December 2007, the carrying amount of trade receivables, other receivables, deposits and prepayments, and loan receivables are approximately HK$20,568,000, HK$2,806,000 and nil respectively (net of allowance for doubtful debts of approximately HK$26,153,000, HK$29,134,000 and HK$80,843,000 respectively).

5 KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Contingent liabilities in respect of claims

The Group has been engaged in a number of claims subsequently which may affect the results of the current year. Contingent liabilities arising from these claims have been assessed by the Liquidators with reference to legal advice. Provision for the possible obligation, if appropriate, is made based on the Liquidators' best estimates and judgements.

6 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The carrying amounts of each of the categories of the Group's financial assets and liabilities as at the balance sheet date are as follows:

Financial assets

	The Group		**The Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loans and receivables:				
Trade receivables	**20,568**	26,343	**–**	–
Bank balances – trust and segregated accounts	**54,348**	62,438	**–**	–
Bank balances (general accounts) and cash	**18,964**	12,432	**13,723**	10,588
	93,880	101,213	**13,723**	10,588

Financial liabilities

	The Group		**The Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities measured at amortised costs:				
Trade payables	**72,886**	86,090	**–**	–
Financial liabilities included in other payables and accrued charges	**18,055**	14,849	**17,801**	14,393
Amounts due to directors	**20,912**	28,737	**20,912**	28,737
Amounts due to subsidiaries	**–**	–	**5,258**	5,320
Loan payables	**60,084**	58,084	**60,084**	58,084
Obligations under finance leases	**129**	215	**129**	215
	172,066	187,975	**104,184**	106,749

6 FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

(i) Currency risk

The Group's monetary assets and liabilities are principally denominated in HKD and Renminbi ("RMB"). Currency risk arises from future commercial transactions and recognised assets and liabilities. The Group adopted a conservative treasury policy with most of the bank deposits being kept in HKD or RMB to minimise exposure to currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

At 31 December 2007, it is estimated that a general increase/decrease of 5% (2006: 5%) in exchange rates of all foreign currencies, with all other variables held constant, would decrease/increase the Group's loss for the year and equity by approximately HK$482,000 (2006: HK$270,000)

The sensitivity analysis above has been determined assuming that the change in exchange rate had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for financial instruments in existence at that date. 5% (2006: 5%) increase or decrease in exchange rates represents management's assessment of a reasonably possible change in exchange rates. The analysis is performed on the same basis for 2006.

(ii) Interest rate risk

The Group's exposure to cashflow interest rate risk is mainly attributable to its bank balance (general accounts) and variable-rate trade receivables. The Group's fair value interest rate risk relates primarily to fixed-rate loan payables and obligations under finance leases.

The Group currently does not have any interest rate hedging policy. The management monitors the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arises.

At 31 December 2007, it is estimated that a general increase/decrease of 50 basis points (2006: 50 basis points) in interest rates, with all other variables held constant, would have no significant impact on the Group's loss and equity for the year ended 31 December 2006 and 2007.

6 FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(ii) Interest rate risk (Continued)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the Group's exposure to interest rate risk for financial instruments in existence at that date. A 50 basis points (2006: 50 basis points) increase or decrease in interest rates represents management's assessment of a reasonably possible change in interest rates. The analysis is performed on the same basis for 2006.

(iii) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group are exposed to credit risk are trade and other receivables, loan receivables, bank balances.

In order to minimise the credit risk, the management of the Group is responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and receivables from cash clients with shortfalls. In addition, the Group reviews the recoverable amount of each individual account receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the Group's credit risk is effectively controlled and significantly reduced.

At the balance sheet date, the Group has a certain concentration of credit risk as 43% (2006: 40%) of the total client receivables net of provision was due from the five largest clients of the Group.

Bank balances are placed with high-credit-quality institutions and management considers that the credit risk for such is minimal.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 21.

6 FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(iv) Liquidity risk

As at 31 December 2007, the Company and the Group had net current liabilities of approximately HK$90,622,000 and HK$78,551,000 (2006: approximately HK$70,077,000 and HK$60,717,000) respectively, and deficiency of shareholders' funds of approximately HK$85,079,000 and HK$77,197,000 (2006: approximately HK$63,915,000 and HK$58,539,000), respectively. The maintenance of the Company and the Group as going concerns depends upon the Company being able to achieve a successful restructuring and continue its business. Details are explained in note 2 to the financial statements above.

The following table details the remaining contractual maturities at the balance sheet date of the Company and the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the balance sheet date) and the earliest date the Company and the Group can be required to pay:

The Group

As at 31 December 2007	Less than 1 year HK$'000	1 – 2 years HK$'000	Total undiscounted cash flow HK$'000	Carrying Amount HK$'000
Trade payables	72,886	–	72,886	72,886
Financial liabilities included in other payables and accrued charges	18,055	–	18,055	18,055
Loan payables	60,084	–	60,084	60,084
Obligations under finance leases	153	–	153	129
Amounts due to directors	20,912	–	20,912	20,912
	172,090	–	172,090	172,066

6 FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(iv) Liquidity risk (Continued)

The Group *(Continued)*

As at 31 December 2006	Less than 1 year HK$'000	1 – 2 years HK$'000	Total undiscounted cash flow HK$'000	Carrying Amount HK$'000
Trade payables	86,090	–	86,090	86,090
Financial liabilities included in other payables and accrued charges	14,849	–	14,849	14,849
Loan payables	58,084	–	58,084	58,084
Obligations under finance leases	93	161	254	215
Amounts due to directors	28,737	–	28,737	28,737
	187,853	161	188,014	187,975

The Company

As at 31 December 2007	**Less than 1 year HK$'000**	**1 – 2 years HK$'000**	**Total undiscounted cash flow HK$'000**	**Carrying Amount HK$'000**
Financial liabilities included in other payables and accrued charges	**17,801**	**–**	**17,801**	**17,801**
Loan payables	**60,084**	**–**	**60,084**	**60,084**
Obligations under finance leases	**153**	**–**	**153**	**129**
Amounts due to subsidiaries	**5,258**	**–**	**5,258**	**5,258**
Amounts due to directors	**20,912**	**–**	**20,912**	**20,912**
	104,208	**–**	**104,208**	**104,184**

6 FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

(iv) Liquidity risk (Continued)

The Company *(Continued)*

As at 31 December 2006	Less than 1 year HK$'000	1 – 2 years HK$'000	Total undiscounted cash flow HK$'000	Carrying Amount HK$'000
Financial liabilities included in other payables and accrued charges	14,393	–	14,393	14,393
Loan payables	58,084	–	58,084	58,084
Obligations under finance leases	93	161	254	215
Amounts due to subsidiaries	5,320	–	5,320	5,320
Amounts due to directors	28,737	–	28,737	28,737
	106,627	161	106,788	106,749

There were no derivative financial liabilities as at 31 December 2006 and 2007 included in the consolidated and the Company's balance sheets.

(c) Fair value estimation

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

– the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determine with reference to quoted market bid prices; and

– the fair values of other financial assets and financial liabilities determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions as input.

