Yuxing InfoTech Holdings Limited
裕興科技控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8005

Annual Report 2007

*for identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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Corporate Profile

Yuxing InfoTech Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") commenced its business through Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing") which was established in the People's Republic of China (other than Hong Kong) (the "PRC") in 1996. Golden Yuxing became a Sino-foreign co-operative joint venture enterprise on 8th November 1999. Through reorganisation, the Company has become the ultimate holding company of the Group. The Company was incorporated in Bermuda as an exempted company on 6th October 1999 and was listed on GEM on 31st January 2000. It successfully raised gross proceeds of approximately HK$420 million.

As a result of the continuous introduction of new products, the Group has experienced rapid growth since its establishment. The Group is principally engaged in research and development, design, manufacturing, marketing and sale of information appliances (major in set-top boxes) through a network of partnerships and distributors in the PRC, Hong Kong and overseas. Furthermore, the Group involves in some electronic components distribution business. In this way, the Group can expand its product lines through developing advance electronic products in the information appliances industry.

Besides its comprehensive distribution network, the Group has established a strong team of research and development professionals, including experienced experts in hardware and software, digital devices, media display and network technology. Under the leadership of the Group's professional management team, our products have obtained high reputation in the PRC's market.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Zhu Wei Sha *(Chairman)*
Chen Fu Rong *(Deputy Chairman)*
Shi Guang Rong
Wang An Zhong

Independent Non-executive Directors

Wu Jia Jun
Zhong Peng Rong
Shen Yan

COMPANY SECRETARIES

Liu Wei, Solicitor	(Appointed on 3rd July 2007)
Di Yu Zeng	(Resigned on 3rd July 2007)

QUALIFIED ACCOUNTANT

Wu Wai Ting, Wendy
Member of Hong Kong Institute of Certified Public Accountants
Certified Practising Accountant of CPA Australia

COMPLIANCE OFFICER

Shi Guang Rong

AUTHORISED REPRESENTATIVES

Chen Fu Rong
Shi Guang Rong

AUDIT COMMITTEE

Shen Yan *(Chairman)*
Zhong Peng Rong
Wu Jia Jun

REMUNERATION COMMITTEE

Sun Li Jun *(Chairman)*
Wang An Zhong
Wu Jia Jun
Zhong Peng Rong
Shen Yan

AUDITOR

CCIF CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

China Merchants Bank
Shanghai Commercial Bank Limited
Huaxia Bank

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11, Bermuda

PLACES OF BUSINESS

Hong Kong
Unit 1808, 18th Floor
Tower III, Enterprise Square
9 Sheung Yuet Road
Kowloon Bay, Kowloon

The PRC
Block B, 7th Floor, Tian Cheng Technology Building
No. 2, Xinfeng Street, De Shen Men Wai
Beijing

Yanjiang Road East
Domestic Industrial Park
Torch Hi-Tech Industrial Development Zone
Zhong Shan

SHARE REGISTRARS AND TRANSFER OFFICES

Principal registrar
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11, Bermuda

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

STOCK CODE

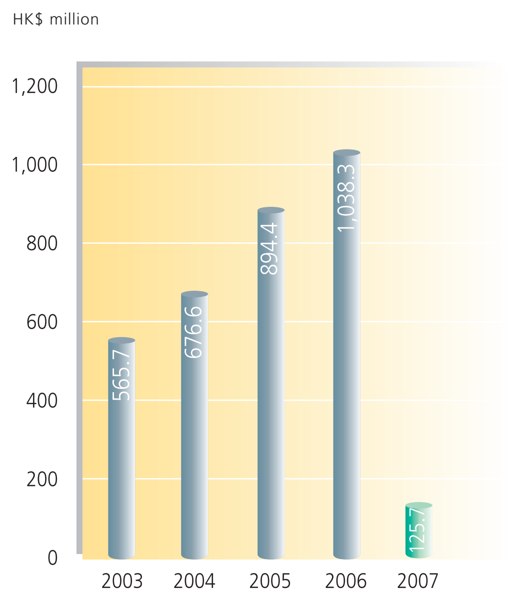
8005

Financial Highlights and Calendar

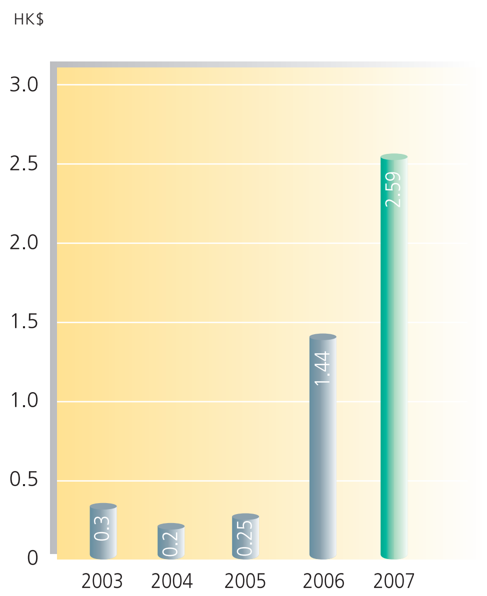
FINANCIAL HIGHLIGHTS

	2007 HK$'000	2006 HK$'000
Revenue		
Turnover	**125,730**	1,038,300
Profitability		
Profit from operations	**12,459**	19,237
Profit for the year	**22,513**	12,937
Net worth		
Total equity attributable to equity holders of the Company	**4,196,303**	2,304,823
Per share		
Earnings per share attributable to equity holders of the Company		
– Basic	**1.40 cents**	1.09 cents
Net assets per share	**2.59 dollars**	1.44 dollars

TURNOVER



NET ASSETS PER SHARE



FINANCIAL CALENDAR

Results for the year	Announcement on 20th March 2008
Annual report	Despatched to shareholders in late March 2008
Annual general meeting	26th June 2008

Chairman's Statement

On behalf of the Board and the management of the Company, I would like to take this opportunity to wish you a prosperous new year and to extend my sincere gratitude to you for your continued support and trust over the past years.

Looking back, the Company has gone through various challenges and difficulties, and each of which has turned into part of our valuable assets. The Company has thus become stronger and a corporate culture featuring solidity and sturdiness is thus being formed, which enables us to survive in any challenges. We grow and develop along with times. Our experiences reflected the challenges to the Chinese traditional cultural values. Amidst the various values and beliefs, we have chosen to adhere to the principles of integrity, sincerity and honesty. Our management team has been endeavored to safeguard the interests of our shareholders and the Company despite any difficulties and will continue to do so, which is also one of our sincere commitment to the shareholders.

Chairman's Statement

Our Information Appliances Division, being one of the leaders in the global broad band set-top box industry, continued to achieve satisfactory results in 2007. The division has not only maintained its competitive edges in the Asia-Pacific Region, but also achieved breakthroughs in Europe, Mainland China and other areas.

Nowadays, the internet has penetrated into the daily life of the general public from various aspects, resulting in fundamental changes in their working, living and entertainment styles and thus creating numerous business opportunities for companies involved. Looking ahead, we shall retain information home appliance as our core competitive business, focus on internet application and leverage on our own advantages to seize the unique opportunities emerging from the internet revolution, so as to create extra values for our shareholders.

The year 2007 was a remarkable year for the Company. The acquisition of the indirect investment in the 51 million shares of Ping An Insurance (Group) Company of China Limited was unanimously ratified by the independent shareholders of the Company at the special general meeting. Since then the Company has been growing steadily on an expanded development platform. Due to the constantly improving management structure of the Group, we are able to better control our operational and investment risks,

Chairman's Statement

Sheng Bang Qiang Dian Electronics (Zhongshan) Co., Ltd.

thereby enhancing our corporate stability. Warren Buffett once said that he only felt contented to work with those management personnel who meet the three criteria, i.e. full of passion in their companies, thinking as an entrepreneur and being uncorrupted, accountable and talented. Coincidently, these are also the traits of our management team.

Our auditor, CCIF CPA Limited, has issued a disclaimer opinion on our financial statements for the year ended 31st December 2007 in view of the litigation regarding the Group's title to the 36.66% equity interests in Shenzhen Jiangnan Industrial Development Co., Ltd. Our Directors share the view of the PRC lawyers that the claim against Golden Yuxing Electronics and Technology Company Limited, a wholly-owned subsidiary of the Company, by Guangdong Jianlibao Group Limited is based on unsubstantiated and invalid grounds and accordingly we consider the risk of such litigation is low in light of the advice received from our PRC lawyers.

On behalf of the Company, I would like to avail myself of this opportunity to express my thanks to our shareholders, our independent directors, all our colleagues, our customers and our suppliers for their trust and support. As proven, we are an excellent team that worth your trust.

Zhu Wei Sha
Chairman

Hong Kong, 20th March 2008

Group Financial Summary

CONSOLIDATED RESULTS

For the year ended 31st December

	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**125,730**	1,038,300	894,393	676,568	565,726
Profit before taxation	**23,239**	14,527	79,573	(133,330)	2,321
Taxation	**(726)**	(1,590)	(4,271)	(2,030)	(699)
Profit for the year	**22,513**	12,937	75,302	(135,360)	1,622
Minority interests	**–**	4,431	(6,982)	(4,435)	(1,399)
Profit for the year attributable to equity holders of the Company	**22,513**	17,368	68,320	(139,795)	223

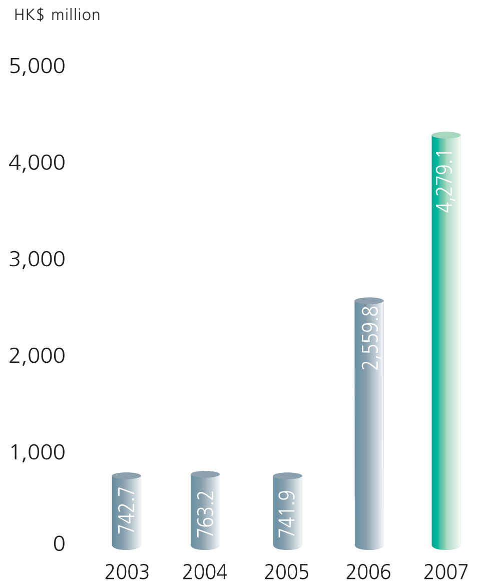
CONSOLIDATED ASSETS AND LIABILITIES

As at 31st December

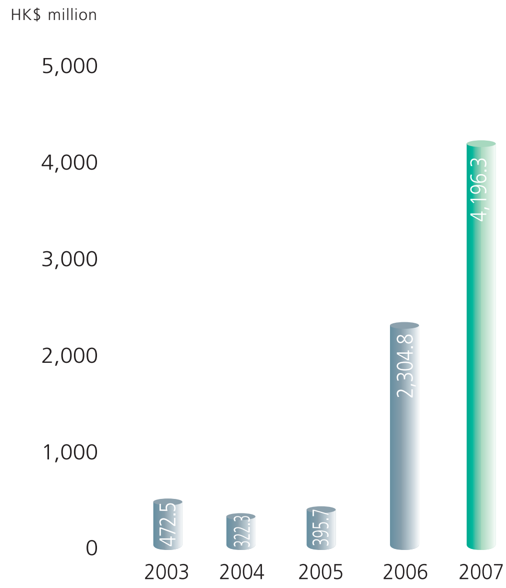
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**4,279,107**	2,559,755	741,925	763,229	742,728
Total liabilities	**82,804**	239,437	(326,259)	(427,357)	(261,149)
Minority interests	**–**	(15,495)	(19,926)	(13,526)	(9,091)
Total equity attributable to equity holders of the Company	**4,196,303**	2,304,823	395,740	322,346	472,488

Group Financial Summary

TOTAL ASSETS



NET ASSETS



Management Discussion and Analysis

FINANCIAL REVIEW

Turnover and Gross Profit

During the year under review, the Group successfully completed the disposal of one of its subsidiaries, which mainly focused on Integrated Circuits business ("IC Subsidiary"). Because of this disposal of the IC Subsidiary which accounted for a significant portion of the Group's revenue, the Group's consolidated turnover declined by 87.9% to approximately HK$125.7 million for the year ended 31st December 2007. Turnover of the continuing operations declined by 40.0% from approximately HK$209.5 million to approximately HK$125.7 million for the year ended 31st December 2007. The reason for the decline in consolidated turnover of the continuing operations was due to reduction in orders from the Group's Information Appliances ("IA") division. The Group also recorded a decline in gross profit by 59.6% to approximately HK$30.2 million for the year ended 31st December 2007. This was mainly due to the disposal of the IC Subsidiary and lower contribution from IA division. However, the Group's gross profit margin improved significantly from only 7.2% in the previous fiscal year to 24.0% for the year under review due to the higher profit margin from IA division.

Operating Results

Other Revenue and Net Income

Other revenue and net income increased to approximately HK$55.8 million for the year ended 31st December 2007 (2006: approximately HK$30.7 million). This was mainly due to the following reasons: dividends of approximately HK$22.0 million received from the Group's indirect investments in 51 million shares of Ping An Insurance (Group) Company of China Limited ("Ping An Insurance") during the year under review (2006: approximately HK$15.9 million), realised and unrealised gains on certain financial assets of approximately HK$13.3 million in the fiscal year (2006: approximately HK$3.8 million) and a reversal of impairment on other receivable of approximately HK$7.4 million made by the Group in the prior year during the year under review.

Operating Expenses

Because of the disposal of the Group's IC Subsidiary during the year under review, the Group's overall selling expenses and general and administrative expenses have decreased by 29.1% and 16.3% to approximately HK$4.9 million and approximately HK$69.3 million respectively as compared to the year ended 31st December 2006.

Finance Costs

As the Group has repaid certain bank borrowings during the year under review, finance costs decreased to approximately HK$3.1 million (2006: approximately HK$4.7 million).

Profit for the Year

Due to the above factors and the Group had successfully completed the disposal of the IC Subsidiary for a consideration of HK$30 million, resulting in a gain of approximately HK$13.9 million at the beginning of 2007, the Group registered a profit attributable to equity holders of the Company of approximately HK$22.5 million for the year ended 31st December 2007, indicating a significant improvement of 29.6% compared to approximately HK$17.4 million in 2006.

Liquidity, Charge on Group Assets and Financial Resources

As at 31st December 2007, the Group had net current assets of approximately HK$98.7 million. The Group had cash and bank deposits totalling approximately HK$91.0 million. The Group's financial resources were funded mainly by its shareholders' funds except for certain bank loans and long-term mortgage loans totalling approximately HK$39.8 million. As at 31st December 2007, the Group's current ratio was 2.4 times and the gearing ratio, as measured by total liabilities over total assets, was 1.9%. Overall, the financial and liquidity positions of the Group remain at a stable and healthy level.

Capital Structure

The shares of the Company were listed on the GEM on 31st January 2000. The change in the capital structure of the Company are set out in note 29 to the accounts.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Significant Investments/Material Acquisitions and Disposals

For the year ended 31st December 2007, the Group had successfully completed the disposal of the IC Subsidiary for a consideration of HK$30 million, resulting in a gain of approximately HK$13.9 million. This consideration represented about an average annual return of 30% over the Group's investment in the IC Subsidiary during a period of over six years.

During the year of 2004, the Group made an indirect investment in 51 million domestic institutional shares of Ping An Insurance, which was listed on the Shanghai Stock Exchange in the PRC on 1st March 2007, one of China's largest insurance companies, through the acquisition of the 10.435% equity interest in JI as referred to in an agreement dated 10th August 2004. For the financial year ended 31st December 2007, Ping An Insurance recorded basic earning per share of RMB2.61 and proposed a final dividend of RMB0.5 per share. The Directors are confident that Ping An Insurance and its shareholders will continue to benefit from the robust economic development of the PRC.

