



PROSPERITY INVESTMENT HOLDINGS LIMITED

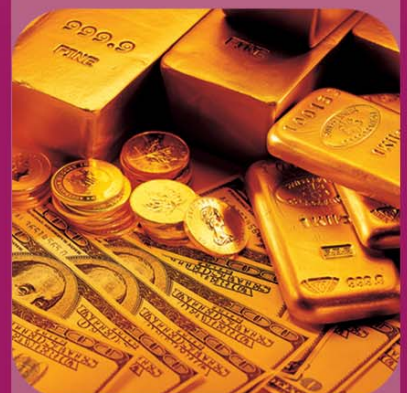
嘉進投資國際有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 310

Annual Report

2007



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Corporate Information

EXECUTIVE DIRECTORS

LAM Kwing Wai, Alvin (*Chairman*)
CHEUK Yuk Lung (*Managing Director*)
TSUI Yee Ni

INDEPENDENT NON-EXECUTIVE DIRECTORS

YAN Mou Keung, Ronald
CHAN Fai Yue, Leo
CHAN Siu Wing, Raymond

AUDIT COMMITTEE

YAN Mou Keung, Ronald
CHAN Fai Yue, Leo
CHAN Siu Wing, Raymond

REMUNERATION COMMITTEE

LAM Kwing Wai, Alvin
YAN Mou Keung, Ronald
CHAN Fai Yue, Leo

COMPANY SECRETARY

LEE Yip Wah, Peter

AUDITORS

H.H. Liu & Co., Certified Public Accountants

SOLICITORS

Li, Wong & Lam

PRINCIPAL BANKER

ICBC (Asia)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room A, 11th Floor
Fortune House
61 Connaught Road Central
Central
Hong Kong

PRINCIPAL REGISTRARS

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

REGISTRARS IN HONG KONG

Secretaries Limited
26th Floor, Tesbury Centre
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Wanchai
Hong Kong

WEBSITE ADDRESS

www.irasia.com/listco/hk/prosperityinv/index.htm

STOCK CODE

The Stock Exchange of Hong Kong Limited: 310

Message from the Chairman

I would like to express my sincere thanks to all our shareholders for their continuing support, and all the directors and staff of the Group for their loyalty, commitment and diligence in the past year.

LAM Kwing Wai, Alvin

Chairman

Management's Statement

On behalf of the board of directors (the "Board"), I have pleasure in presenting the annual report and the audited consolidated results of Prosperity Investment Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended 31 December 2007.

INVESTMENT PORTFOLIOS

For the year under review, the Group has mainly engaged in the following investment projects:

- (1) investment in securities and equity-linked products;
- (2) investment in land development;
- (3) investment in travel industry; and
- (4) investment in the business of confectionery production

These investments are expected to bring to the Group steady returns and possible capital appreciations.

BUSINESS REVIEW AND PROSPECTS

Pursuant to an ordinary resolution passed at the special general meeting held on 21 June 2007, 215,976,000 share of HK\$0.01 each in the share capital of the Company were issued on 16 July 2007 by way of an Open Offer to qualifying shareholders on the basis of one offer share for every two existing shares held ("Open Offer").

In view of the favourable economic growth and stock market performance in early 2007, the Group strengthened its financial position by the Open Offer, which enabled the Company to expand its capital base. In addition, the Open Offer allowed the qualifying shareholders to maintain their respective pro rata shareholdings in the Company and participate in the future growth and development of the Company. The Directors therefore considered that the Open Offer was in the interests of the Company and the Shareholders as a whole. The Board applied the net proceeds for investment to achieve long-term capital appreciation of its assets primarily through equity and equity-related investments.

On 17 August 2007, the Company entered into an agreement with China Investment Fund Company Limited ("CIF") in which CIF issue 80,000,000 new shares at HK\$0.276 each with an aggregate consideration of HK\$22,080,000 and the Company agreed to grant an option to CIF for acquiring up to a maximum of 86,000,000 new shares of the Company at HK\$0.20 each together with a payment of HK\$8,320,000 in cash upon completion on 4 September 2007. The Board considers that the grant of the option will not have a significant dilution effect on the shareholding of the existing shareholders of the Company and will provide an alternative investment opportunity for the Group by means of the subscription for the new shares of CIF.

Management's Statement

The economy of Hong Kong showed a rosy picture with a growth rate of approximately 7% in 2006. Overall improvement in the employment conditions and the increasing of the individual income fuelled fervently the investment sentiment and driving up the trading in the stock market and the demand for the property market in 2007. Under the favourable economic and financial environments, the Group had made a profit of approximately HK\$151 million (2006: profit of approximately HK\$11 million) and such increment is mainly due to the investment gain from the disposal of investment securities and the investment return from an investment project of Hong Kong property market.

Looking ahead, the Board believes that the global inflationary pressure and the sub-prime issue will serve as challenges to Hong Kong's economy in the coming years.

The Group however will continue to identify and pursue any investment opportunities and manage the existing investments in accordance with the Company's investment objective and policy of achieving long term capital appreciation and growth in profits. The Board believes that the Group will continue to evaluate potential investments with a view of gaining high investment returns and yields for our shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

Operations of the Group are generally financed through internal cash resources. As at 31 December 2007, cash and bank balances of the Group were approximately HK\$130 million. With cash and other current assets of approximately HK\$232 million as at 31 December 2007, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

USE OF PROCEEDS

The net proceeds received from the Open Offer were approximately HK\$28 million and have been fully applied for the investment in listed securities in Hong Kong in 2007.

The actual and intended applications of the net proceeds are consistent with the reasons for the Open Offer as set out in the prospectus of the Company dated 22 June 2007 .

CAPITAL STRUCTURE

During the year, the share capital structure of the Company has been changed with details shown in note 25 to the financial statements.

Management's Statement

EMPLOYEES AND REMUNERATION POLICY

Remuneration policies for the employees and the directors are reviewed by the Group in accordance with the market situation and their performance from time to time. In addition to salary payments, the Company has participated in the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Scheme Authority under the Mandatory Provident Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Pursuant to the rules of the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5% of their monthly relevant income.

On behalf of the Board

CHEUK Yuk Lung

Managing Director

Hong Kong, 7 April 2008

Directors' Report

For the year ended 31 December 2007

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to these investee companies.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 22 to 24.

The directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's principal subsidiaries and the Group's principal associates as at 31 December 2007 are set out in notes 13 to 14 to the financial statements respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 72.

Directors' Report

For the year ended 31 December 2007

DIRECTORS

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

Executive Directors

Lam Kwing Wai, Alvin
Cheuk Yuk Lung
Tsui Yee Ni

Independent Non-Executive Directors

Yan Mou Keung, Ronald
Chan Fai Yue, Leo
Chan Siu Wing, Raymond

In accordance with the Company's Bye-Laws, Mr. Cheuk Yuk Lung and Mr. Chan Fai Yue, Leo shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The other directors shall remain in office.

Each independent non-executive director has, pursuant to the rule 3.13 of the Listing Rules, confirmed he is independent of the Company and the Company also considers that they are independent. The term of office of each independent non-executive director is for a period of three years until 30 December 2010 subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Bye-Laws of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of the directors of the Company are as follows:

Executive Directors

Mr. Lam Kwing Wai, Alvin, aged 63, was appointed as an executive director of the Company in 2006 and was then appointed as the Chairman of the Company in 2007. Mr. Lam is the managing director of Golden Resources Development International Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lam is also an independent non-executive director of Regal Portfolio Management Limited, the manager of Regal Real Estate Investment Trust, a Hong Kong collective investment scheme authorized under section 104 of the Securities and Futures Ordinance and the units of which are listed on the main board of the Stock Exchange. Mr. Lam holds a master degree in business administration from University of California, Berkeley, U.S.A.. Mr. Lam has extensive experience in financial management and investment planning.

Directors' Report

For the year ended 31 December 2007

Mr. Cheuk Yuk Lung, aged 42, was appointed as an executive director of the Company in 2004. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants. Mr. Cheuk has extensive professional experience in management, finance, accounting and auditing fields.

Ms. Tsui Yee Ni, aged 29, was appointed as an executive director of the Company in 2006. She holds a degree in Bachelor of Laws from Peking University and she is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Tsui has broad working experience in the fields of legal, administration and company secretary.

Independent Non-Executive Directors

Mr. Yan Mou Keung, Ronald, aged 53, was appointed as an independent non-executive director of the Company in 2001. Mr. Yan is an independent non-executive director of China Investment Fund Company Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange. Mr. Yan has more than 19 years of experience in running retail fashions. Mr. Yan is the Director of Art Concept International Culture Studies Foundation Funds. He is also the Hon Life President of Tsimshatsui Kai Fong Welfare Association, Vice President of HK Island/Northern District Scout Association, Hong Kong, Hon Life President of Artiste Training Alumni Association, the President of Pragmatic Kwon-Do and the Chairman of Chung Hop Pai, Lau Kan Tung Chinese Martial Arts Association.