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

7 REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable during the year. An analysis of the Group's revenue for the year is as follows:

	2007 HK$'000	2006 HK$'000
Brokerage and commission income	**10,217**	5,396
Interest income	**525**	204
	10,742	5,600

For management purposes, the Group is currently organised into one operating division – financial services in Hong Kong. Financial services comprises securities broking and underwriting. No segment information is presented.

8 OTHER OPERATING INCOME

	2007 HK$'000	2006 HK$'000
Management, handling fee and nominee services	**560**	448
Miscellaneous income	**187**	164
Net exchange gain	**2,748**	873
Gain on disposal of other intangible assets	**–**	115
	3,495	1,600

9 STAFF COSTS

	2007 HK$'000	2006 HK$'000
Staff costs (including directors' remuneration)		
– salaries, allowances and commission	**8,538**	6,867
– contributions to defined contribution retirement plan	**233**	247
– equity-settled share-based payment expenses in relation to the grant of share options	**5,599**	249
Total staff costs	**14,370**	7,363

10 DIRECTORS' EMOLUMENTS

The remuneration paid or payable to each of the five (2006: five) directors were as follows:

	LU Ruifeng HK$'000	**YIU Hoi Ying HK$'000**	**LU Ning HK$'000**	**LI Chun HK$'000**	**LAU Hak Lap HK$'000**	**Total HK$'000**
2007						
Fees	**20**	**20**	**50**	**50**	**50**	**190**
Other emoluments						
Salaries and other benefits	**960**	**360**	**–**	**–**	**–**	**1,320**
Retirement benefits scheme contribution	**12**	**12**	**–**	**–**	**–**	**24**
Share-based payment *(note)*	**3**	**18**	**3**	**3**	**3**	**30**
Total emoluments	**995**	**410**	**53**	**53**	**53**	**1,564**

	LU Ruifeng HK$'000	YIU Hoi Ying HK$'000	LU Ning HK$'000	LI Chun HK$'000	LAU Hak Lap HK$'000	Total HK$'000
2006						
Fees	20	20	50	50	50	190
Other emoluments						
Salaries and other benefits	960	360	–	–	–	1,320
Retirement benefits scheme contribution	12	12	–	–	–	24
Share-based payment *(note)*	9	70	9	9	9	106
Total emoluments	1,001	462	59	59	59	1,640

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 4.

11 EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2006: two) was director, of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining four (2006: three) were as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other benefits	**2,619**	1,434
Retirement benefits scheme contribution	**40**	36
Share-based payments	**915**	105
	3,574	1,575

The emoluments were within the following bands:–

	Number of employees	
	2007	2006
Not exceeding HK$1,000,000	**3**	3
HK$1,000,000 to HK$1,500,000	**1**	–
	4	3

During the years ended 31 December 2006 and 2007, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join the Group or as compensation for loss of office. In addition, during the years ended 31 December 2006 and 2007, no directors waived any emoluments.

12 FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Interest on bank loans and overdrafts, wholly repayable within five years	**8**	–
Interest on other loans, wholly repayable within five years	**4,084**	4,067
Finance charges on obligations under finance leases, wholly repayable within five years	**16**	16
	4,108	4,083

13 INCOME TAX

No provision for Hong Kong Profits Tax was made for both years as the Group either had no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by tax losses brought forward for the two years ended 31 December 2007 and 2006.

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

	2007 HK$'000	2006 HK$'000
Loss before taxation	**(47,603)**	(16,134)
Tax at applicable Hong Kong profits tax rate at 17.5% (2006:17.5%)	**(8,330)**	(2,823)
Tax effect of non-deductible expenses	**7,806**	1,122
Tax effect of non-taxable income	**(115)**	(24)
Utilisation of deferred tax assets previously not recognised	**(394)**	–
Deferred tax assets not recognised	**1,033**	1,725
Tax charge for the year	**–**	–

At the balance sheet date, the Group has estimated unused tax losses of approximately HK$277 million (2006: HK$274 million) available to set off against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams, and no deferred tax liability in respect of accelerated depreciation allowance has been recognised as the amount involved is insignificant.

14 LOSS FOR THE YEAR

Loss for the year has been arrived at after charging the following:

	2007 HK$'000	2006 HK$'000
Auditors' remuneration	**510**	360
Amortisation of trading rights	**271**	271
Impairment loss on property, plant and equipment	**155**	–
Loss on disposal of property, plant and equipment	**693**	–
Depreciation		
– owned assets	**443**	640
– leased assets	**86**	86
Loss on dissolution of an associate	**–**	18
Consultancy fees	**740**	2,610
Rental in respect of office premises	**3,580**	2,111

15 LOSS ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated loss attributable to equity shareholders of the Company includes a loss of HK$50,109,000 (2006: HK$15,544,000) which has been dealt with in the financial statements of the Company.

16 DIVIDENDS

No dividend was paid or proposed for the year ended 31 December 2007 (2006: nil), nor has any dividend been proposed since the end of the reporting period.

17 LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of HK$47,603,000 (2006: HK$16,134,000) and 1,512,302,000 (2006: 1,457,527,000) shares in issue during the year.

Diluted loss per share for the years ended 31 December 2006 and 2007 has not been presented as the effect of any dilution is anti-dilutive.

18 PROPERTY, PLANT AND EQUIPMENT

The Group

	Motor Vehicles HK$'000	Computers HK$'000	Office equipment and furniture HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost					
At 1 January 2006	666	536	562	1,336	3,100
Additions	–	22	–	–	22
At 31 December 2006	666	558	562	1,336	3,122
At 1 January 2007	666	558	562	1,336	3,122
Additions	–	78	610	–	688
Disposals	(237)	(41)	(604)	–	(882)
At 31 December 2007	429	595	568	1,336	2,928
Accumulated depreciation and impairment					
At 1 January 2006	157	317	185	668	1,327
Charge for the year	129	56	96	445	726
At 31 December 2006	286	373	281	1,113	2,053
At 1 January 2007	286	373	281	1,113	2,053
Charge for the year	86	57	163	223	529
Impairment loss	–	46	109	–	155
Eliminated on disposals	(100)	(13)	(76)	–	(189)
At 31 December 2007	272	463	477	1,336	2,548
Net book value					
At 31 December 2007	157	132	91	–	380
At 31 December 2006	380	185	281	223	1,069

18 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Motor Vehicles HK$'000	Computers HK$'000	Office equipment and furniture HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost					
At 1 January 2006	666	121	480	1,336	2,603
Additions	–	17	–	–	17
At 31 December 2006	666	138	480	1,336	2,620
At 1 January 2007	666	138	480	1,336	2,620
Additions	–	42	610	–	652
Disposals	(237)	(41)	(604)	–	(882)
At 31 December 2007	429	139	486	1,336	2,390
Accumulated depreciation and impairment					
At 1 January 2006	157	18	105	668	948
Charge for the year	129	25	95	445	694
At 31 December 2006	286	43	200	1,113	1,642
At 1 January 2007	286	43	200	1,113	1,642
Charge for the year	86	25	163	223	497
Impairment loss	–	46	109	–	155
Eliminated on disposals	(100)	(13)	(76)	–	(189)
At 31 December 2007	272	101	396	1,336	2,105
Net book value					
At 31 December 2007	157	38	90	–	285
At 31 December 2006	380	95	280	223	978

Subsequent to 31 December 2007, several items of property, plant and equipment have been sold and disposed of. In light of this consideration, the Group and the Company recognised impairment losses of approximately HK$155,000 for the Group and the Company's property, plant and equipment in the consolidated income statement and the income statement, respectively.