Save as disclosed above, the Group had no significant investments and no material acquisitions and disposals during the year under review.

Segment Information

The Group's star business segment was the information home appliances ("IHA"). However, due to reduction in orders from the Group's IA division, the total turnover of the IHA segment decreased by 42.5% to approximately HK$107.2 million as compared to last year. Despite the lower turnover, the IHA segment recorded an operating profit of approximately HK$4.7 million.

During the year under review, the Group had successfully completed the disposal of the IC Subsidiary. As a result of this disposal, the turnover of Electronic Components segment declined by 99.2% to approximately HK$6.9 million as compared to last year, and an operating loss of approximately HK$8.0 million was recorded during the year under review.

Geographical markets of the Group were mainly located in Hong Kong during the year under review. For the continuing operations business, the consolidated turnover of overseas markets declined by 58.2% to approximately HK$21.1 million as compared to last year. The reason for this decline was due to the reduction in orders in this sector during the year under review. Furthermore, the turnover generated from the Hong Kong and the PRC markets decreased by 66.4% and 96.9% to approximately HK$81.4 million and HK$23.2 million respectively as compared to last year. This was mainly due to the disposal of the IC subsidiary which focused on the Hong Kong and PRC markets in previous year.

Exposure to Fluctuations in Exchange Rates

Most of the trading transactions of the Group were denominated in United States dollars and in Renminbi. The assets of the Group were mainly denominated in Renminbi and the remaining portions were denominated in Hong Kong dollars. The official rates for United States dollars, Hong Kong dollars and Renminbi have been stable for the year under review. No hedging or other alternative measures have been implemented by the Group. As at 31st December 2007, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Contingent Liabilities

In December 2007, a customer claimed against Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd (a wholly-owned subsidiary of the Group) in the People Court of Shenzhen Nanshan Region for approximately HK$3,078,000 (equivalent to RMB3,000,000) for loss alleged to have been suffered from the dissatisfactory quality of products supplied by the subsidiary.

As at the date of this report to the best estimation of the Directors, the outcome of the litigations and claims would not have a material adverse effect on the Group and no provision had been made in the consolidated financial statement.

Management Discussion and Analysis

FINANCIAL REVIEW *(Continued)*

Human Resources

As at 31st December 2007, the Group had over 600 full time employees, of which 7 were based in Hong Kong and the rest were in the PRC. For the year ended 31st December 2007, staff costs include Director's emoluments amounted to approximately HK$38.0 million (2006: approximately HK$24.9 million). This significant increase in staff costs during the year under review was mainly due to the non-cash expenses of approximately HK$18.7 million arising from the grant of share options by the Company towards the end of previous financial year and this financial year. All employees of the Company's subsidiaries are selected and promoted based on their suitability for the position offered. The salary and benefit levels of the Group's employees are in line with the market. Employees are rewarded on a performance-related basis within the general framework of the Group's remuneration system which is reviewed annually. In addition to the basic salaries, staff benefits include medical scheme, various insurance schemes and share options scheme.

BUSINESS REVIEW

During the year under review, the acquisition of the Group's indirect investment in the 51 million shares of Ping An Insurance was ratified by the independent shareholders of the Company. In addition, as the 51 million shares of Ping An Insurance indirectly invested by the Group have been converted to "A" shares (i.e. shares tradable on Shanghai Stock Exchange). This indirect investment is subject to the three-year lock-up period, which is expected to expire on 1st March 2010, as required by the Shanghai Stock Exchange in the PRC upon the listing of Ping An Insurance on 1st March 2007. As such, the Group was able to account for the market value of the indirect investment based on the fair value prepared by an independent valuer of approximately HK$3,954.0 million in the balance sheet of the relevant financial report for the year under review and thus, the Group recorded net assets value of approximately HK$4,196.3 million or net assets value of approximately HK$2.59 per share as at 31st December 2007.

The Group received a notice from the Higher People's Court of Guangdong Province on 18th February 2008, with which a writ of summons was attached, whereby Guangdong Jianlibao Group Limited ("JLB Group") claimed that the agreement entered into between Shanshui Jianlibao Health Industry Investment Co., Ltd ("SJHII") and Golden Yuxing Electronics and Technology Company Limited ("Golden Yuxing") (a wholly-owned subsidiary of the Group) in August 2004 for acquisition of the 10.435% equity interests of Shenzhen Jiangnan Industrial Development Co., Ltd ("JI") was invalid. JLB Group also claimed against Golden Yuxing for compensation of all costs and expenses in relation to the case. The Board has sought advice from its PRC lawyers and is of the view that the claim is based on unsubstantiated and invalid grounds. The Directors firmly believe in the justice of the PRC laws and are fully confident on protecting the shareholders' legal interests. The Directors therefore believe that the outcome of the claim would not have a material adverse impact on the results of the Group.

During the year under review, the profit attributable to the equity holders of the Company has risen to approximately HK$22.5 million, representing an increase of 29.6% compared to last year, despite a significant reduction in the turnover of the Group to approximately HK$125.7 million caused by the disposal of the IC Subsidiary in January 2007. The profit attributable to the equity holders of the Company could have increased more significantly if non-cash expenses of approximately HK$18.7 million for the grant of share options by the Company towards the end of previous financial year and this financial year were not taken into account.

The profit attributable to the equity holders of the Company continued to increase, primarily attributable to the following incomes: the gains resulted from the disposal of the IC Subsidiary of approximately HK$13.9 million during the year under review, the dividend income received from the Group's indirect investment in 51 million shares of Ping An Insurance of approximately HK$22.0 million, and the realized and unrealized gains of certain financial assets of the Group during the financial year of approximately HK$13.3 million. As to turnover of the continuing operations, the consolidated turnover of approximately HK$125.7 million declined by 40.0% from approximately HK$209.5 million in the previous fiscal year, which was due to certain reduction in orders from the Group's IA division. Nevertheless, the Group's gross profit margin improved significantly from only 7.2% in the previous fiscal year to 24.0% for the year under review.

Management Discussion and Analysis

BUSINESS REVIEW *(Continued)*

In order to increase the overall liquidity of the Company's shares being traded on the GEM, the Board conducted a share subdivision during the year under review and the share subdivision was subsequently approved by shareholders of the Company in a special general meeting held on 22nd June 2007.

IA Division

IA division is the Group's continuing core operation which has contributed a substantial part of the Group's operating income. The division has been leading the global IPTV set-top box industry.

During the year under review, the IPTV set-top boxes have been improved with new technology along with the finalization of H.264 encoded technology, leading to a slowdown in the marketing effort of the operators. However, owing to the supports from various partners, the Group continued to benefit from considerable market advantages in Asia region, particularly in Hong Kong. Meanwhile, in order to increase its market share in other regions worldwide, the Group proactively deployed more financial resources mainly in the fast-growing regions such as Europe and Mainland China and strived to identify any opportunities for cooperation with a view to serving main telecom operators in various regions, which resulted in some progresses made. During the year under review, the Group had fostered concrete business relationship with the largest telecom operator in Europe and made smooth progress in product development. The Group has consecutively made shipments to such operator since January 2008. The achievement implies that the Group's IPTV set-top boxes have passed various supplier evaluations and product testing conducted by an international telecom operator enjoying global market shares have started to penetrate the European market, which was a remarkable step in the Group's efforts to penetrate further into other regions beyond Asia. In addition, the Internet IPTV market has been developing in Mainland China, which also offers more opportunities for the growth of the Group's business. During the year under review, the Group had put more financial resources in developing domestic market, and was invited to attend the connected tuning for compliance of IPTV V2.0 products organized by China Telecommunications Corporation during which the Group's products had staged outstanding performance.

In terms of product development, the Group has finalized its design using H.264 protocols which can provide a more efficient transfer of high quality digital video at a much lower bandwidth. During the year under review, H.264 product line has been launched into market and was well received by customers and partners. Furthermore, in response to the global market trend, the Group had also made breakthrough in the development of DTT+IP dual mode set-top boxes and first launched the high quality H.264 dual mode set-top boxes, for which the Group became the first manufacturer to launch the relevant product line in compliance with China Standards (DMB-TH standards). DTT+IP dual mode set-top boxes can receive not only Internet signals, but also the digital terrestrial broadcasting signals, which would be the main products in future set-top box market. In January 2008, the products were officially promoted in Hong Kong market.

OEM Business

In respect of the original equipment manufacturing ("OEM") business of the Group, despite the fact that the overall turnover and profit of this business have yet to be improved, the Group has made unremitting efforts to strengthen its internal management during the year under review, and meanwhile, the Group has been trying to establish stronger partnership with both domestic and international renowned electronic components manufacturers while seeking new opportunities to introduce different kinds of consumer electronic products, which has staged noticeable performance and accumulated certain skills in the audio-video entertainment and educational electronic product sectors. Such measures have contributed to our technical know-how accumulation. Leveraging on our advantageous creativeness and R&D capabilities, during the year under review the Group started to focus on developing intelligent products and managed to enter into a formal agreement with Beijing Kaku Full Cartoon Culture Co., Ltd. in January 2008, under which we were entitled to commercially use their Kaku cartoon images. We will develop a series of electronic products carrying Kaku cartoon images and market them in China. As Beijing Kaku Cartoon TV is the first dedicated cartoon channel in China and has produced the 100-episode Cartoon Series "Fuwa's Olympic Trips" under the authorization of the Beijing Organizing Committee for the Olympic Games, whose audience (mainly children) spread all over the Mainland China, as a result, the Directors believe that such cooperation, if successful, will bring new opportunities to the Group's OEM business.

Management Discussion and Analysis

BUSINESS REVIEW *(Continued)*

Although the performance of the OEM business has not improved during the year under review, the Group anticipated greater potential customer demand with the introduction of new products, with which it can contribute to the improvement of our results.

BUSINESS PROSPECTS

As mentioned above, one of the Group's most significant investments, the indirectly-held investment of the 51,000,000 shares of Ping An Insurance will continue to generate handsome returns to the Group. The senior management of the Group remain confident on the prospects of the long-term investment in Ping An Insurance. Nevertheless, if the Group decides to dispose this investment in the future, the proceeds from such disposal will be used as special dividends pay to the Company's shareholders, with a necessary portion retained for the development of the Group's principal businesses. One of our main objectives is to provide our shareholders with a return not less than that generated by the 51,000,000 shares of Ping An Insurance in the future.

During the year under review, the Group received dividend of approximately HK$22.0 million from the indirect investment of 51,000,000 shares of Ping An Insurance. However, as the domestic IPTV market continues to prosper, it will possibly bring on strong growth opportunities for the Group's core business, the IA division. In order to meet the considerable capital requirement arising from the rapid growth of the domestic IA division, the Group will utilize all the cash in hand (including the dividend received from its indirect investment in the 51,000,000 shares of Ping An Insurance this year) to ensure the rapid growth of such business. As a result, the Board has decided not to pay a final dividend for the year 2007, and the Board believes that such strategic moves will generate even greater potential returns to our shareholders in the near future.

IA Division

After years' exploration and preparation, the global IPTV industry is now entering a fast-growth track. The Group's IPTV set-top box design and manufacturing business has secured itself an advantageous position in Asia and become a leader in the global market. To cope with the market development, the Group has increased its investment in this division and set up sales offices and on-site technical support teams outside the PRC to explore the global market. Meanwhile, the Group will also consider strategic acquisitions in due course to enhance its competitiveness and to maintain its long-term leading position in the world.

The European market and the Mainland market remained our key exploration targets. In recent years, demands for the IPTV set-top boxes in Europe have been on continuous rise, as a result, the Group will actively pursue any business opportunities to work with major local telecom operators and to penetrate into the local markets. As mentioned above, the Group's success in establishing substantive partnership with the largest telecom operator in Europe in mid 2007 has given rise to opportunities for further cooperation and regional exploration. Meanwhile, as the PRC market has shown obvious signs of warming-up, the Group will accordingly increase its investment in this region.

In respect of our products, the progress we made in the development of DTT+IP dual-mode set-top box will play a significant role in kicking off the Chinese Standard-Format Ground Digital Radio Project. Moreover, with the improvement of our H.264 protocol technology and the continuous product launch, a new round of sales growth will emerge as a result of the product upgrade of our existing customers. As for the new regional markets, the new product line served well in meeting the demands of our customers at different levels and thus laid down a solid foundation for securing the recognition of our customers.

OEM Business

Despite of the continuing weakness of the overall turnover and profit in our OEM business, the senior management of the division has taken corresponding measures to make the division self-supportive within the shortest possible time, such as integrating all available resources both inside and outside the Group and introducing the latest consumer electronic products, which are expected to generate profit for the Group in the near future.

Management Discussion and Analysis

BUSINESS PROSPECTS *(Continued)*

OEM Business *(Continued)*

Meanwhile, with the increase of labour and processing costs in the Pearl River Delta in the past two years, a large number of small-sized enterprises perished, which helped to build a new environment of the processing industry. The Group believes that in this round of market reshuffling, China remained advantageously competitive in the global market in terms of processing costs, and with the fade-out of small and mid-sized manufacturers, the surviving large factories will be able to enjoy more orders owing to their advanced facilities, outstanding processing technology and scientific management.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Zhu Wei Sha, aged 53, is a co-founder of the Group. He has been the chairman of the Board and the president of the Group since 1996. He graduated from the Department of Automatic Control of the Beijing University of Technology with a bachelor degree in engineering. He had worked at the Beijing Machinery Electronic Research Institute and the Industrial Economic Research Department of the China Social Science Institute and as the legal representative and general manager of the Beijing Shanchuan Jinji Technology Company. Mr. Zhu has extensive experience and insights in corporate management and operation as well as solid technological background. He also has an in-depth understanding of the growth of a corporation by combining the concept of both capital investment and business operation. He has accumulated years of successful experience in this regard. Mr. Zhu is currently a director and a shareholder of Super Dragon Co., Ltd. ("Super Dragon") which has a 40.71% interest in the share capital of the Company.

Mr. Chen Fu Rong, aged 47, is a co-founder of the Group. He has been the deputy chairman of the Group since 2004 and a vice president of the Group since 1996. He graduated from the Department of Automatic Control of Beijing University of Technology with a bachelor degree in engineering. He had worked at the Industrial Economic Research Department of the China Social Science Institute and Beijing Machinery Electronics Co. and has extensive experience in computer hardware design and management of research and development activities. Mr. Chen possesses 15 years' experience in research and development and engineering management. Mr. Chen is currently the executive president of Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd., a wholly-owned subsidiary of the Group and is deputy chairman of the board of the Company (the "Board"). Mr. Chen is also a director and a shareholder of Super Dragon.

Mr. Wang An Zhong, aged 51, is a vice president of the Group. He graduated with a master degree in engineering from the Department of Computer Science of the Beijing University of Technology. He was an associate professor and has extensive experience in lecturing and scientific research. He managed and was involved in a number of the State's research projects and won several awards. Mr. Wang joined the Group in 1997 as the general manager of the research and development department. He is currently the Vice President-Operations of Golden Yuxing.

