Annual Report **2007**

Beijing Development (Hong Kong) Limited

(Stock Code 154)

Contents

Corporate Information

Directors

Executive directors:

Mr. E Meng *(Chairman)*
Mr. Zhang Honghai
Mr. Li Kangying
Mr. Wang Yong
Mr. Cao Wei
Mr. Ng Kong Fat, Brian

Independent non-executive directors:

Dr. Jin Lizuo
Dr. Huan Guocang
Dr. Wang Jianping

Company Secretary

Mr. Wong Kwok Wai, Robin

Qualified Accountant

Mr. Wong Kwok Wai, Robin

Authorised Representatives

Mr. Ng Kong Fat, Brian
Mr. Wong Kwok Wai, Robin

Registered Office

Room 3401, West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

Website

http://www.bdhk.com.hk

Stock Code

154

Share Registrars

Tricor Tengis Limited
Level 25, Three Pacific Place
1 Queen's Road East
Hong Kong

Auditors

Ernst & Young

Principal Bankers

In Hong Kong:

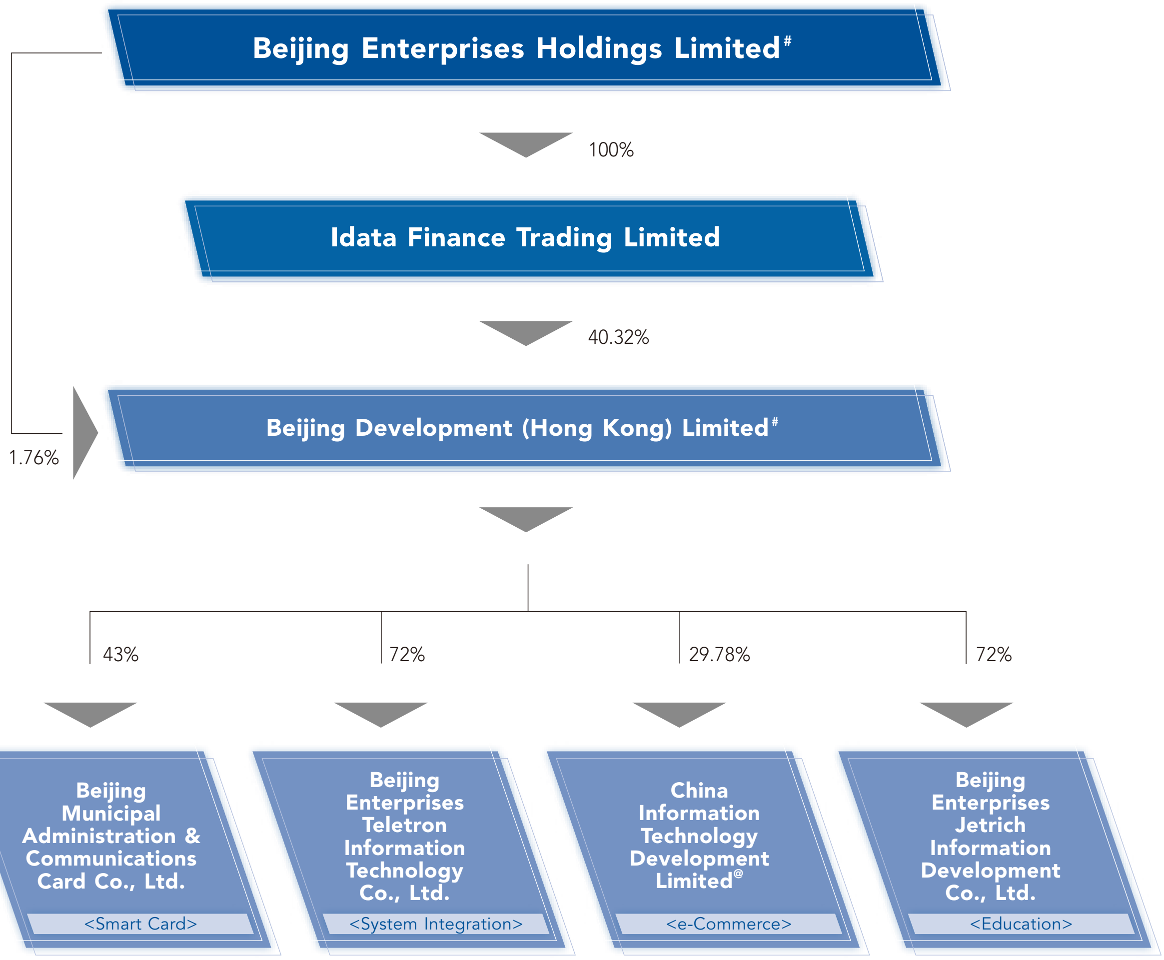
Bank of China (Hong Kong) Limited

In Mainland China:

Bank of Beijing
Bank of Communications
China CITIC Bank
China Construction Bank
China Minsheng Banking Corp., Ltd.
Huaxia Bank

Corporate Structure

As at 8 April 2008



Listed on the Main Board of The Stock Exchange of Hong Kong Limited

@ Listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited

Chairman's Statement

I am pleased to announce that Beijing Development (Hong Kong) Limited (the "Company") and its subsidiaries (collectively, the "Group") achieved a record high consolidated results performance for our shareholders for the year ended 31 December 2007. Consolidated revenue amounted to HK$358 million, an increase of 23% as compared to HK$292 million in 2006. Profit attributable to shareholders was HK$317 million, a substantial increase of 25 times as compared to HK$12 million in 2006. Basic earnings per share were HK$0.48. The board of directors (the "Board") recommends the payment of a special final dividend of HK8 cents per share for 2007.

Since 2006, the Company has identified the construction, operation and maintenance of an card-based platform in electronic settlement and clearance targeted at urban infrastructures and public utilities as its principal business, and strategically develop and expand to sectors with overwhelming niche.

Last year is a remarkable year to the Company, the Company has made a major breakthrough in resource integration and business optimisation, as witnessed by the contribution of an extraordinary income of HK$439 million to the Group by the capital restructuring of China Information Technology Development Limited ("CIT Development") (formerly known as "Xteam Software International Limited") which directly enabled the Group to turnaround and the Group's withdrawal from the restaurant business and disposal of properties during the year realised HK$71 million for the Group.

The Beijing Municipal transportation smart card system has commenced operation in all public transportation means in Beijing. The number of cards issued and the volume of transactions are increasing steadily, with more than 16 million cards issued and more than 12 million transactions being processed daily on average which ranked the first in Mainland China. However, since the smart card company has not yet entered into any written agreement with the bus and subway operators in Beijing regarding operational issues such as handling charges for smart card transactions, even the system has been operating for nearly two years, no service or handling charges were received. The smart card business incurred losses temporarily.

In preparations for the Beijing Olympics, the Group has adopted to its business strategy to focus in rail transportation projects in 2007. Through the partnership with global leading integrated system developers and providers, the Group has gained rich and comprehensive experience in Automated Fare Collection ("AFC"), Automated Fare Collection and Clearing Center ("ACC"), platform safety doors and Building Automation System (BAS), and obtained full recognition from the industry.

In 2008, the Company will carry out various tasks in line with its established strategic plan and principal business to expand market intensively, focusing in enhancing the profitability of the principal business.

Chairman's Statement

The realisation of income from the handling charges for our smart card business in urban public transportation will be one of the Company's major tasks in 2008. A series of proposals will be designed and implemented, aimed at recovering the handling charges the smart card company entitled to, as soon as possible, for the smart card services rendered for bus, subway and taxi, while increasing the controlling stake in the smart card company. This will in turn assist in realising income from the principal business. The improving public transportation system and the expanding subway network coverage in Beijing will substantially increase the use of smart cards, helping the Company turnaround from this currently loss making operations.

With the increasing demand from residents, the Beijing Municipal transportation smart card will be expanding as a means of instant and straight forward payment of small transactions and gradually enhance the acceptance and usage of smart cards by residents at the same time. Through the joint venture formed by the Company and CIT Development, smart cards will be applied to the e-commerce sector for enhancing profits. By adopting a business model which is sizable, based on market principles and adaptive to various sectors, the Group will fully leverage on its capability of integrating Government's resources to achieve the objective of "one-resident one-card and one card for all purposes" in Beijing. And ultimately a real smart card for the livelihood of Beijing residents.

With respect to the rail transportation business, the Company will expose to inexhaustible opportunities from the upcoming invitation of tenders for six new subway line projects in Beijing. The Company will continue to seek a close partnership with global leading integrated system developers and providers to create a positive cycle for both system building and maintenance operation and achieve sustainable development of its rail transportation projects.

By taking advantage of the current favourable situation, the Company will move forward to reach a new pinnacle of its business. Through capital operation, strategic re-engineering, adjustment of organisational structure and business integration, the Company will continue to consolidate and enhance its market value and achieve its ongoing and steady development for delivering optimal value to our shareholders, rewarding them and contributing to the society through outstanding performance.

On behalf of the Board, I would like to take this opportunity to express my gratitude to all employees and associated parties from different sectors for their support to the Group over the past year.

E Meng
Chairman
Hong Kong

8 April 2008

Management Discussion and Analysis

Business Review

1. Beijing Municipal Administration & Communications Card Co., Ltd.

During the year of business review, in line with the completion by the Beijing Municipal Government in revamping the public transport ticketing and fare mechanism, phasing out the monthly tickets for ground public transport and students, implementing a 20%/40% discount offer policy for smart card holders, and phasing out monthly tickets for Beijing Subway, the company commenced the operation of an application system for Beijing Subway Line 5 successfully, offered open rides throughout the entire subway network at a single unified fare, launched application in 250 taxi companies and more than 50,000 taxies has been installed, implemented a non-stop tolling system for highways; constructed the first Park+Ride car-park in China, and launched an electronic annual ticketing system in 16 parks throughout the Beijing Municipality. Smart cards are being used for roadside parking meters. The application of smart cards in small transaction payment is gradually made available in more than 10 business sectors, 23 chains stores and 700 shops.

As of today, more than 16 million smart cards and 1.4 million student cards have been issued, 100,000 card readers have been installed, more than 800 kiosks for selling cards and adding value have been set up throughout the municipality. More than 12 million transactions are processed daily on average. Joint name cards, commemorative cards, personalised cards and mini cards were being launched in 2007, which were well-received and favoured by residents. The concept of personalisation in the card design has fully accommodated market needs, receiving excellent response from residents.

Management Discussion and Analysis

2. **Beijing Enterprises Teletron Information Technology Co., Ltd.**

With respect to the rail transportation sector, the testing of the access by the Automated Fare Collection and Clearing Center ("ACC") project of the Beijing Rail Transportation Network Management Service Centre to various subway lines has been completed, and engine room equipment and station gates have been installed for the modification works on the Automated Fare Collection ("AFC") System for Beijing Metro Lines 1 and 2 and the Batong Line. The supply and installation of platform safety doors for Beijing Metro and the Building Automation System ("BAS") project progressed smoothly. Safety doors and the BAS project for Line 5 are operating smoothly; the trial operation of phase 1 safety doors for Line 10 has commenced; preparations are underway for the construction of safety doors for Line 4; and the installation and debugging of equipment at stations for the BAS project for Line 1 are expected to be completed soon.

With respect to the non-transportation sector, the Group has contracted for a number of key projects such as the intelligence system project for the National Indoor Stadium of the Olympic Sports Centre, the establishment of an electronic information system for the State-Owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, the optical cable project for the educational information network of Beijing Tongzhou District, security control project and equipment procurement for the Educational Committee of Chaoyang District of Beijing Municipality, the new campus network of the Educational Committee of Chaoyang District and the new lightning proof project for the campus network of the Educational Committee.

3. **China Information Technology Development Limited**

Upon completion of the acquisition of Hua Yuan Run Tong Group in September, the company's assets, businesses and profits have been effectively enhanced. By taking advantage of its technology strengths in the internet and mobile communications, the company has extended its principal business to mobile technology application in the law enforcement by the government authorities, as well as to information services targeted at government, community, organisations and individuals. The "mobile technology-based law enforcement system" of the Beijing Administration for Industry and Commerce has set an example for the establishment of an electronic information system for government departments for industry and commerce throughout the country. The "Mingsuo.com" is a corporate information search service developed and run by CIT Development, which is available to the general public. During the year of business review, Hua Yuan Run Tong Group contributed a profit of HK$41.47 million to CIT Development.

Management Discussion and Analysis

Financial Review

1 Operating results

For the year ended 31 December 2007, the Group recorded a consolidated revenue attributed to continuing operations of HK$358 million, representing an increase of 23% as compared to HK$292 million in 2006. Profit attributable to shareholders was HK$317 million, a substantial increase of 25 times as compared to HK$12 million in 2006. Basic earnings per share were HK$0.48. The Board recommended the payment of a special final dividend of HK8 cents per share for 2007.

i Income from capital operation

CIT Development, a subsidiary in which the Group owned a 55.05% equity interest as at the end of 2006, issued a total of 768 million new shares in two placing exercises in the first half of 2007, it has become an associate of the Group as a result of the dilution of the equity interest in it, and has contributed an exceptional gain of HK$69 million to the Group. The Group realised a net of HK$132 million in cash and gained a profit of HK$119 million from the subsequent disposal of 220 million existing shares of CIT Development. In September 2007, CIT Development issued 1.56 billion new shares and convertible bonds worth of principal amount of HK$200 million for the acquisition of the entire equity interests in Hua Yuan Run Tong Group. The Group eventually owns a 30.41% equity interest in CIT Development which has again contributed an exceptional gain of HK$251 million to the Group.

ii Goodwill impairment

Given that Beijing Municipal Administration & Communications Card Co. Ltd has not entered into any business agreement with the carriers, the Group is exposed to risks associated with the profitability model of smart cards, compounded by the intense competition in contracting for the intelligence system project and educational information project, the Group provided HK$58.41 million in total for goodwill impairment during 2007 to reflect the fair value of its assets effectively.

iii Discontinued operation

The Group withdrew from the restaurant business completely by disposing of its 51% equity interest in BD Ah Yat Abalone Group Limited at a consideration of HK$25.3 million in June 2007. During the year of financial review, the restaurant business contributed a profit of HK$9.56 million to the Group.

Management Discussion and Analysis

2 Financial Position

In June 2007, the Company placed 50 million new ordinary shares at HK$4.3 per share and raised HK$209 million as general working capital. Following the issue of 39.5 million new ordinary shares in total as a result of the exercise of share options by the employees of the Group during the year, the issued share capital of the Company increased to 681,481,150 shares as at the end of 2007.

