



莊勝百貨集團有限公司
JUNEFIELD DEPARTMENT STORE GROUP LIMITED
(STOCK CODE: 758)

ANNUAL REPORT
2007

CONTENTS

Corporate Information	2
Chairman's Statements	3
Management Discussion and Analysis	4
Biographical Details of Directors	7
Report of the Directors	9
Corporate Governance Report	16
Independent Auditors' Report	22
Consolidated Income Statement	25
Consolidated Balance Sheet	26
Balance Sheet	27
Consolidated Statement of Changes in Equity	28
Consolidated Cash Flow Statement	29
Notes to the Financial Statements	31
Particulars of Properties Held for Sale	83
Five Year Financial Summary	84

CORPORATE INFORMATION

■ BOARD OF DIRECTORS ■

Executive directors

Zhou Chu Jian He (*Chairman*)
Zhang Xiao Bing, Adam
Liu Zhongsheng (*Chief Executive Officer*)
Ng Man Chung, Siman (*Deputy Chairman*)

Independent non-executive directors

Leung Man Kit
Chan Kwok Wai
Lam Man Sum, Albert

■ AUDIT COMMITTEE ■

Leung Man Kit
Chan Kwok Wai (*Chairman*)
Lam Man Sum, Albert

■ REMUNERATION COMMITTEE ■

Leung Man Kit (*Chairman*)
Chan Kwok Wai
Lam Man Sum, Albert

■ COMPANY SECRETARY ■

Lau Jeanie

■ QUALIFIED ACCOUNTANT ■

Choy Kwai Fan

■ AUDITORS ■

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F., Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

■ SOLICITORS ■

David Lo & Partners
Suite 2502
Nine Queen's Road Central
Hong Kong

■ PRINCIPAL BANKERS ■

DBS Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

■ SHARE REGISTRARS AND TRANSFER OFFICE ■

Principal Registrar

Butterfield Fund Services (Bermuda) Limited
65 Front Street
Hamilton
Bermuda

Hong Kong Branch Registrar

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

■ REGISTERED OFFICE ■

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

■ HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG ■

13th Floor, Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

■ PRINCIPAL PLACE OF BUSINESS IN CHINA ■

16/F Junefield Plaza,
Office Tower I,
No. 6 Xuan Wu Men Wai Street Beijing,
The People's Republic of China

■ STOCK CODE ■

758

■ WEBSITE ■

<http://junefield.etnet.com.hk>

On behalf of the Board of Directors (the "Board") of Junefield Department Store Group Limited (the "Company"), I am pleased to announce the annual results of the Company together with its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007.

■ RESULTS ■

For the year ended 31 December 2007, the Group reported a profit of approximately HK\$44,291,000 due to apparent persistent performance from retail business. The Group's revenue decreased to approximately HK\$15,480,000, representing a decrease of 44% over last year as a result of low activities encountered for construction and related business.

■ DIVIDENDS ■

The Board does not recommend the payment of dividend in respect of the year.

■ BUSINESS REVIEW AND PROSPECTS ■

During the year of 2007, the economy of the People's Republic of China ("PRC") continued to experience growth and leading to the Group's retail and department store business remained promising. However, the litigation on increase in rental of its jointly-controlled entity has not yet been resolved and the outcome will be an uncertainty on its future profitability. Nevertheless, the directors of the Group keep on carrying out appropriate actions to ensure the litigation could be resolved in the best interests of the Group. On the other hand, the Group entered into a consultancy services agreement with a retail department store, which is established under the laws of PRC, during the year which enables the Group to broaden its revenues base by leveraging on its expertise in the PRC retail business. The directors of the Group have critically reviewed the Group's operations and business direction with a view to contain the Group's resources as well as to sustain growth in earnings.

Looking ahead, the Group will seek to continuously focus on department store and related business, while evaluating its existing investment portfolio and consider whether any appropriate action will need to be taken. The Group will continue to identify other suitable investment target and will actively improve its working capital at appropriate time, consider raising funds by suitable means for investment and trade opportunities.

Zhou Chu Jian He

Chairman

Hong Kong, 10 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

■ FINANCIAL REVIEW ■

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK\$15,480,000, representing a decrease of 44% compared with last year (2006: HK\$27,578,000). The decrease of turnover for the year under review was mainly due to income accrued from construction and related business.

The Group recorded positive results with net profit for the year under review was approximately HK\$44,291,000, representing an increase of 4.7 times over the corresponding year of 2006 (2006: HK\$7,745,000). The positive results were attributed to apparent persistent performance from retail business.

■ OPERATIONS REVIEW AND FUTURE PROSPECTS ■

Construction and related business

The 51% subsidiary in Beijing, PRC made loss due to low activities encountered for the period under review. Since the PRC business licence of this subsidiary will expire on 21 April 2008, the management has been discussing with the subsidiary's minority shareholder to review for its continuity.

Property management and agency services business

The 51% subsidiary in Wuhan, PRC made profit for the period under review due to the occupancy rate on office tower continued to reach at a higher level. The management has focused to look for opportunity for expanding its services as our core business to independent third parties to sustain better performance of this subsidiary.

Properties held for sale

The management has leased 7 units out of 9 office units in Beijing, PRC, which the Group has acquired in 2003 to generate recurrent rental income. Management would endeavour to lease out the remaining 2 units and to dispose the units in the light of flourish property market in Beijing, PRC.

Consultancy services for retail business in PRC

On 31 August 2007, the Company entered into the services agreement with Wuhan Junefield Sogo Department Store ("Wuhan Sogo"), its related company. The Company will provide brand sourcing consultancy and property management consultancy services to Wuhan Sogo by acting as its agent to introduce international reputable brands to rent retail booths in the shopping centre of Wuhan Sogo for a term of two years commenced from October 2007. The entering into the services agreement enables the Group to broaden its revenues base by leveraging on its expertise in the PRC retail business.

Retail business in Wuhan

The share of profit from the jointly-controlled entity, Wuhan Plaza Management Co., Limited ("WPM"), amounted to approximately HK\$64,639,000 after tax which represented an increase of 1.4 times as compared to last corresponding period. During the year under review, the economy of PRC continued to experience growth, the retail and department store business remained promising. However, the litigation on increase in rental has not yet resolved and the outcome may pose a negative factor for the future profitability of this jointly-controlled entity.

MANAGEMENT DISCUSSION AND ANALYSIS

■ MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINTLY-CONTROLLED ENTITIES ■

There was no material acquisition and disposal of subsidiaries, associated companies and jointly-controlled entities during the year under review.

■ LIQUIDITY AND FINANCIAL RESOURCES ■

As at 31 December 2007, the Group had net assets of approximately HK\$1,257,000 (2006: deficiency in assets of approximately HK\$41,918,000) with total assets of approximately HK\$162,561,000 (2006: HK\$100,572,000) and total liabilities of approximately HK\$161,304,000 (2006: HK\$142,490,000). The Group's current ratio, which equals current assets divided by current liabilities was 0.18 (2006: 0.42).

The Group's bank balances and short term deposits which are mainly denominated in Hong Kong dollars and Renminbi ("RMB"), amounted to approximately HK\$6,606,000 as at 31 December 2007 (2006: HK\$2,226,000).

The Group's gearing ratio, as a ratio of total interest-bearing borrowings and the loan from a jointly-controlled entity to total assets as at 31 December 2007, was 0.60 (2006: 0.96).

The Group currently enjoys the continuous financial support from the Company's ultimate holding company. The Group will actively improve its working capital at appropriate time, consider raising funds by suitable means for investment and trade opportunities.

■ CAPITAL STRUCTURE AND TREASURY POLICIES ■

The Group adopts a prudent approach with respect to treasury and funding policies, with a focus on risk management and transactions that are directly related to the underlying business of the Group.

■ BORROWINGS ■

As at 31 December 2007, the Group had interest-bearing borrowings of approximately HK\$30,367,000 (2006: HK\$34,630,000) in which a secured other loan of HK\$25,000,000 (2006: HK\$30,000,000) bearing interest at 2% per month was due on 23 February 2008 and would be extended to 22 August 2008. Another loan of approximately HK\$5,367,000 (2006: HK\$4,630,000) is unsecured and bears interest at 9.5% per annum with no fixed term of repayment.

The Group's loan from a jointly-controlled entity of approximately HK\$66,657,000 (2006: HK\$61,950,000) would be repayable through dividends distributions by the jointly-controlled entity up to December 2007.

■ MATERIAL INVESTMENT OR CAPITAL ASSETS ■

There was no material acquisition during the year under review.

■ CONTINGENT LIABILITIES ■

As at 31 December 2007, the Group had no material contingent liabilities (2006: approximately HK\$10 million).

■ CHARGE OF ASSETS ■

Detailed charge of assets are shown in note 32 to the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

■ LITIGATIONS ■

Detailed litigations are shown in note 39 to the financial statements.

■ EXCHANGE RATE EXPOSURE ■

The Group's turnover and costs are partially denominated in RMB, which will largely offset each other. However, as the Group's loan from a jointly-controlled entity is denominated in RMB and reported in Hong Kong dollars, there was a translation loss being charged to administrative expenditure as a result of the RMB appreciation. The Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its balance sheet exposure in 2007.

■ EMPLOYEE AND REMUNERATION POLICY ■

As at 31 December 2007, the Group had about 181 employees (2006: 197 employees) of whom 7 (2006: 10) are based in Hong Kong and 174 (2006: 187) based in PRC. The number of workers employed by the Group varies from time to time depending on the industry need and they are remunerated under the employment term which is based on industry practice.

The remuneration policy and package of the Group's employees are periodically reviewed and approved by the executive directors. Apart from the pension funds, discretionary bonuses and share options are awarded to certain employees according to the assessment of individual performance.

BIOGRAPHICAL DETAILS OF DIRECTORS

■ EXECUTIVE DIRECTORS ■

Mr. Zhou Chu Jian He, aged 44, has been the Chairman of the Company since he joined the Group on 2 October 2003. Mr. Zhou acted as a Managing Director of the Company from the years of 2003 to 2005. He is also currently the President of Junefield (Holdings) Limited ("JHL"), the ultimate holding company of the Group, who is responsible for the overall business of JHL. Mr. Zhou serves as a member of the Beijing Committee of the People's Political Consultative Conference (中國人民政治協商會議北京委員會) in PRC. Mr. Zhou has over 12 years of experience in managing property development companies and in operating department stores in PRC.

Mr. Zhang Xiao Bing, Adam, aged 52, has been an executive director of the Company since he joined the Group on 26 February 2004. Mr. Zhang has been the General Manager of Investment & Business Development Division of JHL since 2004. He has been a full member of Singapore Institute of Management for many years. Mr. Zhang has more than 13 years of overseas work experience in international finance, investment and trade, and has accumulated nearly 30 years of experience in finance and investment in diverse Chinese industries. Mr. Zhang finished his university education with a Bachelor's Degree in Mainland China. Afterwards, he obtained professional training in international banking and finance in the City of London, UK, and completed the Advanced Management Program: The International Senior Managers' Program at Harvard Business School, Boston, USA.

Mr. Liu Zhongsheng, aged 49, is currently the chief executive officer of the Company. He is also currently a Vice-President of JHL. Mr. Liu was a Deputy Secretary of Economic Affairs Department, the Liaison Office of the Central People's Government in Hong Kong (formerly known as Xinhua News Agency Hong Kong Branch). Mr. Liu was a Managing Director of Guangnan (Holdings) Limited, and an Investment Advisor of Springridge Investment Management Limited. He holds a Degree in Economic and a Master's Degree in Economics from Lanzhou University, PRC, and has completed an EMBA programme from Tsing Hua University, PRC.