During the year ended 31 December 2007, the carrying amounts of the Group's and the Company's motor vehicles include an amount of HK$157,000 (2006: HK$243,000) in respect of assets held under finance leases.

19 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**13,460**	13,460
Impairment loss recognised	**(8,202)**	(8,140)
	5,258	5,320
Amounts due from subsidiaries	**79,597**	79,054
Impairment loss recognised	**(79,597)**	(79,054)
	–	–
Amounts due to subsidiaries	**5,258**	5,320

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand. The carrying amount at the balance sheet date approximates their fair value.

Due to the continue losses incurred by the subsidiaries, the Company reassessed the recoverable amounts of the investment costs of the subsidiaries and the amounts due from subsidiaries based on discounted future cash flow from the subsidiaries and recognised an impairment of HK$8,202,000 (2006: HK$8,140,000) and HK$79,597,000 (2006: HK$79,054,000) respectively.

The movement in the allowance for impairment of amount due from subsidiaries as of balance sheet date is as follows:

	The Company	
	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**79,054**	87,344
Reversal of impairment loss	**–**	(8,290)
Impairment loss recognised	**543**	–
Balance at end of the year	**79,597**	79,054

19 INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES *(Continued)*

Details of the Company's subsidiaries which principally affected the results or assets of the Group as at 31 December 2007 are all operating in Hong Kong and are as follows:

Name of company	Place of incorporation	Paid up share capital	Class of shares held	Percentage of nominal values of issued share capital held by the Company Directly %	Indirectly %	Principal activities
Mansion House Financial Holdings Limited	British Virgin Islands	955,000 shares of US$1 each	Ordinary	100	–	Investment holding
Mansion House Securities (F.E.) Limited	Hong Kong	30,000,000 shares of HK$1 each	Ordinary	–	100	Securities broking
Mansion House Asset Management Limited	Hong Kong	1,000,000 shares of HK$1 each	Ordinary	–	100	Inactive
Mansion House (Nominee) Limited	Hong Kong	100 shares of HK$1 each	Ordinary	–	100	Nominee service and investment holding
MHS Futures Limited	Hong Kong	6,000,000 shares of HK$1 each	Ordinary	100	–	Investment holding

20 TRADING RIGHTS

	The Group HK$'000
Revalued amount	
At 1 January 2006, 1 January 2007 and 31 December 2007	6,000
Accumulated amortisation	
At 1 January 2006	4,914
Provided for the year	271
At 31 December 2006 and 1 January 2007	5,185
Provided for the year	271
At 31 December 2007	5,456
Net book value	
At 31 December 2007	544
At 31 December 2006	815

20 TRADING RIGHTS *(Continued)*

The Group holds two trading rights at the Stock Exchange and one trading right at the Futures Exchange. These trading rights were revalued as at 31 December 2001 and are amortised over 8 years from 2002.

Had the trading rights been carried at cost less accumulated amortisation, they would have been fully amortised as at 31 December 2007 and 31 December 2006.

21 TRADE RECEIVABLES

	The Group	
	2007	2006
	HK$'000	HK$'000
Margin clients *(note (ii))*	**26,154**	26,172
Cash clients	**17,775**	21,529
Broker, dealers and clearing houses	**2,792**	4,813
	46,721	52,514
Less: allowance for doubtful debts *(note (ii))*	**(26,153)**	(26,171)
	20,568	26,343

Note (i)

The Group allows the settlement terms of trade receivables arising from the business of dealing in securities to be two days after trade date. The following is an aged analysis of trade receivables net of allowance for doubtful debts at end of the reporting period:

	2007	2006
	HK$'000	HK$'000
Within 30 days	**20,385**	26,275
Within 31 – 90 days	**139**	1
More than 90 days	**44**	67
	20,568	26,343

The Group has procedures and policies to assess the potential client's credit quality and defines credit limits for each client. All client acceptance and credit limit are approved by designated approvers according to the client's credit worthiness. Most of the trade receivables that are neither past due nor impaired have good repayment history in prior years.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of HK$1,286,000 (2006: HK$2,704,000) which are past due at the reporting date in respect of which the Group has not provided for impairment loss.

21 TRADE RECEIVABLES *(Continued)*

Note (i) (Continued)

Ageing analysis of trade receivables which are past due but not impaired is as follows:

	2007	2006
	HK$'000	HK$'000
Within 30 days	**1,104**	2,637
More than 30 days	**182**	67
	1,286	2,704

No impairment loss was provided for these balances as the Group holds securities collateral for those balances with fair values over the past due amounts.

The Group has policy for allowance for doubtful debts which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgment including the creditworthiness, collaterals and the collection history of each client.

Note (ii)

The Group ceased providing margin financing services in 2004 and the balance represents the past due amount due from margin clients brought forward from the year 2004. A substantial amount of impairment has been provided.

The movement in the allowance for doubtful debts during the year is as follows:

	2007	2006
	HK$'000	HK$'000
Balance at beginning of the year	**26,171**	26,186
Amount recovered during the year	**(18)**	(15)
Balance at end of the year	**26,153**	26,171

Included in the allowance for doubtful debts amounting to approximately HK$26,153,000 (2006: HK$26,171,000) were individually impaired margin clients trade receivables which have financial difficulties and defaults in payments. Consequently, specific allowance for doubtful debts was recognised. The Group does not hold any collateral over these balances.

Included among the margin clients trade receivables, the Group granted HK$17,154,000 (2006: HK$17,154,000) margin loans to the companies controlled by family members of an ex-director, which were fully provided. Details of the loans are set out in note 33(c).

22 LOAN RECEIVABLES

	The Group	
	2007	2006
	HK$'000	HK$'000
Loan receivables	**80,843**	80,843
Less: allowance for doubtful loans	**(80,843)**	(80,843)
	–	–

Details of the loan receivables are set out in note 33.

23 OTHER ASSETS AND LIABILITIES

(a) Statutory deposits for financial services business

Statutory deposits for financial services business represent deposits with various exchanges and clearing houses. The amounts are non-interest bearing and have no fixed terms of repayment.

(b) Other receivables, deposits and prepayments

Included in the other receivables, deposits and prepayments are amounts of approximately HK$28,880,000 and HK$254,000 (2006: HK$27,725,000 and HK$419,000) representing the deposits placed with an agency and sundry deposits paid for the PRC representative offices of the Company. As the PRC representative offices have been closed, these amounts are fully written off and are recognised in the consolidated income statement for the year ended 31 December 2007.