After a series of capital operations, the Group's total assets increased from HK$1.025 billion at the beginning of the year to HK$1.539 billion at the end of the year, of which current assets accounted for HK$980 million. Its total liabilities decreased from HK$360 million at the beginning of the year to HK$318 million at the end of the year. Net asset value increased from HK$665 million at the beginning of the year to HK$1.221 billion at the end of the year, of which interests of the shareholders of the Company accounted for HK$1.172 billion while minority interests accounted for HK$49 million.

As at the balance sheet date, cash and bank balances held by the Group amounted to HK$728 million, an increase of HK$426 million from the beginning of the year. The Group did not have any bank borrowings. Current ratio increased from 190% at the beginning of the year to 308% at the end of the year, while total liabilities to assets ratio decreased from 35% at the beginning of the year to 21%, suggesting that the Company had a growing sound financial position. The Group's current assets and liabilities are principally denominated in Renminbi. Given the steadily appreciation of Renminbi against Hong Kong dollars, the Group will record income from currency exchange during the consolidation of the net assets of subsidiaries into the Group in future.

The Group's capital expenditures amounted to HK$3.96 million for 2007. As at the balance sheet date, the Group's and the Company's capital commitments amounted to HK$184 million and HK$216 million, respectively. The Group did not have any material contingent liabilities.

3 Employees

As at the end of 2007, the Group had hired approximately 340 employees, as compared to the adjusted figure of 475 at the end of 2006. Total expenses on employee benefits in 2007 amounted to HK$51.2 million (excluding share options), an increase of 8.7% from HK$47.09 million last year. The management believes the salaries offered by the Group to its employees are competitive.

Biographical Information of Directors and Senior Management

Executive Directors

Mr. E Meng, aged 49, is the chairman of the Company, a vice president and an executive director of Beijing Enterprises Holdings Limited ("BEHL", stock code: 392), an executive director of China Information Technology Development Limited ("CIT Development", stock code: 8178), an executive director of Shang Hua Holdings Limited (stock code: 371), and an independent non-executive director of Macro-Link International Holdings Limited (stock code: 472). Mr. E graduated from China Science and Technology University with a master degree in engineering. Mr. E is a PRC senior accountant with the qualifications of PRC certified accountant, asset appraiser, certified real estate appraiser and tax appraiser. From 1988 to 1997, Mr. E was the deputy director of Beijing New Technology Development Zone ("BNTDZ") and concurrently acting as the director of the Department of Financial Auditing, the general manager of Investment Operation Company, the chief accountant of Beijing Tianping Accounting Firm and the deputy director of the State-Owned Assets Management Office of Beijing Haidian District. Mr. E has extensive experience in economics, finance and enterprise management. Mr. E joined the Group in April 2001.

Mr. ZHANG Honghai, aged 55, is a vice chairman and the chief executive officer of BEHL, the chairman of CIT Development. Mr. Zhang graduated from Peking University in 1982 and subsequently obtained a master degree in business studies at the International Business School of Hunan University, and a master degree of EMBA at Guanghua School of Management of Peking University. Mr. Zhang was awarded the title of senior economist. Mr. Zhang has worked for the Beijing Municipal Government for many years. Prior to joining the Company, Mr. Zhang was the director of the Foreign Affairs Office of the People's Government of Beijing Municipality and Hong Kong and Macao Affairs Office of the People's Government of Beijing Municipality. He also served as vice president of the Beijing Chinese Overseas Friendship Association. Mr. Zhang initially worked as deputy general manager and was then promoted to vice chairman and general manager of Beijing International Trust Investment Limited during the period from 1990 to 1998, and has accumulated extensive experience in corporate management. Mr. Zhang joined the Group in March 2004.

Mr. LI Kangying, aged 51, is the president of the Company, an executive director of CIT Development and the chairman of Beijing Enterprises Teletron Information Technology Co., Ltd. ("Teletron", a subsidiary of the Company). Mr. Li graduated from North China University of Electric Power majoring in telecommunications and is a qualified engineer in the PRC. Prior to joining the Company, Mr. Li was the deputy director of BNTDZ and has accumulated extensive experience in corporate management. From 1992 to 1997, Mr. Li worked as the deputy general manager of Beijing Strong Technology Co., Ltd. From 1997 to 2001, Mr. Li served as the assistant to chairman of BEHL. Mr. Li joined the Group in October 2001.

Biographical Information of Directors and Senior Management

Mr. WANG Yong, aged 54, is a vice president of the Company and the chairman of Beijing Municipal Administration & Communications Card Co., Ltd. (a jointly-controlled entity of the Company). Mr. Wang graduated from the Chinese Faculty of Lanzhou University. From 1969 to 1989, Mr. Wang worked for the Chinese People's Liberation Army (Force 84501). From 1989 to 1993, Mr. Wang worked for the Office of Beijing Haidian District Government. From 1993 to 1998, Mr. Wang served as the secretary to the General Office of Beijing People's Municipal Government. Since 1998, Mr. Wang has been the assistant to general manager of Beijing Holdings Limited ("BHL") and the assistant to president of BEHL. Mr. Wang has extensive experience in investment, corporate finance and management. Mr. Wang joined the Group in March 2005.

Mr. CAO Wei, aged 44, is a vice president of the Company, an executive director of CIT Development and a director of Teletron. He is the president of Union of Network Beijing and is one of the founders of Teletron. Mr. Cao graduated from Harbin Industrial University and was awarded the title of senior engineer. Mr. Cao has extensive experience in the telecommunications and information technology field. From 1988 to 1993, Mr. Cao worked as the general manager of Beijing Hehai Technology Development Co., Ltd. From 1993 to 1996, Mr. Cao worked as the general manager of Beijing Enyi Technology Development Co., Ltd. Mr. Cao joined the Group in October 2001.

Mr. NG Kong Fat, Brian, aged 52, graduated from the University of Stirling in Scotland in 1983 and is a member of the Institute of Chartered Accountants of Scotland. Mr. Ng has extensive experience in corporate, investment and financial management. Mr. Ng joined the Group in July 1993.

Independent Non-executive Directors

Dr. JIN Lizuo, aged 50, holds a doctorate degree in Economics from Oxford University and has been the chief councilor of Shanghai Institute of Law & Economics, the chairman of Zhonghe Yingtai Management Consultancy Co., Ltd., the specialist committee member of China Xinda Assets Management Corporation. Dr. Jin graduated from Peking University School of Economics in 1982 and has been teaching in the university. From 1983 to 1988, Dr. Jin served as the member of State Economic Structure Reforms Committee and was the First President (1988-89) of Chinese Economic Association (UK). From 1993 to 1995, Dr. Jin has worked for N.M. Rothschild and Morgan Stanley and thereafter accumulated extensive experience in investment banking and financial management. Dr. Jin joined the Group in September 2004.

Biographical Information of Directors and Senior Management

Dr. HUAN Guocang, aged 58, is currently the chief executive officer of Primus Pacific Partners Limited ("Primus") and an independent non-executive director of APT Satellite Holdings Limited (stock code: 1045). Dr. Huan holds master degrees in arts from the Graduate School of International Studies of the University of Denver in 1982 and Columbia University in 1983, a PhD degree from Princeton University in 1987 and John Olin post doctorial fellow from the Center for International and Strategic Studies of Harvard University in 1987. Before the set-up of Primus in 2005, Dr. Huan has been the Head of Investment Banking (Asia Pacific) of HSBC, the co-Head of Investment Banking (Asia Pacific) of Citigroup, the Managing Director and Head of China of BZW Asia Limited, a senior economist and vice president of J.P. Morgan, an assistant professor of Columbia University and an economist of Deutsche Bank. Dr. Huan joined the Group on 31 January 2008.

Dr. WANG Jianping, aged 50, is currently a senior partner of King & Wood, a law firm in China. Dr. Wang holds a bachelor degree in law from the Law School of Peking University in 1982, a master degree in law from the Law School of Harvard University in 1984 and a doctorate degree in law from the Law School of Washington University in Missouri in 1991. Before being admitted as a Chinese lawyer and joining King & Wood in 1998, Dr. Wang was further admitted to the Missouri Bar in 1991 and then practiced in St. Louis, Missouri from 1991 to 1997. From 1984 to 1988, Dr. Wang worked with the Legislative Affairs Committee of the Standing Committee of National People's Congress and has participated in the legislation of the Grassland Law, Fishery Law, Bankruptcy Law, Law of Chinese-foreign Cooperative Joint Venture, and Customs Law, etc. Dr. Wang joined the Group on 31 January 2008.

Senior Management

Mr. YAN Qing, aged 47, is a vice president of the Company and a vice president and an executive director of CIT Development. Mr. Yan graduated from Renmin University of China in 1985 with a bachelor degree in Business, and obtained a master degree from Graduate School of Research Institute of the Ministry of Finance in 2000. Mr. Yan has over 15 years' experience in finance and management. Mr. Yan joined the Group in February 2005.

Mr. WONG Kwok Wai, Robin, aged 41, is the financial controller, company secretary and qualified accountant of the Company. Mr. Wong is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Wong has been worked for a major international accounting firm and has over 20 years' experience in administration, auditing, accounting and corporate finance. Mr. Wong joined the Group in July 1993.

Ms. CAO Muya, aged 54, is an assistant to president of the Company. Ms. Cao graduated from the Beijing Administrative College. From 1988 to 2001, Ms. Cao worked as the finance manager of BHL and BEHL. From 2001, she served as a director and a vice president of Teletron. Ms. Cao has over 20 years' experience in finance and enterprise management. Ms. Cao joined the Group in October 2001.

Biographical Information of Directors and Senior Management

Mr. WU Miao Lin, aged 45, is an assistant to president of the Company. Mr. Wu graduated from Peking University in 1984 with a bachelor degree in Law and was awarded the title of economist. Since 1984, Mr. Wu served as a committee member in Peking University. From 1987, Mr. Wu worked as the operation director of Software Laboratory of China Science Academy, the deputy general manager of Beijing United Software Company, the general manager of Dalu Computer Company of China Science Academy, the chairman of Top Computer Company. From 1989, Mr. Wu set up and served as the chairman and general manager of Beijing Gaoli Computer Co., Ltd. Mr. Wu joined the Group in September 2005.

Mr. LI Chun Li, aged 36, is an assistant to president of the Company. Mr. Li graduated from the School of Business of University of Science and Technology of China in 1993. From 1995 to 2005, Mr. Li worked in Beijing Escom Photoelectricity Technology Co., Ltd. Mr. Li joined the Group in February 2005.

Ms. SUN Ling, aged 49, is an assistant to president of the Company. Ms. Sun graduated from Beijing Institute of Technology with a master degree in Business Administration. Ms. Sun has been worked for large state-owned enterprises and Beijing Municipal Government and has 10 years' operation and management experience in the field of information technology. Ms. Sun joined the Group in February 2002.

Corporate Governance Report

Corporate Governance Practices

Save as disclosed below, in the opinion of the directors of the Company (the "Directors"), the Company has complied with all the applicable code provisions (the "Code Provisions") of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December 2007.

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 for securities transactions by the Directors. All the Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2007.

Board of Directors

The board of Directors (the "Board") currently comprises of six Executive Directors and three Independent Non-Executive Directors. The Board is mainly accountable to the shareholders and is also in charge of the management, business, strategy, annual and interim results, risk management, major acquisitions, disposals and capital transactions and other major operation and financial aspects of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of annual and interim accounts for Board approval before public reporting, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

Details of backgrounds and qualifications of the Directors are set out on pages 10 to 12. All Directors have given sufficient time and attention to the affairs of the Group. Each Executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the Board.

The Board fulfilled the requirement under rules 3.10(1) and (2) of the Listing Rules and have three Independent Non-Executive Directors and have an Independent Non-Executive Director with appropriate professional accounting or financial management expertise. They have appropriate and sufficient experience and qualification to carry out their duties so as to fully represent the interests of the shareholders. The Company has received annual confirmations of independence from all Independent Non-Executive Directors and as at the date of this report still considers them to be independent.

Corporate Governance Report

Board Meeting

The Board held three regular meetings during the year under review, which constitutes a deviation from Code Provision A.1.1 which stipulates members of the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals and such regular board meetings will normally involve the active participation, either in person or through other electronic means of communication. However, the Company considers it is more efficient to hold board meetings to address emerging issues as appropriate. Sufficient measures have been taken to ensure that there is efficient communication among the Directors.

Details of the attendance of the regular board meetings are as follows:

Name of Director	Positions	Attendance
Mr. Zhang Honghai *	Chairman and Executive Director	3 at 3 meetings
Mr. E Meng *	Executive Director	3 at 3 meetings
Mr. Li Kangying	Executive Director	3 at 3 meetings
Mr. Wang Yong	Executive Director	3 at 3 meetings
Mr. Cao Wei	Executive Director	3 at 3 meetings
Mr. Ng Kong Fat, Brian	Executive Director	3 at 3 meetings
Dr. Yu Xiaoyang #	Executive Director	3 at 3 meetings
Mr. Cao Guixing @	Independent Non-Executive Director	3 at 3 meetings
Prof. Liu Wei @	Independent Non-Executive Director	3 at 3 meetings
Dr. Jin Lizuo	Independent Non-Executive Director	3 at 3 meetings

* Mr. Zhang Honghai resigned and Mr. E Meng was appointed as the Chairman of the Board on 15 January 2008.

\# Dr. Yu Xiaoyang resigned as an Executive Director on 4 February 2008.

@ Mr. Cao Guixing and Prof. Liu Wei resigned and Dr. Huan Guocang and Dr. Wang Jianpang were appointed as Independent Non-Executive Directors on 31 January 2008.

Chairman and President

The Company has complied with Code Provision A.2.1 which stipulates that the roles of chairman and president should be separated and should not be performed by the same individual. Mr. Zhang Honghai, the Chairman of the Company, is responsible for the approval and supervision of the overall strategies and policies of the Group, approval of annual budgets and business plans, evaluation of the Company's performance and oversight of the management. For better division of labour and Corporate governance, Mr. Zhang Honghai resigned as the Chairman on 15 January 2008 and Mr. E Meng was appointed as the Chairman on the same date. Mr. Li Kangying, the President of the Company, is responsible for the day-to-day operations of the Group.

Corporate Governance Report

Non-executive Directors

None of the existing Non-Executive Directors is appointed for a specific term, which constitutes a deviation from Code Provision A.4.1 which stipulates non-executive directors should be appointed for a specific term, subject to re-election. However, in view of the fact that all Non-Executive Directors are subject to retirement by rotation in accordance with the Company's articles of association, the Company considers that there are sufficient measures to ensure that the corporate governance standard of the Company is not less exacting than that of the Code.