Mr. Ng Man Chung, Siman, aged 44, is currently the Deputy Chairman of the Company. He is also currently a Vice-General Manager of Finance Department of JHL, with 21 years of experience in finance and auditing. Mr. Ng has been the proprietor of M. C. Ng & Co. CPA. since 1997 and the director of Elite Partners CPA Limited since 2007. Mr. Ng is a fellow member of The Hong Kong Institute of Certified Public Accountants, an associate member of The Institute of Chartered Accountants in England and Wales, and a fellow member of The Taxation Institute of Hong Kong. Mr. Ng holds a Diploma in Business Administration from Shue Yan College and a Master of Business Administration Degree from The Open University of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS

■ INDEPENDENT NON-EXECUTIVE DIRECTORS ■

Mr. Leung Man Kit, aged 54, has been an independent non-executive director and a member of the audit committee of the Company since he joined the Group on 31 December 2002. He has been a member of the remuneration committee of the Company since 2005. He is also currently an Independent Non-Executive Director and an audit committee member of Anhui Expressway Company Limited (“Anhui Expressway”), and China Ting Group Holdings Limited (“China Ting”), which are listed on the Main Board of The Stock Exchange of Hong Kong Limited; and of NetEase, which is a NASDAQ listed company. He is also a member of the nomination committee of China Ting and a member of the human resources and remuneration committee of Anhui Expressway. On 11 February 2008, Mr. Leung was appointed by Golden Harvest Entertainment (Holdings) Limited as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee. Mr. Leung was an investment banker with 27 years of experience in project finance and corporate finance. Mr. Leung held senior positions with Peregrine Capital (China) Limited, Crosby Securities (HK) Limited, Swiss Bank Corporation, Hong Kong Branch, and KE Capital (Hong Kong) Limited. He was a director of Emerging Markets Partnership (Hong Kong) Limited which was the principal adviser to the AIG Infrastructure Fund L.P.. Mr. Leung holds a Bachelor’s Degree in Social Sciences from The University of Hong Kong.

Mr. Chan Kwok Wai, aged 49, has been an independent non-executive director and a member of the audit committee of the Company since he joined the Group on 31 December 2002. He has been a member of the remuneration committee of the Company since 2005. Mr. Chan is currently an independent non-executive director and member of the audit committee of Chinese Estates Holdings Limited, Tern Properties Company Limited, China Investments Holdings Limited, National Electronics Holdings Limited and Far East Consortium International Limited., all of which are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited. He is also currently a director of High Progress Consultants Limited. Mr. Chan serves as a member of the Hong Kong Securities Institute and an associate member of the CPA Australia.

Mr. Lam Man Sum, Albert, aged 52, has been an independent non-executive director and a member of the audit committee of the Company since he joined the Group on 24 September 2004. He has been a member of the remuneration committee of the Company since 2005, and had been the proprietor of Albert Lam & Co. CPA since 1993 to 2007. He is currently the shareholder and director of Hopkins CPA Ltd. Mr. Lam serves as a fellow member of the Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants and member of the Hong Kong Securities Institute, Society of Chinese Accountants and Auditors and Taxation Institute of Hong Kong. Mr. Lam holds a Bachelor’s Degree in Arts (Economics) from the University of Manchester, UK.

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

■ PRINCIPAL ACTIVITIES ■

The principal activity of the Company is investment holding and provision of brand sourcing consultancy and property management consultancy services for retail business in PRC. Details of the principal activities of its principal subsidiaries and jointly-controlled entity are set out in notes 18 and 19 to the financial statements.

■ RESULTS ■

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 82.

■ DIVIDENDS ■

The directors do not recommend payment of dividend.

■ PROPERTY, PLANT AND EQUIPMENT ■

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 15 to the financial statements.

■ PRINCIPAL SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITY ■

Details of the Company's principal subsidiaries and a jointly-controlled entity are set out in notes 18 and 19 to the financial statements.

■ SHARE CAPITAL ■

There is no movement in the share capital of the Company during the year.

■ RESERVES ■

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity on page 28, respectively.

■ PRE-EMPTIVE RIGHTS ■

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

■ SUMMARY OF FINANCIAL INFORMATION ■

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 84.

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

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

REPORT OF THE DIRECTORS

■ SHARE OPTION SCHEME ■

Details of share option scheme of the Company is set out in note 35 to the financial statements.

No share options were outstanding at 31 December 2007. No share option was granted, forfeited exercised or expired during the year.

■ DISTRIBUTABLE RESERVES ■

At 31 December 2007, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company for an amount of HK\$178,927,000 is not available for distribution.

■ MAJOR CUSTOMERS AND SUPPLIERS ■

In the year under review, sales to the Group's five largest customers in aggregate accounted for 52% of the total turnover for the year and sales to the largest customer included therein accounted for 29%. Purchases from the Group's five largest suppliers accounted for 67% of the total purchases for the year and purchases from the largest supplier included therein accounted for 45%.

During the year, Mr. Zhou Chu Jian He (Chairman of the Board) owns more than 5% of the Company's shares, had an interest in one of the five largest customers.

■ DIRECTORS ■

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

Executive directors

Mr. Zhou Chu Jian He (<i>Chairman</i>)	
Mr. Yiu Yu Keung, George (<i>Deputy Chairman</i>)	(resigned on 2 October 2007)
Mr. Li Jong Tong, Timothy	(resigned on 2 October 2007)
Mr. Zhang Xiao Bing, Adam	
Mr. Liu Zhongsheng (<i>Chief Executive Officer</i>)	(appointed on 10 March 2007)
Mr. Ng Man Chung, Siman (<i>Deputy Chairman</i>)	(appointed on 10 March 2007)

Independent non-executive directors

Mr. Leung Man Kit
Mr. Chan Kwok Wai
Mr. Lam Man Sum, Albert

In accordance with Bye-Law 87, Mr. Zhou Chu Jian He, Mr. Liu Zhongsheng and Mr. Lam Man Sum, Albert shall retire by rotation at the annual general meeting and, being eligible, shall offer themselves for re-election.

■ BIOGRAPHICAL DETAILS OF DIRECTORS ■

Biographical details of directors of the Company are set out on pages 7 to 8 of this report.

■ DIRECTORS' SERVICE CONTRACTS ■

Mr. Zhou Chu Jian He has service contract with the Company for a term of two years which commenced on 2 October 2007.

Mr. Zhang Xiao Bing, Adam has a service contract with the Company for a term of two years which commenced on 26 February 2008.

Each of Mr. Liu Zhongsheng and Mr. Ng Man Chung, Siman have service contracts with the Company for a term of two years which commenced on 10 March 2007.

Mr. Lam Man Sum, Albert has a service contract with the Company for a term of two years which commenced on 24 September 2006.

Each of Mr. Leung Man Kit and Mr. Chan Kwok Wai have service contracts with the Company for a term of two years which commenced on 31 December 2006.

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

■ CONTINUING CONNECTED TRANSACTION ■

On 31 August 2007, the Company entered into the services agreement (the "Services Agreement") with Wuhan Sogo, which is a collective enterprise established under the laws of PRC, of which Mr. Zhou Chu Jian He has a control over its operations and financial activities and is regarded as an associate (as defined under the Listing Rules) of Mr. Zhou Chu Jian He and accordingly is a connected person (as defined under the Listing Rules) of the Company. Wuhan Sogo is principally engaged in the operation and management of department stores.

Pursuant to the Services Agreement, the Company will provide brand sourcing services to Wuhan Sogo by acting as its agent to introduce international reputable brands to rent retail booths in the shopping centre of Wuhan Sogo. In addition, the Company will provide property management consultancy services to Wuhan Sogo aiming to run the shopping centre as a collection of international brand. A monthly services fee of HK\$1.5 million to be given to the Company for the above consultancy services in form of cash in advance at the beginning of each month for a term of two years with effect from 1 October 2007 to 30 September 2009. At 31 December 2007, the above consultancy services fee of HK\$3,000,000 due from Wuhan Sogo to the Company pursuant to the Services Agreement. The above transaction constituted a continuing connected transaction (the "Continuing Connected Transaction") under the Listing Rules during the year ended 31 December 2007.

An announcement (the "Announcement") was published on 4 September 2007 regarding the Continuing Connected Transaction in accordance with the Listing Rules.

REPORT OF THE DIRECTORS

■ CONTINUING CONNECTED TRANSACTION ■ (continued)

The Continuing Connected Transaction has been reviewed by the independent non-executive directors. The independent non-executive directors have confirmed that for the year 2007 the Continuing Connected Transaction has been entered into (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) to independent third parties; and (iii) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Company has engaged the auditors of the Company to perform certain agreed-upon procedures on the Continuing Connection Transaction of the Group in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported and confirmed to the Board of Directors for the year 2007 that the Continuing Connected Transaction (i) has received the approval of the Board of Directors of the Company; (ii) has been entered into in accordance with the terms of the agreement governing the transaction; and (iii) has not exceeded the cap amount for the year ended 31 December 2007 as set out in the Announcement.

■ DIRECTORS' INTERESTS IN CONTRACTS ■

Except for those set out below, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its holding companies and subsidiaries was a party during the year:

Duration of the contract	Name of the parties to the contract	Nature of the contract	Nature of director's interest
2 years (starting from 1 October 2007)	(1) the Company (2) Wuhan Sogo	Services Agreement in respect of brand sourcing consultancy and property management consultancy services	Wuhan Sogo is regarded as an associate of Mr. Zhou Chu Jian He

■ DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES ■

As at 31 December 2007, the interests and short positions of the directors and the chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in the shares

Name of director	Number of shares held through a controlled corporation	Percentage of the Company's issued share capital
Mr. Zhou Chu Jian He (<i>Note</i>)	220,780,500	52.33

Note: Mr. Zhou Chu Jian He is beneficially interested in 220,780,500 shares being held by Prime Century Investments Limited ("PCI"), a wholly-owned subsidiary of JHL.

Save as disclosed above, as at 31 December 2007, so far as is known to the directors and the chief executives of the Company, no other person had interests or short positions in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

■ DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES ■

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

■ SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES ■

As at 31 December 2007, so far as is known to the directors and the chief executives of the Company, the interests and short positions of the shareholders (other than directors or chief executives of the Company) in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Name	Note	Capacity and nature of interest	Number of shares	Percentage of the Company's issued share capital
PCI	(1)	Directly beneficially owned	220,780,500	52.33
JHL	(1)	Through a controlled corporation	220,780,500	52.33
Mr. Zhou Chu Jian He	(1)	Through a controlled corporation	220,780,500	52.33
Ranbridge Finance Limited	(2)	See note (2) below	215,416,500	51.05
Mr. Liu Xiao Fang		Directly beneficially owned	38,236,000	9.06
Ms. Yuan Ling		Directly beneficially owned	25,490,000	6.04

Notes:

- (1) Mr. Zhou Chu Jian He is beneficially interested in 220,780,500 shares being held by PCI, a wholly-owned subsidiary of JHL.
- (2) PCI, being the immediate holding company of the Company, has executed a debenture dated 26 February 2005 incorporating a first floating charge over its undertaking, property and assets in favor of Ranbridge Finance Limited.

Save as disclosed above, as at 31 December 2007, the Company had not been notified by any person (other than the directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

■ LOAN AGREEMENT WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER ■

According to Rule 13.21 of the Listing Rules, details of the loan agreement with covenants relating to specific performance of the controlling shareholder for the year are set out in note 32 to the financial statements.

■ SUFFICIENCY OF PUBLIC FLOAT ■

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, at least 25% of the total issued share capital of the Company was held by the public as required under the Listing Rules.