Mr. Shi Guang Rong, aged 47, has been a vice president of the Group since 1996. He graduated with a bachelor degree in engineering from the Department of Automatic Control of the Beijing University of Technology. He had worked at various enterprises in the PRC. He is responsible for the marketing and public relation matters of the Group and possesses 17 years' experience in product marketing and promotion. Mr. Shi is currently the Chief Executive Officer of Yuxing Technology Company Limited, a wholly-owned subsidiary of the Group in Hong Kong and is a director of Dragon Treasure Ltd. ("Dragon Treasure") which has 19.74% interests in the share capital of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Jia Jun, aged 75, is currently a researcher at the China Social Science Institute, a mentor professor for doctorate students and an executive vice president of the Industrial and Economic Research and Development Association of China. He served as the vice general manager of the Chinese Industrial and Economic Research Institute from 1980 to 1993, and the vice president of the Young Entrepreneurs Association of China. Mr. Wu has extensive experience in conducting research in the economy and industries of the PRC and also in corporate management. He is a renowned scholar in Japanese corporate and industrial management of which he has an in-depth knowledge. He has published several books and articles on corporate management and economic reform. Mr. Wu was appointed as Independent Non-executive Director in October 1999.

Biographical Details of Directors and Senior Management

Mr. Zhong Peng Rong, aged 53, is a renowned Chinese economist. He worked with the central government of the PRC for many years as a chief researcher. He now serves as a professor of several famous universities and as an adviser to over 21 enterprises and local governments of the PRC. As the chairman and research fellow of the Beijing Shiye Consultancy Centre, he has formulated development strategies for enterprises in different industries and for local governments. He has an in-depth understanding of the macroeconomic environment and government administration in the PRC. Mr. Zhong was appointed as Independent Non-executive Director in October 1999.

Ms. Shen Yan, aged 44, holds a bachelor degree in Accounting and has 13 years of experience in accounting and 9 years of experience in auditing. She is currently a tutor of North China University of Technology. Ms. Shen was appointed as Independent Non-executive Director in January 2005.

COMPANY SECRETARY

Mr. Liu Wei, aged 50, is qualified as a solicitor in the PRC, Hong Kong and England. He has extensive exposure in corporate finance and is a partner of DLA Piper Hong Kong. Mr. Liu graduated from the Northwest University of China, the Chinese University of Political Science and Law, the University of Cambridge and the University of Hong Kong, with a bachelor in Chinese literature, a master degree in law, a PhD in Law respectively. He also completed his Common Professional Examination (CPE) with the Manchester University in England, as well as a Postgraduate Certificate in Laws (PCLL) with the University of Hong Kong. Mr. Liu was appointed as the Company secretary in July 2007.

SENIOR MANAGEMENT

Miss Wu Wai Ting, Wendy, aged 35, is the financial controller of the Group. She is a graduate of the Monash University in Australia with a master degree in Practising Accounting and holds a bachelor degree in Business (International Trade). Miss Wu is a Certified Practising Accountant of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. She has 10 years' experience in accounting and finance. Miss Wu joined the Group in March 2000.

Directors' Report

The Directors have pleasure in submitting to all shareholders their report together with the audited financial statements for the year ended 31st December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 41 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31st December 2007 are set out in the consolidated income statement on page 34.

The Directors do not recommend the payment of a final dividend for the year.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 37 and note 30 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

DISTRIBUTABLE RESERVES

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

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

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

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under the laws of Bermuda.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 9.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the year under review.

SHARE OPTIONS

Details of the Company's share option schemes are set out in note 36 to the financial statements.

The following table discloses movement in the Company's share options held by Directors during the year:

			Number of share options					
Name of director	Exercise price per share HK$	Exercisable period	At 1st January 2007	Effect on share subdivision	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December 2007
Mr. Wang An Zhong	0.2975*	26th December 2006 – 17th May 2013	1,000,000	3,000,000	–	–	–	**4,000,000**
Mr. Shi Guang Rong	0.2975*	26th December 2006 – 17th May 2013	500,000	1,500,000	(800,000)	–	–	**1,200,000**
Mr. Wu Jia Jun	0.2975*	26th December 2006 – 17th May 2013	400,000	1,200,000	(640,000)	–	–	**960,000**
Mr. Zhong Peng Rong	0.2975*	26th December 2006 – 17th May 2013	400,000	1,200,000	–	–	–	**1,600,000**
Ms. Shen Yan	0.2975*	26th December 2006 – 17th May 2013	400,000	1,200,000	(640,000)	–	–	**960,000**

* Exercise price at HK$1.19 before Share Subdivision (note 29(a))

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Details of the movement in the Company's share options held by continuous contract employees (other than the Directors) during the year are set out in note 36 to the financial statements.

Directors' Report

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

A brief biographical details of Directors and senior management are set out on pages 17 and 18.

DIRECTORS

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

Executive Directors:

Mr. Zhu Wei Sha *(Chairman)*
Mr. Chen Fu Rong *(Deputy Chairman)*
Mr. Shi Guang Rong
Mr. Wang An Zhong

Independent Non-executive Directors:

Mr. Wu Jia Jun
Mr. Zhong Peng Rong
Ms. Shen Yan

In accordance with Bye-law 87 of the Company's Bye-laws, Messrs. Chen Fu Rong and Shi Guang Rong shall be subject to retirement by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting ("AGM").

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years from 7th October 1999 and has automatically renewed the service contract upon the expiry of the initial term of three years on 7th October 2002 and subsequent terms of three years on 7th October 2005. Their respective service contracts (which are automatically renewed upon expiry for successive terms of one year) are subject to termination by either party giving not less than 6 months' notice in writing.

The Independent Non-executive Directors, Messrs. Wu Jia Jun and Zhong Peng Rong, were appointed for a two-year term expiring on 24th October 2007 and have accepted to continue their appointment for another two-year term expiring on 24th October 2009. Ms. Shen Yan was appointed as Independent Non-executive Director for a term of two years expiring on 11th January 2008 and has accepted to continue for another two-year term expiring on 11th January 2010.

Save as disclosed above, no Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as the Directors' service contracts disclosed in this report, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' INTEREST IN CONTRACTS

No contracts of significance (including those in relation to provision of services) between members of the Group and a controlling shareholder or any of its subsidiaries subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and the five highest paid individuals in the Group are set out in notes 10 and 11 to the financial statements respectively.

EMOLUMENT POLICY

The Directors are paid fees in line with market practice. The Group adopted the following main principles of determining the Directors' remuneration:

- No individual should determine his or her own remuneration;
- Remuneration should be broadly aligned with companies with whom the Group competes for human resources; and
- Remuneration should reflect performance and responsibility with a view to motivating and retaining high performing individuals and enhancing the value of the Company to its shareholders.

In addition to the basic salaries, a share option scheme is adopted for rewarding good performers as well as retaining talented staff for the continual operation and development of the Group.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2007, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(1) Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares (after share subdivision)	Capacity	Percentage to the issued share capital of the Company
Mr. Zhu Wei Sha	Corporate *(Note 1)*	660,000,000	Interest of a controlled corporation	40.71%
Mr. Chen Fu Rong	Corporate *(Note 1)*	660,000,000	Interest of a controlled corporation	40.71%
Mr. Shi Guang Rong	Personal *(Note 2)*	24,800,000	Beneficial owner	1.53%
Mr. Wang An Zhong	Personal *(Note 2)*	4,336,756	Beneficial owner	0.27%

Notes:

1. Messrs. Zhu Wei Sha and Chen Fu Rong held these shares through Super Dragon, a company in which Messrs. Zhu Wei Sha and Chen Fu Rong held 63.6% and 36.4% of the entire issued share capital respectively. Both Mr. Zhu Wei Sha and Mr. Chen Fu Rong are directors of Super Dragon.

2. Dragon Treasure is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Messrs. Shi Guang Rong and Wang An Zhong.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

(2) Long positions in the underlying shares of the Company

Pursuant to the share option scheme approved by the shareholders of the Company on 18th January 2000, Directors in the capacity as beneficial owners were granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 31st December 2007 were as follows:

Name of Director	Date of grant	Exercise price per share HK$	Exercisable period	Number of share options: At 1st January 2007	Effect on share subdivision	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December 2007
Mr. Wang An Zhong	26th December 2006	0.2975*	26th December 2006 – 17th May 2013	1,000,000	3,000,000	–	–	–	**4,000,000**
Mr. Shi Guang Rong	26th December 2006	0.2975*	26th December 2006 – 17th May 2013	500,000	1,500,000	(800,000)	–	–	**1,200,000**
Mr. Wu Jia Jun	26th December 2006	0.2975*	26th December 2006 – 17th May 2013	400,000	1,200,000	(640,000)	–	–	**960,000**
Mr. Zhong Peng Rong	26th December 2006	0.2975*	26th December 2006 – 17th May 2013	400,000	1,200,000	–	–	–	**1,600,000**
Ms. Shen Yan	26th December 2006	0.2975*	26th December 2006 – 17th May 2013	400,000	1,200,000	(640,000)	–	–	**960,000**

* Exercise price at HK$1.19 before Share Subdivision (note 29(a))

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31st December 2007, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 to the GEM Listing Rules.

Directors' Report

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 31st December 2007, the followings were the substantial shareholders (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholders	Nature of interests	Number of ordinary shares (after share subdivision)	Capacity	Percentage to the issued share capital of the Company
Super Dragon *(Note 1)*	Corporate	660,000,000	Beneficial owner	40.71%
Dragon Treasure *(Note 2)*	Corporate	320,000,000	Trustee	19.74%

Notes:

1. Super Dragon is beneficially owned by Mr. Zhu Wei Sha, as to 63.6%, and Mr. Chen Fu Rong, as to 36.4% respectively. Both Mr. Zhu Wei Sha and Mr. Chen Fu Rong are directors of Super Dragon.

2. Dragon Treasure is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Messrs. Shi Guang Rong and Wang An Zhong, whose interests in the shares and underlying shares of the Company are disclosed in the section "Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures" above.

Save as disclosed above, as at 31st December 2007, the Company had not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

– the largest supplier	11.6%
– five largest suppliers combined	34.5%

Sales

– the largest customer	53.4%
– five largest customers combined	80.5%

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers and major customers noted above.

COMPLIANCE ADVISER'S INTEREST

As at 31st December 2007, none of Anglo Chinese Corporate Finance, Limited (the "Compliance Adviser"), the compliance adviser of the Company, its directors, employees or associates had any interests in the Company's share capital.

Pursuant to the agreement dated 17th May 2007 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Compliance Adviser for the period from 22nd May 2007 to 21st May 2009.

COMPETING INTERESTS

None of the Directors or management shareholders of the Company and their respective associates (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules")) has an interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year.

THE VIEWS OF THE BOARD OF DIRECTORS ON THE AUDIT OPINION OF CCIF CPA LIMITED

The auditor of the Company, CCIF CPA Limited ("CCIF"), has audited the financial statements of the Company for the year ended 31st December 2007 and issued an independent auditor's report with a disclaimer opinion on the financial statements in view of the extent and potential impact of the "significant uncertainty" arising out of the litigation regarding the Group's title to the 36.66% equity interests in JI. In this regard, the Directors wish to note that while they understand that there could be significant financial impact on the Group's financial statements, should the share purchase transaction in 2004 be adjudicated to be void and the acquisition be reversed, they regard such risk as low in view of the advice received from the Company's PRC lawyers.

The Directors would also like to express that the Group has fully cooperated with the audit team of CCIF to assist the CCIF to gain access to all the books and records of the Group and the relevant supporting documents and provide all explanations and legal opinion from the Group's PRC lawyers during the audit process in order for CCIF to form a view on the financial affairs of the Company.

On the basis of the PRC legal opinion and their understanding of the facts of the litigation, the Directors share the view of the PRC lawyers that the claim against Golden Yuxing by JLB Group is based on unsubstantiated and invalid grounds, as disclosed in the announcement of the Company dated 19th February 2008.

Directors' Report

AUDITOR

Messrs. Deloitte Touche Tohmatsu, who acted as auditor of the Company since 16th August 2002, had resigned on 21st December 2005 and CCIF was appointed as provisional auditor of the Company on 26th January 2006 to fill the casual vacancy. CCIF was elected as auditor of the Company at the AGM of the Company held on 18th May 2007.

A resolution will be submitted to the 2008 AGM of the Company to re-appoint CCIF as auditor of the Company.

On behalf of the Board
Yuxing InfoTech Holdings Limited
Zhu Wei Sha
Chairman

Hong Kong, 20th March 2008

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the rapid growth of the Group and for safeguarding and maximizing shareholders' interests.

The Group has adopted a set of Code on Corporate Governance ("Company Code") which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, code provisions and recommended best practices set out in the Code on Corporate Governance Practices ("GEM Code") contained in Appendix 15 of the GEM Listing Rules, which came into effect on 1st January 2005. The Board will continue to monitor and revise the Company Code and assess the effectiveness of our corporate governance practices in tandem with changes in the environment and requirements under the GEM Code, to ensure the Company Code is in line with the expectations and interests of shareholders and comply with the GEM Code and the GEM Listing Rules.

Subject to the deviations as disclosed hereof, the Company has complied with all the GEM Code during the year under review.

(a) Under provision A.2.1 of the GEM Code, the role of chairman and chief executive officer should be separated and should not be performed by the same individual. The responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. Mr. Zhu Wei Sha is the Chairman of the Board and the Chief Executive Officer of the Group. As such, such dual role constitutes a deviation from Code Provisions A.2.1. However, the Board is of the view that: (i) the Company has sufficient internal controls to provide checks and balances on the functions of the Chairman and Chief Executive Officer; (ii) Mr. Zhu Wei Sha as the Chairman of the Board and the Chief Executive Officer of the Group is responsible for ensuring that all directors act in the best interests of the shareholders. He is fully accountable to the shareholders and contributes to the Board and the Group on all top-level and strategic decisions; and (iii) this structure will not impair the balance of power and authority between the Board and the management of the Company.

(b) Under provision E.1.2 of the GEM Code, the chairman of the Board should attend the AGM and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) to be available to answer questions at the AGM. Mr. Chen Fu Rong, the deputy chairman of the Company has been performing the above duties in lieu of Mr. Zhu Wei Sha, the chairman of the Company, who was absent from office for the date when the AGM was held.

SECURITIES TRANSACTIONS BY DIRECTORS

Although the Company has not adopted any code of conduct regarding the Directors' securities transactions, it has made specific enquiry of all Directors and all Directors have confirmed that they have complied with all the required standards of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules during the year under review.

Corporate Governance Report

BOARD COMPOSITION

The Board is responsible for managing the Company on behalf of shareholders. The Board is of the view that it is the Directors' responsibility to create value for shareholders as a whole and safeguard the best interests of the Company and the shareholders by discharging its duties in a dedicated, diligent and prudent manner on the principle of good faith.

The Board comprises a total of seven Directors, with four Executive Directors, namely, Mr. Zhu Wei Sha (Chairman), Mr. Chen Fu Rong (Deputy Chairman), Mr. Shi Guang Rong and Mr. Wang An Zhong; and three Independent Non-executive Directors, namely, Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan who has appropriate professional qualifications and expertise in accounting and auditing.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

The primary functions of the Board include:

- deciding on the overall strategies, overseeing operational and financial performance and formulating appropriate policies to manage risk exposure associated with realizing the strategies and goals of the Group;
- being held accountable for the internal control system of the Company and responsible for reviewing its effectiveness;
- being ultimately responsible for preparing financial accounts and discussing the performance, financial conditions and prospects of the Company in a balanced, clear and comprehensible manner. These responsibilities are applicable to quarterly, interim and annual reports of the Company, other price sensitive announcements published according to the GEM Listing Rules and disclosure of other financial information, reports submitted to regulatory bodies and information disclosable under statutory requirements;
- whilst Executive Directors, who oversee the overall business of the Company, are responsible for the daily operations of the Company, the Board is responsible for affairs involving the overall policies, finance and shareholders of the Company, namely financial statements, dividend policy, significant changes to accounting policies, annual operating budgets, material contracts, major financing arrangements, principal investment and risk management strategy; Implementation and execution of such decisions is delegated to the management; and
- regularly reviewing its own functions and the powers conferred upon Executive Directors to ensure appropriate arrangements are in place.