Remuneration of Directors

The Remuneration Committee of the Company was established in 2006 with terms of reference in accordance with Code Provision B.1.3. The current members of the Remuneration Committee are Dr. Jin Lizuo (chairman of the Remuneration Committee), Mr. E Meng, Dr. Huan Guocang and Dr. Wang Jianping. The majority of the Remuneration Committee members are Independent Non-Executive Directors.

The role and function of the Remuneration Committee include the determination of the specific remuneration packages of all Executive Directors, including benefits in kind, pension rights and compensation payments, any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of Non-Executive Directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration. Details of Directors' remuneration are set out in note 11 to the financial statements.

The Remuneration Committee held a meeting during the year under review. Details of the attendance of the Remuneration Committee meeting are as follows:

Name of member	**Attendance**
Dr. Jin Lizuo	1 at 1 meeting
Mr. Zhang Honghai *	1 at 1 meeting
Mr. Cao Guixing @	1 at 1 meeting
Prof. Liu Wei @	1 at 1 meeting

* Mr. Zhang Honghai resigned and Mr. E Meng was appointed as the member of the Remuneration Committee on 15 January 2008.

@ Mr. Cao Guixing and Prof. Liu Wei resigned and Dr. Huan Guocang and Dr. Wang Jianping were appointed as the members of the Remuneration Committee on 31 January 2008.

Corporate Governance Report

Nomination of Directors

The Board is empowered under the Company's articles of association to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experiences. The Board selects and recommends candidates for directorship having regard to the skills and experience appropriate to the Group's business.

Auditors' Remuneration

The Audit Committee of the Company is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year under review, auditors' remuneration for audit services is approximately HK$2,690,000 and for non-audit service assignment is approximately HK$440,000, which represented review of interim results.

Audit Committee

The Audit Committee of the Company was established in compliance with rule 3.21 of the Listing Rules and with terms of reference in accordance with Code Provision C.3.3. The current members of the Audit Committee are Dr. Huan Guocang (chairman of the Audit Committee), Dr. Jin Lizuo and Dr. Wang Jianping. All Audit Committee members are Independent Non-Executive Directors.

The role and function of the Audit Committee include supervising the accounting and financial reporting procedure and auditing the financial statements of the Group, examining and monitoring the internal control system adopted by the Group and reviewing the relevant work of the Group's external auditors.

The Audit Committee held two meetings during the year under review. Details of the attendance of the Audit Committee meetings are as follows:

Name of member	Attendance
Mr. Cao Guixing @	2 at 2 meetings
Dr. Jin Lizuo	2 at 2 meetings
Prof. Liu Wei @	2 at 2 meetings

@ Mr. Cao Guixing and Prof. Liu Wei resigned and Dr. Huan Guocang and Dr. Wang Jianping were appointed as the members of the Audit Committee on 31 January 2008.

Corporate Governance Report

The audit committee has reviewed the interim and annual results, financial positions, internal control and the management issues of the Company during the year under review.

Directors' and Auditors' Responsibilities for Accounts

The Directors' responsibilities for preparing the accounts and the responsibilities of the auditors to the shareholders are set out on pages 31 and 32. The Directors have confirmed that the Group's financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong and the Companies Ordinance.

Internal Control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board will conduct regular review regarding internal control systems of the Group. The Company convened meeting periodically to discuss financial, operational and risk management control. During the year under review, the Board has reviewed the operational and financial reports, budgets and business plans provided by the management.

Report of the Directors

The directors present their report and the audited financial statements of Beijing Development (Hong Kong) Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2007.

Principal Activities

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 22 to the financial statements. During the year, the Group withdrew from the restaurant operation that was operated by BD Ah Yat Abalone Group Limited ("BD Ah Yat"), further details of which are included in note 14 to the financial statements. There were no other significant changes in the nature of the Group's principal activities during the year.

Results and Dividend

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 33 to 135.

The directors recommend the payment of a special final dividend of HK8 cents per ordinary share in respect of the year to shareholders on the register of members on 20 May 2008. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

Summary Financial Information

A summary of the results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 136. This summary does not form part of the audited financial statements.

Property, Plant and Equipment and Investment Properties

Details of movements in the property, plant and equipment, and investment properties of the Company and the Group during the year are set out in notes 18 and 19 to the financial statements, respectively.

Share Capital and Share Options

Details of movements in the Company's share capital and share options are set out in notes 35 and 36 to the financial statements, respectively.

Purchase, Redemption, or Sale of Listed Securities of the Company

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

Report of the Directors

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 37(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$69,287,000, of which HK$54,702,000 has been proposed as a special final dividend for the year. In addition, the Company's share premium account, in the amount of HK$169,280,000, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 50% of the total sales for the year and sales to the largest customer included therein amounted to 24%. Purchases from the Group's five largest suppliers accounted for 74% of the total purchases for the year and purchases from the largest supplier included therein amounted to 34%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

Directors

The directors of the Company during the year were:

Executive directors:
Mr. E Meng
Mr. Zhang Honghai
Mr. Li Kangying
Mr. Wang Yong
Mr. Cao Wei
Mr. Ng Kong Fat, Brian
Dr. Yu Xiaoyang

Independent non-executive directors:
Dr. Jin Lizuo
Mr. Cao Guixing
Prof. Liu Wei

Report of the Directors

Directors (continued)

Subsequent to the balance sheet date, Mr. Cao Guixing and Prof. Liu Wei resigned as independent non-executive directors of the Company on 31 January 2008 and Dr. Huan Guocang and Dr. Wang Jianping were appointed independent non-executive directors of the Company on the same date to fill the vacancies. In addition, Dr. Yu Xiaoyang resigned as an executive director of the Company on 4 February 2008.

In accordance with the Company's articles of association, Messrs. Li Kangying, Wang Yong, Huan Guocang and Wang Jianping will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of the three existing independent non-executive directors of the Company and, as at the date of this report, still considers them to be independent.

None of the existing non-executive directors of the Company is appointed for a specific term.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 13 of the annual report.

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the remuneration committee. Further details of the Company's remuneration committee are set out in the corporate governance report on page 16 of the annual report.

Report of the Directors

Directors' Interests In Contracts

Save as disclosed in note 42 to the financial statements, 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 subsidiaries was a party during the year.

Directors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2007, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

	Number of ordinary shares held, capacity and nature of interest			
Name of director	**Directly beneficially owned**	**Through a controlled corporation**	**Total**	**Percentage of the Company's issued share capital**
Mr. E Meng	601,000	–	601,000	0.09%
Mr. Zhang Honghai	600,000	–	600,000	0.09%
Mr. Li Kangying	304,000	–	304,000	0.04%
Mr. Cao Wei	190,000	–	190,000	0.03%
Mr. Ng Kong Fat, Brian	1,600,000	8,792,755#	10,392,755	1.53%
Dr. Yu Xiaoyang	500,000	–	500,000	0.07%

The 8,792,755 ordinary shares are held by Sunbird Holdings Limited, a company beneficially owned by Mr. Ng Kong Fat, Brian.

Report of the Directors

Directors' Interests and Short Positions in Shares and Underlying Shares (continued)

Long positions in share options of the Company:

The interests of the directors in the share options of the Company are separately disclosed in the section "Share option scheme" below.

Long positions in share options of an associated corporation:

At 31 December 2007, the interests of directors in share options to subscribe for the ordinary shares of China Information Technology Development Limited ("CIT Development", previously known as Xteam Software International Limited), an associate of the Group, were as follows:

Name of director	Number of share options held *(note (b))*
Mr. E Meng	32,400,000
Mr. Li Kangying	36,000,000
Mr. Cao Wei	32,400,000
Mr. Ng Kong Fat, Brian	10,000,000
Dr. Yu Xiaoyang	32,400,000
	143,200,000

Notes:

(a) The interests of each director disclosed above are all directly beneficially owned.

(b) These share options were granted on 13 September 2007 at an exercise price of HK$0.79 per ordinary share of CIT Development which is subject to adjustment in the case of rights or bonus issues, or other similar changes in CIT Development's share capital. The share options may be exercised at any time commencing on 13 March 2008 and, if not otherwise exercised, will lapse on 12 September 2012. The exercise of the share option is subject to an annual cap of 25% of the share options granted. Subject to the approval of the share option committee and the remuneration committee of CIT Development, certain of the above directors of the Company are entitled to exercise all the share options within three months from the date of termination of their employment with CIT Development.

Report of the Directors

Directors' Interests and Short Positions in Shares and Underlying Shares (continued)

Save as disclosed above, as at 31 December 2007, none of the directors had registered an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section "Share option scheme" below, 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 spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Contract of Significance

On 11 June 2007, the Company entered into a placing and subscription agreement with Idata Finance Trading Limited ("Idata"), a substantial shareholder of the Company, and a placing agent and pursuant to which, 50,000,000 ordinary shares of the Company were allotted at a price of HK$4.3 each to the substantial shareholder for a total cash consideration, before any issuance expenses, of HK$215,000,000.

Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 36 to the financial statements.

Report of the Directors

Share Option Scheme (continued)

The following table discloses movements in the Company's share options outstanding during the year:

		Number of share options			
Name or category of participant	*Notes*	**At 1 January 2007**	**Granted during the year**	**Exercised during the year** *(note (d))*	**At 31 December 2007**
Directors:					
Executive directors					
Mr. E Meng	*(a)*	1,200,000	–	(1,200,000)	–
	(b)	1,600,000	–	(1,600,000)	–
	(c)	–	4,500,000	–	4,500,000
		2,800,000	4,500,000	(2,800,000)	4,500,000
Mr. Zhang Honghai	*(b)*	4,000,000	–	(600,000)	3,400,000
	(c)	–	6,800,000	–	6,800,000
		4,000,000	6,800,000	(600,000)	10,200,000
Mr. Li Kangying	*(a)*	2,700,000	–	(2,700,000)	–
	(b)	800,000	–	(800,000)	–
	(c)	–	4,500,000	–	4,500,000
		3,500,000	4,500,000	(3,500,000)	4,500,000
Mr. Wang Yong	*(b)*	3,000,000	–	(3,000,000)	–
	(c)	–	6,000,000	–	6,000,000
		3,000,000	6,000,000	(3,000,000)	6,000,000
Mr. Cao Wei	*(a)*	2,500,000	–	(2,500,000)	–
	(b)	500,000	–	(500,000)	–
	(c)	–	4,000,000	–	4,000,000
		3,000,000	4,000,000	(3,000,000)	4,000,000
Mr. Ng Kong Fat, Brian	*(a)*	1,200,000	–	(1,200,000)	–
	(b)	1,600,000	–	(1,600,000)	–
	(c)	–	4,000,000	–	4,000,000
		2,800,000	4,000,000	(2,800,000)	4,000,000
Dr. Yu Xiaoyang	*(b)*	2,800,000	–	(500,000)	2,300,000

Report of the Directors

Share Option Scheme (continued)

Name or category of participant	Notes	Number of share options: At 1 January 2007	Granted during the year	Exercised during the year (note (d))	At 31 December 2007
Independent non-executive director					
Dr. Jin Lizuo	(c)	–	680,000	–	680,000
Other employees:					
In aggregate	(a)	6,200,000	–	(6,200,000)	–
	(b)	17,100,000	–	(17,100,000)	–
	(c)	–	29,500,000	–	29,500,000
		23,300,000	29,500,000	(23,300,000)	29,500,000
		45,200,000	59,980,000	(39,500,000)	65,680,000

Notes:

(a) These share options were granted on 18 January 2002 at an exercise price of HK$1.00 per ordinary share of the Company. The share options may be exercised in three equal portions. The first portion is exercisable at any time commencing on 18 January 2002, and each further portion becomes exercisable on 1 January in each of the following years. The first portion was vested on 18 January 2002. The vesting periods of the other two portions were from 18 January 2002 to 17 January 2003 and from 18 January 2002 to 17 January 2004, respectively.

(b) These share options were granted on 27 June 2006 at an exercise price of HK$1.00 per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$0.84. The options may be exercised at any time commencing on 27 June 2006 and, if not otherwise exercised, will lapse on 17 June 2011. These share options were vested on the date of grant.

(c) These share options were granted on 30 October 2007 at an exercise price of HK$4.03 per ordinary share of the Company. The closing price of the Company's ordinary shares on the Stock Exchange on the trading day immediately prior to the date of grant of the share options was HK$4.07. The share options may be exercised in two equal portions. The first portion is exercisable at any time commencing on 1 May 2008, and the other portion is exercisable from 1 May 2009 and, if not otherwise exercised, will lapse on 17 June 2011. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. Subject to the approval of the remuneration committee of the Company, directors of the Company are entitled to exercise all the share options within three months from the date of termination of their employment with the Company.

(d) The weighted average closing price of the Company's ordinary shares immediately before the exercise dates of the share options was HK$2.69.

Report of the Directors

Share Option Scheme (continued)

The directors have estimated the fair values of the share options granted during the year, calculated using the Black-Scholes-Metron option pricing model, as at the date of grant of the share options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK$
Mr. E Meng	4,500,000	5,108,000
Mr. Zhang Honghai	6,800,000	7,718,000
Mr. Li Kangying	4,500,000	5,108,000
Mr. Wang Yong	6,000,000	6,810,000
Mr. Cao Wei	4,000,000	4,540,000
Mr. Ng Kong Fat, Brian	4,000,000	4,540,000
Dr. Jin Lizuo	680,000	772,000
Other employees	29,500,000	33,483,000
	59,980,000	68,079,000

The Black-Scholes-Metron option pricing model is a generally accepted method of valuing share options, which takes into account the terms and conditions upon which the options were granted. The significant assumptions used in the calculation of the values of the share options were that (i) historical data for the expected life of the options, historical dividend yield and expected volatility are indicative of future trends; (ii) there will be no substantial fluctuation in the economic outlook and specific industry outlook that offects the continuity of the business of the Company and the price of the Company's ordinary shares; (iii) there will be no material change in the existing political, legal, technological, fiscal or economical condition which may significantly affect the continuity of the business of the Company; and (iv) the information provided by the Company to the valuers is true and accurate. The measurement date used in the valuation calculations was the date on which the share options were granted.

The fair value of a share option varies with different variables determined by certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of a share option.