■ CORPORATE GOVERNANCE ■

The Corporate Governance Report of the Company is set out on page 16 of this report.

■ AUDITORS ■

The financial statements have been audited by Messrs. HLB Hodgson Impey Cheng who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zhou Chu Jian He

Chairman

Hong Kong, 10 April 2008

CORPORATE GOVERNANCE REPORT

The Group's annual report for the year ended 31 December 2007 has been reviewed by the Audit Committee of the Company.

The Company is committed to maintaining the highest standard of Corporate Governance Practices. The Company has complied with all the code provisions as set out in Appendix 14 of the Code on Corporate Governance Practices of the Listing Rules (the "code provisions") throughout the accounting period for the year ended 31 December 2007. The Board has adopted all the code provisions as its own Code on 8 September 2006.

■ DIRECTORS' SECURITIES TRANSACTIONS ■

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding the Directors' securities transactions. The Company has made specific enquiry of all directors whether they have complied with the Model Code and all directors confirmed that they have complied with the Model Code for the year ended 31 December 2007.

Written guidelines on no less exacting terms than the Model Code relating to securities transaction for employees have been sent to all employees of the Group.

■ BOARD COMPOSITION ■

The Board currently comprises a total of four executive directors and three independent non-executive directors. The executive directors are Mr. Zhou Chu Jian He (Chairman), Mr. Zhang Xiao Bing, Adam, Mr. Liu Zhongsheng (Chief Executive Officer) and Mr. Ng Man Chung, Siman (Deputy Chairman). The independent non-executive directors are Mr. Leung Man Kit, Mr. Chan Kwok Wai and Mr. Lam Man Sum, Albert. Mr. Chan Kwok Wai and Mr. Lam Man Sum, Albert both have appropriate professional qualification in accounting and related financial management expertise.

Details of all directors and the chief executive officer are given on pages 7 to 8 of this report. The relationships (including financial, business, family or other material or relevant relationships) among members of the Board and the chief executive officer are also disclosed. Save as disclosed above, there is no further relationship among members of the Board and the chief executive officer.

Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines as set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

■ BOARD RESPONSIBILITY ■

The Board is responsible for promoting the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to all shareholders for the manner in which the affairs of the Company are managed. The directors contribute to the affairs of the Board and the Board always acts in the best interests of the Group.

The directors are responsible for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2007, the directors have selected suitable accounting policies. The directors are responsible for keeping proper accounting records with reasonable accuracy relating to the financial position of the Group.

The Board delegates day-to-day management of the business of the Group to the management of the relevant principal divisions and certain specific responsibilities to the Audit Committee and Remuneration Committee. The composition and functions of each Committee are described below. These Committees have specific functions and authority to examine issues and report to the Board with their recommendations if appropriate. The final decision rests with the Board, unless otherwise provided for in terms of reference of the relevant Committees.

■ CHAIRMAN AND CHIEF EXECUTIVE OFFICER ■

The chairman provides leadership for the Board and ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. All directors have been consulted about any matters proposed for inclusion in the agenda. The chairman of the meeting has delegated the responsibility for drawing up the agenda for each Board meeting to the company secretary. The chairman of the meeting ensures that all directors are properly briefed on issues arising at Board meetings and received adequate and reliable information in a timely manner with the support of the company secretary.

The chief executive officer is responsible for managing the businesses of the Group, including the implementation strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

■ BOARD MEETINGS ■

The Board meets regularly and Board meetings are held at least four times a year at approximately quarterly intervals. Board meetings involve active participation, either in person or through other electronic means of communication, of a majority of directors entitled to be present. Notice of at least 14 days is given for regular Board meetings. For all other Board meetings, reasonable notice is given. Minutes of Board meetings are recorded in sufficient detail the matters considered by the Board. Directors are given an opportunity to comment on the draft Board minutes. Final version of Board minutes are kept by the company secretary and such minutes are opened for inspection by any director. Directors have access to the company secretary who is responsible to the Board for ensuring that Board procedures are followed.

CORPORATE GOVERNANCE REPORT

■ BOARD MEETINGS ■ (continued)

As at the date of this report, the Board held five meetings on 24 April 2007, 22 June 2007, 24 August 2007, 27 November 2007 and 10 April 2008.

	Attendance
Executive directors	
Mr. Zhou Chu Jian He (<i>Chairman</i>) ⁽¹⁾	2/5
Mr. Yiu Ku Keung, George ⁽²⁾	0/3
Mr. Li Jong Tong, Timothy ⁽²⁾	3/3
Mr. Zhang Xiao Bing, Adam ⁽³⁾	4/5
Mr. Liu Zhongsheng (<i>Chief Executive Officer</i>)	5/5
Mr. Ng Man Chung, Siman (<i>Deputy Chairman</i>)	5/5
Independent non-executive directors	
Mr. Leung Man Kit	5/5
Mr. Chan Kwok Wai	5/5
Mr. Lam Man Sum, Albert	5/5

Notes:

- (1) Absent on 24 April 2007, 22 June 2007 and 24 August 2007.
- (2) These directors resigned on 2 October 2007 and were only entitled to attend three Board meetings during the year 2007.
- (3) Absent on 22 June 2007.

In addition to regular Board meetings, the Chairman has a meeting with the independent non-executive directors without the presence of any of the executive directors on 31 October 2007.

■ AUDITOR'S REMUNERATION ■

The fee in respect of audit service provided by the external auditors to the Company for the year ended 31 December 2007 was approximately HK\$460,000.

■ REMUNERATION COMMITTEE ■

The Company has established the Remuneration Committee on 15 July 2005. The Remuneration Committee comprises the Chairman, Mr. Leung Man Kit, being an independent non-executive director, and two independent non-executive directors, namely Mr. Chan Kwok Wai and Mr. Lam Man Sum, Albert.

■ REMUNERATION COMMITTEE ■ (continued)

The principle responsibility of the Remuneration Committee includes making recommendation to the Board on the Company's policy and structure for all remuneration of directors and senior management and reviewing the specific remuneration packages of all executive directors and senior management by reference to corporate goals and objectives resolved by the Board. The emoluments of directors are based on the skill and contribution in the Company's affairs and are determined by reference to duties and responsibilities of the executive directors after considering the Group's performance and the prevailing market situations including salaries paid by comparable companies. No director is involved in determining his own remuneration. Terms of reference of the Remuneration Committee are available at the Company's website.

Particulars of the emoluments to the directors are set out in note 10 of the financial statements.

As at the date of this report, the Remuneration Committee held a meeting on 27 November 2007 to discuss the Group's remuneration policy.

Attendance

Independent non-executive directors

Mr. Leung Man Kit (<i>Chairman</i>)	1/1
Mr. Chan Kwok Wai	1/1
Mr. Lam Man Sum, Albert	1/1

The following is a summary of the work for the Remuneration Committee during the meeting:

1. review of the remuneration policy for the year 2007; and
2. review of the remuneration packages for all executive directors and senior management.

■ AUDIT COMMITTEE ■

The Audit Committee was established on 10 November 1999. The Audit Committee comprises the Chairman, Mr. Chan Kwok Wai, being an independent non-executive director, and two independent non-executive directors, namely Mr. Leung Man Kit and Mr. Lam Man Sum, Albert. The Audit Committee meets not less than twice a year.

The principal duties of the Audit Committee include to:

- make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, and to assess their independence and performance;
- review the effectiveness of financial reporting processes and internal control systems of the Group and to monitor the integrity thereof;
- review the completeness, accuracy and fairness of the Company's financial statements before submission to the Board;

CORPORATE GOVERNANCE REPORT

■ AUDIT COMMITTEE ■ (continued)

- ensure compliance with the applicable accounting standards and legal regulatory requirements on financial reporting and disclosures;
- liaise with the Company's Board, senior management and the Company's qualified accountant and the Committee, at least once a year, with the Company's auditors; and
- establish compliance for and to monitor, receive, retain and handle complaints received by the Company regarding accounting, internal controls or auditing matters.

As at the date of this Report, the Audit Committee held three meetings on 24 April 2007, 24 August 2007 and 10 April 2008.

Attendance

Independent non-executive directors

Mr. Leung Man Kit	3/3
Mr. Chan Kwok Wai (<i>Chairman</i>)	3/3
Mr. Lam Man Sum, Albert	3/3

The following is a summary of the work of the Audit Committee:

- review of the financial reports for the year ended 31 December 2006, for the six-months ended 30 June 2007 and for the year ended 31 December 2007;
- review and approve the remuneration and terms of engagement of the external auditor for the year 2007;
- review of the effectiveness of the internal control system;
- review and comment on the internal control report;
- review and comment on the finance position of the group; and
- review and comment on the Continuing Connected Transaction and the cap.

■ INTERNAL CONTROL ■

The Board recognizes its responsibility for maintaining an adequate internal control system to safeguard the assets of the Group and the interests of shareholders. Annual review on the internal control system of the Group (which exclude the 49% jointly-controlled entity, Wuhan Plaza Management Co., Ltd.) has been conducted by the management and reviewed by the Board in April 2008. The Audit Committee has made recommendations to the Board and is satisfied that nothing has come to its attention to cause the Audit Committee to believe that the internal control system is inadequate. Periodic review will be made to monitor the effectiveness of the internal control system of the Group.

■ INVESTOR RELATIONS ■

The Company continues to promote and enhance investor relations and communication with its investors. Shareholders investors and members of the public are able to access up-to-date corporate information and events relating to the Company's website.

INDEPENDENT AUDITORS' REPORT



國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F., Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
JUNEFIELD DEPARTMENT STORE GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Junefield Department Store Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 82, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 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.

Auditors' 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 Companies Act 1981 of Bermuda, 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 financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

(1) *Significant uncertainty relating to the going concern basis*

In forming our opinion, we have considered the adequacy of the disclosures made in note 2.1 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2.1 to the financial statements, the Group is currently undertaking a number of measures to improve its liquidity and financial position. The financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support by the Group's holding company, related companies and creditors.

The financial statements do not include any adjustment that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that this fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that we have disclaimed our opinion.

(2) *Significant uncertainty relating to outcome of litigation and lawsuits in relation to a jointly-controlled entity*

At 31 December 2007, the Company had an interest in a jointly-controlled entity, namely Wuhan Plaza Management Co., Ltd. ("WPM"), an enterprise established in the People's Republic of China ("PRC"). The Company accounted for its interests in WPM using the equity method, which represents a substantial part of the Group's total assets at 31 December 2007 and of its results for the year then ended. We have considered the adequacy of the disclosures made in note 39(a) to the financial statements concerning the litigation and lawsuits relating to WPM, including the litigation filed by Wuhan Department Store Group Co., Ltd. (the "PRC Partner"), the PRC joint venturer of WPM and the lessor, against WPM for breach of lease agreement (the "Lease Litigation"), the lawsuit filed by International Management Company Limited ("IMC"), a wholly-owned subsidiary of the Company, against the PRC Partner (the "WDS Litigation") and the lawsuit filed by IMC against the management of WPM (the "Director Litigation"), the ultimate outcome of which cannot presently be determined. In preparing the Group's consolidated financial statements, the directors of the Company accounted for the Group's share of net assets and results of WPM as at and for the year ended 31 December 2007 based on the management accounts of WPM after making certain adjustments relating to the rental expenses of WPM, (which were the subject of the aforesaid litigation and lawsuits) which they considered appropriate. However, there is significant uncertainty as to whether the litigation and lawsuits relating to WPM can be successfully defended or awarded, and the potential significant impact on WPM insofar as it affects the Group's share of net assets and results of WPM reflected in the Group's consolidated financial statements for the year ended 31 December 2007.