(c) Bank balances – trust and segregated accounts

From the Group's ordinary business, it receives and holds money deposited by clients and other institutions in the course of the conduct of the regulated activities. These clients' monies are maintained in one or more segregated bank accounts. The Group has classified the bank balances – trust and segregated accounts under current assets in the consolidated balance sheet and recognised the corresponding account payables to respective clients and other institutions on the grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

(d) Bank balances (general accounts) and cash

The amounts comprise cash held by the Group.

23 OTHER ASSETS AND LIABILITIES *(Continued)*

(e) Other payables and accrued charges

Included in the balance is the accrued loan interest payable of approximately HK$14,971,000 (2006: HK$10,887,000). Details of the loan payable are set out in note 25.

24 TRADE PAYABLES

	The Group	
	2007	2006
	HK$'000	HK$'000
Cash clients	**72,885**	86,089
Broker, dealers and clearing houses	**1**	1
	72,886	86,090

Included in trade and other payables are payables to clients and other institutions in respect of the trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities, which amount to HK$54,348,000 (2006: HK$62,438,000). Details of bank balances – trust and segregated accounts are set out in note 23(c) above.

The ageing analysis of the Group's trade payables at the end of the reporting period, based on the settlement due date, is within 30 days.

25 LOAN PAYABLES

	The Group and the Company	
	2007	2006
	HK$'000	HK$'000
Unsecured loan payables	**60,084**	58,084

Included in the loan payables is an amount due to a lender with carrying amount of HK$2,000,000 (2006: nil) which does not carry interest as at 31 December 2007 and is repayable within one year. Interest at a rate of 8% per annum will be charged in the event of default. Such loan payable is not due as at 31 December 2007.

The remaining amount of loan payables carries an effective interest rate of 7% per annum (2006: 7%) as at 31 December 2007. The Company was in default in repayment during the year. As a consequence, a winding-up petition against the Company was filed by the lender on 5 June 2007 and a winding-up order was made by the Court on 18 March 2008.

26 AMOUNTS DUE TO DIRECTORS

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

27 OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2007, the Group had obligations under finance leases repayable as follows:

	Minimum lease payment		**Present value of minimum lease payment**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amount payable under finance leases:				
Within 1 year	**153**	93	**129**	79
In the second year	**–**	102	**–**	79
In the third and fifth years, inclusive	**–**	60	**–**	57
	153	255	**129**	215
Less: future finance charges	**(24)**	(40)		
Present value of lease obligations	**129**	215		
Less: amount due for settlement within one year shown under current liabilities			**(129)**	(79)
Amount due for settlement after one year			**–**	136

It is the Group's policy to lease its motor vehicle under finance lease. The lease term is 5 years and the effective borrowing rate is 3.75%. Interest rate is fixed at the contract date. The lease is on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's and the Company's obligations under finance leases are secured by the lessor's charge over the leased assets.

Subsequent to the year ended 31 December 2007, the leased assets have been sold to recover the Group's and the Company's obligations under finance leases. Therefore, the Group's and the Company's obligations under finance leases are classified as a current liability in the consolidated balance sheet and the Company's balance sheet for the year ended 31 December 2007.

28 SHARE CAPITAL

(a) Authorised and issued share capital

	2007		2006	
	Number of shares	**Amount HK$'000**	Number of shares	Amount HK$'000
Ordinary shares of HK$0.20 each				
Authorised:				
At 1 January and 31 December	**2,000,000,000**	**400,000**	2,000,000,000	400,000
Issued and fully paid:				
At 1 January	**1,457,527,296**	**291,505**	1,457,527,296	291,505
Issue of shares under share option plan	**85,980,000**	**17,196**	–	–
At 31 December	**1,543,507,296**	**308,701**	1,457,527,296	291,505

During the year, 85,980,000 ordinary shares of HK$0.20 each were issued pursuant to the share option scheme of the Company at consideration of HK$23,346,000 of which HK$17,196,000 was credited to share capital and the balance of HK$6,150,000 was credited to the share premium account.

(b) Capital management

Capital comprises of share capital and reserves stated on the balance sheet. The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

Neither the company nor its subsidiaries, except for MHSFE, is subject to externally imposed capital requirements.

28 SHARE CAPITAL *(Continued)*

(b) Capital management *(Continued)*

MHSFE, is regulated by the Securities and Futures Commission ("SFC") and is required to comply with certain minimum capital requirements according to Hong Kong Securities and Futures Ordinance.

MHSFE manages its capital requirements by assessing shortfalls, if any, between the reported and the required capital levels on daily basis. The management monitors the MHSFE's liquid capital daily to ensure they meet the minimum liquid capital requirement in accordance with the Securities and Futures (Financial Resources) Rules ("FRR") adopted by the SFC. Under the FRR, the MHSFE must maintain its liquid capital in excess of HK$3 million or 5% of their total adjusted liabilities whichever is higher. The required information is filed with the SFC on a monthly basis. MHSFE has no non-compliance of the capital requirements imposed by FRR during the year.

29 SHARE OPTION SCHEME

The Company operates share option schemes under which eligible persons are entitled to benefit in respect of their services to the Group.

2002 Share Option Scheme

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 27 June 2002, the Company adopted the 2002 Share Option Scheme to replace the 1998 Share Option Scheme. All the options granted under the 1998 Share Option Scheme remain valid and unchanged and shall be treated in accordance with the terms under the 1998 Share Option Scheme. The major terms of the 2002 Share Option Scheme are summarised as follows:

(i) The purpose is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company as a whole.

(ii) The participants include any employee, director or consultant of the Group, whether full time or otherwise.

(iii) The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and other share option schemes of the Company shall not exceed 10% of the issued share capital of the Company as at the adoption date of the 2002 Share Option Scheme and such limit may be refreshed by shareholders of the Company in general meeting. However, the overall limit on the number of shares which may be issued upon exercise of all options granted and yet to be exercised under the 2002 Share Option Scheme and any other share option schemes must not exceed 30% of the shares of the Company in issue from time to time.

29 SHARE OPTION SCHEME *(Continued)*

2002 Share Option Scheme *(Continued)*

(iv) Unless approved by the shareholders of the Company, the total number of shares issued and to be issued upon exercise of the options granted to a participant (including both exercised and outstanding options) in any 12 months period must not exceed 1% of the shares in issue.

(v) The option period shall be a period to be notified by the Board to each grantee at the time of making an offer subject to such conditions as the Board may think fit and which shall not expire later than 10 years from the date of grant.

(vi) Acceptance of an option shall be made within 21 days from the date of grant together with a non-refundable payment of HK$10.00 from the grantee.

(vii) The exercise price of an option must be at least the highest of:

- the closing price of the share as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day;
- the average closing price of the share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and
- the nominal value of the share.

(viii) The 2002 Share Option Scheme shall be valid and effective for 10 years from the date of adoption.