Report of the Directors

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2007, the following interests and short positions of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in ordinary shares of the Company:

		Number of ordinary shares held, capacity and nature of interest				Percentage of the Company's issued share capital
Name	*Notes*	**Directly beneficially owned**	**Through controlled corporations**	**Others**	**Total**	
Idata		275,675,000	–	–	275,675,000	40.45
Beijing Enterprises Holdings Limited ("BEHL")	*(a)*	9,063,000	275,675,000	–	284,738,000	41.78
Beijing Enterprises Group (BVI) Company Limited ("BEBVI")	*(b)*	–	284,738,000	–	284,738,000	41.78
北京控股集團有限公司 ("BEGCL")	*(b)*	–	284,738,000	–	284,738,000	41.78
Trophy Fund		81,838,250	–	–	81,838,250	12.00
Trophy Asset Management Limited ("TAML")	*(c)*	–	–	95,625,250	95,625,250	14.03
Winnington Capital Limited ("WCL")	*(c)*	–	–	95,425,250	95,425,250	14.00
Mr. Hung Kam Biu ("Mr. Hung")	*(c)*	–	95,625,250	–	95,625,250	14.03
Ms. Chu Jocelyn ("Ms. Chu")	*(c)*	–	95,625,250	–	95,625,250	14.03
Citigroup Inc.	*(d)*	–	–	81,524,250	81,524,250	11.96

Report of the Directors

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares (continued)

Notes:

(a) The interest disclosed include the ordinary shares owned by Idata. Idata is a wholly-owned subsidiary of BEHL. Accordingly, BEHL is deemed to be interested in the ordinary shares owned by Idata.

(b) The interests disclosed include the ordinary shares owned by BEHL and Idata. BEBVI and BEGCL are the immediate holding company and the ultimate holding company of BEHL, respectively. Accordingly, each of BEBVI and BEGCL is deemed to be interested in the ordinary shares owned by each of BEHL and Idata.

(c) The interests disclosed include the ordinary shares owned by Trophy Fund. TAML and WCL are investment managers of Trophy Fund and other funds. Mr. Hung has 100% and 50% beneficial interests in TAML and WCL, respectively. Ms. Chu is the spouse of Mr. Hung. Accordingly, each of TAML, WCL, Mr. Hung and Ms. Chu is deemed to be interested in the ordinary shares owned by Trophy Fund.

(d) The interest disclosed includes 81,358,250 ordinary shares held as a person having a security interest in the shares and 166,000 shares held as a custodian corporation/approved lending agent.

Save as disclosed above, as at 31 December 2007, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Sufficiency of Public Float

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

Events After the Balance Sheet Date

Details of the significant events after the balance sheet date of the Group are set out in note 45 to the financial statements.

Report of the Directors

Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

E Meng
Chairman

Hong Kong
8 April 2008

Independent Auditors' Report

ERNST & YOUNG

To the shareholders of Beijing Development (Hong Kong) Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Beijing Development (Hong Kong) Limited set out on pages 33 to 135, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the 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 financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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.

Independent Auditors' Report (continued)

Auditors' Responsibility (continued)

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

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

Opinion

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

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong
8 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000 (Restated)
CONTINUING OPERATIONS:			
REVENUE	5	**358,412**	292,419
Cost of sales		**(327,470)**	(202,994)
Gross profit		**30,942**	89,425
Gains on deemed disposal of a partial interest in a subsidiary	6	**69,129**	–
Gain on disposal of a partial interest in an associate	7	**118,628**	–
Gains on deemed disposal of a partial interest in an associate	8	**251,396**	–
Other income and gains	5	**39,435**	19,228
Selling and distribution costs		**(16,023)**	(14,854)
Administrative expenses		**(77,205)**	(78,496)
Other expenses,net		**(58,200)**	16,515
Finance costs	9	**(2,610)**	(8,293)
Share of profits and losses of:			
Jointly-controlled entities	23(a)	**(56,225)**	1,163
Associates	24(a)	**5,193**	(398)
PROFIT BEFORE TAX	10	**304,460**	24,290
Tax	13	**(2,080)**	(4,757)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**302,380**	19,533
DISCONTINUED OPERATION:			
Profit for the year from the discontinued operation	10,14(a)	**16,251**	8,932
PROFIT FOR THE YEAR		**318,631**	28,465
ATTRIBUTABLE TO:			
Shareholders of the Company:	15		
Continuing operations		**307,924**	9,244
Discontinued operation	14(a)	**9,556**	2,836
		317,480	12,080
Minority interests		**1,151**	16,385
		318,631	28,465
Proposed final dividend	16	**54,702**	–
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	17		
Basic			
– For profit for the year (HK cents)		**48.45**	2.42
– For profit from continuing operations (HK cents)		**46.99**	1.85
Diluted			
– For profit for the year (HK cents)		**47.46**	N/A
– For profit from continuing operations (HK cents)		**46.01**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**8,149**	68,858
Investment properties	19	**42,180**	48,390
Goodwill	20	**68,625**	140,964
Other intangible assets	21	**8,546**	11,789
Interests in jointly-controlled entities	23	**29,888**	67,520
Interests in associates	24	**384,712**	6,824
Available-for-sale investments	25	**–**	1,160
Trade and bills receivables	29	**16,555**	7,756
Prepayments, deposits and other receivables	30	**–**	797
Deferred tax assets	26	**704**	484
Total non-current assets		**559,359**	354,542
CURRENT ASSETS			
Inventories	27	**34,726**	65,687
Amounts due from customers for contract work	28	**29,880**	12,717
Trade and bills receivables	29	**95,522**	161,369
Prepayments, deposits and other receivables	30	**91,595**	128,621
Pledged deposits	31	**9,890**	21,331
Cash and cash equivalents	31	**718,373**	281,052
Total current assets		**979,986**	670,777
CURRENT LIABILITIES			
Trade and bills payables	32	**215,598**	96,191
Amounts due to customers for contract work	28	**15,487**	15,998
Tax payable		**1,992**	6,058
Other payables and accruals	33	**84,892**	158,681
Bank borrowings	34	**–**	76,928
Total current liabilities		**317,969**	353,856
NET CURRENT ASSETS		**662,017**	316,921
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,221,376**	671,463
NON-CURRENT LIABILITIES			
Bank borrowings	34	**–**	6,423
Net assets		**1,221,376**	665,040
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	35	**681,481**	591,981
Reserves	37(a)	**436,134**	(26,646)
Proposed final dividend	16	**54,702**	–
		1,172,317	565,335
Minority interests		**49,059**	99,705
Total equity		**1,221,376**	665,040

E Meng
Director

Li Kangying
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to shareholders of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000 *(note 37 (a)(ii))*	Capital reserve HK$'000 *(note 37 (a)(iii))*	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 *(note 37 (a)(iv))*	Accum-ulated losses HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2006		493,981	–	–	–	31,799	–	839	30,392	(120,994)	–	436,017	80,543	516,560
Share issue expenses	35	–	(3,839)	–	–	–	–	–	–	–	–	(3,839)	–	(3,839)
Exchange realignment		–	–	–	–	–	–	8,063	–	–	–	8,063	3,992	12,055
Total income and expense for the year recognised directly in equity		–	(3,839)	–	–	–	–	8,063	–	–	–	4,224	3,992	8,216
Profit for the year		–	–	–	–	–	–	–	–	12,080	–	12,080	16,385	28,465
Total income and expense for the year		–	(3,839)	–	–	–	–	8,063	–	12,080	–	16,304	20,377	36,681
Issue of shares	35	98,000	9,800	–	–	–	–	–	–	–	–	107,800	–	107,800
Equity-settled share option arrangements	*36(a)*	–	–	5,214	–	–	–	–	–	–	–	5,214	–	5,214
Transfer to accumulated losses		–	–	–	–	(922)	–	–	–	922	–	–	–	–
Transfer to PRC reserve funds		–	–	–	–	–	–	–	4,491	(4,491)	–	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(1,215)	(1,215)
At 31 December 2006		591,981	5,961*	5,214*	–*	30,877*	–*	8,902*	34,883*	(112,483)*	–	565,335	99,705	665,040

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2007

		Attributable to shareholders of the Company												
	Notes	Issued capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000 (note 37 (a)(ii))	Capital reserve HK$'000 (note 37 (a)(iii))	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	PRC reserve funds HK$'000 (note 37 (a)(iv))	Accum-ulated losses HK$'000	Proposed final dividend HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1 January 2007		591,981	5,961	5,214	–	30,877	–	8,902	34,883	(112,483)	–	565,335	99,705	665,040
Share issue expenses	35	–	(5,856)	–	–	–	–	–	–	–	–	(5,856)	–	(5,856)
Fair value loss of an available-for-sale investment		–	–	–	–	–	(734)	–	–	–	–	(734)	–	(734)
Impairment of an available-for-sale investment recognised during the year in the income statement	10	–	–	–	–	–	734	–	–	–	–	734	–	734
Exchange realignment		–	–	–	–	–	–	17,016	–	–	–	17,016	(1,767)	15,249
Total income and expense for the year recognised directly in equity		–	(5,856)	–	–	–	–	17,016	–	–	–	11,160	(1,767)	9,393
Profit for the year		–	–	–	–	–	–	–	–	317,480	–	317,480	1,151	318,631
Total income and expense for the year		–	(5,856)	–	–	–	–	17,016	–	317,480	–	328,640	(616)	328,024
Issue of shares	35	50,000	165,000	–	–	–	–	–	–	–	–	215,000	–	215,000
Exercise of share options	36,37(b)	39,500	4,175	(4,175)	–	–	–	–	–	–	–	39,500	–	39,500
Equity-settled share option arrangements	36(a)	–	–	13,819	–	–	–	–	–	–	–	13,819	–	13,819
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	–	–	–	175,351	175,351
Disposal of interests in subsidiaries		–	–	–	–	–	–	(820)	–	–	–	(820)	(18,484)	(19,304)
Deemed disposal of a partial interest in a subsidiary	6	–	–	–	69,279	–	–	(1,124)	114	(69,129)	–	(860)	(75,061)	(75,921)
Deconsolidation of a subsidiary		–	–	–	(28)	–	–	79	(140)	–	–	(89)	(131,417)	(131,506)
Deemed disposal of a partial interest in an associate	8	–	–	–	251,986	–	–	216	985	(255,658)	–	(2,471)	–	(2,471)
Transfer to accumulated losses		–	–	–	–	(30,877)	–	–	–	30,877	–	–	–	–
Transfer to PRC reserve funds		–	–	–	–	–	–	–	4,777	(4,777)	–	–	–	–
Share of reserve of an associate		–	–	–	14,263	–	–	–	–	–	–	14,263	–	14,263
Proposed 2007 final dividend	16	–	–	–	–	–	–	–	–	(54,702)	54,702	–	–	–
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	–	(419)	(419)
At 31 December 2007		681,481	169,280*	14,858*	335,500*	–*	–*	24,269*	40,619*	(148,392)*	54,702	1,172,317	49,059	1,221,376

* These reserve accounts comprise the reserves of HK$436,134,000 (2006: negative reserves of HK$26,646,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**304,460**	24,290
From discontinued operation	14(a)	**17,965**	10,838
Adjustments for:			
Finance costs:			
Attributable to continuing operation		**2,610**	8,293
Attributable to the discontinued operation	14(a)	**250**	–
Share of profits and losses of jointly-controlled entities	23(a)	**55,120**	(688)
Share of profits and losses of associates	24(a)	**(5,193)**	398
Bank interest income	5	**(13,993)**	(1,563)
Imputed interest on interest-free trade and other receivables with extended credit periods	5	**(2,315)**	(12,520)
Fair value gains on investment properties	5	**(4,265)**	(1,490)
Gain on disposal of interests in subsidiaries, net	5	**(4,017)**	–
Gain on disposal of available-for-sale investments carried at cost	5	**(1,095)**	–
Gains on deemed disposal of a partial interest in a subsidiary	6	**(69,129)**	–
Gain on disposal of a partial interest in an associate	7	**(118,628)**	–
Gains on deemed disposal of a partial interest in an associate	8	**(251,396)**	–
Loss/(gain) on disposal of items of property, plant and equipment, net	10	**(922)**	249
Depreciation	10	**7,195**	14,036
Amortisation of other intangible assets	10	**2,690**	3,119
Impairment of goodwill of the Group	10	**35,345**	–
Impairment of an available-for-sale investment carried at fair value	10	**734**	–
Impairment of available-for-sale investment carried at cost	10	**–**	811
Impairment of an amount due from an associate	10	**3,973**	5,500
Impairment/(reversal of impairment) of trade and bills receivables, net	10	**9,034**	(16,147)
Impairment/(reversal of impairment) of other receivables, net	10	**6,711**	(7,000)
Employee share option expense	10	**13,819**	5,214
		(11,047)	33,340
Decrease/(increase) in inventories		**(24,745)**	3,749
Increase in amounts due from customers for contract work		**(16,351)**	(4,829)
Decrease in trade and bills receivables		**7,773**	69,890
Decrease/(increase) prepayments, deposits and other receivables		**19,691**	(36,838)
Increase in trade and bills payables		**140,208**	30,883
Increase/(decrease) in amounts due to customers for contract work		**(1,532)**	1,361
Increase/(decrease) in other payables and accruals		**(32,081)**	59,141
Cash generated from operations		**81,916**	156,697
Interest received		**13,993**	1,563
Interest paid		**(2,860)**	(8,917)
Hong Kong profits tax paid		**–**	(938)
Overseas and Mainland China corporate income taxes paid		**(4,305)**	(2,367)
Dividends paid to minority shareholders		**(419)**	(1,215)
Net cash inflow from operating activities		**88,325**	144,823

Consolidated Cash Flow Statement (continued)

Year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	18	(3,956)	(21,911)
Proceeds from disposal of items of property, plant and equipment		33,321	537
Proceeds from disposal of investment properties		12,750	–
Purchases of other intangible assets	21	–	(1,639)
Proceeds from disposal of available-for-sale investments		1,596	–
Disposal of subsidiaries	38(a)	(875)	–
Deconsolidation of subsidiaries	38(b)	(182,915)	–
Investment in a jointly-controlled entity		(17,021)	(580)
Decrease/(increase) in an amount due from a jointly-controlled entity		(1,106)	3,135
Proceeds from disposal of a partial interest in an associate		132,007	–
Increase in an amount due from an associate		(33)	(195)
Decrease/(increase) in pledged deposits		12,246	(17,569)
Net cash outflow from investing activities		(13,986)	(38,222)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	35	254,500	107,800
Share issue expenses	35	(5,856)	(3,839)
Increase in trust receipt loans		6,154	3,001
New bank loans		7,720	76,493
Repayment of bank loans		(85,407)	(104,659)
Decrease in an advance from a related company		–	(50,000)
Capital contributions from minority shareholders		175,351	–
Decrease in advances from minority shareholders		–	(190)
Net cash inflow from financing activities		352,462	28,606
NET INCREASE IN CASH AND CASH EQUIVALENTS		426,801	135,207
Cash and cash equivalents at beginning of year		281,052	138,765
Effect of foreign exchange rate changes, net		10,520	7,080
CASH AND CASH EQUIVALENTS AT END OF YEAR		718,373	281,052
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	31	718,373	281,052

Balance Sheet

31 December 2007

	Note	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**259**	32,436
Interests in subsidiaries	22	**407,266**	308,763
Total non-current assets		**407,525**	341,199
CURRENT ASSETS			
Prepayments, deposits and other receivables	30	**32,840**	58,869
Cash and cash equivalents	31	**507,755**	46,160
Total current assets		**540,595**	105,029
CURRENT LIABILITIES			
Other payables and accruals	33	**13,214**	4,884
NET CURRENT ASSETS		**527,381**	100,145
Net assets		**934,906**	441,344
EQUITY			
Issued capital	35	**681,481**	591,981
Reserves	37(b)	**198,723**	(150,637)
Proposed final dividend	16	**54,702**	–
Total equity		**934,906**	441,344

E Meng
Director

Li Kangying
Director

Notes to Financial Statements

31 December 2007

1. Corporate Information

Beijing Development (Hong Kong) Limited (the "Company") is a limited liability company incorporated in Hong Kong.