The management is well informed of its powers and duties with clear guidelines and instructions, in particular regarding situations under which reporting to the Board is necessary and matters that require the approval of the Board before any decisions or commitments can be made on behalf of the Company;

Corporate Governance Report

BOARD COMPOSITION *(Continued)*

The full Board meets at least four times a year, at approximately quarterly intervals, to review the financial performance, results of each period, material investments and other matters of the Group that require the resolution of the Board. Simultaneous conference call may be used to improve attendance when individual Director cannot attend the meeting in person. Opinions of the Independent Non-executive Directors are actively sought by the Company if they are unable to attend the meeting in person. These is no financial business, family or other material relationship among the members of the Board.

In 2007, the Board held seven full board meetings. The attendance record of each member of the Board is set out below:

Executive Directors	**Attendance**
Mr. Zhu Wei Sha *(Chairman)*	4/7
Mr. Chen Fu Rong *(Deputy Chairman)*	7/7
Mr. Wang An Zhong	4/7
Mr. Shi Guang Rong	7/7
Independent Non-executive Directors	
Mr. Wu Jia Jun	4/7
Mr. Zhong Peng Rong	4/7
Ms. Shen Yan	3/7

All the Independent Non-executive Directors are appointed for two-year term, and subject to rotation and re-election pursuant to the Company's Bye-laws. Details of their appointment are referred to the section "Directors' Service Contracts" on page 21.

To the knowledge of directors, the Board members have no financial, business, families or other relationships with each other.

Corporate Governance Report

NOMINATION OF DIRECTORS

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. The chairman of the Board is mainly responsible for identifying suitable candidates for the Board when there is a vacancy or an additional director is considered necessary. The chairman of the Board will propose the appointment of such candidates to the Board for consideration and the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his/her qualifications, experience and background. The decision of appointing a director must be approved by the Board. Any newly appointed director by the Board shall hold office only upto the next following AGM of the Company and shall then be eligible for re-election at that meeting.

REMUNERATION COMMITTEE

The remuneration committee of the Company was established in October 2005. It comprises Mr. Sun Li Jun (Chairman), Mr. Wang An Zhong and all Independent Non-executive Directors, Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. The remuneration committee performs its functions, which primarily include assisting the Board in the overall management of the remuneration practices of the Group to ensure that effective policies, processes and practices are implemented in respect of the incentives for the Directors and senior management, in accordance with provision B.1.3 of the GEM Code.

During the year 2007, the remuneration committee of the Company convened two meetings, in which duties of the remuneration committee were identified, the appraisal system of the Company was reviewed, and all matters concerning the determination of remuneration of the Directors and senior management were discussed. In addition, the remuneration policies and incentive mechanism applicable to the Directors and senior management and the overall remuneration system of the Group were further refined and reasonable recommendations were made to the Board in the meetings. The remuneration committee of the Company has considered and reviewed the existing terms of employment contracts of the Executive Directors and appointment letters of the Independent Non-executive Directors.

Details of the attendance of the remuneration committee meeting are as follows:

Members	**Attendance**
Mr. Sun Li Jun *(Chairman)*	2/2
Mr. Wang An Zhong	2/2
Mr. Wu Jia Jun	2/2
Mr. Zhong Peng Rong	2/2
Ms. Shen Yan	2/2

Corporate Governance Report

AUDITOR'S REMUNERATION

The remuneration in respect of audit services provided by the auditor, CCIF, to the Group in the year 2007 amounted to HK$1,000,000. The auditor, CCIF did not provide any non-audit services to the Group for the year 2007.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 20th November 1999 with written terms of reference in compliance with the GEM Listing Rules.

The Committee provides an important link between the Board and the Company's auditor in matters coming within the scope of the Group's audit. The primary duties of the Committee are to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of both the external audit and of internal controls and risk evaluation. The Committee comprises three Independent Non-executive Directors of the Company, namely Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. Ms. Shen Yan was appointed as the chairman of the Committee and she has appropriate professional qualifications in accounting and auditing experience. Four meetings were held during the current financial year. The Group's audited results for the current financial year had been reviewed by the Committee.

The attendance record of each member of the audit committee is set out below:

Members	**Attendance**
Ms. Shen Yan *(Chairman)*	3/4
Mr. Zhong Peng Rong	4/4
Mr. Wu Jia Jun	4/4

The audit committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in the GEM Code.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

Statements of Directors' responsibilities for preparing the financial statements and external auditor's reporting responsibilities are set out in the Independent Auditor's Report.

INTERNAL CONTROL

The Directors have reviewed and are satisfied with the effectiveness of the Group's internal control system, including, in particular, financial, operational and compliance controls and risk management functions, to safeguard the Company's assets against unauthorised use or disposition, and to protect the interests of the shareholders.

Independent Auditor's Report

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

TO THE SHAREHOLDERS OF YUXING INFOTECT HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Yuxing InfoTech Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 96, which comprise the consolidated and company 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 and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

Independent Auditor's Report

BASIS FOR DISCLAIMER OF OPINION: MATERIAL UNCERTAINTY RELATING TO LITIGATION

As further disclosed in notes 22 and 38 to the financial statements, Guangdong Jianlibao Group Limited ("JLB Group"), instituted a civil action against Shanshui Jianlibao Health Industry Investment Co., Ltd. ("SJHII") as vendor and Beijing Golden Yuxing Electronics and Technology Company Limited ("Golden Yuxing"), a wholly-owned subsidiary of the Company as purchaser ,claiming, among other matters, that the sale by SJHII to Golden Yuxing in August 2004 of 10.435% (which was subsequently increased to 36.66% pursuant to adjustments of shareholders' equity interest in March and November 2006 respectively) equity interest in Shenzhen Jiangnan Industrial Development Co., Ltd. ("JI"), a company whose principal assets were 479,117,788 shares (subsequently reduced to 139,112,886 shares as at 31 December 2007) in Ping An Insurance (Group) Company of China Limited ("Ping An Insurance"), the A shares of which has been listed on the Shanghai Stock Exchange in the PRC since 1st March 2007 was null and void. The shares in JI has been classified in the consolidated financial statements of the Group as an available-for-sale financial asset with a fair value at 31st December 2007 of approximately RMB3,702,570,000 (equivalent to approximately HK$3,954,047,000) (2006: approximately RMB2,107,299,000 (equivalent to approximately HK$2,097,441,000)).

JLB Group claimed that SJHII was a trustee holding the shares of JI on their behalf and had entered into the share sale agreement without JLB Group's approval or authorisation. In addition, the fact that the aggregate investment cost exceeded 50% of Golden Yuxing's net assets also violated Rule 12 of the Company Law then in force in the PRC. The share sale transaction was therefore invalid and SJHII did not have the right to transfer the legal title of JI shares to Golden Yuxing. JLB Group thereby demanded the reversion and return of the JI shares to SJHII.

The directors of the Company have sought advice from its PRC lawyers in this respect and are of the view that the claim is based on unsubstantiated and invalid grounds. However, judgement has not been received from court yet and there is uncertainty as to whether the action can be successfully defended. Should the share purchase transaction in 2004 be adjudicated to be void and the Group's title to the JI shares be proved to be faulty, the JI shares would be required to be returned to the JLB Group. The acquisition would therefore be reversed and the available-for-sale financial asset of approximately HK$3,954,047,000 as at 31st December 2007 and the related revaluation reserve of approximately HK$3,585,077,000 as at 31st December 2007 would need to be eliminated from the Group's balance sheet as at 31st December 2007. The net assets of the Group as at 31st December 2007 would be reduced by the latter amount. There would also be a retrospective adjusting effect on the financial statements for the years ended 31 December 2004, 2005 and 2006.

We consider that appropriate disclosures have been made, but in view of the extent and potential impact of the significant uncertainty described above, we disclaim our opinion in this respect.

DISCLAIMER OF OPINION

Because of the significance of the matter described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the 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 31st December 2007 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 20th March 2008

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
Turnover	7	**125,730**	1,038,300
Cost of sales		**(95,561)**	(963,683)
Gross profit		**30,169**	74,617
Other revenue and net income	8	**55,752**	30,707
Distribution and selling expenses		**(4,875)**	(6,878)
General and administrative expenses		**(69,292)**	(82,740)
Other operating expenses		**(2,195)**	(1,369)
Fair value gain on investment properties	17	**2,900**	4,900
Profit from operations	9	**12,459**	19,237
Finance costs	12	**(3,093)**	(4,710)
Gain on disposal of subsidiaries	31	**13,873**	–
Profit before taxation		**23,239**	14,527
Taxation	13	**(726)**	(1,590)
Profit for the year		**22,513**	12,937
Attributable to:			
Equity holders of the Company		**22,513**	17,368
Minority interests		**–**	(4,431)
		22,513	12,937
Dividend	15	**–**	20,000
Earnings per share attributable to the equity holders of the Company	16		
– Basic		**1.40 cents**	1.09 cents
– Diluted		**1.34 cents**	1.08 cents

Consolidated Balance Sheet

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investment properties	17	**29,600**	26,700
Property, plant and equipment	18	**115,342**	114,338
Prepaid lease payments	19	**13,021**	12,444
Intangible assets	20	**–**	881
Available-for-sale financial assets	22	**3,954,047**	2,099,626
		4,112,010	2,253,989
CURRENT ASSETS			
Inventories	24	**22,916**	105,819
Trade and other receivables	25	**47,669**	98,091
Prepaid lease payments	19	**330**	308
Tax recoverable		**–**	751
Financial assets at fair value through profit or loss	23	**5,222**	6,653
Cash and bank balances		**90,960**	94,144
		167,097	305,766
CURRENT LIABILITIES			
Trade and other payables	26	**41,263**	194,106
Bank loans	27	**25,384**	40,003
Tax payable		**599**	–
Provisions	28	**1,113**	–
		68,359	234,109
NET CURRENT ASSETS		**98,738**	71,657
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,210,748**	2,325,646
NON-CURRENT LIABILITIES			
Bank loans	27	**14,445**	5,328
		14,445	5,328
NET ASSETS		**4,196,303**	2,320,318
CAPITAL AND RESERVES			
Share capital	29	**40,528**	40,000
Reserves	30	**4,155,775**	2,264,823
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**4,196,303**	2,304,823
MINORITY INTERESTS		**–**	15,495
TOTAL EQUITY		**4,196,303**	2,320,318

Approved by the Board on 20th March 2008 and signed on behalf of the Board by:

Zhu Wei Sha
Chairman

Shi Guang Rong
Vice President

Balance Sheet

As at 31st December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	21	**477,351**	449,870
CURRENT ASSETS			
Trade and other receivables	25	**290**	407
Cash and bank balances		**1,933**	924
		2,223	1,331
CURRENT LIABILITIES			
Trade and other payables	26	**2,090**	2,301
Amounts due to subsidiaries	21	**34,872**	4,873
		36,962	7,174
NET CURRENT LIABILITIES		**(34,739)**	(5,843)
NET ASSETS		**442,612**	444,027
CAPITAL AND RESERVES			
Share capital	29	**40,528**	40,000
Reserves	30	**402,084**	404,027
TOTAL EQUITY		**442,612**	444,027

Approved by the Board on 20th March 2008 and signed on behalf of the Board by:

Zhu Wei Sha
Chairman

Shi Guang Rong
Vice President

Consolidated Statement of Changes in Equity

For the year ended 31st December 2007

	Share capital HK$'000	Share premium HK$'000	Statutory reserves HK$'000	Contributed surplus HK$'000	Investment revaluation reserves HK$'000	Share option reserves HK$'000	Translation reserves HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January 2006	40,000	381,713	16,874	–	–	–	5,695	(48,542)	395,740	19,926	415,666
Equity-settled share based payment	–	–	–	–	–	139	–	–	139	–	139
Available-for-sale financial asset	–	–	–	–	1,881,457	–	–	–	1,881,457	–	1,881,457
Transfer	–	–	3,316	–	–	–	–	(3,316)	–	–	–
Exchange adjustments	–	–	–	–	–	–	10,119	–	10,119	–	10,119
Profit for the year	–	–	–	–	–	–	–	17,368	17,368	(4,431)	12,937
At 31st December 2006 and at 1st January 2007	40,000	381,713	20,190	–	1,881,457	139	15,814	(34,490)	2,304,823	15,495	2,320,318
Issue of shares under share option scheme	528	7,555	–	–	–	(1,797)	–	–	6,286	–	6,286
Reduction of share premium to offset against accumulated losses and transfer to contributed surplus	–	(385,022)	–	234,621	–	–	–	150,401	–	–	–
Realised on disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(15,495)	(15,495)
Equity-settled share based payment	–	–	–	–	–	18,656	–	–	18,656	–	18,656
Available-for-sale financial asset	–	–	–	–	1,703,620	–	–	–	1,703,620	–	1,703,620
Exchange adjustments	–	–	–	–	–	–	160,556	–	160,556	–	160,556
2006 final dividend paid	–	–	–	–	–	–	–	(20,151)	(20,151)	–	(20,151)
Profit for the year	–	–	–	–	–	–	–	22,513	22,513	–	22,513
At 31st December 2007	**40,528**	**4,246**	**20,190**	**234,621**	**3,585,077**	**16,998**	**176,370**	**118,273**	**4,196,303**	**–**	**4,196,303**

Consolidated Cash Flow Statement

For the year ended 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**23,239**	14,527
Adjustments for:			
Impairment on bad and doubtful debts		**955**	15,529
(Reversal of write-down of inventories)/write-down of inventories		**(914)**	14,613
Interest income		**(1,215)**	(2,503)
Finance costs		**3,093**	4,710
Dividend income		**(22,136)**	(15,983)
Reversal of impairment on an ex-associate		**(2,019)**	–
Depreciation of property, plant and equipment		**7,753**	8,268
Fair value gain on investment properties		**(2,900)**	(4,900)
Amortisation of intangible assets		**204**	768
Impairment on intangible assets		**169**	–
Amortisation of prepaid lease payments		**317**	301
Net loss on disposal of property, plant and equipment		**48**	86
Gain on disposal of subsidiaries	31	**(13,873)**	–
Gains on disposal of financial assets at fair value through profit or loss		**(11,857)**	(1,935)
Net unrealised holding gains on financial assets at fair value through profit or loss		**(1,468)**	(1,908)
Reveral of impairment on other receivables		**(7,412)**	–
Share option expenses		**18,656**	139
Provisions for litigation		**1,113**	–
OPERATING (LOSS)/PROFIT BEFORE CHANGES IN WORKING CAPITAL		**(8,247)**	31,712
Decrease/(increase) in inventories		**5,226**	(46,872)
Decrease in trade and other receivables		**8,632**	52,236
Decrease in trade and other payables		**(8,932)**	(47,362)
CASH USED IN OPERATIONS		**(3,321)**	(10,286)
Income taxes paid		**(1,851)**	(4,551)
NET CASH USED IN OPERATING ACTIVITIES		**(5,172)**	(14,837)

Consolidated Cash Flow Statement

For the year ended 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through profit or loss		**(50,101)**	(8,135)
Decrease in pledged bank deposits		**–**	35,937
Purchase of property, plant and equipment		**(2,365)**	(4,906)
Proceeds from disposal of financial assets at fair value through profit or loss		**65,091**	8,546
Interest received		**1,215**	2,503
Dividend received		**22,136**	15,983
New loans		**(13,679)**	–
Loans repayment		**13,679**	–
Proceeds from reversal of impairment on an ex-associate		**2,019**	–
Proceeds from disposal of property, plant and equipment		**103**	919
Proceeds from disposal of available-for-sale financial assets		**–**	4,100
Net cash outflow from disposal of subsidiaries	31	**(10,738)**	–
NET CASH GENERATED FROM INVESTING ACTIVITIES		**27,360**	54,947
FINANCING ACTIVITIES			
Proceeds from issue of shares under share option scheme		**6,286**	–
New bank and other loans raised		**453,177**	50,000
Repayment of bank and other loans		**(461,583)**	(90,113)
Finance cost		**(3,093)**	(4,710)
Dividend paid		**(20,151)**	–
Repayment of obligations under finance leases		**–**	(2,383)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(25,364)**	(47,206)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(3,176)**	(7,096)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**94,144**	100,220
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(8)**	1,020
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash and bank balances		**90,960**	94,144

Notes to the Financial Statements

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 41.