Mr. Chan Fai Yue, Leo, aged 66, was appointed as an independent non-executive director of the Company in 2001. Mr. Chan is also an independent non-executive director of Golden Resources Development International Limited and Datronix Holdings Limited, companies incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange. Mr. Chan has over 20 years of invaluable experience in Hong Kong stock market and manufacturing industry. During his early years in Japan, he exposed in trading and finance fields. He is a director of a paint manufacturing company in Bangkok. Mr. Chan is a member of The Hong Kong Institute of Directors.

Mr. Chan Siu Wing, Raymond, aged 43, was appointed as an independent non-executive director of the Company in 2004. Mr. Chan is currently the financial controller and company secretary of Hua Xia Healthcare Holdings Limited and the independent non-executive director of Cardlink Technology Group Limited, a company incorporated in Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange. He gained his bachelor degree in economics from University of Sydney in 1986 and is qualified as certified practising accountants in both Australia and Macau. Mr. Chan is an associate member of The Hong Kong Institute of Certified Public Accountants and a member of the Hong Kong Securities Institute. Mr. Chan has over 16 years of professional experience in accounting, taxation and business consulting with various accountancy, consultancy and trustee companies.

Directors' Report

For the year ended 31 December 2007

SENIOR MANAGEMENT

The Company is being managed by its investment manager, Sinox Fund Management Limited ("SINOX"), pursuant to the terms of the written management agreement. The executive directors are closely involved in and responsible for the activities of the Company. The board of directors considered that the Company's senior management comprises the executive directors.

DIRECTORS' SERVICE CONTRACT

None of the directors has a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2007, the interests and short positions of the directors and any of their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

Long positions in shares of HK\$0.01 each of the Company

Name of Director	Personal* Interests	Family+ Interests	Corporate# Interests	Total Interests	Percentage of issued share capital of the Company
Lam Kwing Wai, Alvin	—	—	354,010,656	354,010,656	54.64% (Note (a))

* Beneficial owner

+ Interests of spouse

Interests beneficially held by the company itself or through companies controlled by it

Notes:

(a) The shares were held by Favor Hero Investments Limited, a company which was wholly owned by Mr. Lam Kwing Wai, Alvin as disclosed in the "Substantial Shareholders" below. Mr. Lam Kwing Wai, Alvin was therefore deemed to be interested in 354,010,656 shares held by Favor Hero Investments Limited.

(b) Pursuant to an ordinary resolution passed on 26 February 2008, every ten shares of HK\$0.01 each of the Company have been consolidated into one share of HK\$0.10 each of the Company.

Directors' Report

For the year ended 31 December 2007

Save as disclosed above, none of the directors nor their associates of the Company had or was deemed to have any interest or short position in the shares or underlying shares of the Company or any of its associated corporations as recorded in the register that required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Lam Kwing Wai, Alvin, a director of the Company, has an interest of 80% in SINOX. Pursuant to Rule 21.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), SINOX is a connected person of the Company and, accordingly, the investment management agreement entered into between the Company and SINOX constitutes a connected transaction for the Company under the Listing Rules.

Details of the directors' interests in contracts of significance in relation to the Group's business are set out in the "Connected Transactions" below.

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

CONNECTED TRANSACTIONS

On 31 August 2007, the Company entered into agreement with SINOX for a period of three years commencing from 1 September 2007 to 31 August 2010 (the "Agreement") unless either party provides written termination notice of at least six months to the other and shall be on the same terms and conditions of the agreement dated 27 April 2006 (the "Last Agreement") except that (i) the calculation of the amount of the management fee payable to SINOX from the Company has been revised from 0.75 per cent per annum of the consolidated net asset value of the Company to 1.90 per cent per annum of the consolidated net asset value of the Company and (ii) the tenor has been revised from the period from 1 April 2006 to 31 March 2009 to the period from 1 September 2007 to 31 August 2010. The Agreement superseded the Last Agreement and become the latest investment management agreement entered into between the Company and SINOX.

Directors' Report

For the year ended 31 December 2007

The amount of the management fee payable to SINOX in accordance with the Last Agreement was calculated based on 0.75 percent per annum of the consolidated net asset value of the Company and is now revised to 1.90 percent per annum of the consolidated net asset value of the Company during the duration of the Agreement after discussion between SINOX and the Board of the Company by reason that the value of the assets of the Group has been drastically increased in the past year and will be expected to increase under the current favourable economic growth and stock market performance in both the PRC and Hong Kong and that the Group is evaluating some potential investment projects in the PRC with a view of gaining favourable investment returns and yields for the shareholders of which SINOX will be required to involve more time and effort in the management and administrative services including but not limited to the performance of the feasibility studies and financial analysis of the relevant potential investment projects in the PRC when comparing with its previous scope of works provided with the Company.

Pursuant to the terms of the Agreement, SINOX shall receive from the Company a management fee of 1.90 percent per annum of the consolidated net asset value of the Company payable at the end of each month.

The directors, including the Company's independent non-executive directors, Mr. Yan Mou Keung, Ronald, Mr. Chan Fai Yue, Leo and Mr. Chan Siu Wing, Raymond considered that the Agreement is in the best interests of the Group and was entered into on normal commercial terms, in the ordinary course of business of the Company and that the rate of the management fee is fair and reasonable so far as the shareholders of the Company are concerned.

The Board has also confirmed that a letter pursuant to Rule 14A.38 of the Listing Rules has been issued to the Board by the auditors of the Company.

Directors' Report

For the year ended 31 December 2007

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following persons had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of HK\$0.01 each of the Company

Name	Personal* Interests	Family+ Interests	Corporate# Interests	Total Interests	Percentage of issued share capital of the Company
Favor Hero Investments Limited	—	—	354,010,656	354,010,656	54.64%
Lam Kwing Wai, Alvin	—	—	354,010,656	354,010,656	54.64%
					(Note (a))
China Investment Fund Company Limited	86,000,000	—	—	86,000,000	13.27%

* Beneficial owner

+ Interests of spouse

Interests beneficially held by the company itself or through companies controlled by it

Notes:

- (a) Favor Hero Investments Limited was wholly-owned by Mr. Lam Kwing Wai, Alvin. Mr. Lam Kwing Wai, Alvin was therefore deemed to be interested in 354,010,656 shares held by Favor Hero Investments Limited.
- (b) Pursuant to an ordinary resolution passed on 26 February 2008, every ten shares of HK\$0.01 each of the Company have been consolidated into one share of HK\$0.10 each of the Company.

Save as disclosed above, as at 31 December 2007, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as recorded in the register that required to be kept by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Directors' Report

For the year ended 31 December 2007

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this report, there is sufficient public float of more than 25% of the issued share capital of the Company as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the Company Act (1981) of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDITORS

On 1 September 2003, HLM & Co. tendered their resignation as the auditors of the Company and then RSM Nelson Wheeler was appointed as auditors of the Company by the Board on the same date to fill the casual vacancy.

On 1 November 2006, RSM Nelson Wheeler tendered their resignation as the auditors of the Company and then H.H. Liu & Co., C.P.A. was appointed as auditors of the Company by the Board on the same date to fill the casual vacancy.

H. H. Liu & Co., C.P.A. retires and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

LEE Yip Wah, Peter

Secretary

Hong Kong, 7 April 2008

Corporate Governance Report

The Group is dedicated to maintaining a good credible framework of corporate governance with a view to being transparent, open and accountable to our shareholders.

The Company adopted all the code provisions in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules as its own code on corporate governance practices.

The Company has complied with the code provisions as set out in the Code with the exception of code provision A.2.1 that an individual chief executive officer was not appointed until 1 October 2007. Though the Company did not appoint an individual chief executive officer before the said date, the role of chairman and chief executive officer is separated and not performed by the same individual. Besides, the Company is being managed by its investment manager, Sinox Fund Management Limited, pursuant to the terms of the written management agreement. With effect from 1 October 2007, Mr. Lam Kwing Wai, Alvin has been appointed as the Chairman of the Board and Mr. Cheuk Yuk Lung has resigned as the Chairman of the Board and appointed as managing director of the Company.

The Audit Committee comprises three independent non-executive directors namely Mr. Chan Siu Wing, Raymond, Mr. Yan Mou Keung, Ronald and Mr. Chan Fai Yue, Leo. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited consolidated financial statements and the annual report for the year ended 31 December 2007.

THE BOARD

Composition

The Board consists of three Executive Directors and three Independent Non-executive Directors ("INED(s)"), one of whom namely Mr. Chan Siu Wing, Raymond has the appropriate professional accounting experience and expertise. The names and biographical details of each Director are disclosed on pages 8 to 9 of this Annual Report.