29 SHARE OPTION SCHEME *(Continued)*

The following table discloses details of the Company's share options held by the Directors and the employees of the Group and movements in such holdings during the year.

Name of Scheme	Date of grant	Exercise period	Exercise price HK$	Outstanding as at 1.1.2006	Granted in 2006	Lapsed in 2006	Outstanding as at 31.12.2006	Granted in 2007	Exercised in 2007	Lapsed in 2007	Outstanding as at 31.12.2007
1998 Share option scheme											
Employees	1.3.2001	1.9.2001 to 31.8.2006	0.38	400,000	–	400,000	–	–	–	–	–
2002 Share option scheme											
Directors											
Mr. LU Reifeng	23.3.2005	23.3.2005 to 22.3.2010	0.20	500,000	–	–	500,000	–	500,000	–	–
	23.3.2005	23.3.2007 to 22.3.2010	0.20	500,000	–	–	500,000	–	500,000	–	–
	28.12.2007	28.12.2007 to 27.12.2010	0.20	–	–	–	–	1,500,000	–	1,500,000	–
Mr. YIU Hoi Ying	23.3.2005	23.3.2005 to 22.3.2010	0.20	4,000,000	–	–	4,000,000	–	4,000,000	–	–
	23.3.2005	23.3.2007 to 22.3.2010	0.20	4,000,000	–	–	4,000,000	–	4,000,000	–	–
	28.12.2007	28.12.2007 to 27.12.2010	0.20	–	–	–	–	2,000,000	–	2,000,000	–
Mr. LU Ning	23.3.2005	23.3.2005 to 22.3.2010	0.20	500,000	–	–	500,000	–	500,000	–	–
	23.3.2005	23.3.2007 to 22.3.2010	0.20	500,000	–	–	500,000	–	500,000	–	–
	28.12.2007	28.12.2007 to 27.12.2010	0.20	–	–	–	–	1,000,000	–	1,000,000	–
Mr. LI Chun	23.3.2005	23.3.2005 to 22.3.2010	0.20	500,000	–	–	500,000	–	–	500,000	–
	23.3.2005	23.3.2007 to 22.3.2010	0.20	500,000	–	–	500,000	–	–	500,000	–
	28.12.2007	28.12.2007 to 27.12.2010	0.20	–	–	–	–	1,000,000	–	1,000,000	–
Mr. LAU Hak Lap	23.3.2005	23.3.2005 to 22.3.2010	0.20	500,000	–	–	500,000	–	–	500,000	–
	23.3.2005	23.3.2007 to 22.3.2010	0.20	500,000	–	–	500,000	–	–	500,000	–
	28.12.2007	28.12.2007 to 27.12.2010	0.20	–	–	–	–	1,000,000	–	1,000,000	–
Employees and consultant	23.3.2005	23.3.2005 to 22.3.2010	0.20	9,516,000	–	144,000	9,372,000	–	9,372,000	–	–
	23.3.2005	23.3.2007 to 22.3.2010	0.20	9,516,000	–	144,000	9,372,000	–	8,358,000	1,014,000	–
	26.10.2006	26.10.2006 to 25.10.2011	0.20	–	30,000,000	–	30,000,000	–	27,500,000	2,500,000	–
	26.10.2006	26.10.2008 to 25.10.2011	0.20	–	30,000,000	–	30,000,000	–	–	30,000,000	–
	9.2.2007	9.2.2008 to 8.2.2010	0.20	–	–	–	–	10,000,000	–	10,000,000	–
	7.5.2007	9.2.2008 to 8.2.2010	0.40	–	–	–	–	3,750,000	–	3,750,000	–
	7.5.2007	7.5.2007 to 6.5.2009	0.40	–	–	–	–	33,750,000	30,750,000	3,000,000	–
	28.12.2007	28.12.2007 to 27.12.2011	0.20	–	–	–	–	52,284,000	–	52,284,000	–
	28.12.2007	28.12.2009 to 27.12.2011	0.20	–	–	–	–	1,884,000	–	1,884,000	–
				31,032,000	60,000,000	288,000	90,744,000	108,168,000	85,980,000	112,932,000	–
				31,432,000	60,000,000	688,000	90,744,000	108,168,000	85,980,000	112,932,000	–

29 SHARE OPTION SCHEME *(Continued)*

The estimated fair values of the options granted during the year ranged from HK$0.0004 to HK$0.2229 (2006: HK$0.0005).

These fair values were calculated using the Binomial pricing model. The inputs into the model were as follows:

	2006	**2007**
Share price	HK$0.08	**HK$0.17 to HK$0.40**
Exercise price	HK$0.20	**HK$0.20 to HK$0.40**
Expected volatility	17%	**4% to 88%**
Expected life	5 years	**2 to 4 years**
Risk-free rate	3.907%	**0.59% to 4.18%**
Expected dividend yield	Nil	**Nil**

Expected volatility was determined by using the historical volatility of the Company's share price over the previous year. 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.

A share-based payment expense amounting to approximately HK$5,599,000 (2006: HK$249,000) has been recognised by the Company for the year ended 31 December 2007 in relation to share options granted by the Company.

According to the share option scheme, the share options granted shall lapse automatically (to the extent not already exercised) on the date of commencement of winding-up of the Company. Accordingly, all the share options granted have lapsed in accordance with the share option scheme.

30 SHARE PREMIUM AND RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 10 of the financial statements.

	Share premium account HK$'000 *(note)*	**Share option reserve** HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
The Company				
As at 1 January 2006	30,797	650	(371,572)	(340,125)
Loss for the year and total recognised income and expense	–	–	(15,544)	(15,544)
Recognition of equity-settled share-based payments	–	249	–	249
Forfeiture of share options	–	(6)	6	–
As at 31 December 2006 and 1 January 2007	30,797	893	(387,110)	(355,420)
Loss for the year and total recognised income and expense	–	–	(50,109)	(50,109)
Issue of shares for cash under share option plan	11,598	(5,448)	–	6,150
Recognition of equity-settled share-based payments	–	5,599	–	5,599
Forfeiture of share options	–	(1,044)	1,044	–
As at 31 December 2007	42,395	–	(436,175)	(393,780)

Note

The share premium account represents the excess of proceeds received over the nominal value of the Company's shares issued, less share issue expenses. The application of share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

31 OPERATING LEASE COMMITMENT

At 31 December 2007, the Group and the Company had total commitments for future minimum lease payment under non-cancellable operating leases in respect of office premises which fall due as follows:

	The Group and the Company	
	2007	2006
	HK$'000	HK$'000
Within one year	**5,028**	988
In the second to fifth year, inclusive	**7,542**	–
	12,570	988

Operating lease payments represent rental payable by the Group and the Company for certain of its office premises. Leases are negotiated for an average term of three years.

32 RETIREMENT BENEFIT SCHEMES

The Group participates in both a defined contribution retirement benefits schemes which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a mandatory provident fund scheme established under the Mandatory Provident Fund Ordinance in December 2000. Contributions are made based on the lower of (i) a percentage of the employee's salaries and (ii) statutory ceiling, if any.