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

- provision of information technology ("IT") related services
- property investment
- restaurant operation in the People's Republic of China (the "PRC"), Thailand, Indonesia, Singapore and Malaysia (discontinued during the year - note 14)

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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for (i) investment properties and an available-for-sale investment, which have been measured at fair value; and (ii) certain buildings, which are stated at valuation at 31 December 1994, as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. 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.

The acquisition of subsidiaries in prior years had been accounted for using the purchase method of accounting. This method involved allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition was measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

Notes to Financial Statements

31 December 2007

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

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

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

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 44(f) to the financial statements.

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 *Share-base Payment* 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 Company has only issued equity instruments to the Group's directors and employees for identified services provided in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

Notes to Financial Statements

31 December 2007

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

(d) 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.

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 2 Amendment	*Share-based Payment - Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HK(IFRIC)-Int 11	*HKFRS 2 - Group and Treasury Share Transactions* [3]
HK(IFRIC)-Int 12	*Service Concession Arrangements* [4]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [5]
HK(IFRIC)-Int 14	*HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* [4]

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

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

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

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

Amendment to HKFRS 2 restricts the definition of "vesting condition" to a condition that includes an explicit and implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the Company or the counterparty, this must be accounted for as a cancellation. The Group had not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

Notes to Financial Statements

31 December 2007

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill nor will it give rise to a gain or loss. Furthermore, the HKAS 27 (Revised) changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by HKFRS 3 (Revised) and HKAS 27 (Revised) must be applied prospectively and will affect future acquisitions and transactions with minority interests.

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 1 has been revised to introduce changes in presentation and disclosures of financial statements but does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs.

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.

Notes to Financial Statements

31 December 2007

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

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.

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.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any accumulated 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, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Group has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

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

(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 *Financial Instruments: Recognition and Measurement*, 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.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

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 accumulated 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. Goodwill arising on the acquisition of a jointly-controlled entity is included as part of the Group's interests in jointly-controlled entities. The impairment of goodwill arising on the acquisition of a jointly-controlled entity is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any accumulated impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Goodwill arising on the acquisition of an associate is included as part of the Group's interests in associates.

Notes to Financial Statements

31 December 2007

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 a jointly-controlled entity;

(c) the party is an associate;

(d) the party is a member of the key management personnel of the Group;

(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).

Goodwill

Goodwill arising on the acquisition of subsidiaries, a jointly-controlled entity and an associate represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of a jointly-controlled entity and an associate, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Goodwill (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than investment properties, goodwill, deferred tax assets, financial assets, inventories and amounts due from customers for contract work), 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 in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets other than goodwill (continued)

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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any accumulated 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.

A valuation was carried out for certain buildings of the Group at 31 December 1994 with the changes in their values being dealt with as a movement in the property revaluation reserve. The Group has relied upon the exemption granted under the transitional provisions in paragraph 80 of HKAS 16 *Property, Plant and Equipment*, from the requirement to carry out regular revaluations of these buildings which were stated at valuation in financial statements relating to periods ended before 30 September 1995. An annual transfer from the property revaluation reserve to retained profits/accumulated losses is made for the difference between the depreciation based on the revalued carrying amounts of the assets and the depreciation based on the assets' original costs. The property revaluation reserve is transferred directly to retained profits/accumulated losses when the reserve is realised completely on the disposal or retirement of the assets, or partially as the assets are used by the Group.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its estimated residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	Over the lease terms or 4%
Leasehold improvements	Over the lease terms or 10 years, whichever is shorter
Furniture, fixtures and office equipment	10% to 20%
Motor vehicles	12.5% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation 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.

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 period 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 period in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the period of the retirement or disposal.

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (continued)

Investment properties (continued)

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above.

Operating leases

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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

An intangible asset is derecognised on 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 period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Management information systems

Management information systems are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 10 years.

Licences

Licences are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is provided on the straight-line basis over their estimated useful lives of 5 to 10 years.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as loans and receivables and available-for-sale investments, 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 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.

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 Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in unlisted equity securities and a golf club debenture that are designated as available for sale or are not classified in the other category. After initial recognition, available-for-sale investments are measured at fair value, with gains or losses recognised as movements in the investment revaluation reserve, 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 the investment revaluation reserve 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 as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale investments" and are transferred from the 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 those investments 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 accumulated impairment losses.

Fair value

The fair value of the golf club debenture that is designated as available for sale, where there is no active market, is determined using recent arm's length market transactions.

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 recovery.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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.

In relation to trade and bills receivables 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. 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.

Available-for-sale investments carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, 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 recognised in the income statement and are not reversed.

Available-for-sale investment carried at fair value

If an available-for-sale investment carried at fair value 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 the investment revaluation reserve to the income statement. A provision for impairment is made for the available-for-sale investment 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. Impairment loss on the golf club debenture classified as available for sale is reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

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.

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

Financial liabilities including trade and bills payables, amounts due to customers for contract work, other payables and accruals and bank 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.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

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 first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to disposal.

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.

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 customers for contract work.

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

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

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.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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.

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

- where the deferred tax liability arises from goodwill or 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 future.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Notes to Financial Statements

31 December 2007

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:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage-of-completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, when the services have been rendered;

(d) from the sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;

(e) rental income, on a time proportion basis over the lease terms; and

(f) 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.

Employee benefits

Share-based payment transactions

The Company and China Information Technology Development Limited ("CIT Development", previously known as Xteam Software International Limited) each operates a share option scheme for the granting of non-transferable options, for the purpose of providing incentives and rewards, to eligible participants who contribute to the success of the operations of the Group and CIT Development group, respectively. Employees (including directors) of the respective groups 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. The fair values of the share options granted by the Company and CIT Development during the year are determined by external valuers using a Black-Scholes-Merton option pricing model, further details of which are given in note 36 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the prices of the shares of the Company and CIT Development ("market conditions"), if applicable.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in the share option reserve, 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.

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, if any, 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 31 December 2004 and to those granted on or after 1 January 2005.

Upon the exercise of share options, the resulting shares issued are recorded by the Company or CIT Development as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company or CIT Development in their respective share premium accounts. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Pension schemes

Certain companies within the Group have participated in a number of defined contribution retirement benefits schemes required by the respective governments of the places in which they operate for their employees, the assets of the schemes are held separately from those of the Group in independently administered funds. Contributions are made based on a certain percentage of the covered payroll and are charged to the income statement as they become payable in accordance with the rules of the schemes. The Group's employer contributions vest fully with the employees when contributed into the schemes.

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

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 dates 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 and PRC subsidiaries, jointly-controlled entities and associates 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 the exchange fluctuation reserve relating to that particular foreign operation is recognised in the income statement.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies (continued)

For the purpose of the consolidated cash flow statement, the cash flows of overseas and PRC 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

3. 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.

Estimation uncertainty

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.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill in aggregate carried as an asset in the consolidated balance sheet as at 31 December 2007 was HK$87,360,000 (2006: HK$164,031,000), details of which are set out in notes 20, 23 and 24 to the financial statements.

Notes to Financial Statements

31 December 2007

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Provision for impairment of trade and bills receivables and other receivables

The policy for provision for impairment of trade and bills receivables and other receivables of the Group is based on the evaluation of collectibility and ageing analysis of accounts and on management's estimation. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors are to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of trade and bills receivables and other receivables carried as assets in the consolidated balance sheet as at 31 December 2007 were HK$112,077,000 (2006: HK$169,125,000) and HK$91,595,000 (2006: HK$129,418,000), respectively, details of which are set out in notes 29 and 30 to the financial statements.

Percentage of completion of construction work

The Group recognises revenue according to the percentage of completion of the individual contract of construction work. The Group's management estimates the percentage of completion of construction work based on the actual cost incurred over the total budgeted cost, where corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each construction contract as the contract progresses.

Useful lives and residual values of property, plant and equipment and intangible assets (other than goodwill)

The Group's management determines the residual values, useful lives and related depreciation/amortisation charges for the Group's property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment and intangible assets 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 depreciation/amortisation charges where residual values or useful lives are less than previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable/amortisable lives and therefore depreciation/amortisation in the future periods. The carrying amounts of property, plant and equipment and intangible assets (other than goodwill) carried as assets in the consolidated balance sheet as at 31 December 2007 were HK$8,149,000 (2006: HK$68,858,000) and HK$8,546,000 (2006: HK$11,789,000), respectively, details of which are set out in notes 18 and 21 to the financial statements.

Notes to Financial Statements

31 December 2007

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Impairment of property, plant and equipment and intangible assets (other than goodwill)

The carrying amounts of items of property, plant and equipment and intangible assets are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount is the higher of its fair value less costs to sell and value in use, and calculations of which involve the use of estimates. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

Current tax and deferred tax

The Group is subject to income taxes in Hong Kong, Mainland China and overseas jurisdictions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations of which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provision in the periods in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimates have been changed. The carrying amount of deferred tax assets carried as an asset in the consolidated balance sheet as at 31 December 2007 was HK$704,000 (2006: HK$484,000), details of which are set out in note 26 to the financial statements.

Notes to Financial Statements

31 December 2007

3. Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Provision against obsolete and slow-moving inventories

Management reviews the condition of inventories of the Group and makes provision against obsolete and slow-moving inventory items which are identified as no longer suitable for sale or use. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at each balance sheet date and makes provision against obsolete and slow-moving items. Management reassesses the estimation on each of the balance sheet date.

The identification of obsolete and slow-moving inventory items requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact on the carrying values of inventories and the write-down of inventories recognised in the periods in which such estimates have been changed. The carrying amount of inventories carried as an asset in the consolidated balance sheet as at 31 December 2007 was HK$34,726,000 (2006: HK$65,687,000), details of which are set out in note 27 to the financial statements.

4. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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 IT operation segment engages in: (i) systems integration; (ii) the construction of information networks and sale of related equipment; (iii) the provision of IT technical support and consultation services; (iv) the development and sale of software; and (v) the implementation of smart card systems;

(b) the property investment segment invests in office spaces for their rental income potential; and

(c) the restaurant operation segment operates restaurants in the PRC, Thailand, Indonesia, Singapore and Malaysia (discontinued during the year ended 31 December 2007 - note 14).

Notes to Financial Statements

31 December 2007

4. Segment Information (continued)

In determining the Group's geographical segments, revenues are 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.

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.

(a) Business segments

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

Group

	Continuing operations								Discontinued operation			
	IT operation		Property investment		Eliminations		Total		Restaurant operation		Consolidated	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Segment revenue:												
Sales to external customers	**354,819**	289,787	**3,593**	2,632	**-**	–	**358,412**	292,419	**143,784**	292,413	**502,196**	584,832
Intersegment sales	**-**	–	**-**	240	**-**	(240)	**-**	–	**-**	–	**-**	–
Other income and gains	**20,390**	16,187	**4,265**	1,543	**-**	–	**24,655**	17,730	**430**	1,111	**25,085**	18,841
Total	**375,209**	305,974	**7,858**	4,415	**-**	(240)	**383,067**	310,149	**144,214**	293,524	**527,281**	603,673
Segment results	**(39,311)**	50,999	**(629)**	(3,939)	**-**	–	**(39,940)**	47,060	**12,785**	11,248	**(27,155)**	58,308
Unallocated other income and gains							**453,933**	1,498	**4,325**	65	**458,258**	1,563
Unallocated expenses							**(55,891)**	(16,740)	**-**	–	**(55,891)**	(16,740)
Finance costs							**(2,610)**	(8,293)	**(250)**	–	**(2,860)**	(8,293)
Share of profits and losses of:												
Jointly-controlled entities	**(56,225)**	1,163	**-**	–	**-**	–	**(56,225)**	1,163	**1,105**	(475)	**(55,120)**	688
Associates	**5,430**	(96)	**(237)**	(302)	**-**	–	**5,193**	(398)	**-**	–	**5,193**	(398)
Profit before tax							**304,460**	24,290	**17,965**	10,838	**322,425**	35,128
Tax							**(2,080)**	(4,757)	**(1,714)**	(1,906)	**(3,794)**	(6,663)
Profit for the year							**302,380**	19,533	**16,251**	8,932	**318,631**	28,465

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4. Segment Information (continued)

(a) Business segments (continued)

Group

	Continuing operations						Discontinued operation			
	IT operation		Property investment		Total		Restaurant operation		Consolidated	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Assets and liabilities										
Segment assets	344,435	469,271	42,225	50,030	386,660	519,301	–	93,837	386,660	613,138
Interests in jointly-controlled entities	29,888	67,415	–	–	29,888	67,415	–	105	29,888	67,520
Interests in associates	384,712	2,118	–	4,706	384,712	6,824	–	–	384,712	6,824
Unallocated assets					738,085	327,017	–	10,820	738,085	337,837
Total assets									1,539,345	1,025,319
Segment liabilities	296,864	216,307	7,818	7,816	304,682	224,123	–	43,791	304,682	267,914
Unallocated liabilities									13,287	92,365
Total liabilities									317,969	360,279
Other segment information:										
Depreciation on:										
Segment assets	3,160	5,448	–	–	3,160	5,448	2,880	6,744	6,040	12,192
Unallocated assets									1,155	1,844
Impairment of goodwill	58,412	–	–	–	58,412	–	–	–	58,412	–
Amortisation of other intangible assets	2,690	3,119	–	–	2,690	3,119	–	–	2,690	3,119
Impairment of available-for-sale investments recognised during the year in the income statement	734	811	–	–	734	811	–	–	734	811
Fair value gains on investment properties	–	–	(4,265)	(1,490)	(4,265)	(1,490)	–	–	(4,265)	(1,490)
Impairment/(reversal of impairment) of trade and bills receivables, net	9,034	(16,147)	–	–	9,034	(16,147)	–	–	9,034	(16,147)
Impairment/(reversal of impairment) of other receivables, net	6,711	(7,000)	–	–	6,711	(7,000)	–	–	6,711	(7,000)
Capital expenditure on:										
Segment assets	3,211	6,880	–	–	3,211	6,880	638	14,227	3,849	21,107
Unallocated assets									107	804

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4. Segment Information (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2007 and 2006.