Each INED has, pursuant to the rule 3.13 of the Listing Rules, confirmed he is independent of the Company and the Company also considers that they are independent. The current term of office of each INED is for a period of three years until 30 December 2010 subject to the requirement that one-third of all the Directors shall retire from office by rotation at each annual general meeting pursuant to the Bye-Laws of the Company. There is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

Corporate Governance Report

Function

The Board is responsible both for how the Company is managed and the Company's direction. Approval of the Board is required for the strategy of the Group, major acquisition and disposal, major capital investment, dividend policy, appointment and retirement of Directors, remuneration policy and other major operational and financial matters. Day-to-day operations of the Group are taken up by the Company's management and the Company's investment manager.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board held four regular Board meetings at approximately quarterly interval during the year 2007. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. Details of individual attendance of Directors are set out in the table below:

Attendance of individual Directors at Board meetings in 2007

Number of meetings	12
---------------------------	----

Executive Director

Cheuk Yuk Lung	12/12
Tsui Yee Ni	12/12
Lam Kwing Wai, Alvin (<i>existing Chairman</i>)	10/12

INEDs

Yan Mou Keung, Ronald	9/12
Chan Fai Yue, Leo	9/12
Chan Siu Wing, Raymond	9/12

The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense

BOARD COMMITTEES

To strengthen the functions of the Board and to enhance its expertise, there are two Board committees namely, the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

Corporate Governance Report

Audit Committee

The Audit Committee comprises three INEDs.

The role and function of the Audit Committee include:

- to serve as a focal point for communication between other Directors and the auditors in respect of the duties relating to financial and other reporting, internal controls, audits, and such other matters as the Board may determine from time to time.
- to assist the Board in fulfilling its responsibility by providing an independent review and supervision of financial reporting, by satisfying themselves as to the effectiveness of the internal controls of the Group and the adequacy of the audits.
- to review the appointment of auditors on an annual basis including the review of the audit scope and approval of the audit fees.
- to review the annual and interim financial statements prior to their approval by the Board, and recommend application of accounting policies and changes to the financial reporting requirements.
- to ensure continuing auditor objectivity and to safeguard independence of the Company's auditors.

Set out below is the summary of work done in year 2007:

- to review of the financial statements for the year ended 31 December 2006 and for the six months ended 30 June 2007;
- to review of the effectiveness of the internal control system;
- to review of the auditors' statutory audit plan and the letters of representation; and
- to consider and approve the 2007 audit fees and audit work.

Corporate Governance Report

The Audit Committee held two meetings during the year. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at Audit Committee meetings in 2007

Number of meetings	2
---------------------------	---

INED

Chan Fai Yue, Leo (<i>Chairman of the Committee</i>)	2/2
Yan Mou Keung, Ronald	2/2
Chan Siu Wing, Raymond	2/2

Remuneration Committee

The Board has established a Remuneration Committee, comprising two INEDs and the Chairman of the Company appointed by the Board, which meets at least once a year. The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the Executive Directors.

Set out below is the summary of work of the Remuneration Committee done in year 2007:

- to review of the remuneration policy for 2007/2008;
- to review of the remuneration of the Executive Directors and the INEDs; and
- to review of the annual share option policy.

The Remuneration Committee held one meeting during 2007. Details of individual attendance of its members are set out in the table below:

Attendance of individual members at Remuneration Committee meetings in 2007

Number of meetings	1
---------------------------	---

Executive directors

Cheuk Yuk Lung (<i>former Chairman of the Committee</i>)	1/1
Lam Kwing Wai, Alvin (<i>Chairman of the Committee</i>) (<i>appointed on 18 December 2007</i>)	0/0

INEDs

Yan Mou Keung, Ronald	1/1
Chan Fai Yue, Leo	1/1

Corporate Governance Report

Other information

The Board has not established a nomination committee. Mr. Cheuk Yuk Lung resigned as chairman of the Board on 1 October 2007. Mr. Lam Kwing Wai, Alvin, was appointed as chairman of the Board on 1 October 2007. Mr. Cheuk Yuk Lung was appointed as managing director on 1 October 2007. The appointment of Mr. Lam as chairman of the Board and Mr. Cheuk as the managing director were approved by the Board in a Board meeting at which all the directors were present. There was no removal of director during the year.

The Company had not established its own website. Full text of the terms of reference of Audit Committee and Remuneration Committee will be supplied upon request.

INTERNAL CONTROL

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance of applicable laws, rules and regulations. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

Internal audit has been conducted by the investment manager, Sinox Fund Management Limited ("Sinox") for the Company and its subsidiaries, associated companies and jointly controlled entities. Sinox is responsible for the review of the effectiveness of the Group's material internal controls so as to provide assurance that key business and operational risks are identified and managed. The work carried out by Sinox will ensure the internal controls are carried out appropriately and functioning as intended. Sinox will report to the Board with its findings and make recommendations to improve the internal control of the Group.

The Audit Committee also receives the report from Sinox and takes such report into consideration when it makes its recommendation to the Board for approval of the half-yearly or annual results of the Group.

During the year, the Board together with Sinox reviewed the internal control procedures and risk management system of the Group and noted that there was no significant weakness.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors and by relevant employees (as defined in the Code). All Directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2007.

Corporate Governance Report

AUDITORS' REMUNERATION

During the year, the fees paid to the Company's Auditors, H.H. Liu & Co., C.P.A. amounted to HK\$138,000 in respect of audit and taxation services. In respect of non-audit services, the fees paid to the Company's Auditors in relation to the professional services rendered for the Open Offer of the Company amounted to HK\$20,000.

DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The Directors acknowledge that it is their responsibilities in preparing the Financial Statements. The Statement of the Auditors about their reporting responsibilities on the Financial Statements is set out in the Independent Auditors' Report on page 21.

SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the chairman at the general meeting.

At the 2007 annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election Directors. The Chairman of the Board of Directors, Audit Committee and Remuneration Committee attended the 2007 Annual General Meeting to answer questions of shareholders.

Independent Auditor's Report



廖慶雄會計師事務所
H. H. LIU & CO., *Certified Public Accountants*

To the shareholders of
Prosperity Investment Holdings Limited
(*Incorporated in Bermuda with limited liability*)

We have audited the consolidated financial statements of Prosperity Investment Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 71, 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 CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

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

H. H. Liu & Co.
Certified Public Accountants

Hong Kong, 7 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK\$	2006 HK\$ (restated)
Revenue	5	16,966,483	8,660,936
Other revenue	5	45,991,651	4,784,276
Net gain on disposal of available-for-sale financial assets		30,078,180	—
Net gain on disposal of derivative financial instruments		2,861,302	5,347,542
Fair value gain on investments held for trading		1,693,884	2,657,030
Fair value gain on derivative financial instruments		1,181,631	—
		98,773,131	21,449,784
Gain on disposal of an investment	7	—	20,162,090
Investment management fees		(3,829,827)	(2,337,513)
Provision for impairment loss		(1,554,644)	(23,553,701)
Impairment loss of goodwill on acquisition of a subsidiary		—	(999,688)
Reversal of impairment loss		7,545,459	—
Finance costs	8	(7,994)	(8,079)
Other operating expenses		(13,071,264)	(2,714,982)
Staff costs		(1,303,448)	(986,003)
Share of profits less losses of associates	14	64,457,198	—
Profit before taxation		151,008,611	11,011,908
Income tax expense	10	(769,698)	(1,338,120)
Profit for the year	26	150,238,913	9,673,788
Earnings per share	12		
— Basic		24.53 cents	1.70 cents
— Diluted		23.25 cents	1.70 cents

The notes on pages 28 to 71 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 HK\$	2006 HK\$
Non-current assets			
Interests in associates	14	11,136,579	24,032,496
Available-for-sale financial assets	16	310,757,986	112,237,267
Other asset	19	150,000	150,000
		322,044,565	136,419,763
Current assets			
Available-for-sale financial assets	16	47,935,200	19,766,204
Derivative financial instruments	17	1,181,631	—
Financial assets at fair value through profit or loss	18	2,676,600	7,928,054
Other receivables	20	50,558,439	21,050,850
Cash with brokers		10,008,519	7,206,335
Cash and bank balances		119,952,702	69,125,776
		232,313,091	125,077,219
Non-current assets held for sale	15	—	2,773,428
		232,313,091	127,850,647
Less: Current liabilities			
Other payables	22	1,789,061	314,509
Due to Sinox Fund Management Limited	23	648,821	143,145
Provision for taxation		4,057,860	14,718,061
		6,495,742	15,175,715
Net current assets		225,817,349	112,674,932
NET ASSETS		547,861,914	249,094,695
Capital and reserves			
Share capital	25	6,479,280	4,319,520
Reserves	26	541,382,634	244,775,175
SHAREHOLDERS' FUNDS		547,861,914	249,094,695
Net asset value per share	28	85 cents	58 cents

Approved by the Board of Directors on 7 April 2008

TSUI Yee Ni
Director

CHEUK Yuk Lung
Director

The notes on pages 28 to 71 form an integral part of these financial statements.