Contributions paid to retirement benefits schemes for Directors and staff are charged to the income statement for 2007 and amounted to HK$233,000 (2006: HK$247,000). Any forfeited employer contributions in respect of employees who leave the ORSO Scheme prior to such contributions vesting fully will be used by the Group to reduce contributions. There was no forfeited contributions utilised by the Group in 2007 and 2006.

33 RELATED PARTY TRANSACTIONS

The Group had the following significant related party transactions:

(a) Details of investments and outstanding amounts with subsidiaries, and outstanding amounts with directors were disclosed in notes 19 and 26 to the financial statements respectively.

33 RELATED PARTY TRANSACTIONS *(Continued)*

(b) The Group granted the following related party loans on 20 October 1998 to enable the borrowers to reduce the outstanding balances in their margin accounts. These loans were approved by shareholders in the extraordinary general meeting held on 23 July 1999 as required by the Listing Rules.

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. SO Shu Ching, Jason, brother of an ex-director, Ms. SO Wai Yin, Irene	Company controlled by Ms. SO Wai Kwan, Sheila, sister of an ex-director, Ms. SO Wai Yin, Irene
Lender:	A wholly owned subsidiary, Mansion House Capital Limited	A wholly owned subsidiary, Mansion House Capital Limited
Term of loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Partially secured by marketable securities and unlisted shares	Partially secured by marketable securities and unlisted shares
– repayment terms	By 14 equal instalments payable semi-annually with the last instalment due in May 2006	By 14 equal instalments payable semi-annually with the last instalment due in May 2006
Balance at 31 December 2006 and 2007	HK$73,769,000	HK$7,074,000
Allowance at 31 December 2006 and 2007	HK$73,769,000	HK$7,074,000

These loans were rescheduled in 1999 with the last instalment due in May 2006. However, the loans have been in default since 2000 and a total allowance of approximately HK$80,843,000 (2006: HK$80,843,000) has been made.

33 RELATED PARTY TRANSACTIONS *(Continued)*

(c) The Group provided margin financing to the following related parties:

Borrower:	Dynamic Assets Limited and Pharmatech Management Limited	Noblesse Ventures Inc.
Relationship:	Companies controlled by Mr. SO Shu Ching, Jason, brother of an ex-director, Ms. SO Wai Yin, Irene	Company controlled by Ms. SO Wai Kwan, Sheila, sister of an ex-director, Ms. SO Wai Yin, Irene
Lender:	A wholly owned subsidiary, Mansion House Securities (F. E.) Limited	A wholly owned subsidiary, Mansion House Securities (F. E.) Limited
Term of loan:		
– interest rate	Prime rate plus 1%	Prime rate plus 1%
– security	Marketable securities	Marketable securities
Balance at 31 December 2006 and 2007	HK$8,795,000	HK$8,359,000
Allowance at 31 December 2006 and 2007	HK$8,795,000	HK$8,359,000

The loans have been in default and a total allowance of approximately HK$17,154,000 (2006: HK$17,154,000) has been made.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2007	2006
	HK$'000	HK$'000
Short-term benefits	**4,129**	2,944
Post-employment benefits	**64**	60
Share-based payment expenses	**945**	211
	5,138	3,215

34 CONTINGENT LIABILITIES

At the time when the winding-up order was made, several staff of the Company filed claims of unpaid staff costs against the Company amounting to approximately HK$479,000 which relate to prior periods. As these claims have not been admitted, the Liquidators are of the view that it will be premature to make any provision in respect of the alleged claim before their legitimacy and the amount of any liabilities can be determined.

35 SUBSEQUENT EVENTS

(a) On 31 January 2008, the Company issued 154,000,000 unlisted warrants at HK$0.01 per warrant. Each warrant carries the entitlement to subscribe for one new ordinary share of the Company. The exercise price of the warrant is HK$0.25 per warrant. The issuance resulted a net proceed of approximately HK$1,415,000 to the Company.

(b) On 18 March 2008, the Court made a winding-up order against the Company in respect of winding-up petition filed on 5 June 2007. By virtue of his office, the Official Receiver was appointed provisional liquidator of the Company on the same day.

(c) In March 2008, several staff of the Company filed claims of unpaid staff costs against the Company amounting to approximately HK$259,000, which are incurred at the time when the winding-up order was made. Such claims have not yet been admitted by the Liquidators up to the date of this report.

(d) In March 2008, The Hongkong Land Property Company Limited filed a Proof of Debt against the Company in respect of the Company's alleged a breach of the tenancy agreement dated 25 June 2007. The claim amounts to approximately HK$11 million which comprises the outstanding rental, accrued charges, damages and losses as a result of the breach.

(e) On 11 April 2008, the directors of the Company lodged a Notice of Appeal to the Court of Appeal of Hong Kong against the winding-up order on the ground that the Company should not be made liable for a liability arising from the breach of fiduciary duties by a former director. The appeal was heard on 8 September 2009 and was dismissed.

(f) On 14 January 2009, Messrs Edward Simon Middleton and Patrick Cowley, both of KPMG, were appointed by the Court as the Liquidators of the Company.

(g) On 20 February 2009, the Company was placed into the second stage of delisting procedures in accordance with Practice Note 17 to the Listing Rules by the Stock Exchange.

35 SUBSEQUENT EVENTS *(Continued)*

(h) On 14 July 2009, the First Letter was issued by the Investor and the Guarantor and an escrow agreement was entered into among the Investor and the Guarantor, the Liquidators and an escrow agent. Pursuant to the First Letter, the Liquidators granted the Investor an exclusive right of nine months from the date of the First Letter to negotiate a legally binding agreement for the implementation of the restructuring proposal.

(i) On 13 April 2010, the term of the First Letter as mentioned in note 2 above expired.

(j) On 8 July 2010, the Company was placed into the third stage of delisting procedures in accordance with Practice Note 17 to the Listing Rules by the Stock Exchange.

(k) On 23 July 2010 and 17 December 2010, the Second Letter and the Third Letter were issued by the Investor and the Guarantor, respectively. The Liquidators have extended the Exclusivity Period as set out in note 2 above.

(l) On 21 September 2010, the Investor approved the injection of HK$8 million as equity by MHF to MHSFE. On 1 December 2010, the Investor additionally advanced funds of HK$15.7 million to MHF, of which HK$13 million was injected to MHSFE as equity and HK$2.7 million was retained by MHF for general corporate purposes.

(m) On 22 February 2011, the Investor advanced funds of HK$15 million to MHF, of which HK$13 million was injected to MHSFE as equity and HK$2 million was retained by MHF for general corporate purposes.

(n) On 28 February 2011, the Side Letter was issued by the Investor and the Guarantor and accepted by the Liquidators, under which the Liquidators further extended the Exclusivity Period as set out in note 2 above.

(o) On 1 April 2011, the Stock Exchange informed the Company that it was allowed to proceed with the Resumption Proposal, subject to prior compliance with the conditions to the satisfaction of the Listing Division within six months from the date of the Stock Exchange's letter. These conditions are set out in note 2 above.