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

In the current year, the Group has applied, for the first time, the following new standards, amendments and interpretations of Hong Kong Financial Reporting Standards ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for current accounting period.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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

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

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

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

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

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

(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. 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-company transactions, balances, income and expenses are eliminated on consolidation.

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

(b) Revenue recognition

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

Sales of goods, net of value added tax where applicable, are recognised when goods are delivered and the related risks and rewards of ownership has passed.

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

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

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Interests in subsidiaries

A subsidiary is a company controlled by the Company. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

In the Company's balance sheet, an interests in subsidiaries is stated at cost less impairment losses, unless the investment is classified as held for sale.

(d) Property, plant and equipment

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Buildings	3% or over the term of the lease, if shorter
Leasehold improvements	33% or over the term of the lease, if shorter
Office equipment, furniture and fixtures	20% – 33%
Plant and machinery	10%
Motor vehicles	10% – 33%

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets.

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.

(e) Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of an investment property are included in consolidated income statement in the year in which they arise.

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

Notes to the Financial Statements

3. 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.

The Group as lessor

Rental income from operating leases are recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct cost incurred in negotiating and arranging an operating leases are included in consolidated income statement in the year in which they arise.

The Group as leasee

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

Leasehold land and building

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

(g) Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the consolidated income statement 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.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Foreign currencies *(Continued)*

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

Fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserves.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

(i) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses and paid annual leave are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit schemes in jurisdictions other than Hong Kong are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated 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.

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

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

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

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

(k) Intangible assets

Patents, trademarks and film and musical recording rights are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meet the recognition critical. When no internally-generated intangible asset can be recognised, development expenditure is recognised and is charged to the consolidated income statement in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is recorded at cost less accumulated amortisation and accumulated impairment losses on the same basis as intangible assets acquired separately.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(n) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. 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 the consolidated income statement.

Financial assets

The Group's financial assets are classified into four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial instruments *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is objective evidence that an 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial instruments *(Continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as any of the other categories (set out above).

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in the consolidated income statement (set out in note 3(q)).

For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Financial instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

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 the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

For financial liabilities, they are removed from the Group's balance sheet 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 received or receivable is recognised in the consolidated income statement.

(o) Other provisions and contingent liabilities

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow 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.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Cash and cash equivalents

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

(q) Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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.

(r) Equity settled share-based payment transactions

Share options granted to the Directors and 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 options reserves").

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 original estimates during the vesting period, if any, is recognised in the consolidated income statement, with a corresponding adjustment to share options reserves.

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 or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserves.

(s) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party's financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are to the benefit of employees of the Group or of any entity that is a related party of the Group.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimates by the balance sheet date.

Impairment on bad and doubtful debts

The policy for impairment on bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

Notes to the Financial Statements

5. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Meanwhile, the Group monitors its capital structure on the basis of a target gearing ratio determined as the proportion of debt to equity. For this purpose the Group defines debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables).

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the gearing ratio at the lower end of the range 5% to 10%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The debt-to-equity ratio at 31st December 2007 and 2006 was as follows:

		Group		**Company**	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Current liabilities:					
Trade and other payables	26	**41,263**	194,106	**2,090**	2,301
Bank loans	27	**25,384**	40,003	**–**	–
Amounts due to subsidiaries	21	**–**	–	**34,872**	4,873
		66,647	234,109	**36,962**	7,174
Non-current liabilities:					
Bank loans	27	**14,445**	5,328	**–**	–
Total debt		**81,092**	239,437	**36,962**	7,174
Total equity		**4,196,303**	2,320,318	**442,612**	444,027
Debt-to-equity ratio		**1.9%**	10.3%	**8.4%**	1.6%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Debtors with balances that are more than three months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 25.5% (2006: 20.2%) and 50.3% (2006: 43.3%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively within the business segment.

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 balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 25.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

Group

	2007						2006					
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
Bank loans *(note 27)*	39,829	39,829	25,384	917	2,997	10,531	45,331	45,331	40,003	200	675	4,453
Trade and other payables *(note 26)*	41,263	41,263	41,263	–	–	–	194,106	194,106	194,106	–	–	–
	81,092	81,092	66,647	917	2,997	10,531	239,437	239,437	234,109	200	675	4,453

Company

	2007						2006					
	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	More than 5 years HK$'000
Other payables *(note 26)*	2,090	2,090	2,090	–	–	–	2,301	2,301	2,301	–	–	–
Amounts due to subsidiaries *(note 21)*	34,872	34,872	34,872	–	–	–	4,873	4,873	4,873	–	–	–
	36,962	36,962	36,962	–	–	–	7,174	7,174	7,174	–	–	–

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in *(i)* below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's borrowings at the balance sheet date.

Group

	2007		2006	
	Effective interest rate %	**HK$'000**	Effective interest rate %	HK$'000
Net fixed rate borrowings:				
Bank loans *(note 27)*	**6.8**	**24,508**	7.3	39,813
Variable rate borrowings:				
Bank loans *(note 27)*	**4.3-5.9**	**15,321**	5.6-6.1	5,518
Total net borrowings		**39,829**		45,331
Net fixed rate borrowings as a percentage of total net borrowings		**61.5%**		87.8%

As at 31st December 2007 and 2006, the Company was not exposed to any interest rate risk.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(c) Interest rate risk *(Continued)*

(ii) Sensitivity analysis

At 31st December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$52,000 (2006: approximately HK$58,000). Other components of consolidated equity would increase/decrease by HK$Nil (2006: HK$Nil) in response to the general increase/decrease in interest rates.

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 exposure to interest rate risk for non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency to which they relate. The currencies giving rise to this risk are primarily United States dollars and Renminbi.

Most of the trading transactions of the Group were denominated in United States dollars and in Renminbi. At 31st December 2007, approximately 86.0% of the Group's sales are denominated in United States dollars. As the Group considers the risk of movements in exchange rates between the Hong Kong dollar and the United States dollar to be insignificant, while the official rates for United States dollars and Renminbi have remained stable for the year 2007, no hedging or similar measures have been implemented by the Group. As at 31st December 2007, the Group was not exposed to risks under foreign exchange contracts, interest or currency swaps or other financial derivatives.

As at 31st December 2007, 97.5% assets of the Group were denominated in Renminbi and the remaining portions were denominated in Hong Kong dollars and United States dollars, while the Group's borrowings are denominated in Hong Kong dollars or Renminbi. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(d) Currency risk *(Continued)*

(i) Exposure to currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from trading transactions or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

Group

		2007		2006	
	Notes	**US$'000**	**RMB'000**	US$'000	RMB'000
Trade and other receivables	25	**3,211**	**18,758**	9,010	18,875
Cash and bank balances		**–**	**48,810**	–	32,109
Trade and other payables	26	**(1,335)**	**(19,789)**	(17,578)	(25,983)
Borrowings	27	**–**	**(22,949)**	–	(40,000)
Overall net exposure		**1,876**	**24,830**	(8,568)	(14,999)

As at 31st December 2007 and 2006, the Company was not exposed to any currency risk.

(ii) Sensitivity analysis

Save as disclosed above, as at 31st December 2007 and 2006, there has no significant change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale financial assets and financial assets at fair value through profit or loss (see notes 22 and 23).

The Group's listed investments are listed both on the Stock Exchange of Hong Kong and the Shanghai Stock Exchange ("SSE") in the PRC. Decisions to buy or sell financial assets at fair value through profit or loss are based on daily monitoring of the performance of individual securities compared to that of indexes and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and investment revaluation reserves in response to reasonably possible changes in the relevant stock market index (for listed investments) to which the Group has significant exposure at the balance sheet date.

Group

	2007			2006		
	Increase/ (decrease) in the relevant 1 year risk variable	**Effect on profit after tax and retained profits $'000**	**Effect on investment revaluation reserves $'000**	Increase/ (decrease) in the relevant 1 year risk variable	Effect on profit after tax and retained profits $'000	Effect on investment revaluation reserves $'000
Stock market index in respect of listed investments: Hang Seng Index	**39.3%**	**1,679**	**–**	34.2%	2,275	–
Stock market index in respect of PRC listed investments: Shanghai A-share index	**96.1%**	**878**	**3,799,839**	130.6%	–	2,739,259

As at 31st December 2007 and 2006, the Company was not exposed to any equity price risk.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

Notes to the Financial Statements

6. FINANCIAL INSTRUMENTS *(Continued)*

(f) Fair values

The following table indicates the difference between carrying amount and fair value of financial instruments as at 31st December 2007 and 2006:

Group

	Notes	**2007** Carrying amount HK$'000	**2007** Fair value HK$'000	2006 Carrying amount HK$'000	2006 Fair value HK$'000
Financial assets through profit or loss	23	**3,738**	**5,222**	4,430	6,653
Available-for-sales financial assets	22	**2,097,441**	**3,954,047**	206,540	2,099,626
Interest-bearing loans and borrowings	27				
– fixed rate		**24,508**	**24,508**	39,813	39,813
– variable rate		**15,321**	**15,321**	5,518	5,518
Company					
Loans to subsidiaries*		**305,229**	**–**	307,229	–

* The loans to subsidiaries are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values. The Company has no intention of disposing of these loans.

(g) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments set out in note 6(f).

(i) Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Fair values for the unquoted equity investments are estimated using the applicable price/earning ratios for similar listed companies adjusted for the specific circumstances of the issuer.

(ii) Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

Notes to the Financial Statements

7. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial report.

For management purposes, the Group is currently organised in a major operating segment – information home appliances. The segment is the basis on which the Group reports its primary segment information.

The Group's main business segment in 2007:

- Information home appliances – manufacture, sales and distribution of audio-visual products, information home appliances and complementary products to the consumer market.

The Group's two main business segments in 2006:

- Information home appliances – manufacture, sales and distribution of audio-visual products, information home appliances and complementary products to the consumer market;

- Electronic components – sales and distribution of electronic components.

Other operations of the Group mainly comprise selling miscellaneous products to business partners, none of which are of a sufficient size to be reported separately.

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Business segments

Turnover represents net invoiced value of goods sold to customers less returns and allowance. An analysis of the Group's turnover and operating results and segment assets and liabilities by business segments is as follows:

For the year ended 31st December 2007

	Information home appliances HK$'000	Electronic components HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER					
External sales	107,248	6,911	11,571	–	125,730
Inter-segment sales*	111,663	30,957	–	(142,620)	–
Total	218,911	37,868	11,571	(142,620)	125,730
RESULTS					
Segment results	4,733	(7,973)	(4,951)	–	(8,191)
Unallocated corporate income					55,662
Fair value gain on investment properties					2,900
Other unallocated corporate expenses					(37,912)
Profit from operations					12,459
Finance costs					(3,093)
Gain on disposal of subsidiaries					13,873
Profit before taxation					23,239
Taxation					(726)
Profit for the year					22,513

* *Inter-segment sales were charged at terms determined and agreed between the Group companies.*

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31st December 2007

	Information home appliances HK$'000	Electronic components HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	160,993	25,471	11,324	197,788
Unallocated corporate assets				4,081,319
Consolidated total assets				4,279,107
LIABILITIES				
Segment liabilities	14,769	11,647	735	27,151
Unallocated corporate liabilities				55,653
Consolidated total liabilities				82,804
OTHER INFORMATION				
Capital additions	1,541	259	565	2,365
Depreciation and amortisation	5,994	1,063	1,217	8,274
Reversal of write-down of inventories	(477)	(437)	–	(914)
Impairment on bad and doubtful debts	911	44	–	955
Bad debts	–	1,075	–	1,075
Impairment on intangible assets	169	–	–	169

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the year ended 31st December 2006

	Information home appliances	Electronic components	Other operations	Elimination	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER					
External sales	186,549	833,574	18,177	–	1,038,300
Inter-segment sales*	214,635	99,639	–	(314,274)	–
Total	401,184	933,213	18,177	(314,274)	1,038,300
RESULTS					
Segment results	21,212	(15,986)	(3,389)	–	1,837
Unallocated corporate income					34,859
Fair value gain on investment properties					4,900
Other unallocated corporate expenses					(22,359)
Profit from operations					19,237
Finance costs					(4,710)
Profit before taxation					14,527
Taxation					(1,590)
Profit for the year					12,937

* *Inter-segment sales were charged at terms determined and agreed between the Group companies.*

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

As at 31st December 2006

	Information home appliances HK$'000	Electronic components HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	164,628	200,725	8,331	373,684
Unallocated corporate assets				2,186,071
Consolidated total assets				2,559,755
LIABILITIES				
Segment liabilities	23,544	159,276	786	183,606
Unallocated corporate liabilities				55,831
Consolidated total liabilities				239,437
OTHER INFORMATION				
Capital additions	2,602	2,181	123	4,906
Depreciation and amortisation	5,657	1,963	1,717	9,337
Write-down of inventories	5,677	8,936	–	14,613
(Reversal of impairment on)/impairment on bad and doubtful debts	(145)	15,674	–	15,529

Notes to the Financial Statements

7. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's information home appliances division is located in the People's Republic of China (other than Hong Kong) (the "PRC") and its products are also distributed in the PRC, Hong Kong and other countries. Other operations of the Group are mainly located in the PRC.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	Turnover	
	2007	2006
	HK$'000	HK$'000
The PRC	**23,201**	744,505
Hong Kong	**81,400**	242,323
Other countries	**21,129**	51,472
	125,730	1,038,300

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
The PRC	**163,384**	169,056	**2,187**	3,351
Hong Kong	**34,404**	204,628	**178**	1,555
	197,788	373,684	**2,365**	4,906

Notes to the Financial Statements

8. OTHER REVENUE AND NET INCOME

	2007 HK$'000	2006 HK$'000
Other revenue		
Dividend income from unlisted securities	**21,978**	15,943
Dividend income from listed securities	**158**	40
Foreign exchange gain	**3,074**	–
Interest income	**1,215**	2,503
Rental income from investment properties	**996**	996
Reversal of impairment on an ex-associate	**2,019**	–
Reversal of impairment on other receivables	**7,412**	–
Sundry income	**5,575**	7,378
	42,427	26,860
Other net income		
Gain on disposal of property, plant and equipment	**–**	4
Gains on disposal of financial assets at fair value through profit or loss	**11,857**	1,935
Net unrealised holding gains on financial assets at fair value through profit or loss	**1,468**	1,908
	13,325	3,847
	55,752	30,707

Notes to the Financial Statements

9. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging/(crediting):

	2007 HK$'000	2006 HK$'000
Auditor's remuneration	**1,000**	920
Under provision of auditors' remuneration in prior year	**20**	–
Impairment on bad and doubtful debts	**955**	15,529
Amortisation of intangible assets	**204**	768
Amortisation of prepaid lease payments	**317**	301
Depreciation of property, plant and equipment	**7,753**	8,268
Cost of inventories	**95,561**	963,683
Foreign exchange loss	**363**	–
Loss on disposal of property, plant and equipment	**48**	90
Gain on disposal of subsidiaries	**(13,873)**	–
Bad and doubtful debts	**1,075**	–
(Reversal of write-down of inventories)*/Write-down of inventories	**(914)**	14,613
Impairment on intangible assets	**169**	–
Direct outgoings from leasing of investment properties	**304**	352
Operating lease charges	**2,333**	–
Research and development costs	**989**	7,998
Staff costs (include Directors' emoluments *(note 10)*):		
Salaries and allowances	**16,535**	22,568
Share option benefits	**18,656**	139
Retirement scheme contributions	**2,825**	2,188
Total staff costs	**38,016**	24,895

* The reversal of write-down of inventories arose from disposal of inventories which was written-down in prior year.