INDEPENDENT AUDITORS' REPORT

Disclaimer of opinion: disclaimer on view given by financial statements

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and 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. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

Hong Kong, 10 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK\$'000	2006 HK\$'000
REVENUE	7	15,480	27,578
Other income	7	353	1,769
Changes in fair value of investment properties	8	–	(548)
Contract costs		(4,766)	(10,865)
Employee benefits expense	8	(7,630)	(6,735)
Depreciation of property, plant and equipment	8	(247)	(254)
Amortisation of prepaid land lease payments	8	(28)	(26)
Other operating expenses		(16,577)	(21,688)
OPERATING LOSS	8	(13,415)	(10,769)
Finance costs	9	(6,933)	(8,225)
Share of profit of a jointly-controlled entity	19	64,639	26,731
PROFIT BEFORE TAX		44,291	7,737
Tax	12	–	8
PROFIT FOR THE YEAR		44,291	7,745
Attributable to:			
Equity holders of the Company		44,291	7,745
Minority interests		–	–
		44,291	7,745
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	14	10.50 cents	1.84 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,246	2,280
Prepaid land lease payments	17	578	564
Investment in a jointly-controlled entity	19	131,405	66,766
Available-for-sale investment	20	-	-
Total non-current assets		134,229	69,610
CURRENT ASSETS			
Inventories	21	-	315
Properties held for sale	22	13,462	13,462
Construction contracts	23	-	115
Accounts receivable	24	4,208	4,941
Prepayments, deposits and other receivables	25	1,357	1,146
Amount due from a jointly-controlled entity	19	2,507	2,842
Amount due from a joint venturer	26	-	-
Amount due from a related company	27	-	5,716
Amount due from a subsidiary's minority shareholder	28	192	199
Time deposits	29	2,791	-
Cash and bank balances	29	3,815	2,226
Total current assets		28,332	30,962
CURRENT LIABILITIES			
Accounts payable	30	12,945	13,212
Other payables and accruals	31	24,987	21,296
Amount due to the ultimate holding company	28	16,664	1,791
Tax payable		1,871	1,798
Interest-bearing borrowings	32	30,367	34,630
Loan from a jointly-controlled entity	19	66,657	-
Total current liabilities		153,491	72,727
Net current liabilities		(125,159)	(41,765)
TOTAL ASSETS LESS CURRENT LIABILITIES		9,070	27,845
NON-CURRENT LIABILITIES			
Loan from a jointly-controlled entity	19	-	61,950
Deferred tax liabilities	33	7,813	7,813
Total non-current liabilities		7,813	69,763
Net assets/(liabilities)		1,257	(41,918)
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	34	42,193	42,193
Reserves	36	(40,936)	(84,111)
Minority interests		1,257	(41,918)
Total equity		1,257	(41,918)

The financial statements were approved and authorised for issue by the Board of Directors on 10 April 2008 and are signed on its behalf by:

Zhou Chu Jian He
Director

Ng Man Chung, Siman
Director

BALANCE SHEET

At 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	44	29
Investments in subsidiaries	18	–	–
Total non-current assets		44	29
CURRENT ASSETS			
Accounts receivable	24	3,000	–
Prepayments, deposits and other receivables	25	303	290
Amounts due from subsidiaries	18	36	24
Cash and bank balances	29	1,111	238
Total current assets		4,450	552
CURRENT LIABILITIES			
Other payables and accruals	31	4,474	4,349
Amounts due to subsidiaries	18	40,643	36,053
Amount due to the ultimate holding company	28	16,664	1,791
Interest-bearing borrowings	32	30,367	34,630
Total current liabilities		92,148	76,823
Net current liabilities		(87,698)	(76,271)
TOTAL ASSETS LESS CURRENT LIABILITIES		(87,654)	(76,242)
Net liabilities		(87,654)	(76,242)
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	34	42,193	42,193
Reserves	36	(129,847)	(118,435)
Total equity		(87,654)	(76,242)

Zhou Chu Jian He
Director

Ng Man Chung, Siman
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Attributable to equity holders of the Company									
	Issued capital HK\$'000 (Note 34)	Share		Share-based		Exchange	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
		premium account HK\$'000	Contributed surplus HK\$'000	Capital compensation reserve HK\$'000	reserve HK\$'000	fluctuation reserve HK\$'000				
At 1 January 2006	42,193	42,424	230	19,465	647	21	(154,111)	(49,131)	-	(49,131)
Exchange realignment	-	-	-	-	-	(532)	-	(532)	-	(532)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	(532)	-	(532)	-	(532)
Profit for the year	-	-	-	-	-	-	7,745	7,745	-	7,745
Total income and expense for the year	-	-	-	-	-	(532)	7,745	7,213	-	7,213
Share options forfeited/expired (Note 35)	-	-	-	-	(647)	-	647	-	-	-
At 31 December 2006	42,193	42,424	230	19,465	-	(511)	(145,719)	(41,918)	-	(41,918)
At 1 January 2007	42,193	42,424	230	19,465	-	(511)	(145,719)	(41,918)	-	(41,918)
Exchange realignment	-	-	-	-	-	(1,116)	-	(1,116)	-	(1,116)
Total income and expense for the year recognised directly in equity	-	-	-	-	-	(1,116)	-	(1,116)	-	(1,116)
Profit for the year	-	-	-	-	-	-	44,291	44,291	-	44,291
Total income and expense for the year	-	-	-	-	-	(1,116)	44,291	43,175	-	43,175
At 31 December 2007	42,193	42,424	230	19,465	-	(1,627)	(101,428)	1,257	-	1,257

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK\$'000	2006 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		44,291	7,737
Adjustments for:			
Finance costs	9	6,933	8,225
Share of profit of a jointly-controlled entity		(64,639)	(26,731)
Depreciation of property, plant and equipment	8	247	254
Amortisation of prepaid land lease payments	8	28	26
Bank interest income	7	(18)	(26)
Reversal of impairment of accounts receivable	7	(51)	(323)
Reversal of impairment of amount due from a subsidiary's minority shareholder	7	–	(913)
Loss on disposal of property, plant and equipment	8	12	13
Impairment of accounts receivable	8	298	8,876
Impairment of other receivables	8	326	66
Impairment of amount due from a joint venturer	8	509	956
Changes in fair value of investment properties	8	–	548
		(12,064)	(1,292)
Decrease/(increase) in inventories		315	(315)
Decrease in construction contracts		115	1,591
Increase in accounts receivable		(515)	(11,081)
Decrease/(increase) in prepayments, deposits and other receivables		259	(860)
Decrease/(increase) in amount due from a jointly-controlled entity		335	(2,321)
Increase in amount due from a joint venturer		(509)	(398)
Decrease in amount due from a related company		5,716	13,082
Decrease in amount due from a subsidiary's minority shareholder		7	2,832
Decrease in accounts payable		(267)	(2,754)
Increase in other payables and accruals		3,691	2,574
Net cash (used in)/generated from operations		(2,917)	1,058
Bank interest received		18	26
Overseas income tax paid		–	(174)
Hong Kong profits tax refunded		–	8
Net cash (used in)/generated from operating activities		(2,899)	918

continued/.....

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 HK\$'000	2006 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(65)	(226)
Increase in short term time deposits		(2,791)	–
Net cash used in investing activities		(2,856)	(226)
CASH FLOWS FROM FINANCING ACTIVITIES			
Advance from a jointly-controlled entity		–	11,021
Advance from the ultimate holding company		14,873	1,791
Repayment of short-term borrowings		(5,000)	(5,000)
Interest paid		(6,493)	(8,225)
Net cash generated from/(used in) financing activities		3,380	(413)
Net (decrease)/increase in cash and cash equivalents		(2,375)	279
Cash and cash equivalents at beginning of year		2,226	2,494
Effect of foreign exchange rate changes, net		3,964	(547)
CASH AND CASH EQUIVALENTS AT END OF YEAR		3,815	2,226
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	3,815	2,226

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

1. CORPORATE INFORMATION

Junefield Department Store Group Limited (the "Company") is incorporated in Bermuda with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section on page 2 of the annual report.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- property investment;
- provision of property management and agency services;
- provision of design, decoration services and electrical and mechanical works; and
- provision of brand sourcing consultancy and property management consultancy services for the retail business in the People's Republic of China ("PRC").

In the opinion of the directors, the immediate holding company of the Company is Prime Century Investments Limited ("PCI"), a company incorporated in British Virgin Islands, and the ultimate holding company of the Company is Junefield (Holdings) Limited ("JHL"), a company incorporated in Hong Kong. Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain properties and financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

The Group had net current liabilities of approximately HK\$125,159,000 at the balance sheet date. Notwithstanding the above, the directors of the Company have prepared the financial statements on the going concern basis on the assumption that the Group will continue to operate as a going concern for the foreseeable future.

During the year ended 31 December 2007 and subsequently, the directors have taken active measures to improve the liquidity and financial position of the Group as follows:

- (a) The directors of the Company are in active negotiations with the Group's lender of a short-term other loan to seek their ongoing support to the Group. Subsequent to the balance sheet date, the Company has obtained a letter from the lender on 21 February 2008 in respect of the short-term other loan of HK\$25 million to extend the repayment date to 22 August 2008. The Company will enter into supplemental loan agreement with the lender subject to terms and conditions mutually acceptable to both parties;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.1 BASIS OF PREPARATION (continued)

Going concern (continued)

- (b) JHL has confirmed to provide necessary funds to the Group so as to enable the Group to discharge its obligations as and when they fall due, including the short-term other loan of HK\$25 million as mentioned in point (a) above;
- (c) The directors have taken action to tighten cost controls over various operating and general and administrative expenses; and
- (d) The Group's capital commitment was kept at a minimal level.

In the opinion of the directors, in light of the various measures/arrangements implemented to date and the ongoing support from the Group's ultimate holding company, related companies and creditors, the Group will have sufficient working capital for its present requirements and to continue its operations as a going concern. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on the going concern basis notwithstanding the Group's financial position and tight liquidity at 31 December 2007. However, if these measures were not to be successful or insufficient, or if the going concern basis were not be appropriate, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.2 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) 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, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements - 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 4 to the financial statements.

(c) HK(IFRIC)-Int 7 Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies

This interpretation provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) - Int 7 is not relevant to the Group's operations.

(d) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Group had only issued equity instruments to its employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no impact on the financial position or results of operations of the Group.