(p) On 15 April 2011, the Company, the Liquidators (acting as agents for and on behalf of the Company without personal liability), the Investor and the Guarantor entered into the Restructuring Agreement. The principal elements of the Restructuring Agreement are set out in note 2 above.

Financial Summary

	2007 **HK$'000**	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
RESULTS					
Revenue	**10,742**	5,600	3,542	7,595	5,596
Loss from operations after finance costs	**(47,603)**	(16,134)	(22,736)	(20,735)	(36,536)
Share of result of associates	**–**	–	–	(395)	97
Loss on disposal of subsidiaries	**–**	–	–	–	(1,329)
Loss before taxation	**(47,603)**	(16,134)	(22,736)	(21,130)	(37,768)
Taxation	**–**	–	–	–	–
Loss after taxation	**(47,603)**	(16,134)	(22,736)	(21,130)	(37,768)
Minority interests	**–**	–	–	–	–
Loss for the year	**(47,603)**	(16,134)	(22,736)	(21,130)	(37,768)
Basic loss per share (cents)	**(3.15)**	(1.11)	(1.56)	(1.52)	(3.03)
ASSETS AND LIABILITIES					
Property, plant and equipment	**380**	1,069	1,774	2,556	1,419
Interest in associates	**–**	–	716	716	1,111
Investment securities	**–**	–	–	–	50
Other assets	**974**	1,245	2,015	2,387	5,039
Net current (liabilities)/assets	**(78,551)**	(60,717)	(46,937)	(25,919)	(16,216)
Non-current liabilities	**–**	(136)	(222)	(307)	(45,472)
	(77,197)	(58,539)	(42,654)	(20,567)	(21,637)
Share capital	**308,701**	291,505	291,505	291,505	269,305
Share premium	**42,395**	30,797	30,797	30,797	30,797
Other reserves	**(428,293)**	(380,841)	(364,956)	(342,869)	(321,739)
Shareholders' deficit	**(77,197)**	(58,539)	(42,654)	(20,567)	(21,637)
Minority interests	**–**	–	–	–	–
	(77,197)	(58,539)	(42,654)	(20,567)	(21,637)

Joint And Several Liquidators' Report

Trading in the shares of Asia TeleMedia Limited (In Liquidation) (the "Company") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 18 March 2008.

A winding-up petition was filed against the Company on 5 June 2007, and a winding-up order was made by the High Court of Hong Kong (the "Court") on 18 March 2008. Messrs Edward Simon Middleton and Patrick Cowley, both of KPMG, were appointed as the Joint and Several Liquidators of the Company (the "Liquidators") on 14 January 2009 pursuant to an Order (the "Order") of the Court.

The Liquidators present their report together with the consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 based on the books and records available to them. It is the responsibility of the directors of the Company to prepare the financial statements of the Company. Since their appointment, the Liquidators have written to the directors to enquire about the affairs of the Company, however, the Liquidators have not received any response from them. Given this lack of cooperation, the Liquidators are obliged to prepare these financial statements.

The Liquidators have been granted the authority to sign, approve, publish and do all such acts in connection with this report pursuant to the Order to the Court.

Capitalised terms used in this report shall have the same meaning attributed to them as in the Annual Report to which this is attached.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding and the Group is principally engaged in financial services business.

Details of the principal activities of the principal subsidiaries of the Company are set out in note 19 to the consolidated financial statements.

FINANCIAL RESULTS

The Group recorded a revenue of approximately HK$10.74 million for the year ended 31 December 2007 compared to the revenue of approximately HK$5.6 million for the corresponding period in 2006. The basic loss per share for the year was HK3.15 cents, compared to the basic loss per share of HK1.11 cents for the previous year.

RESTRUCTURING OF THE GROUP UP TO THE DATE OF THIS REPORT

On 27 May 2011, the Company announced that the Restructuring Agreement was entered into on 15 April 2011 among the Company, the Liquidators, the Investor and the Guarantor for the implementation of the Proposed Restructuring. The Company, the Liquidators and the Investor are now taking appropriate steps to implement the transactions completed under the Restructuring Agreement and fulfill the resumption conditions as set out by the Stock Exchange.

Details of the restructuring of the Group are explained in note 2 to the consolidated financial statements.

PROSPECTS

It is expected that the financial position of the Group will be substantially improved upon completion of the Proposed Restructuring of the Group as contemplated under the Restructuring Agreement. The Investor and the Liquidators expect all existing liabilities owed to creditors of the Company will be compromised and discharged through the Scheme.

Subject to, among other things, the approvals of the shareholders of the Company and the Stock Exchange, upon completion of the Restructuring Agreement, the Company's shares are expected to resume trading on the Stock Exchange.

It is the Investor's intention to maintain and expand the Group's existing business in securities broking, placing and underwriting, corporate finance, consulting and related services, which are carried out through its main operating subsidiary, MHSFE.

With the strong and continuous support provided by the Investor to the Group in terms of both business and financial aspects, the Group will be able to sustain its business at a sufficient level in upcoming financial years and expand its business to a substantial level within a reasonable period of time after the resumption of trading in the shares of the Company on the Stock Exchange.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at the balance sheet date, the Group had net current liabilities of approximately HK$78,551,000 (2006: HK$60,717,000) and had cash and cash equivalents of approximately HK$18,964,000 (2006: HK$12,432,000).

The Group's gearing ratio was 1.79 as at 31 December 2007 as compared to 1.44 as at 31 December 2006. The gearing ratio is calculated by dividing total liabilities by total assets.

FIXED ASSETS

Details are set out in note 18 to the consolidated financial statements.

CAPITAL STRUCTURE

Details are set out in note 28 to the consolidated financial statements.

CONTINGENT LIABILITIES

Details are set out in note 34 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

Details are set out in note 33 to the consolidated financial statements.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

To the best of their knowledge and belief, the Liquidators are not aware of any material acquisition or disposal of subsidiaries and associated companies by the Group during the year ended 31 December 2007.

CHARGE ON GROUP ASSETS

Details are set out in note 18 to the consolidated financial statements.

TREASURY POLICIES AND FOREIGN EXCHANGE EXPOSURES

To the best knowledge and belief of the Liquidators, during the year:

- the business activities of the Group were mainly funded by shareholders' funds and cash generated from operating activities;
- the Group adopted a conservative treasury policy and foreign currency risk was not substantial. No financial instruments had been employed for hedging purposes by the Group; and
- the Group was not exposed to significant capital market risk as the Group did not have material equity investment.

SIGNIFICANT INVESTMENTS HELD

To the best knowledge and belief of the Liquidators, the Group did not have any significant investment throughout the year.

BUSINESS SEGMENTS

Details are set out in note 7 to the consolidated financial statements.

EMPLOYEES

As at 31 December 2007, the Group employed 19 (31 December 2006: 21) staff in Hong Kong. All the options granted under the share option scheme adopted by the Company lapsed on 5 June 2007, the date of commencement of the winding-up of the Company.