Group

	Hong Kong		Mainland China		Singapore		Indonesia		Malaysia		Thailand		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**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	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:																
Sales to external customers	**–**	631	**385,820**	354,159	**60,278**	100,623	**27,329**	59,830	**21,219**	50,655	**7,550**	18,934	**–**	–	**502,196**	584,832
Intersegment sales	**–**	1,237	**–**	–	**19,098**	32,422	**–**	–	**–**	–	**–**	–	**(19,098)**	(33,659)	**–**	–
Other income and gains	**177**	1,171	**20,391**	16,568	**4,265**	416	**4**	20	**–**	–	**248**	666	**–**	–	**25,085**	18,841
Total	**177**	3,039	**406,211**	370,727	**83,641**	133,461	**27,333**	59,850	**21,219**	50,655	**7,798**	19,600	**(19,098)**	(33,659)	**527,281**	603,673
Other segment information:																
Segment assets	**–**	–	**386,453**	539,325	**207**	44,248	**–**	11,545	**–**	15,087	**–**	2,933	**–**	–	**386,660**	613,138
Interests in jointly-controlled entities	**–**	–	**29,888**	67,274	**–**	–	**–**	–	**–**	246	**–**	–	**–**	–	**29,888**	67,520
Interests in associates	**–**	–	**384,712**	6,824	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**384,712**	6,824
Unallocated assets															**738,085**	337,837
Total assets															**1,539,345**	1,025,319
Capital expenditure on:																
Segment assets	**–**	–	**3,212**	7,069	**637**	12,633	**–**	431	**–**	969	**–**	5	**–**	–	**3,849**	21,107
Unallocated assets															**107**	804

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5. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents (1) an appropriate proportion of contract revenue of construction contracts, net of value-added tax, business tax and government surcharges; (2) the net invoiced value of goods sold, net of value-added tax and government surcharges and after allowances for returns and trade discounts; (3) the value of services rendered, net of business tax and government surcharges; (4) gross rental income; and (5) receipts from restaurant operation during the year.

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

	2007 HK$'000	2006 HK$'000
Revenue		
Construction contracts	**265,289**	188,453
Sale of softwares	**43,528**	44,895
Rendering of services	**46,002**	56,439
Gross rental income	**3,593**	2,632
Receipts from restaurant operation	**143,784**	292,413
	502,196	584,832
Attributable to:		
Continuing operations reported in the consolidated income statement	**358,412**	292,419
Discontinued operation – *note 14(a)*	**143,784**	292,413
	502,196	584,832
Other income		
Compensation for termination of a contract – *note 42(b)(ii)*	**14,755**	–
Bank interest income	**13,993**	1,563
Imputed interest on interest-free trade and other receivables with extended credit periods	**2,315**	12,520
Government grants*	**878**	3,177
Others	**1,950**	1,654
	33,891	18,914

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5. Revenue, Other Income and Gains (continued)

	2007 HK$'000	2006 HK$'000
Gains		
Fair value gains on investment properties – *note 19*	**4,265**	1,490
Gain on disposal of interests in subsidiaries, net – *note 38(a)*	**4,017**	–
Gain on disposal of available-for-sale investments carried at cost	**1,095**	–
Gain on disposal of items of property, plant and equipment, net	**922**	–
	10,299	1,490
Other income and gains	**44,190**	20,404
Attributable to:		
Continuing operations reported in the consolidated income statement	**39,435**	19,228
Discontinued operation - *note 14(a)*	**4,755**	1,176
	44,190	20,404

* The government grants represented PRC and overseas tax subsidies, which comprised corporate income tax and value-added tax refunds. The government grants are unconditional.

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6. Gains on Deemed Disposal of a Partial Interest in a Subsidiary

The gains on deemed disposal of a partial interest in a subsidiary recognised during the year arose from (i) the dilution of the Group's effective equity interest in CIT Development from 55.05% to 45.43% following the issuance of 300,000,000 and 468,000,000 new ordinary shares by CIT Development in February and May 2007, respectively, and (ii) the exercise of share options of CIT Development by certain share option holders for 46,300,000 ordinary shares of CIT Development in aggregate during the period from March to April 2007.

CIT Development ceased to be a subsidiary and became an associate of the Group upon its issuance of 468,000,000 new ordinary shares in May 2007. Further details of the deconsolidation of CIT Development and its subsidiaries are set out in note 38(b) to the financial statements.

7. Gain on Disposal of a Partial Interest in an Associate

The gain on disposal of a partial interest in an associate recognised during the year ended 31 December 2007 of HK$118,628,000 was attributable to the disposal of 220,000,000 ordinary shares of CIT Development in June 2007 by the Group.

8. Gains on Deemed Disposal of a Partial Interest in an Associate

The gains on deemed disposal of a partial interest in an associate recognised during the year arose from (i) the exercise of share options of CIT Development by certain share option holders for 17,000,000 ordinary shares of CIT Development in aggregate during the period from May to September 2007; and (ii) the issuance of 1,560,000,000 new ordinary shares by CIT Development in September 2007.

9. Finance Costs

The Group's finance costs for the current and prior year are interest on bank loans and other loans wholly repayable within five years.

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10. Profit Before Tax

The Group's profit before tax (including those attributable to the discontinued operation) is arrived at after charging/(crediting):

	Notes	2007 HK$'000	2006 HK$'000
Cost of inventories sold		**332,862**	290,236
Cost of services provided		**59,352**	49,461
Depreciation	*18*	**7,195**	14,036
Operating lease rentals for land and buildings:			
Minimum lease payments		**12,810**	27,168
Contingent rents		**1,381**	3,071
		14,191	30,239
Amortisation of other intangible assets@	*21*	**2,690**	3,119
Research and development costs:			
Current year expenditure		**6,977**	9,521
Less: Government grants received+		**–**	(1,600)
		6,977	7,921
Impairment of goodwill#		**58,412**	–
Impairment of an available-for-sale investment carried at fair value*		**734**	–
Impairment of available-for-sale investments carried at cost*		**–**	811
Impairment of an amount due from an associate	*24(d)*	**3,973**	5,500
Impairment/(reversal of impairment) of trade and bills receivables, net	*29(c)*	**9,034**	(16,147)
Impairment/(reversal of impairment) of other receivables, net	*30(c)*	**6,711**	(7,000)
Loss/(gain) on disposal of items of property, plant and equipment, net		**(922)**	249
Auditors' remuneration:			
Current year's provision		**3,082**	3,610
Prior year's underprovision		**48**	140
		3,130	3,750
Employee benefits expense (including directors' remuneration – *note 11*):			
Wages and salaries		**49,459**	109,820
Pension scheme contributions		**1,736**	4,104
Employee share option benefits		**13,819**	5,214
		65,014	119,138
Net rental income		**(1,379)**	(281)
Foreign exchange differences, net		**184**	690

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10. Profit Before Tax (continued)

@ The amortisation of other intangible assets for the year is included in "Cost of sales" on the face of the consolidated income statement.

+ Various government grants were received during the year ended 31 December 2006 for the research and development of management information systems in respect of the Group's IT operation in Beijing, Mainland China. The government grants received were deducted from the research and development costs to which they related. There were no unfulfilled conditions or contingencies relating to these grants.

The impairment of goodwill recognised in the income statement for the year ended 31 December 2007 comprised the impairment of goodwill arising on acquisition of subsidiaries and a jointly-controlled entity in amounts of HK$35,345,000 (note 20) and HK$23,067,000 (note 23(c)), respectively, which are included in "Other expenses, net" and "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement, respectively.

* The impairment of available-for-sale investments for the year are included in "Other expenses, net" on the face of the consolidated income statement.

11. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Fees:		
Executive directors	**480**	–
Independent non-execution directors	**300**	300
	780	300
Other emoluments:		
Salaries, allowances and benefits in kind	**1,434**	2,132
Discretionary bonuses	**1,828**	–
Pension scheme contributions	**63**	12
Employee share option benefits	**7,023**	2,607
	10,348	4,751
	11,128	5,051

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11. Directors' Remuneration (continued)

During the year, six executive directors and an independent non-executive director were granted share options, in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 36 to the financial statements. The fair value of such share options, which will be recognised in the income statement over the relevant vesting periods, was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	Fees HK$'000	Discretionary bonuses HK$'000	Employee share option benefits HK$'000	Total remuneration HK$'000
2007				
Dr. Jin Lizuo	**100**	**50**	**157**	**307**
Mr. Cao Guixing	**100**	**50**	**–**	**150**
Prof. Liu Wei	**100**	**50**	**–**	**150**
	300	**150**	**157**	**607**
2006				
Dr. Jin Lizuo	100	–	–	100
Mr. Cao Guixing	100	–	–	100
Prof. Liu Wei	100	–	–	100
	300	–	–	300

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11. Directors' Remuneration (continued)

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Pension scheme contributions HK$'000	Employee share option benefits HK$'000	Total remuneration HK$'000
2007						
Mr. E Meng	**80**	**–**	**716**	**–**	**1,037**	**1,833**
Mr. Zhang Honghai	**80**	**–**	**–**	**–**	**1,567**	**1,647**
Mr. Li Kangying	**80**	**391**	**511**	**19**	**1,037**	**2,038**
Mr. Wang Yong	**80**	**327**	**–**	**19**	**1,382**	**1,808**
Mr. Cao Wei	**80**	**391**	**205**	**19**	**922**	**1,617**
Mr. Ng Kong Fat, Brian	**80**	**325**	**246**	**6**	**921**	**1,578**
Dr. Yu Xiaoyang	**–**	**–**	**–**	**–**	**–**	**–**
	480	**1,434**	**1,678**	**63**	**6,866**	**10,521**
2006						
Mr. E Meng	–	–	–	–	292	292
Mr. Zhang Honghai	–	–	–	–	729	729
Mr. Li Kangying	–	339	–	–	146	485
Mr. Wang Yong	–	319	–	–	547	866
Mr. Cao Wei	–	339	–	–	91	430
Mr. Ng Kong Fat, Brian	–	1,135	–	12	292	1,439
Dr. Yu Xiaoyang	–	–	–	–	510	510
	–	2,132	–	12	2,607	4,751

There was no arrangement under which a director waived or agreed to waive any remuneration during both years.

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12. Five Highest Paid Employees

The five highest paid employees during the year included four (2006: two) directors, details of whose remuneration are set out in note 11 above. Details of the remuneration of the remaining one (2006: three) non-director, highest paid employee for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,022**	2,806
Discretionary bonuses	**164**	–
Pension scheme contributions	**12**	53
Employee share option benefits	**1,175**	711
	2,373	3,570

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

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	–
	1	3

During the year, share options were granted to the non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 36 to the financial statements. The fair value of such share options, which will be recognised in the income statement over the relevant vesting periods, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employee's remuneration disclosures.

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13. 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. The income tax provision in respect of operations in Mainland China and overseas is calculated at the applicable tax rates on the estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof.

In accordance with the relevant tax rules and regulations of the PRC, certain of the Company's subsidiaries, jointly-controlled entities and associates in Mainland China enjoy income tax exemptions and reductions and are subject to income tax rates ranging from 7.5% to 15%.

	Group	
	2007	2006
	HK$'000	HK$'000
Current – Hong Kong		
Charge for the year	**51**	27
Current – Elsewhere		
Charge for the year	**3,844**	6,374
Underprovision/(overprovision) in prior years	**88**	(17)
Deferred *(note 26)*	**(189)**	279
Total tax charge for the year	**3,794**	6,663
Attributable to:		
Continuing operations reported in the consolidated income statement	**2,080**	4,757
Discontinued operation - *note 14(a)*	**1,714**	1,906
	3,794	6,663

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13. Tax (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax (including those attributable to the discontinued operation) using the statutory rates for the countries/jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group - 2007

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(43,330)		349,111		16,644		322,425	
Tax at the statutory tax rate	(7,583)	17.5	115,207	33.0	4,993	30.0	112,617	34.9
Lower tax rate for specific provinces or local authority	–	–	1,457	0.4	(2,014)	(12.1)	(557)	(0.2)
Adjustments in respect of current tax of previous periods	–	–	93	–	(5)	–	88	–
Profits and losses attributable to jointly-controlled entities	–	–	18,554	5.3	(332)	(2.0)	18,222	5.7
Profits and losses attributable to associates	–	–	(1,714)	(0.5)	–	–	(1,714)	(0.5)
Income not subject to tax	(1,201)	2.8	(144,648)	(41.4)	(1,471)	(8.9)	(147,320)	(45.7)
Expenses not deductible for tax	7,297	(16.8)	10,315	3.0	348	2.1	17,960	5.6
Tax losses utilised from previous periods	(43)	–	–	–	(5)	–	(48)	–
Tax losses not recognised	1,581	(3.6)	2,965	0.8	–	–	4,546	1.4
Tax charge at the Group's effective rate	51	(0.1)	2,229	0.6	1,514	9.1	3,794	1.2

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13. Tax (continued)

Group - 2006

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	(27,445)		51,621		10,952		35,128	
Tax at the statutory tax rate	(4,803)	17.5	17,035	33.0	3,286	30.0	15,518	44.2
Lower tax rate for specific provinces or local authority	–	–	(12,936)	(25.1)	(1,440)	(13.1)	(14,376)	(40.9)
Adjustments in respect of current tax of previous periods	–	–	(21)	–	4	–	(17)	–
Profits and losses attributable to jointly-controlled entities	–	–	(255)	(0.5)	25	0.3	(230)	(0.7)
Profits and losses attributable to associates	9	–	90	0.2	–	–	99	0.3
Income not subject to tax	(551)	2.0	(5,723)	(11.1)	(492)	(4.5)	(6,766)	(19.3)
Expenses not deductible for tax	3,401	(12.4)	3,665	7.1	254	2.3	7,320	20.8
Tax losses utilised from previous periods	–	–	(86)	(0.2)	(153)	(1.4)	(239)	(0.7)
Tax losses not recognised	1,971	(7.2)	3,377	6.5	6	–	5,354	15.3
Tax charge at the Group's effective rate	27	(0.1)	5,146	9.9	1,490	13.6	6,663	19.0

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14. Discontinued Operation

Pursuant to a share transfer agreement (the "Agreement") dated 11 May 2007 entered into between the Company and a third party (the "Acquirer"), the Company disposed of its entire 51% equity interest in BD Ah Yat Abalone Group Limited ("BD Ah Yat") to the Acquirer for a cash consideration of HK$25,300,000 during the year ended 31 December 2007.