Balance Sheet

At 31 December 2007

	Note	2007 HK\$	2006 HK\$
Non-current assets			
Interests in subsidiaries	13	90,010,748	90,006,380
Available-for-sale financial assets	16	84,398,309	17,891,412
		174,409,057	107,897,792
Current assets			
Other receivables	20	6,383,557	379,891
Due from a subsidiary	21	5,112,194	—
Cash with brokers		815,261	—
Cash and bank balances		71,189,882	58,615,664
		83,500,894	58,995,555
Less: Current liabilities			
Other payables	22	252,766	307,163
Due to Sinox Fund Management Limited	23	648,821	143,145
Due to a subsidiary	24	—	56,771,541
		901,587	57,221,849
Net current assets		82,599,307	1,773,706
NET ASSETS		257,008,364	109,671,498
Capital and reserves			
Share capital	25	6,479,280	4,319,520
Reserves	26	250,529,084	105,351,978
SHAREHOLDERS' FUNDS		257,008,364	109,671,498

Approved by the Board of Directors on 7 April 2008

TSUI Yee Ni
Director

CHEUK Yuk Lung
Director

The notes on pages 28 to 71 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Reserves					Changes in fair value of Available-for-sale financial assets HK\$	(Accumulated losses)/ Retained profits HK\$	Total HK\$
	Share capital HK\$	Share premium HK\$	Share option reserve HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$			
At 31 December 2005	43,195,200	169,564,710	—	86,752,510	131,919	3,644,188	(70,471,697)	232,816,830
Prior year adjustment	—	—	—	—	—	—	1,545,308	1,545,308
At 1 January 2006, as restated	43,195,200	169,564,710	—	86,752,510	131,919	3,644,188	(68,926,389)	234,362,138
Increase in fair value of available-for-sale financial assets	—	—	—	—	—	5,058,769	—	5,058,769
Credit arising on capital reduction set off against accumulated losses of the Company and remaining balance transferred to contribution surplus account	(38,875,680)	—	—	13,630,807	—	—	25,244,873	—
Profit for the year	—	—	—	—	—	—	9,673,788	9,673,788
At 31 December 2006	4,319,520	169,564,710	—	100,383,317	131,919	8,702,957	(34,007,728)	249,094,695
Increase in fair value of available-for-sale financial assets	—	—	—	—	—	97,107,576	—	97,107,576
Realisation of change in fair value for disposal of available-for-sale financial assets	—	—	—	—	—	(4,484,111)	—	(4,484,111)
Capital and Premium arise from open offer	2,159,760	—	—	26,997,000	—	—	—	29,156,760
Equity-settled share-based payment	—	—	26,880,000	—	—	—	—	26,880,000
Realisation of exchange fluctuation reserve on disposal of an investment	—	—	—	—	(131,919)	—	—	(131,919)
Profit for the year	—	—	—	—	—	—	150,238,913	150,238,913
At 31 December 2007	6,479,280	169,564,710	26,880,000	127,380,317	—	101,326,422	116,231,185	547,861,914

The notes on pages 28 to 71 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK\$	2006 HK\$ (Restated)*
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	151,008,611	11,011,908
Adjustments for:		
Interest on bank deposits	(10,601,201)	(4,282,230)
Dividend income from investment securities and other investments/financial assets, listed	(3,745,026)	(2,373,336)
Gain on disposal of an investment	—	(20,162,090)
Impairment loss of goodwill on acquisition of a subsidiary	—	999,688
Provision for impairment loss	1,554,644	23,553,701
Net gain on disposal of available-for-sale financial assets	(30,078,180)	—
Net gain on disposal of derivative financial instruments	(2,861,302)	(5,347,542)
Share of profits less losses of associates	(64,457,198)	—
Fair value gain on derivative financial instruments	(1,181,631)	—
Reversal of impairment loss	(7,545,459)	—
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		
	32,093,258	3,400,099
Decrease/(Increase) in amount due from associated companies	15,022,200	(9,830,215)
Decrease in financial assets at fair value through profit or loss	5,251,454	18,431,295
(Increase)/Decrease in other receivables	(29,507,589)	46,465,743
Increase/(Decrease) in other payables	1,474,552	(10,137,900)
Increase/(Decrease) in amount due to Sincox Fund Management Limited	505,676	(203,292)
CASH GENERATED FROM OPERATIONS		
	24,839,551	48,125,730
Tax paid	(11,430,902)	—
Tax refund	1,005	2,237
NET CASH INFLOWS FROM OPERATING ACTIVITIES		
	13,409,654	48,127,967

Consolidated Cash Flow Statement - Continued

For the year ended 31 December 2007

	2007 HK\$	2006 HK\$ (restated)*
NET CASH INFLOWS FROM OPERATING ACTIVITIES	13,409,654	48,127,967
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends received from investment securities and other investments/financial assets, listed	3,745,026	2,373,336
Dividends received from an associate	65,000,000	—
Interest on bank deposits	10,601,201	4,282,230
Acquisition of available-for-sale financial assets	(203,417,483)	(162,951,001)
Acquisition of associated companies	(3,742,200)	(2,201,422)
Acquisition of a subsidiary	—	(1,000,000)
Proceeds from disposal of investments	125,116,152	122,204,826
NET CASH INFLOWS/(OUTFLOWS) FROM INVESTING ACTIVITIES	(2,697,304)	(37,292,031)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	2,159,760	—
Proceeds from open offer share premium	26,997,000	—
Proceeds from issue of share option	13,760,000	—
NET CASH INFLOWS FROM FINANCING ACTIVITIES	42,916,760	—
NET INCREASE IN CASH AND CASH EQUIVALENTS	53,629,110	10,835,936
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	76,332,111	65,496,175
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	129,961,221	76,332,111
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash with brokers	10,008,519	7,206,335
Cash and bank balances	119,952,702	69,125,776
	129,961,221	76,332,111

* In pursuant to HKFRS 7, Financial Instruments: Disclosure, certain classifications have been made in consolidated income statement to conform with the disclosure requirements under HKFRS 7. In these connections, certain figures in consolidated cash flow statement were reclassified accordingly.

The notes on pages 28 to 71 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2007

1. GENERAL INFORMATION

Prosperity Investment Holdings Limited (the “Company”) is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The addresses of the registered office and principal place of business of the Company are disclosed in the corporation information of the annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the holding of equity or equity-related investments and the provision of management services to the investee companies.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (the “HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and generally accepted accounting principles in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss and certain available-for-sale financial assets as further explained in note 3(h).

Impact of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

Notes to the Financial Statements

For the year ended 31 December 2007

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKAS 1 (Amendment) — Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 34 to the consolidated financial statements.

(b) HKFRS 7 — Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, except certain classifications and comparative figures as shown in the consolidated income statement have been adjusted to conform with the disclosures for current year.

Effect on consolidated income statement

	2006	Reclassification	2006	
	HK\$	HK\$	HK\$	
	(as previously reported)		(Restated)	
Revenue	138,114,855	(129,453,919)	8,660,936	(Note 5)
Other revenue	7,441,306	(2,657,030)	4,784,276	(Note 5)
Fair value gain on investments held for trading	—	2,657,030	2,657,030	
Net gain on derivative instruments	—	5,347,542	5,347,542	
Cost of sales	(124,106,377)	124,106,377	—	
	21,449,784	—	21,449,784	

Notes to the Financial Statements

For the year ended 31 December 2007

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

(c) HK(IFRIC) – Int 8 — Scope of HKFRS 2

The Interpretation requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

(d) HK(IFRIC) – Int 9 — Reassessment of Embedded Derivatives

This Interpretation requires entities to account for embedded derivatives in hybrid instruments separately from the host contracts when certain conditions are met. This Interpretation addresses the issues as to whether this assessment for separation should be made on an on-going basis, or only at the initial recognition.

(e) HK(IFRIC) – Int 10 — Interim Financial Reporting and Impairment

This Interpretation prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

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

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

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 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES

(a) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Income from disposal of financial instruments are recognised on a trade date basis.

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

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. 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.

All significant intercompany transactions and balances, income and expenses within the Group are eliminated on consolidation.

(c) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(d) Associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations) or when the investment is designated as at fair value through profit or loss upon initial recognition or is classified as held for trading (in which case it is accounted for under HKAS 39 Financial Instruments: Recognition and Measurement). Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets ("disposal groups") previous carrying amount and fair value less costs to sell.

(f) Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

A jointly controlled entity is a corporation, partnership, or other entity in which two or more venturers have an interest, under a contractual arrangement that establishes joint control over the entity. The Group's interests in jointly controlled entities are accounted for by the equity method. The Group's interests in jointly controlled entities include the Group's share of the net assets of the jointly controlled entities. The Group's share of post-acquisition profits or losses of jointly controlled entities is included in the consolidated income statement.

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

(g) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of acquisition over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to each of the relevant cash-generating units and is tested annually for impairment (see note 3(l)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Goodwill (Continued)

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

On disposal of the relevant cash generating unit, an impairment loss for goodwill is not reversed in subsequent periods, any attributable amount of purchased goodwill is included in the determination of the amount of profit or loss on disposal.

(h) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in other receivables in the consolidated balance sheet.