Details of employees' emoluments are set out in note 11 to the consolidated financial statements.

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

To the best knowledge and belief of the Liquidators, neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's listed securities during the year ended 31 December 2007.

MAJOR CUSTOMERS

For the year ended 31 December 2007, approximately 28% of the Group's revenue was attributable to the Group's five largest customers. In particular, the largest customer of the Group accounted for approximately 11% of the Group's total revenue for the year.

DIRECTORS

The directors of the Company during the year were:

Executive Directors:

LU Ruifeng
YIU Hoi Ying

Independent Non-Executive Directors:

LU Ning
LI Chun
LAU Hak Lap (resigned on 15 April 2010)

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

To the best knowledge and belief of the Liquidators, as at 31 December 2007, the interests and short positions of the directors or the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executives of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in the Listing Rules were as follows:

Name of Director	Nature of interest	Number of shares	Approximate % of the issued share capital
Mr. LU Ruifeng	Held by controlled corporations *(Note)*	712,889,808	46.19%

Note: 711,500,000 shares were owned by China United Telecom Limited, 35% of the entire issued share capital of which was held by Asia TeleMedia Holdings Limited. 1,389,808 shares were owned by Asia TeleMedia Holdings Limited. Asia TeleMedia Holdings Limited was a company beneficially owned by Mr. LU Ruifeng. Mr. LU Ruifeng was deemed, by virtue of the SFO, to be interested in 712,889,808 shares in aggregate.

Save as disclosed above, to the best knowledge and belief of the Liquidators, as at 31 December 2007, none of the Company's directors, its chief executive or any of their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Details are set out in note 29 to the consolidated financial statements.

All the options granted under the share option scheme dated 28 May 2002 and adopted by the Company on 27 June 2002 lapsed on 5 June 2007, the date of commencement of the winding-up.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

To the best knowledge and belief of the Liquidators, as at 31 December 2007, the interests of the substantial shareholders of the Company, other than the interests disclosed above in respect of the directors and chief executive, as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name of shareholder	Nature of interest	Number of shares held (long position)	Total	Approximate % of the issued share capital
China United Telecom Limited *(Note 1)*	Beneficial owner	693,725,000	711,500,000	46.10%
	Interest of controlled corporation	17,775,000		
Asia TeleMedia Holdings Limited *(Note 2)*	Interest of controlled corporation	711,500,000	712,889,808	46.19%
	Beneficial owner	1,389,808		
High Reach Assets Limited	Beneficial owner	184,370,000	184,370,000	11.94%
Mr. Evans Carrera LOWE *(Note 3)*	Interest of controlled corporation	184,370,000	184,370,000	11.94%

Notes:

1. China United Telecom Limited, through its wholly owned subsidiary, Transmedia Asia Limited, was deemed to be interested in 17,775,000 shares, by virtue of the SFO.

2. Asia TeleMedia Holdings Limited owned 35% of the entire issued share capital of China United Telecom Limited, and was therefore deemed, by virtue of the SFO, to be interested in the 711,500,000 shares held by China United Telecom Limited.

3. According to the disclosure of interests filing dated 30 October 2007 published on the website of the Stock Exchange, Mr. Evans Carrera Lowe was deemed to be interested in 184,900,000 shares of the Company through High Reach Assets Limited, the entire issued share capital of which was wholly owned by Mr. Lowe. High Reach Assets Limited disposed of 530,000 shares in December 2007 and as a result, Mr. Lowe was deemed, by virtue of the SFO, to be interested in the 184,370,000 shares held by High Reach Assets Limited.

DIRECTORS' SERVICE CONTRACTS

The Liquidators have not been able to locate any service contract entered into between the Company and its directors from the books and records available to them.

FIVE YEAR FINANCIAL SUMMARY

A summary of published results and assets and liabilities of the Group for the last five financial years, extracted from the audited consolidated financial statements of the Company, is set out on page 62. This summary does not form part of the audited financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 10 and note 30 to the financial statements respectively.

NON-COMPLIANCE WITH APPENDIX 16 "DISCLOSURE OF FINANCIAL INFORMATION" OF THE LISTING RULES

Since the Liquidators were not appointed until 14 January 2009, they do not have the same knowledge of the financial affairs of the Group as the directors of the Company would have, particularly in relation to the transactions entered into by the Group prior to their appointment date. With limited books and records available to the Liquidators, the Liquidators do not have sufficient data to compile the annual report so as to comply with Appendix 16 "Disclosure of financial information" to the Listing Rules. The following information has been omitted from this annual report:

1 A statement in respect of connected transactions and continuing connected transactions with the connected person as defined in Chapter 14A (or Chapter 14 prior to the coming into force of Chapter 14A) of the Listing Rules.

2 Details of contracts of significance between the Company and its directors, substantial shareholders and subsidiaries.

3 A separate Corporate Governance Report containing the information as required under Appendix 23 to the Listing Rules.

4 Details of management contracts.

AUDITORS

Deloitte Touche Tohmatsu resigned as auditors of the Company on 5 February 2007 and Graham H.Y. Chan & Co. were appointed as auditors of the Company to fill the casual vacancy following the resignation of Deloitte Touche Tohmatsu. Graham H.Y. Chan & Co. audited the consolidated financial statements of the Group for the two years ended 31 December 2006 and 31 December 2007.

DIVIDEND

No dividend has been proposed for the year ended 31 December 2007 (31 December 2006: Nil).

PUBLIC FLOAT

As at the date of these financial statements, the trading in the shares of the Company remains in suspension, the sufficiency of public float as required by the Listing Rules is not applicable.

DELAY IN DISPATCH OF ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

As at the date of the appointment of the Liquidators, the Company had insufficient funds to enable the financial statements to be prepared and audited. Accordingly, the preparation, auditing and publication of the financial statements has been delayed until such time as the Company's funding arrangements allowed it.

The delay in the dispatch of the 2007 Annual Report constitutes a non-compliance with Rule 13.46(1) of the Listing Rules by the Company.

AUDIT COMMITTEE

Following the resignation of Mr. Lau Hak Lap on 15 April 2010, the Company has only two independent non-executive directors and two Audit Committee members, the number of which falls below the minimum number required under Listing Rules 3.10(1) and 3.21 respectively and none of the remaining independent non-executive directors has the appropriate professional qualification or accounting or related financial management expertise as required under Listing Rules 3.10(2) and 3.21. As a result, the consolidated financial statements for the year ended 31 December 2007 have not been reviewed by the Audit Committee.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Liquidators make no representation as to whether the Company had complied with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2007.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Liquidators make no representation as to whether the Company and its directors had complied with the required standard set out in the Model Code as set out in Appendix 10 of the Listing Rules throughout the year ended 31 December 2007.

For and on behalf of
Asia TeleMedia Limited
(In Liquidation)
Edward Simon Middleton
Patrick Cowley
Joint and Several Liquidators
acting as agents without personal liability

Hong Kong, 3 June 2011