Approval from independent shareholders of the Company regarding the transaction was obtained on 20 June 2007 and the disposal transaction was completed on 22 June 2007. The Group no longer holds any interests in BD Ah Yat thereafter.

The cash consideration of HK$25,300,000 was agreed to be settled by two instalments, with respective settlements due in 2007 and 2008. At 31 December 2007, HK$17,987,000 has been settled and the remaining portion of HK$7,313,000 is due for settlement on or before 30 June 2008. Pursuant to a deed of charge and assignment entered into between the Company and the Acquirer, the Acquirer has charged and assigned to the Company a 25.5% equity interest in BD Ah Yat as a security for the due and punctual payment of the remaining consideration from the Acquirer to the Company.

The Group's restaurant operation, being a major separate business segment of the Group, was solely undertaken by BD Ah Yat. Accordingly, the restaurant operation of the Group was discontinued upon the completion of the disposal transaction.

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14. Discontinued Operation (continued)

(a) The results of the discontinued operation dealt with in the consolidated financial statements for the years ended 31 December 2007 and 2006 are summarised as follows:

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Revenue	*5*	**143,784**	292,413
Other income and gains	*5*	**446**	1,176
Cost of sales and operating expenses		**(131,429)**	(282,276)
Finance costs	*9*	**(250)**	–
Share of profits and losses of jointly-controlled entities	*23(a)*	**1,105**	(475)
Profit before tax of the discontinued operation	*10*	**13,656**	10,838
Gain on disposal of the discontinued operation	*5*	**4,309**	–
Profit before tax from the discontinued operation		**17,965**	10,838
Tax related to profit before tax of the discontinued operation	*13*	**(1,714)**	(1,906)
Profit for the year from the discontinued operation		**16,251**	8,932
Attributable to:			
Shareholders of the Company		**9,556**	2,836
Minority interests		**6,695**	6,096
		16,251	8,932

Notes to Financial Statements

31 December 2007

14. Discontinued Operation (continued)

(b) The net cash flows of the discontinued operation dealt with in the consolidated financial statements for the years ended 31 December 2007 and 2006 are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Net cash inflow from operating activities	**18,041**	5,380
Net cash outflow from investing activities	**(638)**	(14,914)
Net cash inflow/(outflow) from financing activities	**(17,483)**	9,096
Net cash outflow attributable to the discontinued operation	**(80)**	(438)

(c) Earnings per share from the discontinued operation

	2007	2006
Basic from the discontinued operation (HK cents)	**1.46**	0.57
Diluted from the discontinued operation (HK cents)	**1.45**	N/A

The calculation of basic and diluted earnings per share amounts from the discontinued operation is based on:

	2007	2006
Profit for the year attributable to shareholders of the Company from the discontinued operation	**HK$9,556,000**	HK$2,836,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 17)*	**655,305,260**	499,351,013
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation *(note 17)*	**661,298,859**	N/A

Notes to Financial Statements

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15. Profit for the Year Attributable to Shareholders of the Company

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2007 includes a profit of HK$231,099,000 (2006: a loss of HK$75,735,000) which has been dealt with in the financial statements of the Company (note 37(b)).

16. Proposed Final Dividend

A special final dividend of HK8 cents (2006: Nil) per ordinary share in an aggregate amount of approximately HK$54,702,000, calculated based on 683,781,150 ordinary shares in issue at the date of approval of these financial statements, was proposed for the year. The special final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

17. Earnings Per Share Attributable to Shareholders of the Company

The calculation of basic earnings per share amount is based on the profit for the year attributable to shareholders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amount for the year ended 31 December 2007 is based on the profit for the year attributable to shareholders of the Company, adjusted to reflect the effect of the convertible bonds issued by CIT Development assuming the conversion of all outstanding convertible bonds of CIT Development and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options of the Company into ordinary shares. The exercise of the outstanding share options of CIT Development, a then subsidiary of the Company before becoming an associate of the Company as detailed in notes 6 and 38(b) to the financial statements, during the year ended 31 December 2007 did not have a diluting effect on the Group's basic earnings per share for the year.

A diluted earning per share amount for the year ended 31 December 2006 had not been disclosed as the exercise of the outstanding share options of the Company and CIT Development during that year did not have a diluting effect on the Group's basic earnings per share for that year.

Notes to Financial Statements

31 December 2007

17. Earnings Per Share Attributable to Shareholders of the Company (continued)

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

	2007 HK$'000	2006 HK$'000
Earnings:		
Profit for the year attributable to shareholders of the Company,		
From continuing operations	**307,924**	9,244
From the discontinued operation – *note 14(c)*	**9,556**	2,836
	317,480	12,080
Decrease in the Group's share of profit of CIT Development by the Group, as a result of the dilution of interest in CIT Development assuming that all outstanding convertible bonds issued by CIT Development were converted	**(3,658)**	–
Profit for the year attributable to shareholders of the Company, used in the diluted earnings per share calculation	**313,822**	12,080
Attributable to:		
Continued operations	**304,266**	9,244
Discontinued operation	**9,556**	2,836
	313,822	12,080

	2007	2006
Number of ordinary shares:		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**655,305,260**	499,351,013
Effect of dilution of share options – weighted average number of ordinary shares	**5,993,599**	
Weighted average number of ordinary shares used in diluted earnings per share calculation	**661,298,859**	

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18. Property, Plant and Equipment

Group

	Notes	Buildings HK$'000 (notes (a) and (b))	Leasehold improve-ments HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2007						
Net carrying amount:						
At 1 January 2007		33,793	11,949	18,938	4,178	68,858
Additions		–	138	3,139	679	3,956
Depreciation provided for the year		(887)	(1,742)	(3,632)	(934)	(7,195)
Disposals		(32,119)	(182)	(71)	(27)	(32,399)
Disposal of subsidiaries	*38(a)*	(855)	(9,476)	(9,096)	(721)	(20,148)
Deconsolidation of subsidiaries	*38(b)*	–	(155)	(3,882)	(1,471)	(5,508)
Exchange realignment		68	61	336	120	585
At 31 December 2007		–	593	5,732	1,824	8,149
At 31 December 2007:						
Cost		–	3,055	20,567	4,106	27,728
Accumulated depreciation		–	(2,462)	(14,835)	(2,282)	(19,579)
Net carrying amount		–	593	5,732	1,824	8,149

Notes to Financial Statements

31 December 2007

18. Property, Plant and Equipment (continued)

Group (continued)

	Note	Buildings HK$'000 (notes (a) and (b))	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006						
At 1 January 2006:						
Cost or valuation		63,881	47,086	49,985	8,283	169,235
Accumulated depreciation and impairment		(18,149)	(38,992)	(34,884)	(4,582)	(96,607)
Net carrying amount		45,732	8,094	15,101	3,701	72,628
Net carrying amount:						
At 1 January 2006		45,732	8,094	15,101	3,701	72,628
Additions		864	8,297	10,894	1,856	21,911
Depreciation provided for the year		(1,096)	(4,214)	(7,387)	(1,339)	(14,036)
Disposals		–	(430)	(204)	(152)	(786)
Transfer to investment properties	19	(11,750)	–	–	–	(11,750)
Exchange realignment		43	202	534	112	891
At 31 December 2006		33,793	11,949	18,938	4,178	68,858
At 31 December 2006:						
Cost or valuation		45,563	49,401	59,512	8,702	163,178
Accumulated depreciation		(11,770)	(37,452)	(40,574)	(4,524)	(94,320)
Net carrying amount		33,793	11,949	18,938	4,178	68,858
Analysis of cost or valuation:						
At cost		2,063	49,401	59,512	8,702	119,678
At 31 December 1994 valuation		43,500	–	–	–	43,500
		45,563	49,401	59,512	8,702	163,178

Notes to Financial Statements

31 December 2007

18. Property, Plant and Equipment (continued)

Company

	Buildings HK$'000 *(notes (a) and (b))*	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2007					
Net carrying amount:					
At 1 January 2007	31,871	291	178	96	32,436
Additions	–	–	30	–	30
Depreciation provided for the year	(855)	(149)	(73)	(69)	(1,146)
Disposals	(31,016)	–	(18)	(27)	(31,061)
At 31 December 2007	–	142	117	–	259
At 31 December 2007:					
Cost	–	811	365	–	1,176
Accumulated depreciation	–	(669)	(248)	–	(917)
Net carrying amount	–	142	117	–	259

Notes to Financial Statements

31 December 2007

18. Property, Plant and Equipment (continued)

Company (continued)

	Buildings HK$'000 *(notes (a) and (b))*	Leasehold improve-ments HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2006					
At 1 January 2006:					
Cost or valuation	43,500	1,102	420	1,421	46,443
Accumulated depreciation	(10,602)	(942)	(230)	(1,178)	(12,952)
Net carrying amount	32,898	160	190	243	33,491
Net carrying amount:					
At 1 January 2006	32,898	160	190	243	33,491
Additions	–	681	73	–	754
Depreciation provided for the year	(1,027)	(461)	(71)	(147)	(1,706)
Disposals	–	(89)	(14)	–	(103)
At 31 December 2006	31,871	291	178	96	32,436
At 31 December 2006:					
Cost or valuation	43,500	1,148	374	234	45,256
Accumulated depreciation	(11,629)	(857)	(196)	(138)	(12,820)
Net carrying amount	31,871	291	178	96	32,436
Analysis of cost or valuation:					
At cost	–	1,148	374	234	1,756
At 31 December 1994 valuation	43,500	–	–	–	43,500
	43,500	1,148	374	234	45,256

Notes to Financial Statements

31 December 2007

18. Property, Plant and Equipment (continued)

Notes:

(a) A revaluation of all the Company's buildings situated in Hong Kong was carried out by CB Richard Ellis Limited, independent professionally qualified valuers, on an open market, existing use basis as at 31 December 1994. Since 1995, no further revaluations of the buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions in paragraph 80A of HKAS 16 from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time. The buildings were disposed of during the year ended 31 December 2007.

(b) In the prior year, as at 31 December 2006, all the Company's buildings with a then aggregate net carrying amount of HK$31,871,000 were pledged to secure general banking facilities granted to the Group and the Company (note 34(b)(i)).

19. Investment Properties

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Carrying amount at 1 January		**48,390**	34,400
Transfer from property, plant and equipment	*18*	**–**	11,750
Fair value gains on revaluation	*5*	**4,265**	1,490
Disposal		**(12,750)**	–
Exchange realignment		**2,275**	750
Carrying amount at 31 December		**42,180**	48,390

The Group's investment properties were revalued on 31 December 2007 by 北京岳華德威資產評估有限公司, independent professionally qualified valuers registered in the PRC, on an open market, existing use basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40(a) to the financial statements.

In the prior year, as at 31 December 2006, an investment property of the Group with a then carrying amount of HK$12,750,000 was pledged to secure general banking facilities granted to the Group (note 34(b)(ii)).

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20. Goodwill

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising on the acquisition of subsidiaries is as follows:

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
At 1 January:			
Cost and net carrying amount		**140,964**	140,964
Net carrying amount:			
At 1 January		**140,964**	140,964
Impairment during the year recognised in the income statement	*(a)*	**(35,345)**	–
Derecognition upon deemed disposal of a partial interest a subsidiary	*(b)*	**(5,931)**	–
Reclassification to interests in associates as a result of a subsidiary becoming an associate during the year	*(b), 24(c)*	**(27,991)**	–
Disposal of subsidiaries	*(c), 38(a)*	**(3,072)**	–
At 31 December		**68,625**	140,964
At 31 December:			
Cost		**103,970**	140,964
Accumulated impairment		**(35,345)**	–
Net carrying amount		**68,625**	140,964

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31 December 2007

20. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units in terms of principal subsidiaries for impairment testing.

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Beijing Enterprises Teletron Information Technology Co., Ltd. ("BETIT")	*(a)*	**68,625**	85,236
Beijing Enterprises Jetrich Holdings Limited ("Jetrich")	*(a)*	**–**	18,734
CIT Development	*(b)*	**–**	33,922
廣州市東山區富臨飯店	*(c)*	**–**	1,545
北京博大電信通網絡技術有限公司 ("Boda")	*(c)*	**–**	1,527
		68,625	140,964

Notes:

(a) The recoverable amount of each of these cash-generating units is determined by reference to a business valuation performed by American Appraisal Limited, independent professionally qualified valuers, or the directors of the Company, where applicable, based on a value-in-use calculation. The calculation used cash flow projections based on financial budgets covering a five-year period as approved by senior management. The discount rate applied to the cash flow projections is 12% (2006: 12%), which is before tax and reflects specific risk relating to the relevant units. Budgeted gross margins are based on both the historical gross margin of the information technology and the expected market growth rates which range from 5% to 15%. The values assigned to the key assumptions are consistent with external information sources.

Based on the results of the impairment tests, impairment provisions of HK$16,611,000 and HK$18,734,000 have been recognised in the income statement for the year ended 31 December 2007 for the goodwill attributable to the BETIT and Jetrich cash-generating units, respectively, as the senior management of the Group believes that the recoverable amounts of the relevant business units are less than their respective carrying amounts with reference to the business valuations.

Notes to Financial Statements

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20. Goodwill (continued)

Impairment testing of goodwill (continued)

Notes: (continued)

(b) Goodwill allocated to CIT Development of HK$5,931,000 in aggregate was derecognised upon the dilution of the Group's effective equity interest in CIT Development from 55.05% to 45.43% following the issuance of 300,000,000 and 468,000,000 new ordinary shares by CIT Development in February and May 2007, respectively, and the exercise of share options of CIT Development by certain share option holders for 46,300,000 ordinary shares of CIT Development in aggregate during the period from March to April 2007.

CIT Development ceased to be a subsidiary and became an associate of the Group upon its issuance of 468,000,000 new ordinary shares in May 2007. Accordingly, the remaining goodwill of HK$27,991,000 that is attributable to the acquisition of CIT Development has been reclassified to interests in associates. Further details of the deconsolidation of CIT Development and its subsidiaries are set out in note 38(b) to the financial statements.

(c) The goodwill that has been allocated to these subsidiaries in the prior year was derecognised during the year upon disposals of the Group's interests in these subsidiaries during the year (note 38(a)).