(iii) *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.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Financial assets (Continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains or losses from investment securities'.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Financial assets (Continued)

(iv) Available-for-sale financial assets (Continued)

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investment are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(i) Golf club membership

Golf club membership is stated at cost less impairment losses, if any. The carrying amount of individual golf club membership is reviewed at each balance sheet date to assess whether the fair value has declined below the carrying amount. When a decline other than temporary has occurred, the carrying amount of such golf club membership is reduced to its fair value. The amount of the reduction is recognised as an expense in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Derivative financial instruments

Derivatives, which include forward foreign exchange contracts and futures contracts, are initially recognised at fair value on the date on which the derivative contracts are entered into and subsequently remeasured at their fair values. Fair values are based on quoted market prices in active markets, recent market transactions or valuation techniques such as discounted cash flow models and options pricing models, as appropriate. Changes in fair value of the derivatives are recognised in profit or loss except where the derivatives are designated as a qualifying cash flow hedge in which case recognition of any resultant fair value gain or loss depends on the nature of the item being hedged. All derivatives except those designated as qualifying cash flow hedges are classified as financial assets at fair value through profit or loss when their fair values are positive and as financial liabilities at fair value through profit or loss when their fair values are negative.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

(n) Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(o) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included as reserve in equity.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(p) Employee benefits

Obligations for contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as expenses in the consolidated income statement as incurred.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Provisions and contingent liabilities (Continued)

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

(r) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Hong Kong profits tax is provided at the rate prevailing for the year based on the assessable profit for the year less allowable losses, if any, brought forward.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(s) Share-based payment transactions

Equity-settled share-based payment transactions

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

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Events after the balance sheet date

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(u) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(v) Financial guarantees issued

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

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

(w) Related parties

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

- (i) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Group;
 - has an interest in the Group that gives it significant influence over the Group;
 - or
 - has joint control over the Group;

Notes to the Financial Statements

For the year ended 31 December 2007

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(w) Related parties (Continued)

- (ii) the party is a member of key management personnel of the Company or its parent company;
- (iii) the party is a close member of the family of any individual referred to in (i) and (ii);
- (iv) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, the individual referred to in (ii) or (iii); and
- (v) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4. SEGMENTAL INFORMATION

No business and geographical segment information are presented as over 90% of the Group's revenue was derived from the sales of equity-related investments and dividend received, which were transacted in Hong Kong.

5. REVENUE

	Group	
	2007 HK\$	2006 HK\$
Revenue		
Dividend income from investment securities and other investments/financial assets, listed	3,745,026	2,373,336
Net gain on financial assets at fair value through profit or loss	13,221,457	6,287,600
	16,966,483	8,660,936
Other revenue		
Interest on bank deposits	10,601,201	4,282,230
Gain on future trading	672,777	—
Interest income	278,777	—
Other income	1,438,896	502,046
Bad debt recovery (Note a)	33,000,000	—
	45,991,651	4,784,276

Notes to the Financial Statements

For the year ended 31 December 2007

5. REVENUE (Continued)

Note:

- (a) *Bad debt recovery represents the recovery in the current year for the balance of consideration received, in relation to the disposal of an associated company, namely, Shanghai White Cat Company Limited. The provision for non-recoverable amount which had been made in previous year was written back accordingly.*

6. PROFIT FOR THE YEAR

Profit for the year is stated after charging/(crediting) the following:

	Group	
	2007	2006
	HK\$	HK\$
Auditors' remuneration	138,000	130,000
Provision for impairment loss	1,554,644	23,553,701
Operating lease payments on land and buildings	938	3,638
Retirement benefit cost	55,773	38,874
Interest on bank deposits	(10,601,201)	(4,282,230)
Exchange gains, net	(128,273)	(47,501)
Fair value gain on investments held for trading	(1,693,884)	(2,657,030)
Fair value gain on derivative financial instruments	(1,181,631)	—
Reversal of impairment loss	(7,545,459)	—

7. GAIN ON DISPOSAL OF AN INVESTMENT

	Group	
	2007	2006
	HK\$	HK\$
Gain on disposal of an investment	—	20,162,090

It represents the gain arising from the Group's disposal of its 18% equity interest in Dragon Fortune Limited which indirectly held Palm Island Golf Club and Resort at Huizhou in the People's Republic of China.

Notes to the Financial Statements

For the year ended 31 December 2007

8. FINANCE COSTS

	Group	
	2007	2006
	HK\$	HK\$
Bank charges	7,994	8,079

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of fees payable to directors of the Company during the year are as follows:

	2007	2006
	HK\$	HK\$
Fees:		
Executive directors	216,000	141,167
Non-executive directors	160,000	160,000
Other emoluments	—	—
Retirement benefits scheme contributions:		
Executive directors	10,800	7,058
Non-executive directors	—	—
	386,800	308,225

Emoluments breakdown of each of the directors for the year ended 31 December 2007:

	Directors' fees	Retirement benefits scheme contributions	Total
	HK\$	HK\$	HK\$
Executive directors			
Cheuk Yuk Lung	96,000	4,800	100,800
Tsui Yee Ni	60,000	3,000	63,000
Lam Kwing Wai, Alvin	60,000	3,000	63,000
	216,000	10,800	226,800
Non-executive directors			
Yan Mou Keung, Ronald	60,000	—	60,000
Chan Siu Wing, Raymond	60,000	—	60,000
Chan Fai Yue, Leo	40,000	—	40,000
	160,000	—	160,000
	376,000	10,800	386,800

Notes to the Financial Statements

For the year ended 31 December 2007

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

There was no arrangement under which a director of the Company waived or agreed to waive any emoluments during the year.

During the year, no share option was granted to the directors.

Emoluments breakdown of each of the directors for the year ended 31 December 2006:

	Directors' fees HK\$	Retirement benefits scheme contributions HK\$	Total HK\$
Executive directors			
Cheuk Yuk Lung	60,000	3,000	63,000
Tsui Yee Ni	33,667	1,683	35,350
Lam Kwing Wai, Alvin	12,500	625	13,125
Lam Wo	5,000	250	5,250
Wong Kwok Bui, George	30,000	1,500	31,500
	141,167	7,058	148,225
Non-executive directors			
Yan Mou Keung, Ronald	60,000	—	60,000
Chan Siu Wing, Raymond	60,000	—	60,000
Chan Fai Yue, Leo	40,000	—	40,000
	160,000	—	160,000
	301,167	7,058	308,225

Notes to the Financial Statements

For the year ended 31 December 2007

9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

The five individuals with the highest emoluments in the Group for the year include:

	2007	2006
Number of directors	1	3
Number of employees	4	2

Details of the directors' emoluments are presented above.

The aggregate of the emoluments in respect of the remaining highest paid non-director individuals are as follows:

	2007 HK\$	2006 HK\$
Fees, basic salaries and other benefits in kind	871,675	746,766
Retirement benefits scheme contributions	44,973	34,270
	916,648	781,036

The emoluments paid to each highest paid non-director individual during the year fall within the band of HK\$Nil — HK\$1,000,000.

During the year, no emoluments were paid by the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

	Group	
	2007 HK\$	2006 HK\$
Company and subsidiaries		
— Hong Kong profits tax	2,890,775	1,338,120
— Over provision in previous years	(2,121,077)	—
	769,698	1,338,120

Notes to the Financial Statements

For the year ended 31 December 2007

10. INCOME TAX EXPENSE (Continued)

Hong Kong profits tax has been provided as the individual companies comprising the Group has assessable profit arising in Hong Kong for the year.

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

Reconciliation between taxation and tax at the applicable rate:

	Group	
	2007 HK\$	2006 HK\$
Profit before taxation	151,008,611	11,011,908
Tax at the applicable tax rate	26,426,506	1,927,084
Tax effect of income that is not taxable in determining taxable profit	(28,046,494)	(1,781,782)
Tax effect of expenses that are not deductible in determining taxable profit	22,376	759,105
Tax effect of temporary differences not recognised	—	(500)
Tax effect of unused tax losses not recognised	4,488,387	333,864
(Over)/under provision of tax payable	(2,121,077)	100,349
Taxation charge	769,698	1,338,120

No provision for deferred income tax has been made in the consolidated financial statements as the tax effect of temporary differences is immaterial to the Group.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year ended 31 December 2007 is dealt with in the financial statements of the Company to the extent of HK\$19,868,392 (2006: HK\$864,904).

Notes to the Financial Statements

For the year ended 31 December 2007

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data :

	Group	
	2007 HK\$	2006 HK\$
Earnings		
Earnings for the purposes of both basic and diluted earnings per share	150,238,913	9,673,788
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	612,360,837	568,769,376
Effect of dilutive potential shares — Options	33,890,592	—
Weighted average number of shares for the purpose of diluted earnings per share	646,251,429	568,769,376

The weighted average number of shares for the purpose of basic earnings per shares has been adjusted for the effect of Open Offer.

13. INTERESTS IN SUBSIDIARIES

	Company	
	2007 HK\$	2006 HK\$
Unlisted shares, at cost	780	780
Due from a subsidiary	90,009,968	90,005,600
	90,010,748	90,006,380

The amount due from a subsidiary is unsecured, interest free and not repayable within the next twelve months.