(f) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

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

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 July 2008

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

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains 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 entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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 which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d); or
- (f) 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, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life, as follows:

Buildings	20 years
Leasehold improvements	The shorter of the lease terms and 6 years
Office equipment	5 years
Motor vehicles	3 to 6 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses arising from changes in the fair values of investment property are recognised in the income statement in the year in which they arise.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

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

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Assets carried at amortised cost (continued)

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts (continued)

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;
- (ii) rental income, on a time proportion basis over the lease terms;
- (iii) from the rendering of property management and agency services, and consultancy services, when such services are rendered;
- (iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal governments. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and jointly-controlled entity are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. FINANCIAL INSTRUMENTS BY CATEGORY

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

	Loan and receivables	
	2007 HK\$'000	2006 HK\$'000
Financial assets as per consolidated balance sheet		
Accounts receivable	4,208	4,941
Amount due from a jointly-controlled entity	2,507	2,842
Amount due from a related company	–	5,716
Amount due from a subsidiary's minority shareholder	192	199
Time deposits	2,791	–
Cash and bank balances	3,815	2,226
	13,513	15,924

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

3. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Financial liabilities at amortised cost	
	2007 HK\$'000	2006 HK\$'000
Financial liabilities as per consolidated balance sheet		
Accounts payable	12,945	13,212
Other payables and accruals	14,299	12,765
Amount due to the ultimate holding company	16,664	1,791
Interest-bearing borrowings	30,367	34,630
Loan from a jointly-controlled entity	66,657	61,950
	140,932	124,348

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate borrowings, further details of these borrowings are set out in note 32 to the financial statements. The Group has variable-rate borrowing arising from a loan from a jointly-controlled entity, further details of this borrowing are set out in note 19 to the financial statements. The Group is not exposed to significant cash flow interest rate risk as the jointly-controlled entity agreed to waive the interest charge arising from the aforesaid borrowing for the years ended 31 December 2006 and 2007. The Group currently does not hedge its exposure to fair value and cash flow interest rate risks. However, the management monitors the interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group's property management and agency services and construction business are located in PRC and all transactions are conducted in Renminbi ("RMB"). All the assets and liabilities of these businesses are denominated in RMB.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued) Foreign currency risk (continued)

	Increase/ (decrease) in RMB %	Increase/ (decrease) in profit after tax HK\$'000	Increase/ (decrease) in equity HK\$'000
2007			
If Hong Kong dollar weakens against RMB	7	(747)	(1,267)
If Hong Kong dollar strengthens against RMB	(7)	649	1,100
2006			
If Hong Kong dollar weakens against RMB	7	(2,796)	(989)
If Hong Kong dollar strengthens against RMB	(7)	2,430	863

Credit risk

The Group reviews the recoverability of its financial assets periodically to ensure that potential credit risk of the counterparty is managed at an early stage and sufficient provision is made for possible defaults. In addition, the Group reviews regularly the recoverable amount of each individual accounts receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk of the Group's other financial assets, which comprise time deposits, cash and bank balances, amount due from a jointly-controlled entity, amount due from a joint venturer, amount due from a related company, amount due from a subsidiary's minority shareholder, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group has certain concentrations of credit risk as 71% (2006: 68%) and 91% (2006: 90%) of the Group's accounts receivable were due from the Group's largest customer and the five largest customers respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 24 to the financial statements.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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

	2007
	On demand or less than 3 months HK\$'000
Accounts payable	12,945
Other payables and accruals	14,299
Amount due to the ultimate holding company	16,664
Interest-bearing borrowings	31,367
Loan from a jointly-controlled entity	66,657
	141,932

	2006		
	On demand or less than 3 months HK\$'000	1 to 5 years HK\$'000	Total HK\$'000
Accounts payable	13,212	–	13,212
Other payables and accruals	12,765	–	12,765
Amount due to the ultimate holding company	1,791	–	1,791
Interest-bearing borrowings	35,830	–	35,830
Loan from a jointly-controlled entity	–	61,950	61,950
	63,598	61,950	125,548

Price risk

The Group is not exposed to equity price risk as the Group did not have significant equity investments classified as trading equity investments at 31 December 2007.

Capital management

The primary objective of the Group's capital management is to enhance the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using the debt-to-adjusted capital ratio, which is calculated as net debt divided by adjusted capital. Net debt is calculated as total borrowings (including amount due to the ultimate holding company, interest-bearing borrowings and loan from a jointly-controlled entity as shown in the consolidated balance sheet) less cash and bank balances. Adjusted capital comprises all components of equity (including issued capital, reserve, retained profits and minority interest as shown in the consolidated balance sheet).

The debt-to-adjusted capital ratios at 31 December 2007 and 2006 were as follows:

	2007 HK\$'000	2006 HK\$'000
Total borrowings	113,688	98,371
Less: Cash and bank balances	(3,815)	(2,226)
Net debt	109,873	96,145
Adjusted capital	1,257	(41,918)
Debt-to-adjusted capital ratio	8,741%	N/A

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and consequently related depreciation charges. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the deprecation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Estimated impairment of receivables

The Group records impairment of receivables based on an assessment of the recoverability of accounts receivable and other receivables. Provisions are applied to accounts receivable and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of accounts receivable and other receivables and impairment charges in the period in which such estimate has been changed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

6. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in PRC, and over 90% of the Group's assets are located in PRC.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the property investment segment engages in property leasing;
- (b) the property management and agency services segment provides property management and agency services;
- (c) the construction segment engages in construction contract works as a main contractor or sub-contractor, primarily in respect of design, decoration, electrical and mechanical works; and
- (d) the consultancy services segment provides brand sourcing consultancy and property management consultancy services for retail business in PRC.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

6. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Group	Property investment		Property management and agency services		Construction		Consultancy services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to/revenue from external customers	537	309	10,041	6,724	402	20,545	4,500	-	15,480	27,578
Intersegment sales	-	-	-	-	-	-	-	-	-	-
Total	537	309	10,041	6,724	402	20,545	4,500	-	15,480	27,578
Segment results	585	(362)	326	(607)	(3,214)	3,660	4,147	-	1,844	2,691
Bank interest income and other unallocated income									353	1,769
Corporate and other unallocated expenses									(15,612)	(15,229)
Operating loss									(13,415)	(10,769)
Finance costs									(6,933)	(8,225)
Share of profit of a jointly-controlled entity									64,639	26,731
Profit before tax									44,291	7,737
Tax									-	8
Profit for the year									44,291	7,745

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

6. SEGMENT INFORMATION (continued)

Business segments (continued)

Group	Property investment		Property management and agency services		Construction		Consultancy services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities:										
Segment assets	13,515	19,217	11,216	8,174	1,750	5,776	4,111	-	30,592	33,167
Corporate and other unallocated assets									565	639
Investment in a jointly-controlled entity									131,404	66,766
Total assets									162,561	100,572
Segment liabilities	2,053	2,040	13,403	10,330	17,943	17,749	-	-	33,399	30,119
Corporate and other unallocated liabilities									127,905	112,371
Total liabilities									161,304	142,490
Other segment information:										
Depreciation and amortisation	-	-	218	207	36	53	13	-	267	260
Corporate and other unallocated amounts									8	20
									275	280
Impairment losses recognised in the income statement	-	-	612	1,022	521	8,876	-	-	1,113	9,898
Impairment losses reversed in the income statement	-	-	-	-	(51)	(1,236)	-	-	(51)	(1,236)
Changes in fair value of investment properties	-	548	-	-	-	-	-	-	-	548
Capital expenditure	-	-	24	2,515	9	-	28	-	61	2,515
Corporate and other unallocated amounts									4	4
									65	2,519

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

7. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents an appropriate proportion of contract revenue of construction contracts, consultancy services fee, property management and agency fees, and gross rental income received and receivable during the year.

An analysis of the Group's revenue and other income is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Revenue		
Construction contract revenue	402	20,545
Consultancy services fee	4,500	–
Gross rental income	537	309
Property management and agency fees	10,041	6,724
	15,480	27,578
Other income		
Bank interest income	18	26
Reversal of impairment of accounts receivable	51	323
Reversal of impairment of amount due from a subsidiary's minority shareholder	–	913
Others	284	507
	353	1,769
	15,833	29,347

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

8. OPERATING LOSS

The Group's operating loss is arrived at after charging/(crediting):

	Note	Group	
		2007 HK\$'000	2006 HK\$'000
Employee benefits expense (excluding directors' remuneration)			
Salaries and wages		6,728	6,259
Pension scheme contributions (defined contribution scheme)	(i)	902	476
		7,630	6,735
Depreciation of property, plant and equipment		247	254
Amortisation of prepaid land lease payments		28	26
Minimum lease payments under operating leases in respect of land and buildings		13	26
Auditors' remuneration			
– current		460	580
– under-provision		–	100
Changes in fair value of investment properties		–	548
Foreign exchange differences, net		5,385	2,236
Loss on disposal of property, plant and equipment		12	13
Impairment of accounts receivable	(ii)	298	8,876
Impairment of amount due from a joint venturer	(ii)	509	956
Impairment of other receivables	(ii)	326	66
Gross rental income from investment properties		–	(129)
Less: Direct operating expenses arising on rental-earning properties		–	7
		–	(122)

Notes:

- (i) At 31 December 2007, the Group had no forfeited contributions available to reduce its contributions to the pension schemes in future years (2006: Nil).
- (ii) The impairment charges are included in "Other operating expenses" on the face of the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

9. FINANCE COSTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Interest on loans wholly repayable within five years	6,933	8,225

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Fees	432	432
Other emoluments:		
Salaries, allowances and benefits in kind	1,362	720
Pension scheme contributions	32	27
	1,394	747
	1,826	1,179

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007 HK\$'000	2006 HK\$'000
Mr. Leung Man Kit	144	144
Mr. Chan Kwok Wai	144	144
Mr. Lam Man Sum, Albert	144	144
	432	432

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

10. DIRECTORS' REMUNERATION (continued)

(b) Executive directors

2007	Salaries, allowances and benefits		Pension scheme	Total
	Fees HK\$'000	in kind HK\$'000	contributions HK\$'000	remuneration HK\$'000
Executive directors				
Mr. Zhou Chu Jian He	–	180	9	189
Mr. Zhang Xiao Bing, Adam	–	180	9	189
Mr. Liu Zhongsheng (Note (i))	–	586	–	586
Mr. Ng Man Chung, Siman (Note (i))	–	146	7	153
Mr. Yiu Yu Keung, George (Note (ii))	–	135	7	142
Mr. Li Jong Tong, Timothy (Note (ii))	–	135	–	135
	–	1,362	32	1,394

2006	Salaries, allowances and benefits		Pension scheme	Total
	Fees HK\$'000	in kind HK\$'000	contributions HK\$'000	remuneration HK\$'000
Executive directors				
Mr. Zhou Chu Jian He	–	180	9	189
Mr. Zhang Xiao Bing, Adam	–	180	9	189
Mr. Yiu Yu Keung, George	–	180	9	189
Mr. Li Jong Tong, Timothy	–	180	–	180
	–	720	27	747

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

Notes:

- (i) Appointed on 10 March 2007.
- (ii) Resigned on 2 October 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2006: Nil) director, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2006: five) non-director, highest paid employees for the year are as follows.

	Group	
	2007 HK\$'000	2006 HK\$'000
Salaries, allowances and benefits in kind	2,623	2,902
Pension scheme contributions	40	40
	2,663	2,942

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Group Number of employees	
	2007	2006
Nil – HK\$1,000,000	4	5

12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong for the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007 HK\$'000	2006 HK\$'000
Current income tax:		
Hong Kong profits tax		
– over-provision in prior years	–	8

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

12. TAX (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate at 17.5% (2006: 17.5%) as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Profit before tax	44,291	7,737
Tax at the statutory tax rate of 17.5% (2006: 17.5%)	7,751	1,354
Income not subject to tax	(268)	(783)
Expenses not deductible for tax	1,388	3,817
Tax losses not recognised	3,041	532
Tax losses utilised from previous periods	(206)	(8)
Profits attributable to a jointly-controlled entity	(11,312)	(4,678)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(394)	(242)
Tax credit at the Group's effective rate	-	(8)

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a loss of approximately HK\$11,412,000 (2006: HK\$16,322,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic and diluted earnings per share is based on the profit for the year attributable to equity holders of the Company of approximately HK\$44,291,000 (2006: HK\$7,745,000) and the weighted average number of ordinary shares in issue during the year of 421,934,200 (2006: 421,934,200) shares.