Notes to the Financial Statements

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2006: seven) Directors were as follows:

		Other emoluments			
Name of director	**Fees**	**Salaries, allowances and other benefits in kind**	**Retirement scheme contributions**	**Share option benefit**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive directors					
Zhu Wei Sha *(Chairman)*	–	600	–	–	600
Chen Fu Rong	–	212	–	–	212
Shi Guang Rong	–	480	12	335	827
Wang An Zhong	–	250	16	669	935
Independent non-executive directors					
Wu Jia Jun	70	–	–	268	338
Zhong Peng Rong	70	–	–	268	338
Shen Yan	70	–	–	268	338
Total for 2007	**210**	**1,542**	**28**	**1,808**	**3,588**
Executive directors					
Zhu Wei Sha *(Chairman)*	–	600	–	–	600
Chen Fu Rong	–	130	4	–	134
Shi Guang Rong	–	464	12	3	479
Wang An Zhong	–	172	13	5	190
Independent non-executive directors					
Wu Jia Jun	70	–	–	2	72
Zhong Peng Rong	70	–	–	2	72
Shen Yan	70	–	–	2	72
Total for 2006	210	1,366	29	14	1,619

During the year 2006 and 2007, no emoluments were paid by the Group to any Director as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

Notes to the Financial Statements

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

During the year, three Directors (2006: one) are included in the five highest paid individuals of the Group. Details of Directors' emoluments are set out in note 10 above. The aggregate emoluments of the remaining two (2006: four) highest paid individuals, who are employees of the Group, are as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries, allowances and other benefits in kind	**1,277**	2,357
Retirement benefits scheme contributions	**21**	38
Share option benefit	**268**	6
	1,566	2,401

The emoluments of each of the two (2006: four) highest paid individuals for both years were less than HK$1,000,000.

12. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest on loans wholly repayable within five years:		
– Bank loans	**2,800**	3,939
– Loan from a subsidiary's director *(note 39(a))*	**–**	394
– Obligations under finance leases	**–**	49
	2,800	4,382
Interest on bank loans repayable over five years	**293**	328
Total borrowing costs	**3,093**	4,710

Notes to the Financial Statements

13. TAXATION

The taxation charged to the income statement represents:

	2007 HK$'000	2006 HK$'000
Hong Kong Profits Tax		
– Overprovision in prior year	**–**	(1,051)
The PRC Enterprise Income Tax		
– Current year	**726**	2,641
	726	1,590

No Hong Kong profits tax has been provided for the year as the Group did not have any assessable profit for the year (2006: 17.5%).

PRC enterprise income tax has been provided at a range of 15% to 33% (2006: 33%) on the estimated assessable profit of the subsidiaries in the PRC. Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next consecutive three years, except for a PRC subsidiary, which is exempted from PRC income tax for three years starting from the year it commenced business, followed by a 50% reduction on a tax rate of 15% for the next consecutive three years on the assessable income.

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

Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2007 HK$'000	2006 HK$'000
Profit before taxation	**23,239**	14,527
Notional tax on profit before taxation, calculated at rates applicable to profits in the jurisdictions concerned	**3,543**	2,983
Tax effect of non-deductible expenses	**46**	11,086
Tax effect of non-taxable income	**(8,807)**	(7,623)
Overprovision in respect of prior year	**–**	(1,051)
Tax effect of utilisation of tax loss not previously recognised	**–**	1,170
Effect of tax exemptions granted to PRC subsidiaries	**(506)**	(2,841)
Tax effect of unrecognised tax losses and timing differences	**6,450**	(2,134)
Actual tax expense	**726**	1,590

Notes to the Financial Statements

13. TAXATION *(Continued)*

At 31st December 2007, the Group had unrecognised deferred tax assets of approximately HK$21,990,000 (2006: approximately HK$14,453,000) in respect of the tax losses and other temporary differences. As it is not probable that taxable profits will be available against which the deductible temporary differences and the unused tax losses of the Group can be utilized, deferred tax assets have not been recognised. Tax losses are available indefinitely for offsetting future taxable profits of the companies in which the losses arose.

14 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company includes a loss of approximately HK$23,206,000 (2006: approximately HK$6,896,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's loss for the year:

	2007	2006
	HK$'000	HK$'000
Amount of profit attributable to equity holders dealt with in the Company's financial statements	**(23,206)**	(6,896)
Final dividends from subsidiaries	**17,000**	75,000
Company's (loss)/profit for the year *(note 30)*	**(6,206)**	68,104

15. DIVIDEND

	2007	2006
	HK$'000	HK$'000
Proposed – final dividend of HK$Nil (2006: HK$0.05) per share#	–	20,000*
	–	20,000

No dividend was proposed during 2007, nor has any dividend been proposed since the balance sheet date.

* The actual final dividends paid for 2006 was approximately HK$20,151,000 due to additional shares issued during the period from 22nd March 2007 to 11th June 2007, the date of closure of the register of members.

Dividend paid to shareholders of the Company based on number of ordinary shares before Share Subdivision (note 29(a)).

Notes to the Financial Statements

16. EARNINGS PER SHARE

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

	2007	2006
	HK$'000	HK$'000
Consolidated profit attributable to equity holders of the Company	**22,513**	17,368

	2007	2006
	'000	'000
Issued ordinary share at 1 January	**1,600,000**	1,600,000
Effect of share options exercised	**9,643**	–
Weighted average number of ordinary shares for basic earnings per share	**1,609,643**	1,600,000
Effect of dilutive potential ordinary shares:		
Exercise of share options	**69,920**	13,100
Weighted average number of ordinary shares for dilutive earnings per share	**1,679,563**	1,613,100
Earnings per share *(Note)*:		
– Basic	**1.40 cents**	1.09 cents
– Diluted	**1.34 cents**	1.08 cents

Note:

The weighted average number of ordinary shares for basic earnings per share has been adjusted for the Share Subdivision (note 29(a)).

17. INVESTMENT PROPERTIES

	Group	
	2007	2006
	HK$'000	HK$'000
Fair value at 1st January	**26,700**	21,800
Net increase in fair value recognised in the consolidated income statement	**2,900**	4,900
At 31st December	**29,600**	26,700

All the investment properties are held under medium term leases and situated in Hong Kong.

The investment properties were revalued as at 31st December 2007 on an open market basis by Vigers Appraisal & Consulting Limited, which are independent qualified professional valuers not connected with the Group and have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

Notes to the Financial Statements

18. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings held for own use HK$'000	Leasehold improvements HK$'000	Office equipment, furniture and fixtures HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost						
At 1st January 2006	79,141	7,228	7,637	34,174	3,466	131,646
Exchange adjustments	2,804	230	227	1,234	122	4,617
Additions	–	1,143	1,312	2,345	106	4,906
Disposals	–	–	(2,019)	(989)	(238)	(3,246)
At 31st December 2006 and 1st January 2007	81,945	8,601	7,157	36,764	3,456	137,923
Exchange adjustments	5,977	508	365	2,731	253	9,834
Additions	–	65	1,089	260	951	2,365
Disposals	–	–	(1)	(47)	(529)	(577)
Disposal of subsidiaries	–	(916)	(1,600)	–	–	(2,516)
Reclassification	–	9,982	(594)	(9,388)	–	–
At 31st December 2007	**87,922**	**18,240**	**6,416**	**30,320**	**4,131**	**147,029**
Accumulated depreciation						
At 1st January 2006	3,860	1,408	4,569	5,199	1,714	16,750
Exchange adjustments	192	37	154	265	68	716
Charge for the year	2,575	599	1,317	3,446	331	8,268
Disposals	–	–	(1,967)	(101)	(81)	(2,149)
At 31st December 2006 and 1st January 2007	6,627	2,044	4,073	8,809	2,032	23,585
Exchange adjustments	583	110	241	793	154	1,881
Charge for the year	2,419	1,101	793	3,230	210	7,753
Disposal of subsidiaries	–	(417)	(689)	–	–	(1,106)
Disposals	–	–	(1)	(43)	(382)	(426)
Reclassification	–	2,264	(256)	(2,008)	–	–
At 31st December 2007	**9,629**	**5,102**	**4,161**	**10,781**	**2,014**	**31,687**
Net book values						
At 31st December 2007	**78,293**	**13,138**	**2,255**	**19,539**	**2,117**	**115,342**
At 31st December 2006	75,318	6,557	3,084	27,955	1,424	114,338

All the buildings are situated in the PRC and held under medium-term leases.

Notes to the Financial Statements

19. PREPAID LEASE PAYMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Net book value		
At 1st January	**12,752**	12,612
Amortisation	**(317)**	(301)
Exchange adjustments	**916**	441
At 31st December	**13,351**	12,752
Current portion	**(330)**	(308)
Non-current portion	**13,021**	12,444

The prepaid lease payments are held under medium term lease and situated in the PRC.

Notes to the Financial Statements

20. INTANGIBLE ASSETS

Group

	Patents and trademarks HK$'000	Film and musical recording rights HK$'000	Total HK$'000
Cost			
At 1st January 2006	6,521	5,749	12,270
Exchange adjustments	187	170	357
At 31st December 2006 and 1st January 2007	6,708	5,919	12,627
Exchange adjustments	398	361	759
Disposal of subsidiaries	–	(961)	(961)
At 31st December 2007	**7,106**	**5,319**	**12,425**
Accumulated amortisation			
At 1st January 2006	5,943	4,681	10,624
Exchange adjustments	188	166	354
Charge for the year	204	564	768
At 31st December 2006 and 1st January 2007	6,335	5,411	11,746
Exchange adjustments	398	362	760
Charge for the year	204	–	204
Disposal of subsidiaries	–	(454)	(454)
Impairment on intangible assets	169	–	169
At 31st December 2007	**7,106**	**5,319**	**12,425**
Net book value			
At 31st December 2007	**–**	**–**	**–**
At 31st December 2006	373	508	881

Patents and trademarks of the Group represents the cost paid for obtaining the right to use the licence in manufacturing of information home appliances.

Film and musical recording rights of the Group represents the cost paid for obtaining the right to use the content of films and music on information home appliances.

All of the Group's intangible assets were acquired from third parties and are amortised over two to five years.

The amortisation expense has been included in the general and administrative expenses in the consolidated income statement.

Notes to the Financial Statements

21. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**176,000**	176,000
Less: impairment loss recognised	**(153,400)**	(153,400)
	22,600	22,600
Amounts due from subsidiaries	**454,751**	427,270
	477,351	449,870
Amounts due to subsidiaries	**(34,872)**	(4,873)

The Directors consider that in light of the recurring operating losses of certain subsidiaries and unfavourable market conditions, the recoverable amount of these subsidiaries has been reduced to the estimated net realisable value of their identifiable net assets. Accordingly, an aggregate impairment loss of approximately HK$153,400,000 (2006: approximately HK$153,400,000) in respect of the Company's interests in subsidiaries and amounts due from subsidiaries was recognised.

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

On 2nd January 2007, the Group disposed of three subsidiaries to a third party for a consideration of HK$30,000,000 resulting in a gain on disposal of approximately HK$13,873,000. The net assets of the subsidiaries disposed of were disclosed in note 31.

Details of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31st December 2007 are set out in note 41.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted equity securities		
– Equity interest in JI *(Note)*	**3,954,047**	2,097,441
– Other equity securities	**–**	2,185
At 31st December	**3,954,047**	2,099,626

Notes to the Financial Statements

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Note:

Pursuant to an agreement dated 10th August 2004, the Group through its wholly-owned subsidiary Beijing Golden Yuxing Electronics and Technology Company Limited ("Golden Yuxing") acquired a 10.435% equity interest in Shenzhen Jiangnan Industrial Development Co., Ltd ("JI"), a company which holds, among others, shares of Ping An Insurance (Group) Company of China Limited ("Ping An Shares") which was listed in the Shanghai Stock Exchange in the PRC on 1st March 2007, for a consideration of RMB217,000,000 (equivalent to approximately HK$204,274,000) (the "Acquisition") from Shanshui Jianlibao Health Industry Investment Co., Ltd ("SJHII"), a company in which Mr. Zhu Wei Sha, a director of the Company, had an effective 8.1% equity interest. Mr. Zhu Wei Sha ceased to have any equity interests in SJHII after November 2004. The said consideration was determined with reference to the value of 51,000,000 Ping An Shares held directly by JI.

The purpose of the Acquisition was to enable the Group to acquire a 10.435% economic benefits associated with the 51,000,000 Ping An Shares through a share management agreement entered into amongst Golden Yuxing, JI and other shareholders of JI at the time, specifically to enable the Group to receive its share of dividend attributable to the 51,000,000 Ping An Shares and to use such shares as security to support its own borrowings.

Subsequently in August 2004, the Group came to know about certain deficiencies in the above-mentioned share management agreement to give effect to the requirement of Golden Yuxing to acquire such economic benefits relating to the investment in the 51,000,000 Ping An Shares held by JI, which gives rise to uncertainties over enforceability of the agreement under PRC laws.

In April 2005, although no notification had been served on the Group by the PRC authority, the Directors were informed by JI that the Foshan Police Bureau had requested the Commodity Price Information Centre of Shenzhen Industrial and Commercial Administration Bureau ("SICAB") to refuse the transfer, pledge or sale of the 10.435% equity interest in JI held by Golden Yuxing. On 2nd November 2007, the Directors were informed by its PRC lawyers that the SICAB confirmed that the moratorium has been uplifted on 14th April 2006.

In 2006, Golden Yuxing further acquired 15.175% and 11.05% equity interest in JI for considerations of RMBNil and RMB1 respectively pursuant to a share capital reorganisation of JI and had since held a total of 36.66% equity interest in JI, representing an equivalent interest in 51,000,000 Ping An Shares. In the opinion of the Directors, Golden Yuxing has no significant influence over JI as the other 63.34% equity interest is controlled by another shareholder, who also manages all significant and day-to-day operations of JI.