Notes to the Financial Statements

For the year ended 31 December 2007

13. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries as at 31 December 2007 are as follows:

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Directly held by the Company:				
Accufocus Investments Limited	British Virgin Islands ("BVI")/ Hong Kong	100 shares of US\$1 each	100%	Investment holding
Indirectly held by the Company:				
Attentive Investments Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
B2C E-Commerce Group Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
Best Policy Management Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
Chief Success Management Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
Ever Honest Investments Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
Founder China Industrial Investments Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Investment holding
Linkson Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Dormant
Founder Industrial Investments (Holdings) Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2007

13. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Percentage of issued share capital/ registered capital held	Principal activities
Indirectly held by the Company: (Continued)				
Genius Choice investments Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
GR Investment Holdings Limited	Hong Kong	899,900,000 ordinary shares of HK\$0.1 each	100%	Investment holding
Glorious Bright Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Money lending
Home Growth Assets Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
GR Investment International Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	Dormant
Rich Concept Investments Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
Rich Profits International Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
Market Court Resources Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
Target Plus Holdings Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding
Contessa Assets Limited	BVI/Hong Kong	1 share of US\$1 each	100%	Investment holding

Notes to the Financial Statements

For the year ended 31 December 2007

14. INTERESTS IN ASSOCIATES

	Group	
	2007 HK\$	2006 HK\$
Unlisted shares at cost	7,931,981	4,189,781
Share of associates' results	64,457,198	—
Dividend (Note a)	(65,000,000)	—
	7,389,179	4,189,781
Amounts due from associates	11,905,060	26,927,260
Provision for impairment loss on interests in associates	(8,157,660)	(7,084,545)
	3,747,400	19,842,715
	11,136,579	24,032,496

Note:

- (a) The Group received a dividend from an associate, Bright Honest Limited, being distribution of the gain on disposal of the investment properties of the associate's direct subsidiaries.

In applying the equity method of accounting to compute the interest in associates during the year ended 2006, the share of post-acquisition profits or losses calculated were immaterial and not accounted for in the consolidated financial statements for the year ended 31 December 2006.

The amounts due from associates are unsecured, interest free and not repayable within the next twelve months.

Notes to the Financial Statements

For the year ended 31 December 2007

14. INTERESTS IN ASSOCIATES (Continued)

Details of the principal associates, all of which are unlisted, as at 31 December 2007 are as follows:

Name	Place of incorporation	Particulars of issued share capital/ registered capital	Proportion of associates' capital owned	Principal activities
Luck Point Investments Limited	BVI	200 shares of US\$1 each	35%	Investment holding
Happy Online Group Limited	BVI	14,000 shares of US\$1 each	33.75%	Investment holding
Bright Honest Limited	BVI	50,000 shares of US\$1 each	25%	Investment holding
Halway Development Limited	Hong Kong	10 ordinary shares of HK\$1 each	30%	Investment holding
Skyplane Enterprises Limited	BVI	130 shares of US\$1 each	30.77%	Investment holding
Loyal Brilliant Limited	Hong Kong	10,000 shares of HK\$1 each	22%	Manufacturing
Albert Candy (Shenzhen) Co. Ltd	PRC	HK\$17,000,000 registered capital	22%	Manufacturing

The summarised financial information of the Group's share of assets, liabilities, income and results of the associates based on the unaudited management accounts of the associates are as follows:

	2007 HK\$	2006 HK\$
Assets	14,860,098	34,998,191
Liabilities	(14,706,684)	(36,907,917)
Income	66,207,206	19,950
Gain/(Loss)	63,421,767	(461,519)

Notes to the Financial Statements

For the year ended 31 December 2007

15. NON-CURRENT ASSETS HELD FOR SALE

	Group	
	2007 HK\$	2006 HK\$
Interest in jointly controlled entity held for sale		
Share of net assets other than goodwill	—	5,097,099
Less: Impairment loss	—	(2,323,671)
	—	2,773,428

The Group had committed to dispose its 25% equity interest in Shanghai Yong An Dairy Company Limited to a third party for a consideration of RMB2.8 million (approximately HK\$2.7 million). The transaction was completed on 12 February 2007 and the gain on disposal of non-current assets held for sale was recognised in consolidated income statement for current year.

Notes to the Financial Statements

For the year ended 31 December 2007

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Non-current assets				
Hong Kong unlisted equity securities, at cost	12,120,000	17,070,000	—	—
Overseas unlisted equity securities, at cost	20,885,906	25,626,167	—	—
Less: Impairment loss	(20,885,906)	(25,626,167)		
	12,120,000	17,070,000	—	—
Hong Kong listed equity securities, at fair value	282,913,969	79,892,527	84,398,309	17,891,412
Overseas unlisted equity securities, at fair value	11,700,000	15,274,740		
Overseas collateral financial assets, at cost	4,024,017	—	—	—
	310,757,986	112,237,267	84,398,309	17,891,412
Current assets				
Hong Kong listed equity securities, at fair value	3,985,200			
Hong Kong unlisted equity securities, at cost	4,950,000	—	—	—
Overseas unlisted equity securities, at fair value	39,000,000	19,766,204	—	—
	47,935,200	19,766,204	—	—

The fair value of the unlisted equity securities cannot be measured reliably as there is no active market for the trading of the securities at arm's length.

Notes to the Financial Statements

For the year ended 31 December 2007

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

As at 31 December 2007, the available-for-sale financial assets with carrying amounts of interests exceeded 5% of the total assets of the Group and the Company or the ten largest investments are listed below:

Name	Place of incorporation	Proportion of investee's capital owned	Cost and advances thereto	Directors' valuation/ market value	Dividend income received during the year	Net assets attributable to the investment	Unrealised gain/(loss) taken in the accounts	Principal Activities/ place of operation
			HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	
Golden Resources Development International Limited	Bermuda	4.90%	22	47	1.90	49.33	24.69	Investment holding/ Hong Kong
Cosmopolitan International Holdings Limited	Cayman Islands	5.93%	12	84	—	11.40	72.30	Investment holding/ Hong Kong
Sun Hung Kai & Co. Limited	Hong Kong	0.25%	30	44	0.80	20.29	13.44	Investment holding/ Hong Kong
Country Garden Holdings Co. Limited	Cayman Islands	0.02%	21	28	—	0.25	6.47	Property investment/PRC
China Investment Fund Company Limited	Cayman Islands	10%	22	16	—	7.33	(5.92)	Investment holding/ Hong Kong
HSBC Holdings plc	England	0.000881%	14	14	0.25	7.45	(0.47)	Banking and financial services/ Asia Pacific region, Europe, the Americas, the Middle East and Africa
Golden Chain Development Limited	Hong Kong	15%	12	12	—	5.34	—	Investment holding/ Hong Kong
Allied Properties (HK) Limited	Hong Kong	0.04%	5	6	—	2.96	1.26	Investment holding/ Hong Kong
Shanghai Allied Cement Limited	Bermuda	0.27%	1	5	—	0.82	4.00	Property investment/ Hong Kong
Goldjoy Travel Limited	Hong Kong	9.9%	5	5	—	0.90	—	Travel agent/Hong Kong

Notes to the Financial Statements

For the year ended 31 December 2007

17. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2007	2006
	HK\$	HK\$
Foreign currency forward contract	1,181,631	—

Details of the foreign currency forward contract is as below:

Principal amount	Maturity	Forward Exchange Rates
TRY 1,373,000	From September 2007 to March 2008	Sell USD/buy TRY at USD1: TRY1.373

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK\$	HK\$
Held for trading:		
Equity securities, at fair value		
— listed in Hong Kong	2,676,600	5,680,000
— listed outside Hong Kong (Note a)	—	2,248,054
	2,676,600	7,928,054

Notes:

- (a) The equity securities listed outside Hong Kong are denominated in US dollars.

Changes in fair values of financial assets at fair value through profit or loss are recognised as fair value gain on the financial assets at fair value through profit or loss in the consolidated income statement.

19. OTHER ASSET

	Group	
	2007	2006
	HK\$	HK\$
Golf club membership, at cost	150,000	150,000

Notes to the Financial Statements

For the year ended 31 December 2007

20. OTHER RECEIVABLES

	Group		Company	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Prepayments and deposits	13,956,439	15,250,850	233,557	229,891
Other loans (Notes a)	30,452,000	150,000	—	—
Others	6,150,000	5,650,000	6,150,000	150,000
	50,558,439	21,050,850	6,383,557	379,891

Note:

- (a) The aging analysis of the other loans are as follows:

	Group		Company	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Within 3 months	20,350,000	—	—	—
3 to 6 months	—	150,000	—	—
6 to 12 months	10,000,000	—	—	—
Over 1 year	102,000	—	—	—
	30,452,000	150,000	—	—

The other loans amounted to HK\$30,452,000 are advanced to independent third parties and are secured, interest bearing ranking from 6% per annum to prime lending rate less 1% per annum.