The Company had no diluting events existed during the year ended 31 December 2007. The share options outstanding during the year ended 31 December 2006 had an anti-dilutive effect on the basic earnings per share for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

1.5. PROPERTY, PLANT AND EQUIPMENT Group

	Buildings HK\$'000	Leasehold improvements HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
31 December 2007					
At 31 December 2006 and 1 January 2007:					
Cost	1,888	458	1,008	832	4,186
Accumulated depreciation	(85)	(333)	(801)	(687)	(1,906)
Net carrying amount	1,803	125	207	145	2,280
At 1 January 2007, net of accumulated depreciation					
	1,803	125	207	145	2,280
Additions	-	-	65	-	65
Disposals	-	-	(12)	-	(12)
Depreciation provided for the year	(87)	(30)	(77)	(53)	(247)
Exchange realignment	133	8	11	8	160
At 31 December 2007, net of accumulated depreciation	1,849	103	194	100	2,246
At 31 December 2007:					
Cost	2,032	504	1,075	896	4,507
Accumulated depreciation	(183)	(401)	(881)	(796)	(2,261)
Net carrying amount	1,849	103	194	100	2,246
31 December 2006					
At 1 January 2006:					
Cost	-	451	1,095	784	2,330
Accumulated depreciation	-	(304)	(837)	(586)	(1,727)
Net carrying amount	-	147	258	198	603
At 1 January 2006, net of accumulated depreciation					
	-	147	258	198	603
Additions	1,888	-	41	-	1,929
Disposals	-	-	(13)	-	(13)
Depreciation provided for the year	(83)	(28)	(73)	(70)	(254)
Exchange realignment	(2)	6	(6)	17	15
At 31 December 2006, net of accumulated depreciation	1,803	125	207	145	2,280
At 31 December 2006:					
Cost	1,888	458	1,008	832	4,186
Accumulated depreciation	(85)	(333)	(801)	(687)	(1,906)
Net carrying amount	1,803	125	207	145	2,280

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Office equipment HK\$'000
31 December 2007	
At 31 December 2006 and 1 January 2007:	
Cost	55
Accumulated depreciation	(26)
Net carrying amount	29
At 1 January 2007, net of accumulated depreciation	29
Additions	28
Depreciation provided for the year	(13)
At 31 December 2007, net of accumulated depreciation	44
At 31 December 2007:	
Cost	83
Accumulated depreciation	(39)
Net carrying amount	44
31 December 2006	
At 1 January 2006:	
Cost	55
Accumulated depreciation	(15)
Net carrying amount	40
At 1 January 2006, net of accumulated depreciation	40
Depreciation provided for the year	(11)
At 31 December 2006, net of accumulated depreciation	29
At 31 December 2006:	
Cost	55
Accumulated depreciation	(26)
Net carrying amount	29

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

16. INVESTMENT PROPERTIES

	Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount at 1 January	–	14,010
Net loss from a fair value adjustment (<i>note 8</i>)	–	(548)
Transfer to properties held for sale	–	(13,462)
Carrying amount at 31 December	–	–

During the year ended 31 December 2006, the investments properties of the Group were reclassified as properties held for sale under current assets. For the transfer from investment properties to properties held for sale, the deemed cost of property for subsequent accounting was its fair value at the date of change in use. The investment properties were revalued on the date of change in use by RHL Appraisal Limited, independent professional qualified valuers, at approximately HK\$13,462,000 (equivalent to RMB14,000,000), on an open market value basis by direct comparison method, investment method and depreciated replacement cost approach. A fair value loss of approximately HK\$548,000 arising therefrom was charged to the consolidated income statement.

17. PREPAID LAND LEASE PAYMENTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Carrying amount at 1 January	564	–
Additions	–	590
Recognised during the year	(28)	(26)
Exchange realignment	42	–
Carrying amount at 31 December	578	564

The leasehold land is held under a medium term lease and is situated in PRC.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007 HK\$'000	2006 HK\$'000
Unlisted shares, at cost	182,079	182,079
Impairment for unlisted shares	(182,079)	(182,079)
Carrying amount at 31 December	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

18. INVESTMENTS IN SUBSIDIARIES (continued)

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Huaxia Group Limited	British Virgin Islands/ Hong Kong	US\$50,000	100	Investment holding
Indirectly held				
Beijing Urban Construction Hudson Decoration Engineering Co., Ltd. (Note (i))	PRC	RMB8,000,000	51	Provision of decoration services and electrical and mechanical works
Huaxia Construction Limited	Hong Kong	HK\$13,000,000	100	Investment holding
Huaxia Development Worldwide Limited	Hong Kong	HK\$100	100	Investment holding
Hudson Development (H.K.) Limited ("HDHK")	Hong Kong	HK\$10 ordinary shares; HK\$1,000,000 non-voting deferred shares (Note (ii))	100	Investment holding
Huaxia Finance Company Limited	Hong Kong	HK\$30,000,000	100	Provision of financial services
Hudson International Hong Kong Limited	Hong Kong	HK\$2	100	Investment holding
Huaxia Investment Worldwide Limited	Hong Kong	HK\$100	100	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share capital/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held (continued)				
International Management Company Limited ("IMC")	Hong Kong	HK\$1,500,000	100	Investment holding
Ever Park Development Limited ("EPD") (Note (iii))	Hong Kong	HK\$2	100	Property investment
Wuhan Huaxin Management Limited ("WHM") (Note (i))	PRC	RMB3,000,000	51	Property management

Notes:

- (i) The subsidiaries are registered as contractual joint ventures under the PRC law. The PRC business licence of Beijing Urban Construction Hudson Decoration Engineering Co., Ltd. will expire on 21 April 2008. The management has been discussing with the subsidiary's minority shareholder to review for its continuity.
- (ii) The non-voting deferred shares do not entitle the holders thereof to receive notice of or to attend or vote at any general meeting of HDHK by virtue of or in respect of their holdings of such non-voting deferred shares, except at a general meeting convened for any resolution varying or abrogating any of the rights or privileges of the said non-voting deferred shares, or when the resolution to be submitted at a general meeting directly affects the rights and privileges of such holders, or is for the purpose of reducing share capital. The holders of the non-voting deferred shares are not entitled to any dividends of HDHK unless the profit available for distribution for the financial year exceeds HK\$100,000,000,000,000 and are not entitled to any participation in the profits or assets of HDHK. On a winding-up, the holders of the non-voting deferred shares are entitled, out of the surplus assets of HDHK, to a return of the capital paid-up on the non-voting deferred shares held by them after a total sum of HK\$500,000,000,000,000 has been distributed in such winding-up in respect of the ordinary shares of HDHK.
- (iii) At 31 December 2007, the entire issued share capital and the assets of EPD were pledged for a loan of HK\$25 million granted to the Company (note 32).

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

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2007 HK\$'000	2006 HK\$'000
Share of net assets	131,405	66,766
Loan from a jointly-controlled entity	66,657	61,950

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

Particulars of the Group's jointly-controlled entity at 31 December 2007 are as follows:

Name	Particulars of issued shares held	Place of registration and operations	Percentage of ownership interest and profit sharing attributable to the Group	Principal activities
Wuhan Plaza Management Co., Ltd. ("WPM")	Registered capital of US\$10,290,000	PRC	49	Operation and management of a department store

WPM is an equity joint venture company established by IMC, an indirectly held subsidiary of the Company, and the PRC Partner (as defined in note 39(a)) for a period of 20 years commencing from 29 December 1993. The registered capital of WPM amounted to US\$21,000,000.

The amount due from a jointly-controlled entity of approximately HK\$2,507,000 (2006: HK\$2,842,000) is unsecured, interest-free and has no fixed terms of repayment.

Pursuant to a debt settlement agreement on 13 February 2003, the loan from WPM was restructured into a term loan at an interest rate equivalent to that of a one-year term loan quoted by the People's Bank of China, and is repayable over five years through dividend distributions by WPM for the period up to December 2007. The loan is denominated in RMB. A resolution was passed by the board of directors of WPM on 23 May 2006 to exempt the interest for the years ended 31 December 2006 and 2007.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity based on its management accounts:

	2007 HK\$'000	2006 HK\$'000
Current assets	426,329	290,248
Non-current assets	2,674	3,270
Current liabilities	(297,598)	(226,752)
Share of net assets of jointly-controlled equity	131,405	66,766
Income	822,229	638,794
Expenses	(757,590)	(612,063)
Share of profit of jointly-controlled equity	64,639	26,731

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

20. AVAILABLE-FOR-SALE INVESTMENT

	Group	
	2007 HK\$'000	2006 HK\$'000
Unlisted equity investment, at cost	31,642	31,642
Impairment	(31,642)	(31,642)
	-	-

The above investment in equity securities, which is designated as an available-for-sale financial asset, has no fixed maturity date or coupon rate.

The PRC business licence of Wuhan Huaxin Real-Estate Development Co., Ltd ("WHRED") has expired on 4 September 2007. The management has been discussing with the PRC Partner (as defined in *note 39(a)*) to review for its continuity.

The unlisted equity investment was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably.

21. INVENTORIES

	Group	
	2007 HK\$'000	2006 HK\$'000
Raw materials and consumables	-	315

22. PROPERTIES HELD FOR SALE

The Group's properties held for sale at 31 December 2007 are held under medium term leases in PRC and are pledged to secure loan facility granted to the Company (*note 32*).

23. CONSTRUCTION CONTRACTS

	Group	
	2007 HK\$'000	2006 HK\$'000
Gross amounts due from contract customers	-	115
Contract costs incurred plus recognised profits less recognised losses to date	-	115
Less: Progress billings	-	-
Amounts due from contract customers	-	115

At 31 December 2007, there were no retention monies held by customers for contract works (2006: Nil). Receivables from construction contracts were predetermined in accordance with the provisions of relevant agreements and were contractually payable to the Group within a specified period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

24. ACCOUNTS RECEIVABLE

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Accounts receivable	18,477	17,962	3,000	-
Impairment	(14,269)	(13,021)	-	-
	4,208	4,941	3,000	-

Included in the Group's accounts receivable is an amount due from a related company, Wuhan Junefield Sogo Department Store ("Wuhan Sogo"), of HK\$3,000,000 (2006: Nil), which is non-interest-bearing and denominated in Hong Kong dollars. The Group does not grant credit period to this related company. Payment in advance is normally required. Details of this related party transaction are set out in note 40(a) to the financial statements.

Other accounts receivable are due immediately from the date of billing. Payment in advance is normally required for the provision of property management services. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management to minimise credit risk. Overdue balances are reviewed regularly by senior management. Accounts receivable are non-interest-bearing and denominated in RMB.

An aged analysis of the Group's accounts receivable as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Within 1 month	1,550	1,314
1 to 3 months	2,206	3,999
Over 3 months	14,721	12,649
	18,477	17,962
Impairment	(14,269)	(13,021)
	4,208	4,941

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

24. ACCOUNTS RECEIVABLE (continued)

The movements in provision for impairment of accounts receivable are as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
At 1 January	13,021	4,145
Impairment losses recognised (note 8)	298	8,876
Impairment losses reversed	(51)	(323)
Exchange realignment	1,001	323
	14,269	13,021

The provision for impairment of accounts receivable at 31 December 2007 represents provision for individually impaired accounts receivable of approximately HK\$14,269,000 (2006: HK\$13,021,000). The individually impaired accounts receivable mainly relate to customers that were in financial difficulties. It was assessed that only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the accounts receivable that are not considered to be impaired is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Less than 1 month past due	1,550	1,550
1 to 3 months past due	1,690	2,616
Over 3 months past due	968	775
	4,208	4,941

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Prepayments, deposits and other receivables	2,431	2,690	303	290
Impairment	(1,074)	(1,544)	-	-
	1,357	1,146	303	290

The movements in provision for impairment of prepayments, deposits and other receivables are as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
At 1 January	1,544	1,478
Impairment losses recognised (<i>note 8</i>)	326	66
Amount written off as uncollectible	(796)	-
	1,074	1,544

An impairment loss is made on deposits and other receivables based on a review of all outstanding amounts on regular basis when collection of the amounts is in doubt. Bad debts are written off when identified. The Group does not hold any collateral or other credit enhancements over these balances.