In 2006, 18,000,000 Ping An Shares of JI were pledged to a bank in the PRC for the banking facilities granted to Sheng Bang Qiang Dian Electronics ("Zhongshan") Co., Ltd., ("Zhongshan Sheng Bang") an indirect wholly-owned subsidiary of the Company. The bank loan was fully repaid during the year 2007.

As at 31st December 2007, the equity interest in JI held by the Group was revalued by Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group, to approximately RMB3,702,570,000 (equivalent to approximately of HK$3,954,047,000) (2006: RMB2,107,299,000 (equivalent to approximately HK$2,097,441,000)). The valuation was arrived at by reference to the PRC audited financial statements of JI as at 31st December 2007 and adjusted by the market value of 51,000,000 Ping An Shares at 31st December 2007. The Group recorded a revaluation surplus on the interests in JI of approximately of RMB1,595,270,000 (equivalent to approximately HK$1,703,620,000) (2006: approximately RMB1,890,299,000 (equivalent to approximately HK$1,881,457,000)) as at 31st December 2007.

On 24th October 2007, a moratorium on the 36.66% equity interest in JI, and hence on its undertaking and all assets including the 51,000,000 Ping An Shares, currently held by Golden Yuxing was imposed by the People's Court of Beijing in relation to the repayment arrangement between Golden Yuxing and Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd., ("Shenzhen Sheng Bang") both of which are wholly-owned subsidiaries of the Company.

Notes to the Financial Statements

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Note: (Continued)

The Foshan Middle Court imposed two standby moratoriums on 24th October 2007 and 30th October 2007 respectively on the 4.6958% and 11.8371% equity interest in JI held by Golden Yuxing. However, the Directors were not aware of the background and reasons for these two standby moratoriums, as further detailed in the Company's announcement on 6th November 2007.

In December 2007, Guangdong Jianlibao Group Company Limited ("JLB Group") served a petition to the Higher People's Court of the Guangdong Province in the PRC ("Guangdong Higher Court") for invalidation of the sale and purchase transaction of JI's interest between Golden Yuxing and SJHII, which was made on 10th August 2004, as further detailed in note 38.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	HK$'000
Held-for-trading investment (at market value):		
Listed equity securities in Hong Kong	**5,222**	6,653

24. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Merchandise	**7,775**	83,290
Raw materials	**6,228**	4,543
Work-in-progress	**5,476**	606
Finished goods	**3,437**	17,380
	22,916	105,819

Notes to the Financial Statements

25. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**31,544**	93,779	**–**	–
Less: Impairment on bad and doubtful debts	**(2,583)**	(20,382)	**–**	–
	28,961	73,397	**–**	–
Other receivables	**15,019**	13,578	**–**	–
Prepayments and deposits	**3,689**	11,116	**290**	407
	47,669	98,091	**290**	407

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

The Group allows its trade customers with an average credit period of 60 to 90 days. The ageing analysis of trade receivables at the balance sheet date is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0-30 days	**10,387**	53,238
31-60 days	**1,872**	14,861
61-90 days	**1,561**	631
over 90 days	**15,141**	4,667
	28,961	73,397

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivable directly (see note 3(q)).

The movement in the impairment on bad and doubtful debts during the year is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1st January	**20,382**	4,983
Impairment loss recognised	**955**	15,529
Disposal of subsidiaries	**(18,859)**	–
Exchange adjustments	**105**	(130)
At 31st December	**2,583**	20,382

Notes to the Financial Statements

25. TRADE AND OTHER RECEIVABLES *(Continued)*

The ageing analysis of trade receivable that are past due but not impaired:

	Group	
	2007	2006
	HK$'000	HK$'000
Over 90 days	**15,141**	4,667

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

26. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables *(Note)*	**23,501**	153,958	**–**	–
Other payables	**11,719**	21,437	**1,650**	–
Accruals	**6,043**	8,711	**440**	2,301
Amount due to a subsidiary's director *(note 39(a))*	**–**	10,000	**–**	–
	41,263	194,106	**2,090**	2,301

Note:

The ageing analysis of trade payables at the balance sheet date was as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0-30 days	**7,012**	85,124
31-60 days	**2,393**	56,416
61-90 days	**1,261**	2,462
over 90 days	**12,835**	9,956
	23,501	153,958

Notes to the Financial Statements

27. BANK LOANS

Bank loans comprises:

	Group	
	2007	2006
	HK$'000	HK$'000
Secured	**39,829**	45,331
On demand or within one year	**25,384**	40,003
Between one and two years	**917**	200
Between two and five years	**2,997**	675
Over five years	**10,531**	4,453
	39,829	45,331
Less: current portion	**(25,384)**	(40,003)
Non-current portion	**14,445**	5,328

As at 31st December 2007, the bank loans were charged at fixed interest rates ranging from 4.3%-6.6% (2006: 5.7%-7.0%) per annum. The bank loans were secured by the assets of the Group as disclosed in note 32.

28. PROVISIONS

Provisions for litigation

	Group	
	2007	2006
	HK$'000	HK$'000
At 1st January	**–**	–
Provisions made	**1.113**	–
At 31st December	**1.113**	–

In September 2007, a software supplier claimed against an indirect wholly-owned subsidiary, Golden Yuxing, in the Second Intermediate People's Court of Beijing for approximately HK$224,000 (equivalent to RMB210,000) being unpaid royalty expenses for the use of software. The Directors consider that full provision should be made in the consolidated financial statements.

In September and November 2007, two suppliers claimed against an indirect wholly-owned subsidiary, Yuxing Technology Company Limited, in the High Court of the Hong Kong Special Administrative Region and the People's Court of the Shanghai Pudong New Region for approximately HK$709,000 (equivalent to US$90,880) and approximately HK$180,000 (equivalent to US$23,112) respectively being unpaid of supplied goods. The Directors consider that full provision should be made in the consolidated financial statements.

Notes to the Financial Statements

29. SHARE CAPITAL

	Number of shares		Share capital	
	31st December 2007	31st December 2006	**31st December 2007 HK$'000**	31st December 2006 HK$'000
Authorised:				
At beginning of the year				
(ordinary shares of HK$0.1 each)	**2,000,000,000**	2,000,000,000	**200,000**	200,000
Subdivision of one share of HK$0.1 each				
into four shares of HK$0.025 each *(note (a))*	**6,000,000,000**	–	**–**	–
At end of year				
Shares of HK$0.025 each				
(2006: HK$0.1 each)	**8,000,000,000**	2,000,000,000	**200,000**	200,000
Issued and fully paid:				
At beginning of the year				
(ordinary shares of HK$0.1 each)	**400,000,000**	400,000,000	**40,000**	40,000
Subdivision of one share of HK$0.1				
each into four shares of HK$0.025				
each *(note (a))*	**1,200,000,000**	–	**–**	–
Exercise of share options *(note (b))*	**21,132,000**	–	**528**	–
At end of year				
Shares of HK$0.025 each				
(2006: HK0.1 each)	**1,621,132,000**	400,000,000	**40,528**	40,000

Notes:

(a) On 22nd June 2007, an ordinary resolution was passed by the shareholders of the Company approving the subdivision (the "Share Subdivision") of each issued and unissued shares of HK$0.1 each in the authorised share capital of the Company into four ordinary shares of HK$0.025 each. The Share Subdivision became effective on 25th June 2007.

(b) During the year ended 31st December 2007, 21,132,000 shares were issued at HK$0.025 per share as a result of the exercise of share options of the Company.

Notes to the Financial Statements

30. RESERVES

Group

	Share premium HK$'000 *(note (b)(i))*	Statutory reserves HK$'000 *(note (b)(ii))*	Contributed surplus HK$'000 *(note (b)(iii))*	Investment revaluation reserves HK$'000 *(note (b)(iv))*	Share option reserves HK$'000 *(note (b)(v))*	Translation reserves HK$'000 *(note (b)(vi))*	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1st January 2006	381,713	16,874	–	–	–	5,695	(48,542)	355,740
Equity-settled share based payment	–	–	–	–	139	–	–	139
Available-for-sale financial asset	–	–	–	1,881,457	–	–	–	1,881,457
Transfer	–	3,316	–	–	–	–	(3,316)	–
Exchange adjustments	–	–	–	–		10,119	–	10,119
Profit for the year	–	–	–	–	–	–	17,368	17,368
At 31st December 2006 and at 1st January 2007	381,713	20,190	–	1,881,457	139	15,814	(34,490)	2,264,823
Issue of shares under share option scheme *(note (a))*	7,555	–	–	–	(1,797)	–	–	5,758
Reduction of share premium to offset against accumulated losses and transfer to contributed surplus	(385,022)	–	234,621	–	–	–	150,401	–
Equity-settled share based payment	–	–	–	–	18,656	–	–	18,656
Available-for-sale financial asset	–	–	–	1,703,620	–	–	–	1,703,620
Exchange adjustments	–	–	–	–	–	160,556	–	160,556
2006 final dividend paid	–	–	–	–	–	–	(20,151)	(20,151)
Profit for the year	–	–	–	–	–	–	22,513	22,513
At 31st December 2007	**4,246**	**20,190**	**234,621**	**3,585,077**	**16,998**	**176,370**	**118,273**	**4,155,775**

Notes to the Financial Statements

30. RESERVES *(Continued)*

Company

	Share premium HK$'000 *(note (b)(i))*	Contributed surplus HK$'000 *(note (b)(iii))*	Share option reserves HK$'000 *(note (b)(v))*	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 1st January 2006	381,713	146,000	–	(191,929)	335,784
Equity-settled share based payment	–	–	139	–	139
Profit for the year	–	–	–	68,104	68,104
At 31st December 2006 and at 1st January 2007	381,713	146,000	139	(123,825)	404,027
Issue of shares under share option scheme *(note (a))*	7,555	–	(1,797)	–	5,758
Reduction of share premium to offset against accumulated losses and transfer to contributed surplus	(385,022)	234,621	–	150,401	–
Equity-settled share based payment	–	–	18,656	–	18,656
2006 final dividend paid	–	–	–	(20,151)	(20,151)
Loss for the year	–	–	–	(6,206)	(6,206)
At 31st December 2007	**4,246**	**380,621**	**16,998**	**219**	**402,084**

Notes:

(a) *Shares issued under share option scheme*

During the year, options were exercised to subscribe for 21,132,000 ordinary shares in the Company at a consideration of approximately HK$6,286,000 of which approximately HK$528,000 was credited to share capital and the balance of approximately HK$5,758,000 was credited to the share premium account. Approximately HK$1,797,000 has been transferred from the share option reserves to the share premium account in accordance with policy set out in note 3(r).

(b) *Nature and purpose of reserves*

(i) Share premium

The application of the share premium account is governed by Section 46(2) of the Companies Act 1981 of Bermuda (as amended).

(ii) Statutory reserves

Statutory reserves comprise statutory surplus reserves fund and statutory public welfare fund of the subsidiaries in the PRC and form part of shareholders' fund. According to the Articles of Association of certain subsidiaries, the subsidiaries are required to transfer 10% of the profit after tax to the statutory surplus reserves fund until the fund balance reaches 50% of the registered capital and to transfer 5% to 10% of the profit after tax to the statutory public welfare fund. The transfer to the funds must be made before distributing dividends to shareholders. From 1st January 2006, according to the revised PRC Company Law, the PRC subsidiaries are no longer required to make transfer to the statutory public welfare fund. The unutilised statutory public welfare fund was transferred to statutory reserves fund.

No transfer of statutory reserves has been made for the year (2006: approximately HK$3,316,000).

Notes to the Financial Statements

30. RESERVES *(Continued)*

Notes: (Continued)

(b) Nature and purpose of reserves (Continued)

(iii) Contributed surplus

The contributed surplus represents the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of the shares issued by the Company for each acquisition at the time of the Group reorganisation.

The Company passed a special resolution in September 2007 in according to Section 46(2) of the Companies Act 1981 of Bermuda (as amended), in reduction of its share premium of approximately HK$385,022,000 to eliminate the accumulated losses of approximately HK$150,401,000 and the balance of approximately HK$234,621,000 be credited to the contributed surplus account of the Company to be utilised by the Directors in accordance with the bye-laws of the Company and all applicable laws.

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

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

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

(iv) Investment revaluation reserves

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date.

(v) Share option reserves

The share option reserves comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments.

(vi) Translation reserves

The translation reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations.

At 31st December 2007, the total contributed surplus and retained profits of approximately HK$380,840,000 (2006: approximately HK$22,175,000) is available for distribution to equity holders of the Company, which include the proposed final dividends as at 31st December 2007 of HK$Nil (2006: HK$20,000,000) and the balance of the distributable reserve after proposed final dividend of approximately HK$380,840,000 (2006: approximately HK$2,175,000).

Notes to the Financial Statements

31. DISPOSAL OF SUBSIDIARIES

	2007 HK$'000	2006 HK$'000
Net assets disposed of:		
Available-for-sale financial assets	**2,185**	–
Property, plant and equipment	**1,410**	–
Intangible assets	**507**	–
Inventories	**80,573**	–
Trade and other receivables	**49,606**	–
Cash and bank balances	**40,738**	–
Trade and other payables	**(145,755)**	–
Taxation recoverable	**2,358**	–
Net assets	**31,622**	–
Less: minority interests	**(15,495)**	–
	16,127	–
Gain on disposal of subsidiaries	**13,873**	–
Total consideration	**30,000**	–
Satisfied by:		
Cash consideration received	**30,000**	–
Analysis of the net outflow of cash and cash equivalents in connection with the disposal of subsidiaries:		
Cash consideration received	**30,000**	–
Cash and bank balances disposed of	**(40,738)**	–
Net outflow of cash and cash equivalents	**(10,738)**	–

The subsidiaries disposed of during the year did not have any significant impact on the Group's cash flows.

Notes to the Financial Statements

32. PLEDGE OF ASSETS

At 31st December 2007, the following assets were pledged to secure banking facilities granted to the Group:

(a) Investment properties of the Group with carrying value of HK$29,600,000 (2006: HK$26,700,000);

(b) Prepaid lease payments and buildings of the Group with carrying values of approximately HK$7,732,000 (2006: approximately HK$7,385,000) and approximately HK$51,480,000 (2006: approximately HK$49,305,000) respectively;

(c) No indirect investment of 18,000,000 Ping An Shares held by JI were pledged (2006: 18,000,000 shares were pledged) *(note 22)*; and

(d) Financial assets at fair value through profit or loss of the Group with a total carrying value of approximately HK$2,501,000 (2006: approximately HK$4,173,000).

33. CONTINGENT LIABILITIES

In December 2007, a customer claimed against Shenzhen Sheng Bang in the People's Court of Shenzhen Nanshan Region for HK$3,078,000 (equivalent to RMB3,000,000) for loss alleged to have been suffered from the dissatisfactory quality of products supplied by the subsidiary.

Up to the date of this report, based on the Directors' best estimation, the outcome of the litigations and claims will not have a material adverse effect on the Group and no provision has been made in the consolidated financial statement.

34. OPERATING LEASE COMMITMENTS

(a) The Group as lessee

At 31st December 2007, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**2,415**	2,758
In the second to fifth year inclusive	**355**	2,180
	2,770	4,938

Leases are negotiated for terms ranging from one to three years with fixed rentals.