Notes to the Financial Statements

For the year ended 31 December 2007

21. DUE FROM A SUBSIDIARY

The amount due from a subsidiary is unsecured, interest-free and expected to be realized in the next twelve months of the balance sheet date. Details of amount due from a subsidiary is as follows:

Name of subsidiary	Connected directors	Maximum amount outstanding during the year	Balance at 31.12.2007	Balance at 31.12.2006
GR Investment Holdings Limited	Cheuk Yuk Lung, Tsui Yee Ni and Lam Kwing Wai	5,112,194	5,112,194	—

At the balance sheet date, there was no interest due or interest.

The carrying amount of amount due from a subsidiary approximates to their fair value.

22. OTHER PAYABLES

	Group		Company	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Accrued Expenses	1,789,061	314,509	252,766	307,163

23. DUE TO SINOX FUND MANAGEMENT LIMITED

The amount due to SINOX represents investment management fees payable at the year end. The amount due is unsecured, interest free and repayable on demand.

SINOX is the Investment Manager of the Group and provides administrative and investment management services to the Group in relation to the investment of the Group's assets.

24. DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest free and repayable on demand.

Notes to the Financial Statements

For the year ended 31 December 2007

25. SHARE CAPITAL

	Note	Number of shares		Share capital	
		2007	2006	2007 HK\$	2006 HK\$
Ordinary shares of HK\$0.01 each					
<i>Authorised:</i>					
At beginning of the year		3,000,000,000	3,000,000,000	30,000,000	300,000,000
Capital Reduction	(a)	—	—	—	(270,000,000)
At end of the year		3,000,000,000	3,000,000,000	30,000,000	30,000,000
<i>Issued and fully paid:</i>					
At beginning of the year		431,952,000	431,952,000	4,319,520	43,195,200
Capital Reduction	(a)	—	—	—	(38,875,680)
Issued on Open Offer	(b)	215,976,000	—	2,159,760	—
At end of the year		647,928,000	431,952,000	6,479,280	4,319,520

Note:

- (a) Pursuant to a special resolution passed at the special general meeting held on 20 June 2006, the nominal value of each authorized but unissued or issued share of the Company was reduced from HK\$0.10 to HK\$0.01.
- (b) In order to expand the capital base and strengthen its financial position, the Company has made an Open Offer by issuing shares at a price of HK\$0.135 per Open Offer Share on the basis of one Open Offer Share for every two shares held by the Qualifying shareholders pursuant to the ordinary resolution passed at the special general meeting held on 21 June 2007. As the result, 215,976,000 shares of HK\$0.01 each in the share capital of the Company were issued on 16 July 2007. The share premium amounting to HK\$26,997,000 was credited to contributed surplus account accordingly.

Notes to the Financial Statements

For the year ended 31 December 2007

26. RESERVES

	Share premium HK\$	Share Option reserve HK\$	Contributed surplus HK\$	Exchange fluctuation reserve HK\$	Changes in fair value of available- for-sale financial assets HK\$	(Accumulated Losses)/ Retained profits HK\$	Total HK\$
Group							
At 1 January 2006	169,564,710	—	86,752,510	131,919	3,644,188	(70,471,697)	189,621,630
— Prior year adjustments * (see note below)	—	—	—	—	—	1,545,308	1,545,308
— As restated	169,564,710	—	86,752,510	131,919	3,644,188	(68,926,389)	191,166,938
Increase in fair value of available-for-sale financial assets	—	—	—	—	5,058,769	—	5,058,769
Credit arisen on capital reduction set off against accumulated losses of the Company and remaining balance transferred to contribution surplus account	—	—	13,630,807	—	—	25,244,873	38,875,680
Profit for the year	—	—	—	—	—	9,673,788	9,673,788
31 December 2006	169,564,710	—	100,383,317	131,919	8,702,957	(34,007,728)	244,775,175
As at 1 January 2007	169,564,710	—	100,383,317	131,919	8,702,957	(34,007,728)	244,775,175
Increase in fair value of available-for-sale financial assets	—	—	—	—	97,107,576	—	97,107,576
Realisation of change in fair value for disposal of available-for-sale financial assets	—	—	—	—	(4,484,111)	—	(4,484,111)
Premium arise from open offer	—	—	26,997,000	—	—	—	26,997,000
Equity-settled share-based payment	—	26,880,000	—	—	—	—	26,880,000
Realisation of exchange fluctuation reserve on disposal of an investment	—	—	—	(131,919)	—	—	(131,919)
Profit for the year	—	—	—	—	—	150,238,913	150,238,913
31 December 2007	169,564,710	26,880,000	127,380,317	—	101,326,422	116,231,185	541,382,634
Company and subsidiaries	169,564,710	26,880,000	127,380,317	—	101,326,422	51,956,813	477,108,262
Associates	—	—	—	—	—	64,274,372	64,274,372
	169,564,710	26,880,000	127,380,317	—	101,326,422	116,231,185	541,382,634

* The prior year adjustments were recognised to reverse the impairment loss for the disposal financial assets and overstatement in share of loss of an associate by the amounts of HK\$22,522 and HK\$1,522,786 respectively.

Notes to the Financial Statements

For the year ended 31 December 2007

26. RESERVES (Continued)

	Share premium HK\$	Contributed surplus HK\$	Changes in fair value of available- (Accumulated Share for-sale Losses)/ Option financial Retained reserve assets profits			Total HK\$
			Share Option reserve HK\$	for-sale financial assets HK\$	Losses/ Retained profits HK\$	
Company						
At 1 January 2006	3,237,490	86,752,510	—	(1,719,807)	(25,244,873)	63,025,320
Increase in fair value of available-for-sale financial assets	—	—	—	2,586,074	—	2,586,074
Credit arisen on capital reduction set off against accumulated losses of the Company and remaining balance transferred to contribution surplus account	—	13,630,807	—	—	25,244,873	38,875,680
Profit for the year	—	—	—	—	864,904	864,904
31 December 2006	3,237,490	100,383,317	—	866,267	864,904	105,351,978
At 1 January 2007						
— As brought forward	3,237,490	100,383,317	—	866,267	864,904	105,351,978
Increase in fair value of available-for-sale financial assets	—	—	—	71,181,131	—	71,181,131
Realisation of change in fair value for disposal of available-for-sale financial assets	—	—	—	250,583	—	250,583
Premium arise from open offer	—	26,997,000	—	—	—	26,997,000
Equity-settled share-based payment	—	—	26,880,000	—	—	26,880,000
Profit for the year	—	—	—	—	19,868,392	19,868,392
31 December 2007	3,237,490	127,380,317	26,880,000	72,297,981	20,733,296	250,529,084

Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus is distributable to the shareholders, provided that the Company is, after the payment of dividends out of the contributed surplus, able to pay its liabilities as they become due; or the realisable value of the Company's assets would thereby not be less than the aggregate of its liabilities, issued share capital and reserves.

Notes to the Financial Statements

For the year ended 31 December 2007

27. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme:

The Company had entered into an agreement with China Investment Fund Company Limited ("CIF") on 17 August 2007 for acquiring 80,000,000 new shares of CIF at HK\$0.276 with an aggregate consideration of HK\$22,080,000 and the Company had agreed to grant an option to CIF for the subscription of up to a maximum of 86,000,000 new shares of the Company at HK\$0.20 per share with an aggregate subscription price of HK\$17,200,000 of which 80% will be regarded as an option money and a payment of HK\$8,320,000 in cash. The option is exercisable within an option period of two years starting from the date of granting of the option on 4 September 2007.

Movements in the number of share options outstanding and their related subscription price are as follows:

Subscription price (Note a)	HK\$0.20 per share
Date of grant	4 September 2007
Date of expiry	3 September 2009
	2007
	No of share options
Granted	86,000,000
Forfeited	—
Exercised	—
Expired	—
At 31 December 2007	86,000,000

The fair value of the share option granted was measured with reference to the market price of CIF' shares at the transaction date.

After the balance sheet date, CIF has exercised the share option to subscribe for 50,000,000 new shares as disclosed in note 32 (b).

Note:

- (a) *The subscription price has been adjusted to HK\$0.1739 per share (HK\$1.739 per consolidated share) as a result of the share consolidation and open offer as disclosed in note 32.*

Notes to the Financial Statements

For the year ended 31 December 2007

28. NET ASSET VALUE PER SHARE

Net asset value per share is computed based on:

	Group	
	2007 HK\$	2006 HK\$
Net assets	547,861,914	249,094,695
Number of ordinary shares	647,928,000	431,952,000

29. OPERATING LEASE COMMITMENTS

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2007 HK\$	2006 HK\$
Within one year	40,800	122,440
In the second to fifth year inclusive	—	40,800
	40,800	163,240

30. RELATED PARTY TRANSACTIONS

Apart from the transactions with related parties disclosed elsewhere in the financial statements, the following transactions were entered into by the Group with the related parties negotiated on terms mutually agreed with these related parties:

(a) **Group**

	Group	
	2007 HK\$	2006 HK\$
Management fees paid to a company with a common director	3,829,827	2,337,513
Commission fees paid to a company with a common shareholder	341,731	—

Notes to the Financial Statements

For the year ended 31 December 2007

30. RELATED PARTY TRANSACTIONS (Continued)

Apart from the transactions with related parties disclosed elsewhere in the financial statements, the following transactions were entered into by the Company with the related parties negotiated on terms mutually agreed with these related parties:

(b) Company

	2007 HK\$	2006 HK\$
Management fees received from subsidiaries	2,240,439	2,337,513
Management fees paid to a company with a common director	3,829,827	2,337,513
Administrative fees paid to a subsidiary	161,923	118,683
Commission fees paid to a company with a common shareholder	341,731	—

(c) Details of guarantees issued by the Company in favor of banks to a direct subsidiary of an associate are set out in note 31.