The financial assets included in the above net carrying amount relate to receivables that were neither past due nor impaired.

26. AMOUNT DUE FROM A JOINT VENTURER

	Group	
	2007 HK\$'000	2006 HK\$'000
Amount due from a joint venturer	1,465	956
Impairment	(1,465)	(956)
	-	-

The amount due from a joint venturer is unsecured, interest-free and has no fixed terms of repayment. An impairment loss of approximately HK\$509,000 (2006: HK\$956,000) is made on the amount due from a joint venturer based on a review of all outstanding amounts on regular basis when collection of the amount is in doubt.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

27. AMOUNT DUE FROM A RELATED COMPANY

Name of company	Name of director having interests	Highest balance outstanding during the year HK\$'000	Group	
			2007 HK\$'000	2006 HK\$'000
Beijing Junefield Real Estate Development Co., Ltd. ("Beijing Junefield")	Mr. Zhou Chu Jian He	5,716	-	5,716

The amount due at 31 December 2006 was unsecured, interest-free and had no fixed terms of repayment.

28. AMOUNT DUE FROM A SUBSIDIARY'S MINORITY SHAREHOLDER/AMOUNT DUE TO THE ULTIMATE HOLDING COMPANY

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

29. TIME DEPOSITS AND CASH AND BANK BALANCES

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Time deposits	2,791	-	-	-
Cash and bank balances	3,815	2,226	1,111	238
	6,606	2,226	1,111	238

At the balance sheet date, the cash and bank balances of the Group denominated in RMB amounted to approximately HK\$5,491,000 (2006: HK\$1,984,000). The remittance of these funds out of PRC is subject to the exchange control restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between nine months to one year depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

30. ACCOUNTS PAYABLE

An aged analysis of the Group's accounts payable as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Within 1 month	–	897
1 to 3 months	–	63
Over 3 months	12,945	12,252
	12,945	13,212

The accounts payable are non-interest-bearing and are denominated in RMB.

31. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Accruals	7,311	7,348	1,319	1,773
Business tax payable	5,440	5,037	–	–
Deposits received and deferred income	5,248	3,494	–	–
Other payables	6,988	5,417	3,155	2,576
	24,987	21,296	4,474	4,349

Other payables are non-interest-bearing.

32. INTEREST-BEARING BORROWINGS

	Group and Company			
	2007		2006	
	Maturity	HK\$'000	Maturity	HK\$'000
Current				
Other loans				
– secured (Note (i))	February 2008	25,000	February 2007	30,000
– unsecured (Note (ii))	On demand	5,367	On demand	4,630
Amounts repayable within one year or on demand		30,367		34,630

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

32. INTEREST-BEARING BORROWINGS (continued)

Notes:

- (i) At 31 December 2007, the secured other loan is denominated in Hong Kong dollars, bears interest at a rate of 2% per month and is secured by:
 - (a) a debenture incorporating a floating charge on all assets of the Company;
 - (b) a share mortgage in respect of the two issued ordinary shares of EPD, a subsidiary of the Company;
 - (c) a debenture incorporating a first floating charge over the undertaking, properties held for sale (*note 22*) and assets of EPD;
 - (d) a deed of guarantee signed by Mr. Zhou Chu Jian He, Chairman of the Board of Directors of the Company;
 - (e) a debenture incorporating a first floating charge over the undertaking, properties and assets of PCI, the immediate holding company of the Company;
 - (f) a share mortgage in respect of the issued ordinary share of US\$1.00 in PCI; and
 - (g) assignment of receivables of EPD.

On 31 October 2007, the Company entered into a ninth supplemental loan agreement with, *inter alia*, Ranbridge Finance Limited (the "Lender"). The other loan of HK\$25,000,000 was due for repayment on 23 February 2008. The loan agreement (as supplemented) provides that the Company shall procure PCI to maintain its shareholding in the Company at not less than 51% during the term of the loan agreement (as supplemented) and that PCI's shareholding in the Company shall not be reduced below 51% during such term without the prior consent of the Lender. The loan agreement (as supplemented) also requires PCI to maintain a margin securities trading account ("Account") with Sun Hung Kai Investment Services Limited during the term of the loan agreement (as supplemented). The 215,416,500 shares in the Company owned by PCI have been deposited into the Account and the Lender is authorised to dispose of or deal with or transfer such shares, or apply any credit balance in the Account to satisfy any sum due and payable but unpaid to the Lender. Subsequent to the balance sheet date, the Company has obtained a letter from the Lender on 21 February 2008 to extend the repayment date to 22 August 2008. The Company will enter into supplemental loan agreement with the Lender subject to terms and conditions mutually acceptable to both parties.

- (ii) The unsecured other loan is denominated in RMB, bears interest at a rate of 9.5% per annum and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

33. DEFERRED TAX

The movements in deferred tax liabilities in respect of revaluation of properties during the year are as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
At 1 January and 31 December	7,813	7,813

The Group has tax losses arising in Hong Kong of approximately HK\$19,644,000 (2006: HK\$23,791,000) and in PRC of approximately HK\$2,288,000 (2006: HK\$1,051,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

34. ISSUED CAPITAL

	2007	2006
	HK\$'000	HK\$'000
Authorised: 25,000,000,000 ordinary shares of HK\$0.10 each	2,500,000	2,500,000
Issued and fully paid: 421,934,200 (2006: 421,934,200) ordinary shares of HK\$0.10 each	42,193	42,193

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 35 to the financial statements.

35. SHARE OPTION SCHEME

No share option was granted, forfeited, exercised or expired during the year ended 31 December 2007.

The Company operates a share option scheme (the "Scheme") with reference to Chapter 17 of the Listing Rules for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include full-time employees of the Company or any of its subsidiaries, including any executive directors of the Company or any of its subsidiaries. The Scheme became effective on 10 November 1999 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 30% of the shares of the Company in issue at any time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

35. SHARE OPTION SCHEME (continued)

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than two years commencing on the expiry of 6 months after the commencement date and expiring on the last day of the two-year period or the tenth anniversary of the adoption date, which is the earlier.

The subscription price of the share options is determined by the directors and notified to each relevant director and employee. The subscription price must be at least the higher of: (i) the closing price of the securities as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

No option may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 10% of the aggregate number of shares issued and issuable under the Scheme for the time being.

Share options do not confer rights on the holders either to dividends or to vote at shareholders' meetings.

Details of the movements of share options during the year ended 31 December 2006 were as follow:

Name or category of participants	Number of share options held				Date of grant of share options (Note (i))	Exercise period of share options	Exercise price of share options HK\$
	At 1 January 2006	Expired during the year (Note (ii))	Forfeited during the year (Note (iii))	At 31 December 2006			
Directors							
Mr. Zhou Chu Jian He	4,218,000	(4,218,000)	-	-	12 March 2004	12 September 2004 to 11 September 2006	0.13
Mr. Yiu Yu Keung, George	4,218,000	(4,218,000)	-	-	12 March 2004	12 September 2004 to 11 September 2006	0.13
Mr. Li Jong Tong, Timothy	4,218,000	(4,218,000)	-	-	12 March 2004	12 September 2004 to 11 September 2006	0.13
Mr. Zhang Xiao Bing, Adam	4,218,000	(4,218,000)	-	-	12 March 2004	12 September 2004 to 11 September 2006	0.13
	<u>16,872,000</u>	<u>(16,872,000)</u>	<u>-</u>	<u>-</u>			
Other employees in aggregate							
	10,544,000	(8,436,000)	(2,108,000)	-	12 March 2004	12 September 2004 to 11 September 2006	0.13
	<u>27,416,000</u>	<u>(25,308,000)</u>	<u>(2,108,000)</u>	<u>-</u>			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

35. SHARE OPTION SCHEME (continued)

Notes:

- (i) The vesting period of the share options is from the date of grant until the commencement of the exercise period.
- (ii) No share option was exercised and all outstanding options expired on expiration of the exercisable period. No option was granted during the year ended 31 December 2006.
- (iii) 2,108,000 share options were forfeited following the resignation of an employee on 8 May 2006.

36. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 28.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation on 10 November 1999 (the "Reorganisation"), over the nominal value of the Company's shares issued in exchange therefor.

(b) Company

		Share premium account	Share-based compensation reserve	Contributed surplus	Accumulated losses	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006		42,424	647	178,927	(324,111)	(102,113)
Share options forfeited/expired	35	-	(647)	-	647	-
Loss for the year		-	-	-	(16,322)	(16,322)
At 31 December 2006 and 1 January 2007		42,424	-	178,927	(339,786)	(118,435)
Loss for the year		-	-	-	(11,412)	(11,412)
At 31 December 2007		42,424	-	178,927	(351,198)	(129,847)

The share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

The Company's contributed surplus represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

There was no dividend received from WPM during the year ended 31 December 2007. During the year ended 31 December 2006, the Company has received dividend from WPM of approximately HK\$44,331,000. The dividend distribution was used to settle the loan from WPM of approximately HK\$35,464,000 and the amount due to the ultimate holding company of approximately HK\$8,867,000.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties under operating lease arrangements, which leases negotiated for terms ranging from one to three years.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Within one year	305	384
In the second to fifth years, inclusive	194	183
	499	567

(b) As lessee

The Group leases certain of its properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from six months to five years.

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007 HK\$'000	2006 HK\$'000
Within one year	4	6
In the second to fifth years, inclusive	–	2
	4	8

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

39. LITIGATIONS

- (a) WPM is a joint venture established between IMC, the Company's wholly-owned subsidiary which directly holds a 49% interest in WPM, and Wuhan Department Store Group Co., Ltd. ("the PRC Partner") on a 49:51 basis. WPM operates a department store at Level 1-8, No. 688 Jiefang Avenue, Wuhan City, Hubei Province, PRC (the "Premises"). There is a joint venture agreement dated 2 November 1993 ("JV Agreement") governing the respective rights and obligations of each of the joint venture partner of WPM. Pursuant to the JV Agreement relating to the business operation of WPM, it is stipulated that WPM shall lease from the PRC Partner the Premises comprising ground floor, and levels 1-8 at No. 688 Jiefang Avenue, Wuhan City, PRC with operating area of approximately 70,000 square meters and operate department store business through inviting retailing concessionaires to the Premises in line with international practices. Based on this, the Company asserts that (i) the requirement for the PRC Partner to lease the Premises to WPM as the latter's place of operation is the prerequisite requirement for WPM's continued operation; and (ii) the Lease (as defined below) is a key basis of cooperation between the PRC Partner and IMC, and had direct impact on the investment interests of both parties. The board of directors of WPM comprises seven directors, three of them are appointed by IMC and the remaining four directors are appointed by the PRC Partner, namely, Wang Dong Sheng (as Chairman), Liu Jiang Chao (as director), Huang Jun (as director), Xiao Zhou Yun (as director and general manager). The board representation is in accordance with the articles of association of the WPM.

In order to implement the JV Agreement, on 14 January 1995, the Lease (as defined below) was entered into between WPM and the PRC Partner. The agreement has a term of 20 years (same as the joint venture tenure of WPM), commencing from the date of opening of the Wuhan Plaza Shopping Centre (the "Lease"). The Lease has a pre-agreed annual rental for the first ten years. Pursuant to the Lease, from the eleventh year onwards, either party to the Lease may negotiate to change the rental arrangements. For the ten years from the opening of Wuhan Plaza Shopping Centre in 28 September 1996 to 27 September 2006, the Lease was properly executed.