Notes to the Financial Statements

34. OPERATING LEASE COMMITMENTS *(Continued)*

(b) The Group as lessor

Property rental income earned during the year was approximately HK$996,000 (2006: approximately HK$996,000). The properties are expected to generate rental yields of 3.4% (2006: 3.7%) on an ongoing basis. All of the properties held have committed tenants for the next 1 year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**581**	996
In the second to fifth year inclusive	**–**	581
	581	1,577

(c) The Company did not have operating lease commitments as at 31st December 2007 and 2006.

35. CAPITAL COMMITMENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of intangible assets contracted for but not provided in the financial statements	**–**	155

The Company did not have capital commitments as at 31st December 2007.

36. SHARE OPTION SCHEME

Previous Scheme

Under the share option scheme approved by the shareholders of the Company on 18th January 2000 (the "Previous Scheme"), the Directors may, at their absolute discretion, within a period of ten years from 31st January 2000, invite continuous contract employees of the Group, including Executive Directors, to take up share options to subscribe for shares of the Company subject to the terms and conditions stipulated therein.

The principal purposes of the Previous Scheme are to recognise the significant contributions of the employees and Executive Directors to the growth of the Group by rewarding them with opportunities to obtain an ownership interest in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group's long-term success and prosperity.

36. SHARE OPTION SCHEME *(Continued)*

Previous Scheme *(Continued)*

The total number of shares available for issue under the Previous Scheme was 40,000,000, representing then 10% of the issued share capital of the Company. The maximum entitlement of any one employee cannot exceed 25% of the maximum aggregate number of shares issued and which may fall to be issued under the Previous Scheme.

An offer of the share options shall be deemed to have been accepted by way of the payment of a consideration of HK$1.00 payable by the employee to the Company within 21 days from the date of offer of the share options. The exercise price of the share options is determined by the Directors, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the Company's shares of the five business days immediately preceding the date of grant and the nominal value of the shares of the Company.

The Previous Scheme, originally expiring on 31st January 2010, was early terminated on 18th May 2003. No further share options will be offered under the Previous Scheme upon its termination but its terms remain in full force and effect in respect of the outstanding share options previously granted. At 31st December 2007, no options had been granted and remained outstanding under the Previous Scheme.

Existing Scheme

The Company's new share option scheme (the "Existing Scheme"), which was adopted pursuant to the ordinary resolutions passed by the shareholders of the Company on 18th May 2003 for the purpose of providing incentives to certain eligible participants and unless otherwise cancelled or amended, will expire on 17th May 2013. Under the Existing Scheme, the Directors may grant share options to eligible employees, including Executive Directors, or any persons or entities who have contributed or will contribute to the growth and development of the Group, to subscribe for shares in the Company.

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants (the "Eligible Participants"), to take up share options to subscribe for the shares of the Company:

(i) any employee or officer (whether full time or part time, and including any Executive Director) of any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity");

(ii) any non-executive Directors (including Independent Non-executive Directors) of any member of the Group or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of any member of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; and

(vi) any holder of any securities or securities convertible into any securities issued by any member of the Group or any Invested Entity,

and, for the purposes of the Existing Scheme, the share options may be granted to any company wholly-owned by one or more such Eligible Participants.

Notes to the Financial Statements

36. SHARE OPTION SCHEME *(Continued)*

Existing Scheme *(Continued)*

The total number of shares in respect of which share options may be granted under the Existing Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholder' approval of the Existing Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of outstanding options granted and yet to be exercised under the Existing Scheme and any other share option schemes must not exceed 30% of the total number of shares of the Company in issue from time to time. As at the date of this annual report, the total number of shares available for issue under the Existing Scheme is 160,000,000 (the total number of shares available for issue under the Existing Scheme is 40,000,000 before Share Subdivision), which represents 10% of the issued share capital of the Company. The number of shares in respect of which options may be granted to any Eligible Participant in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of share options to any Director, chief executive or substantial shareholder must be approved by Independent Non-executive Directors. Where any grant of share options to a substantial shareholder or an Independent Non-executive Director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK$5,000,000 in the 12 months period up to the date of grant, then the grant must be approved in advance by the Company's shareholders.

An offer of the share options shall be deemed to have been accepted by way of payment of a consideration of HK$1.00 by the Eligible Participants per each share option within 21 days from the date of offer of the share options. A share option may be exercised in accordance with the terms of the Existing Scheme at any time during the effective period of the Existing Scheme to be notified by the Directors which shall not be later than 10 years from the date of grant. There is no general requirement regarding any minimum period of time a grantee must hold a share option granted to him before exercising such share option. However, the Directors may determine from time to time to impose such a requirement of such a minimum period provided that the date at the end of such minimum period of time must be earlier than (a) the date on which such share option lapses; and (b) 10 years from the date of grant of that share option. The exercise price is determined by the Directors, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing price of the Company's shares for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company.

At 31st December 2007, the total number of shares in respect of which share options had been granted and remained outstanding under the Existing Scheme was 136,732,000 representing 8.4% of the shares of the Company in issue at that date.

Notes to the Financial Statements

36. SHARE OPTION SCHEME *(Continued)*

Existing Scheme *(Continued)*

(a) Movements in share options

	Number of options			
	Previous Scheme		Existing Scheme	
	2007	2006	**2007**	2006
At 1st January	**–**	5,090,000	**26,200,000**	–
Effect on share subdivision	**–**	–	**78,600,000**	–
Granted during the year	**–**	–	**55,200,000**	26,200,000
Exercised during the year	**–**	–	**(21,132,000)**	–
Cancelled/lapsed during the year	**–**	(5,090,000)	**(2,136,000)**	–
At 31st December	**–**	–	**136,732,000**	26,200,000
Options vested at 31st December	**–**	–	**136,732,000**	26,200,000

(b) Terms of unexpired and unexercised share options at balance sheet date:

Date of grant	Exercise period	Exercise price	Number of options	
		HK$	**2007**	2006
Existing Scheme				
26th December 2006	26th December 2006 – 17th May 2013	0.2975*	**81,532,000**	26,200,000
4th September 2007	4th September 2007 – 17th May 2013	1.265	**55,200,000**	–
			136,732,000	26,200,000
Previous Scheme				
9th February 2001	9th February 2002 – 8th February 2006	0.83	**–**	–
11th April 2001	11th April 2002 – 10th April 2006	0.75	**–**	–
			–	–

* Exercise price at HK$1.19 before Share Subdivision (note 29(a)).

Notes to the Financial Statements

36. SHARE OPTION SCHEME *(Continued)*

Existing Scheme *(Continued)*

(c) Details of the movement of share options granted during the years ended 31st December 2007 and 2006 to subscribe for the shares in the Company are as follows:

For the year ended 31st December 2007

	Date of grant	Exercisable period	Exercise price HK$	At 1st January 2007	Effect on share subdivision	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December 2007
Existing Scheme									
Directors									
– Mr. Wang An Zhong	26th December 2006	26th December 2006 – 17th May 2013	0.2975*	1,000,000	3,000,000	–	–	–	4,000,000
– Mr. Shi Guang Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975*	500,000	1,500,000	(800,000)	–	–	1,200,000
– Mr. Wu Jia Jun	26th December 2006	26th December 2006 – 17th May 2013	0.2975*	400,000	1,200,000	(640,000)	–	–	960,000
– Mr. Zhong Peng Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975*	400,000	1,200,000	–	–	–	1,600,000
– Ms. Shen Yan	26th December 2006	26th December 2006 – 17th May 2013	0.2975*	400,000	1,200,000	(640,000)	–	–	960,000
Continuous contract employees	26th December 2006	26th December 2006 – 17th May 2013	0.2975*	23,500,000	70,500,000	(19,052,000)	–	(2,136,000)	72,812,000
	4th September 2007	4th September 2007 – 17th May 2013	1.265	–	–	–	55,200,000	–	55,200,000
				26,200,000	78,600,000	(21,132,000)	55,200,000	(2,136,000)	136,732,000
Exercisable at 31st December 2007									136,732,000
Weighted average exercise price (HK$)				0.2975	0.2975	0.2975	1.265	0.2975	0.6881
Previous Scheme									
Continuous contract employees	9th February 2001	9th February 2002 – 8th February 2006	0.83	–	–	–	–	–	–
	11th April 2001	11th April 2002 – 10th April 2006	0.75	–	–	–	–	–	–
Total				–	–	–	–	–	–
Exercisable at 31st December 2007									–
Weighted average exercise price (HK$)				–	–	–	–	–	–

* Exercise price at HK$1.19 before Share Subdivision (note 29(a)).

Notes to the Financial Statements

36. SHARE OPTION SCHEME *(Continued)*

Existing Scheme *(Continued)*

(c) *(Continued)*

For the year ended 31st December 2006

	Date of grant	Exercisable period	Exercise price HK$	At 1st January 2006	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December 2006
Existing Scheme								
Directors								
– Mr. Wang An Zhong	26th December 2006	26th December 2006 – 17th May 2013	1.19	–	–	1,000,000	–	1,000,000
– Mr. Shi Guang Rong	26th December 2006	26th December 2006 – 17th May 2013	1.19	–	–	500,000	–	500,000
– Mr. Wu Jia Jun	26th December 2006	26th December 2006 – 17th May 2013	1.19	–	–	400,000	–	400,000
– Mr. Zhong Peng Rong	26th December 2006	26th December 2006 – 17th May 2013	1.19	–	–	400,000	–	400,000
– Ms. Shen Yan	26th December 2006	26th December 2006 – 17th May 2013	1.19	–	–	400,000	–	400,000
Continuous contract employees	26th December 2006	26th December 2006 – 17th May 2013	1.19	–	–	23,500,000	–	23,500,000
				–	–	26,200,000	–	26,200,000
Exercisable at 31st December 2006								26,200,000
Weighted average exercise price (HK$)				1.19	1.19	1.19	1.19	1.19
Previous Scheme								
Continuous contract employees	9th February 2001	9th February 2002 – 8th February 2006	0.83	3,110,000	–	–	(3,110,000)	–
	11th April 2001	11th April 2002 – 10th April 2006	0.75	1,980,000	–	–	(1,980,000)	–
Total				5,090,000	–	–	(5,090,000)	–
Exercisable at 31st December 2006								–
Weighted average exercise price (HK$)				0.80	–	–	0.80	–

Notes to the Financial Statements

36. SHARE OPTION SCHEME *(Continued)*

Existing Scheme *(Continued)*

(d) The cost of the options granted on 26th December 2006 and 4th September 2007 for the year ended 31st December 2007 were approximately HK$7,216,000 and HK$11,440,000 respectively. The cost of options granted is estimated on the date of the grant using the Black-Scholes Option Model with the following parameters:

Date of grant	**26th December 2006**	**4th September 2007**
Number of shares issuable under options granted	104,800,000	55,200,000
Exercise price	HK$0.2975*	HK$1.265
5 years and 7 years Exchange Fund Notes, risk-free rate interest	3.71%	4.26%
Volatility#	80%	80%
Expected dividend yield	2%	2%
Expected life	2.8 years to 5.8 years	3 years to 5 years

* Exercise price at HK$1.19 before Share Subdivision (note 29(a)).

The volatility measured of the standard deviation of expected share price returns is based on statistical analysis of daily share prices annualized for one year immediately preceding the grant date.

37. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefits scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to income statements of approximately HK$2,825,000 (2006: approximately HK$2,188,000) represents contributions paid and payable to these schemes by the Group in respect of the current year.

Notes to the Financial Statements

38. POST BALANCE SHEET EVENT

In December 2007, JLB Group, served a petition to the Guangdong Higher Court to institute a civil action against Golden Yuxing as purchaser and SJHII as vendor, claiming, among other matters, that the sale by SJHII to Golden Yuxing in August 2004 of 10.435% (which was subsequently increased to 36.66% pursuant to an adjustment of shareholders' equity interest in March and November 2006 respectively) equity interest in JI, a company which principal assets were 479,117,788 shares (subsequently reduced to 139,112,886 shares as at 31st December 2007) in Ping An Shares which has been listed on the Shanghai Stock Exchange in the PRC since 1st March 2007.

On 18th February 2008, Golden Yuxing received a notification from Guangdong Higher Court, JLB Group claimed that SJHII was actually a trustee holding the shares of JI on their behalf and had entered into the share sale agreement without JLB Group's approval or authorisation. In addition, the fact that the aggregate investment cost exceeded 50% of Golden Yuxing's net assets also violated Rule 12 of the Company Law then in force in the PRC. The share sale transaction was therefore invalid and SJHII did not have the right to pass the legal title of the JI shares to Golden Yuxing. JLB Group thereby demanded the reversion and return of the JI shares to SJHII.

As at the date of this report, no judgement has been received from the court yet. The Directors have sought advice from its PRC lawyers in this respect and are of the view that the claim is based on unsubstantiated and invalid grounds.

39. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with related parties as follows:

(a) On 19th May 2005, Hi-Level Technology Company Limited ("Hi-Level"), an indirect subsidiary of the Company was disposed of during the year, entered into a loan agreement with Mr. Chang Wei Hua (the "Lender"), the director and shareholder of Hi-Level, pursuant to which the Lender advanced a loan of HK$10,000,000 to Hi-Level (note 26). The loan is unsecured and bearing interest at the rate of 4% per annum. The loan expired on 18th May 2006 and became repayable on demand. The loan was repaid in full in January 2007. No loan interest was paid by the Group to a subsidiary's director during the year (2006: approximately HK$394,000) (note 12).

(b) Key management compensation

	2007	2006
	HK$'000	HK$'000
Salaries and other allowances	**3,029**	3,932
Retirement scheme contributions	**49**	68
Share option benefit	**2,076**	20
	5,154	4,020

40. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in notes 5 and 6.

Notes to the Financial Statements

41. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2007 are as follows:

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued share capital/ registered capital	Interest held
Direct subsidiaries:				
First I-Tech Limited	Republic of Mauritius ("Mauritius")/limited liability company	Investment holding/ Hong Kong ("HK")	1 ordinary share of US$1	100%
Yuxing Group (International) Limited (Formerly known as Yuxing Electronics Company Limited)	British Virgin Islands ("BVI")/limited liability company	Investment holding/ the PRC and HK	2,000 ordinary shares of US$1 each	100%
Indirect subsidiaries:				
Beijing Yuxing Software Co., Ltd.	The PRC/Foreign wholly owned enterprise	Research and development and software design/ the PRC	RMB10,610,850	100%
E-Century Investment Limited	Mauritius/limited liability company	Holding of intangible assets/the PRC	1 ordinary share of US$1	100%
Fozhan Zhixing Technology Co. Limited	The PRC/Foreign wholly owned enterprise	Research and development of broadband communication/the PRC	RMB53,512,424	100%
Golden Yuxing	The PRC/Sino-foreign co-operative joint venture	Research and development, design, marketing, distribution and sales of information appliances/ the PRC	US$4,582,000	100%
Shenzhen Sheng Bang	The PRC/Foreign wholly owned enterprise	Manufacturing, distribution and sales of information home appliances and electronic components/ the PRC	RMB74,400,000	100%
Zhongshan Sheng Bang	The PRC/Foreign wholly owned enterprise	Manufacturing, distribution and sales of information home appliances and electronic components/ the PRC	RMB123,673,532	100%
Yield Lasting Investments Ltd.	BVI/limited liability company	Property holding/HK	1 ordinary share of US$1	100%
Yuxing Technology Company Limited	Hong Kong/limited liability company	Trading and distribution of electronic components and investment holding/HK	2 ordinary shares of HK$1 each	100%

The above table contains only the particulars of subsidiaries of the Group which principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would result in particulars of excessive length.

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