31. CONTINGENT LIABILITIES

(a) Legal claim

On 22 September 2007, a subsidiary of the Group namely "GR Investment Holdings Limited", received a writ from an agent in respect of a claim for a balance of unsettled commission amounted to RMB12,750,000 (the total commission amounting to RMB15,750,000 in accordance with the terms of the Agency Agreement) regarding the provision of agency services in procuring the sales of shares held by the subsidiary in a company known as "Shanghai White Cat Company Limited" during the year 2000.

On 16 November 2007, the subsidiary filed a writ against the agent for counter claim for the total sum of RMB7,324,564 for the failure of the agent to discharge its obligations before expiry date of the Agency Agreement. As at the balance sheet date, the legal claim is still under proceeding and there is no significant development. The directors are of the opinions that it is not probable for the subsidiary be liable to the claim based on the legal advice and no provision has therefore been made in respect of this claim. The legal fee is estimated to be HK\$450,000.

Notes to the Financial Statements

For the year ended 31 December 2007

31. CONTINGENT LIABILITIES (Continued)

(b) Financial guarantee

	2007	2006
	HK\$	HK\$
Letter of guarantee	—	17,250,000

During the year, the Company had discharged the liability for the guarantee given to a direct subsidiary of an associate, namely, Great Fidelity Limited in respect of general banking facilities to the extension of HK\$17,250,000.

32. EVENT AFTER THE BALANCE SHEET DATE

(a) Share consolidation and open offer

At a special general meeting held on 26 February 2008:

i) Share consolidation

The ordinary share of the Company was consolidated in which every ten shares of nominal value of HK\$0.01 each was consolidated into one share at HK\$0.10 each; and

ii) Open offer

An open offer was made by the Company, after the share consolidation taking effect, to raise funds of approximately HK\$34.9 million before expenses by issuing 34,896,400 offer shares at the subscription price of HK\$1.00 per offer share, on the basis of one offer share for every two consolidated shares.

As a result of the open offer, the number of issued share of the Company has become 104,689,200 of nominal value of HK\$0.10 each with effect from 18 March 2008.

(b) Share option exercised

Pursuant to the agreement with CIF regarding the share option granted by the Company as disclosed in note 27, CIF had exercised the option to subscribe for 50,000,000 new shares of the Company on 8 January 2008. The remaining subscription right for 36,000,000 shares (equivalent to 3,600,000 consolidated shares) remains outstanding.

On 14 March 2008, the Company announced that the subscription price for CIF outstanding share options was adjusted from HK\$0.20 per share to HK\$0.1739 per share (HK\$1.739 per consolidated share) with effect from 18 March 2008 as a result of the above mentioned share consolidation and open offer.

Notes to the Financial Statements

For the year ended 31 December 2007

33. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 HK\$	2006 HK\$	2007 HK\$	2006 HK\$
Cash at bank and in hand	721,345	10,679,787	305,655	169,675
Cash with brokers	10,008,519	7,206,335	815,261	—
Short term bank deposits	119,231,357	58,445,989	70,884,227	58,445,989
	129,961,221	76,332,111	72,005,143	58,615,664

The average interest rate on short term bank deposits was approximately 3.5% (2006: approximately 4.2%); these deposits are mature within 31 days.

34. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy equity ratio in order to support its business and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may consider to make dividend payment to shareholders, return capital to shareholders or issue new shares by way of open offer. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

Notes to the Financial Statements

For the year ended 31 December 2007

34. CAPITAL MANAGEMENT (Continued)

Capital is monitored on the basis of the equity ratio, which is calculated as being equity as a percentage of total assets. This is reported to senior management as part of the Group's regular internal management reporting. The Group's capital and equity ratio are shown in the table below.

	Group	
	2007 HK\$ (in thousand)	2006 HK\$ (in thousand)
Capital	6,479	4,319
Reserves	541,382	244,775
Total equity	547,861	249,094
Total assets	554,357	264,269
Equity ratio	98%	94%

35. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise available-for-sale financial assets, derivative financial instruments, and financial assets at fair value through profit or loss. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivable and payables, which arise directly from its operations

The main risks arising from the Group's financial instruments are foreign currency risk, price risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

(a) Foreign currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar, US dollar and RMB. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Notes to the Financial Statements

For the year ended 31 December 2007

35. FINANCIAL RISK MANAGEMENT (Continued)

(a) Foreign currency risk (Continued)

The RMB has appreciated during the year and the HK dollar is pledged to US dollar, the foreign exchange gain as a result of the RMB appreciation is reported as other revenue in the consolidated income statement. As the directors consider that the Group's foreign exchange risk is not significant, it has no particular hedging vehicles to hedge its exposure to foreign exchange risk profile. It is the Group's policy to monitor foreign exchange exposure and to make use of appropriate hedging measures when required.

The following table demonstrates the sensitivity at the balance sheet date to a reasonable possible change in the RMB and US dollar exchange rate, with all other variables held constant, of the Group's net profit (due to the changes in the fair value of monetary assets and liabilities.)

	Increase/decrease in foreign currency rate	Effect on profit after tax
<i>US\$</i>		
2007	+5%	472,966
	-5%	(472,966)
2006	+5%	229,373
	-5%	(229,373)
<i>RMB</i>		
2007	+5%	1,580,076
	-5%	(1,580,076)
2006	+5%	NIL
	-5%	NIL

(b) Price risk

The Group is exposed to price risk through the Group's equity securities, derivatives and embedded derivatives which are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group has a treasury team to monitor price risk and will consider hedging the risk exposure should the need arise.

(c) Credit risk

The Group has no significant concentrations of credit risk. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution and transacts only with recognized and creditworthy third parties.

Notes to the Financial Statements

For the year ended 31 December 2007

35. FINANCIAL RISK MANAGEMENT (Continued)

(c) Credit risk(Continued)

The Group regards the maximum credit risk exposure limited to the loan due from the associated companies and other loans, approximately to HK\$6 million and HK\$30 million respectively. In order to minimize the credit risk, the management has implemented strict control over the outstanding amounts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date and ensure that adequate impairment are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

(d) Liquidity risk

The Group continued to enjoy a strong financial position at the end of 2007, with cash and cash equivalents amounting to HK\$129 million, an increase by 67% cash balances from the year ended 2006.

The Group aims to monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and investment commitments and mitigate the effects of fluctuations in cash flows. As at 31 December 2007, the Group has no bank borrowings. (2006: Nil).

The table below summaries the maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments:

Group	2007				Total HK\$
	On demand HK\$	Less than 3 months HK\$	3 to less than 12 months HK\$	1 to 5 years HK\$	
Other payable	1,789,061	—	—	—	—
Due to Sinox Fund Management Limited	648,821	—	—	—	—
Provision for taxation	4,057,860	—	—	—	—
	6,495,742	—	—	—	—

Notes to the Financial Statements

For the year ended 31 December 2007

35. FINANCIAL RISK MANAGEMENT (Continued)

(d) Liquidity risk (Continued)

	On demand	Less than 3 months	2006 3 to less than 12 months	1 to 5 years	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Other payable	314,509	—	—	—	—
Due to Sinox Fund Management Limited	143,145	—	—	—	—
Provision for taxation	14,718,061	—	—	—	—
	15,175,715	—	—	—	—

(e) Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include the using of recent arm's length market transactions, reference to the current market value of another instrument that is substantially of the same nature, a discounted cash flow analysis and option pricing models.

36. 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 assumptions that have a significant effect on carrying amounts of assets and liabilities as follows:

(a) Estimated impairment of receivables

The Company records impairment of receivables based on an assessment of the recoverability of trade receivables and prepayments, deposits and other receivables. The identification of doubtful debts requires the directors' estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of the trade receivables and prepayment, deposits and other receivables and doubtful debt expenses in the period in which such estimates have been changed.

Notes to the Financial Statements

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36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(b) Impairment test of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in such case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on page 22 to 71 were approved and authorized for issue by the board of directors on 7 April 2008.

Financial Summary

For the year ended 31 December

	2003 HK\$	2004 HK\$	2005 HK\$	2006 HK\$	2007 HK\$
Results					
Profit/(loss) for the year	(24,781,865)	(3,784,094)	(7,924,759)	9,673,788	150,238,913
Assets and liabilities					
Total assets	275,162,516	253,991,023	258,551,037	264,270,410	554,357,656
Total liabilities	(38,229,479)	(19,375,837)	(24,188,899)	(15,175,715)	(6,495,742)
Net assets	236,993,037	234,615,186	234,362,138	249,094,695	547,861,914