On 22 September 2006, the PRC Partner notified WPM that its shareholders had passed a resolution on 21 September 2006, requesting the annual rental be increased from RMB68,025,000 for the year ended 27 September 2006 to RMB217 million for the year ending 28 September 2007 with an annual increment of 5% for the remaining terms of the Lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

39. LITIGATIONS (continued)

(a) (continued)

As requested by the directors of WPM appointed by IMC, two board meetings of WPM were held on 24 October 2006 and 27 October 2006, to discuss the continued execution of the Lease for the remaining period. All the directors of WPM, except Liu Jiang Chao who had authorised Wang Dong Sheng to vote on his behalf, attended the board meetings, whereas the directors of WPM unanimously agreed to propose the new rental rate for the remaining term of the Lease, being the higher of (i) an annual rental of RMB107 million; and (ii) an annual rental calculated based on the turnover before tax generated by its principal operation on the scale of 8% on the part of turnover not exceeding RMB1.0 billion and 6% on the part exceeding RMB1.0 billion. There were two other resolutions proposed by the three directors appointed by IMC, namely Mr. Zhou Chu Jian He, Mr. Liu Zhongsheng ("Mr. Liu") and Mr. Choon Hoi Kit, Edwin, were not passed as they were voted against by the four directors appointed by the PRC Partner. The two resolutions proposed by IMC's representatives were (i) authorising Mr. Liu to directly deal with, or to engage and appoint intermediary as approved by the authorised person of WPM to deal with, the matters arising from the litigation on the Lease, pending the result of negotiations with the PRC Partner; and (ii) instructing WPM to continue to pay rents to the PRC Partner in accordance with the rental arrangement stipulated in the Lease during the period pending the matters are finally resolved.

The PRC Partner through its position as the controlling shareholder and through Mr. Wang Dong Sheng and Ms. Xiao Zhou Yun, the chairman and general manager of WPM appointed by them, who also served as chairman (stepped down on 14 December 2006) and deputy general manager (stepped down on 28 May 2007) of the PRC Partner respectively, prevented WPM from settling its rental obligation under the Lease. In the meantime, the PRC Partner, as the Lessor, also notified WPM that its shareholders had duly approved the new annual rental be revised to RMB217 million effective from October 2006 and indicated that they would not accept anything below such amount. The Lessor has finally filed a litigation against the WPM for breach of the Lease and requested for termination of the Lease (the "Lease Litigation") on 30 January 2007.

IMC was first notified by WPM about the Lease Litigation on 5 February 2007. The first court hearing for the Lease Litigation was held on 5 March 2007. The PRC Partner had interfered into WPM such that WPM failed to convene board meeting for the preparation of the case and also refused the request from IMC for itself to make representation to the court of the material facts surrounding of the Lease Litigation. During the first court hearing, WPM had not presented all evidences or facts to the court. No court judgment has been made up to the date of approval of these financial statements.

After consulting legal advisors, the Board of Directors of Company has decided to take appropriate legal actions in order to protect the interests of the Company as disclosed below:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

39. LITIGATIONS (continued)

(a) (continued)

Application for Arbitration and Termination of Legal Proceeding

After the filing of the Lease Litigation by the Lessor at the Jiangnan District People's Court in Wuhan City, Hubei Province, PRC (中國湖北省武漢市江漢區人民法院) on 30 January 2007 against WPM for breach of the Lease, IMC has applied for an arbitration to the China International Economic And Trade Arbitration Commission (the "Arbitration Commission") on 15 February 2007 pursuant to the arbitration provision in the JV Agreement, requesting the Arbitration Commission to rule that (i) the minutes of the board meeting of WPM on 27 October 2006 (the "Board Meeting") be valid and shall be complied with by the PRC Partner ("Request 1"); (ii) the PRC Partner shall stop acting in a manner in its capacity of a controlling shareholder rendering WPM in breach of Lease by preventing WPM from executing the first resolution passed on the Board Meeting ("Request 2"); and (iii) the arbitration fee shall be borne by the PRC Partner ("Request 3"). The application was handled by the Arbitration Commission in Beijing on 1 March 2007.

On 11 December 2007, IMC received the arbitration awards made by the Arbitration Commission on 6 December 2007. The Arbitration Commission ruled that:

1. Request 1 was in favour of IMC;
2. Request 2 was not granted; and
3. An amount of RMB316,750 (which account for 70% of the total arbitration fee) to be borne by IMC and an amount of RMB135,750 (which account for 30% of the total arbitration fee) to be borne by PRC Partner in relation to Request 3.

However, the Arbitration Commission took the view that it has no jurisdiction to compel the PRC Partner to accept the proposed rental under the first resolution of the Board Meeting (the "First Resolution") in its capacity as the lessor. In order to implement the proposed rental under the First Resolution against the PRC Partner, an agreement between the PRC Partner and WPM in their respective capacity as the lessor and the tenant under the Lease should be made and that the parties should negotiate and agree on the new rate of annual rental of the Premises on a fair basis with respect to the principles of the First Resolution, which was duly passed and agreed by all the directors (including those appointed by the PRC Partner) at the Board Meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

39. LITIGATIONS (continued)

(a) (continued)

Filing of Lawsuits

Lawsuit against the PRC Partner

On 25 February 2007, IMC filed a lawsuit against the PRC Partner at the Supreme People's Court of Hubei Province, PRC (中國湖北省高級人民法院) (the "WDS Litigation") requesting the court (i) to order the PRC Partner immediately stops making use of its advantageous position as a controlling shareholder of WPM to jeopardise the interests of WPM by (a) raising the rental payable by WPM for the remaining ten years term of Lease and hindering WPM from making rental payment so as to rendering it in breach of the Lease; (b) controlling WPM to amend the terms of Lease and terms of cooperation with suppliers; (c) exploiting the resources of WPM for the marketing of Wuhan Plaza II owned by the PRC Partner so as to damage the interests of WPM; (ii) to order the PRC Partner to pay WPM damages of RMB55 million for the loss it suffered; (iii) to order the PRC Partner to bear all the legal fee of the WDS Litigation, as well as the attorney fees, travel expenses and other costs incurred by IMC arising from the WDS Litigation. The WDS Litigation filing was accepted by the court on 7 March 2007. There are no further developments up to the date of approval of these financial statements.

Lawsuit against the management of WPM, which is the representative of the PRC Partner

On 7 March 2007, IMC filed another lawsuit at the Intermediate People's Court in Wuhan City, Hubei Province, PRC (中國湖北省武漢市中級人民法院) (the "Director Litigation"), requesting the court: (i) to order the directors of WPM appointed by the PRC Partner ("Four Directors") immediately stop acting in ways that would damage the interests of WPM; (ii) to order the Four Directors to compensate WPM an amount of RMB3 million; and (iii) to order the Four Directors to pay all the legal fee incurred by IMC on the Director Litigation. The Director Litigation filing was accepted by the court on 14 March 2007. There are no further developments up to the date of approval of these financial statements since the hearing held on 11 May 2007.

- (b) On 26 February 2007, the Intermediate People's Court in Wuhan City, Hubei Province, PRC (中國湖北省武漢市中級人民法院) held that WHRED was liable to refund the purchase considerations paid by certain buyers for purchasing certain premises units at No. 688 Jiefang Avenue, Wuhan City, PRC of approximately HK\$1.4 million. As WHRED was classified as an available-for-sale investment, and the Group has not provided any financial guarantee to WHRED, the directors of the Company do not expect the above claims to have any impact on the Group.
- (c) In December 2002, a former director of a subsidiary which was disposed of in prior years commenced litigation in PRC against the Group with total claims of approximately RMB19 million. Currently, the litigation is still in progress and no conclusion has been drawn on the litigation. Based on the legal opinion from Group's PRC lawyer, the directors are of the opinion that the court will ultimately decline such claim and, accordingly, no provision has been made.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007
(Expressed in Hong Kong dollars)

40. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) Significant transactions with related parties

	Note	Group	
		2007 HK\$'000	2006 HK\$'000
Property management fee received	(i)	2,708	2,631
Brand sourcing consultancy and property management consultancy services	(ii)	4,500	–
Contract revenue of construction contracts	(iii)	402	–
Acquisition of leasehold land and buildings	(iv)	–	2,293

Notes:

- (i) The Group provided WPM, a jointly-controlled entity of the Group, with property management services, for which a property management fee of approximately HK\$2,708,000 (2006: HK\$2,631,000) was charged.
- (ii) On 31 August 2007, the Group entered into a service agreement with Wuhan Sogo, a collective enterprise established under the laws of the PRC, whereby the Group provided brand sourcing consultancy and property management consultancy services to Wuhan Sogo for a term of two years at a monthly services fee of HK\$1,500,000 commencing from 1 October 2007. Mr. Zhou Zhu Jian He, the Chairman, an executive director and the controlling shareholder of the Company, has a control over the operations and financial activities of Wuhan Sogo. The balance due from Wuhan Sogo at 31 December 2007 was HK\$3,000,000 (2006: Nil).
- (iii) The Group provided Beijing Junefield, a related company of the Group, with construction services, for which a construction contract revenue of approximately HK\$402,000 (2006: Nil) was charged.
- (iv) During the year ended 31 December 2006, the Group acquired leasehold land and buildings situated in Wuhan, PRC, from WHRED, an available-for-sale equity investment of the Group at 31 December 2007.

(b) Compensation to key management personnel of the Group

	Group	
	2007 HK\$'000	2006 HK\$'000
Short-term employee benefits	1,394	747

Further details of directors' emoluments are included in note 10 to the financial statements.

PARTICULARS OF PROPERTIES HELD FOR SALE

Location	Gross floor area	Category of the lease	Use
Units 708, 728, 731, 732, 734, 735, 1132, 1510 and 1516 of Junefield Plaza Office Tower I, No. 6 Xuan Wu Men Wai Da Jie, Beijing, PRC.	Approximately 851.59 sq.m	Land use rights for 50 years from 22 March 1994	Commercial

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000 (as restated)	2003 HK\$'000 (as restated)
REVENUE	15,480	27,578	36,205	44,168	30,490
Operating loss (including finance costs)	(20,348)	(18,994)	(43,749)	(20,980)	(149,568)
Share of profits of a jointly-controlled entity	64,639	26,731	44,626	25,063	29,815
Profit/(loss) before tax	44,291	7,737	877	4,083	(119,753)
Tax	-	8	(119)	(8,688)	(227)
Profit/(loss) for the year	44,291	7,745	758	(4,605)	(119,980)
Attributable to:					
Equity holders of the Company	44,291	7,745	2,873	(3,119)	(115,140)
Minority interests	-	-	(2,115)	(1,486)	(4,840)
	44,291	7,745	758	(4,605)	(119,980)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 December				
	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000 (as restated)	2003 HK\$'000 (as restated)
Property, plant and equipment	2,246	2,280	603	487	9,273
Prepaid land lease payment	578	564	-	-	-
Investment properties	-	-	14,010	38,679	250,436
Investment in jointly-controlled entities and associates	131,405	66,766	84,366	55,131	58,041
Investment securities	-	-	-	-	9,580
Net current assets/(liabilities)	(125,159)	(41,765)	(45,037)	(29,551)	6,353
Non-current liabilities	(7,813)	(69,763)	(103,073)	(114,635)	(382,558)
Minority interests	-	-	-	(2,115)	(3,601)
Equity attributable to equity holders of the Company	1,257	(41,918)	(49,131)	(52,004)	(52,476)