21. Other Intangible Assets

Group

	Management information systems HK$'000	Licences HK$'000	Deferred development costs * HK$'000	Total HK$'000
31 December 2007				
Net carrying amount:				
At 1 January 2007	9,667	1,167	955	11,789
Amortisation provided for the year	(2,000)	(417)	(273)	(2,690)
Deconsolidation of subsidiaries *(note 38(b))*	–	(384)	(682)	(1,066)
Exchange realignment	489	24	–	513
At 31 December 2007	8,156	390	–	8,546
At 31 December 2007:				
Cost	21,277	2,128	–	23,405
Accumulated amortisation	(13,121)	(1,738)	–	(14,859)
Net carrying amount	8,156	390	–	8,546

Notes to Financial Statements

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21. Other Intangible Assets (continued)

Group (continued)

	Management information systems HK$'000	Licences HK$'000	Deferred development costs* HK$'000	Total HK$'000
31 December 2006				
At 1 January 2006:				
Cost	19,231	2,404	–	21,635
Accumulated amortisation	(8,013)	(849)	–	(8,862)
Net carrying amount	11,218	1,555	–	12,773
Net carrying amount:				
At 1 January 2006	11,218	1,555	–	12,773
Additions	–	–	1,639	1,639
Amortisation provided for the year	(2,000)	(449)	(670)	(3,119)
Exchange realignment	449	61	(14)	496
At 31 December 2006	9,667	1,167	955	11,789
At 31 December 2006:				
Cost	20,000	2,500	1,639	24,139
Accumulated amortisation	(10,333)	(1,333)	(684)	(12,350)
Net carrying amount	9,667	1,167	955	11,789

* Internally generated

Notes to Financial Statements

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22. Interests in Subsidiaries

		Company	
		2007	2006
	Notes	**HK$'000**	HK$'000
Unlisted shares, at cost		**236,357**	218,924
Due from subsidiaries	*(a)*	**354,887**	214,673
Loan to a subsidiary	*(b)*	**–**	6,000
		591,244	439,597
Less: Impairment for unlisted shares	*(c)*	**(24,412)**	(3,836)
Impairment for amounts due from subsidiaries	*(d)*	**(159,566)**	(126,998)
		(183,978)	(130,834)
		407,266	308,763

Notes:

(a) The amounts due from subsidiaries included in the interests in subsidiaries above are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

(b) The loan to a subsidiary as at 31 December 2006 is unsecured, bears interest at 4.5% per annum and is repayable in 2008. The carrying amount of the loan approximates to its fair value.

(c) An impairment was recognised for certain unlisted investments with a carrying amount of HK$24,412,000 (before deducting the impairment loss) (2006: HK$3,836,000) because these subsidiaries had been loss-making for some time.

Notes to Financial Statements

31 December 2007

22. Interests in Subsidiaries (continued)

Notes: (continued)

(d) The movement in the provision for impairment of the amounts due from subsidiaries is as follows:

	Company	
	2007	2006
	HK$'000	HK$'000
At 1 January	**126,998**	67,000
Impairment during the year recognised in the income statement	**32,568**	59,998
At 31 December	**159,566**	126,998

(e) Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
Beijing Singapore Investments Pte. Ltd.$^{\delta}$	Singapore	SGD800,000	90	90	Property and investment holding
Beijing Enterprises Teletron Information Technology Co., Ltd.#	PRC/ Mainland China	RMB100,000,000	–	72	Construction of information networks and provision of IT technical support and consultation services
北京市電信通系統集成有限公司*	PRC/ Mainland China	RMB1,000,000	–	36.7@	Provision of networking Services
北京捷通瑞奇信息技術有限公司$^{\Omega}$	PRC/ Mainland China	RMB5,000,000	–	63	Construction of information networks and provision of IT technical support services

Notes to Financial Statements

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22. Interests in Subsidiaries (continued)

Notes: (continued)

(e) (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up capital/ registered capital	Percentage of attributable equity interest held by Company	Percentage of attributable equity interest held by Group	Principal activities
Beijing Development Property Investment and Management Co., Ltd.*	PRC/ Mainland China	US$4,000,000	–	85.5	Property investment
北京電信通智能科技有限公司[Ω]	PRC/ Mainland China	RMB1,100,000	–	57.6	Provision of system integration services
Beijing Enterprises Jetrich (Beijing) Limited[#]	PRC/ Mainland China	US$2,450,000	–	72	Provision of total education solutions
北控軟件有限公司[Ω]	PRC/ Mainland China	RMB50,000,000	–	68.4	Provision of management information system services
湖南教育信息服務有限公司[Ω]	PRC/ Mainland China	RMB10,000,000	–	41.0[@]	Construction of information networks and provision of IT technical support services

δ Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

\# Registered as a wholly-foreign-owned enterprise under the PRC law.

* Registered as Sino-foreign joint ventures under the PRC law.

Ω Registered as limited liability companies under the PRC law.

@ These entities are accounted for as subsidiaries by virtue of the Company's control over them.

Notes to Financial Statements

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22. Interests in Subsidiaries (continued)

Notes: (continued)

(e) (continued)

The principal subsidiaries disposed of by the Group during the year included BD Ah Yat and its subsidiaries, further details of the disposal transaction are included in notes 14 and 38(a) to the financial statements.

Certain subsidiaries of the Group have been deconsolidated during the year, further details of which are included in notes 6 and 38(b) to the financial statements.

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.

23. Interests in Jointly-controlled Entities

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Share of net assets	*(a)*	**28,782**	44,453
Due from a jointly-controlled entity	*(b)*	**1,106**	–
Goodwill on acquisition	*(c)*	**–**	23,067
		29,888	67,520

Notes to Financial Statements

31 December 2007

23. Interests in Jointly-controlled Entities (continued)

Notes:

(a) The following tables illustrate the summarised financial information of the Group's jointly-controlled entities:

	2007 HK$'000	2006 HK$'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**170,827**	144,974
Current assets	**181,505**	104,287
Current liabilities	**(348,192)**	(146,758)
Non-current liabilities	**–**	(58,050)
Losses in excess of investment cost not absorbed by the Group	**24,642**	–
Net assets	**28,782**	44,453
Share of the jointly-controlled entities' results:		
Revenue	**49,617**	165,444
Other income	**143**	97
Total revenue	**49,760**	165,541
Total expenses	**(104,363)**	(164,249)
Tax	**(2,092)**	(604)
Profit/(loss) for the year	**(56,695)**	688
Loss in excess of investment cost not absorbed by the Group	**24,642**	–
Profit/(loss) for the year shared by the Group	**(32,053)**	688
Impairment of goodwill during the year recognised in the income statement *(note (c))*	**(23,067)**	–
Total profit/(loss) for the year shared by the Group	**(55,120)**	688
Attributable to:		
Continuing operations reported in the consolidated income statement	**(56,225)**	1,163
Discontinued operation – *note 14(a)*	**1,105**	(475)
	(55,120)	688

Notes to Financial Statements

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23. Interests in Jointly-controlled Entities (continued)

Notes: (continued)

(b) The balance with the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the balance approximates to its fair value.

(c) The amount of goodwill included in the interests in jointly-controlled entities of the Group, arising on the acquisition of 北京市政交通一卡通有限公司 ("BMAC"), is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
At 1 January:		
Cost and net carrying amount	**23,067**	23,067
Net carrying amount:		
At 1 January	**23,067**	23,067
Impairment during the year recognised in the income statement *(note (a))*	**(23,067)**	–
At 31 December	**–**	23,067
At 31 December:		
Cost	**23,067**	23,067
Accumulated impairment	**(23,067)**	–
	–	23,067

Impairment testing of goodwill

BMAC was established in Mainland China and is principally engaged in the operations of contactless multi-purpose electronic payment cards in Beijing, the PRC. During the year ended 31 December 2007, majority of the smart card transactions of BMAC were attributable to major bus and subway operators in Beijing, with which BMAC has not yet reached a consensus or an agreement regarding the handling charges of the smart card transactions to be charged by BMAC as at the date of approval of these financial statements. Accordingly, in the opinion of the management of BMAC and directors of the Company, a reliable financial budgets or cash flow projections could not be prepared for the purpose of the impairment testing of the goodwill arising on the acquisition of BMAC.

Owing to the uncertainty as to the future profitability of BMAC, in the opinion of the directors of the Company, the recoverable amount of the BMAC cash-generating unit would be significantly lower than its carrying amount and a full impairment provision against the goodwill arising on the acquisition of BMAC of HK$23,067,000 was made during the year ended 31 December 2007.

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23. Interests in Jointly-controlled Entities (continued)

Notes: (continued)

(d) Particulars of the jointly-controlled entities, which are all indirectly held by the Company and registered/operated in Mainland China, are as follows:

Name	Paid-up and registered capital	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
北京教育信息網服務中心有限公司	RMB12,000,000	36	50	36	Provision of information network services
北京市政交通一卡通有限公司 ("BMAC")	RMB100,000,000	43	44.4	43	Operations of contactless multi-purpose electronic payment cards
北京地鐵信息發展有限公司[δ]	RMB51,000,000	51	57.1	51	Provision of communication platform for the subway

δ Incorporated during the year

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24. Interests in Associates

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Share of net assets	*(a)*	**365,977**	1,247
Due from an associate	*(b)*	**15,610**	15,577
Goodwill on acquisition	*(c)*	**18,735**	–
		400,322	16,824
Impairment for the amount due from an associate	*(d)*	**(15,610)**	(10,000)
		384,712	6,824

Notes:

(a) The following tables illustrate the summarised financial information of the Group's associates:

	2007	2006
	HK$'000	HK$'000
Share of the associates' assets and liabilities:		
Non-current assets	**337,459**	14,707
Current assets	**122,198**	7,825
Current liabilities	**(35,818)**	(9,058)
Non-current liabilities	**(53,969)**	(12,227)
Minority interests	**(3,893)**	–
Net assets	**365,977**	1,247
Shares of the associates' results:		
Revenues	**45,420**	4,492
Profit/(loss) for the year attributable to continuing operations reported in the consolidated income statement	**5,193**	(398)

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24. Interests in Associates (continued)

Notes: (continued)

(b) The balance with the associate is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of the balance approximates to its fair value.

(c) The amount of the goodwill capitalised as an asset included in the interests in associates, arising on the acquisition of CIT Development and its subsidiaries, is as follows:

	Note	2007 HK$'000	2006 HK$'000
Cost and net carrying amount:			
At 1 January		**–**	–
Reclassification from goodwill of the Group as a result of a subsidiary becoming an associate during the year[δ]	*20*	**27,991**	–
Derecognition upon disposal of a partial interest in an associate[#]		**(2,908)**	–
Derecognition upon deemed disposal of a partial interest in an associate[@]		**(6,348)**	–
At 31 December		**18,735**	–

δ The goodwill was reclassified from the goodwill of the Group during the year when CIT Development became an associate of the Group in May 2007, further details of which are set out in note 20(b) to the financial statements.

\# Goodwill of HK$2,908,000 was derecognised upon the disposal of 220,000,000 ordinary shares of CIT Development in June 2007 by the Group (note 7).

@ Goodwill of HK$6,348,000 in aggregate was derecognised upon the dilution of the Group's effective equity interest in CIT Development following (i) the exercise of share options of CIT Development by certain share option holders for 17,000,000 ordinary shares of CIT Development in aggregate during the period from May to September 2007; and (ii) the issuance of 1,560,000,000 new shares by CIT Development in September 2007 (note 8).

Impairment testing of goodwill

The recoverable amount of CIT Development cash-generating unit is determined based on a value-in-use calculation. The calculation used cash flow projections based on financial budgets covering a five-year period as approved by senior management. The discount rate applied to the cash flow projections is 13%, which is before tax and reflects specific risk relating to the relevant units. Budgeted gross margins are based on both the historical gross margin of the information technology and a expected constant market growth rate of 3% which is expected long term inflation rate of Mainland China. The values assigned to the key assumptions are consistent with external information sources.

Notes to Financial Statements

31 December 2007

24. Interests in Associates (continued)

Notes: (continued)

(d) The movements in the provision for impairment of the amount due from an associate are as follows:

		Group	
	Note	**2007** **HK$'000**	2006 HK$'000
At 1 January		**10,000**	4,974
Impairment during the year recognised in the income statement	*10*	**3,973**	5,500
Exchange realignment		**1,637**	(474)
At 31 December		**15,610**	10,000

(e) Particulars of the principal associates, which are all indirectly held by the Company, are as follows:

Name	**Place of registration/ incorporation and operations**	**Nominal value of issued and paid-up capital/ registered capital**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
CIT Development*	Cayman Islands/ Hong Kong	HK$62,339,000	30.41	Investment holding
Overseas Union Investments Limited	Hong Kong	HK$10,000	50	Investment holding
北京千龍網都科技有限公司	PRC/ Mainland China	RMB10,000,000	25	Sale of IT products
北京北控電信通智能科技有限公司	PRC/ Mainland China	RMB10,000,000	25	Provision for system integration services

* Shares of CIT Development are listed on the Growth Enterprises Market Board of the Stock Exchange. The fair value of the ordinary shares of CIT Development held by the Group as at 31 December 2007, based on its then published price quotation, amounted to approximately HK$1,307,904,000.

The above table lists the associates of the Group 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 associates would, in the opinion of the directors, result in particulars of excessive length.

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25. Available-for-sale Investments

	Group	
	2007	2006
	HK$'000	HK$'000
Unlisted golf club debenture, at fair value	–	690
Unlisted equity investments, at cost	–	1,487
	–	2,177
Impairment	–	(1,017)
	–	1,160

In the prior year, as at 31 December 2006, the Group's unlisted equity investments were not stated at fair value but at cost, because they did not have a quoted market price in an active market, the range of reasonable fair value estimates is significant for these investments and the probabilities of the various estimates cannot be reasonably assessed.

26. Deferred Tax Assets

The components of deferred tax assets and the movements during the year are as follows:

Group

	Decelerated/ (accelerated) tax depreciation	**Impairment of trade and bills receivables**	**Total**
	HK$'000	HK$'000	HK$'000
At 1 January 2006	121	612	733
Deferred tax charged to the income statement during the year *(note 13)*	(195)	(84)	(279)
Exchange realignment	5	25	30
At 31 December 2006 and 1 January 2007	(69)	553	484
Deferred tax credited/(charged) to the income statement during the year *(note 13)*	(92)	281	189
Exchange realignment	(4)	35	31
At 31 December 2007	**(165)**	**869**	**704**

Notes to Financial Statements

31 December 2007

26. Deferred Tax Assets (continued)

The Group has tax losses arising in Hong Kong and Singapore of HK$141,447,000 (2006: HK$139,010,000) that are available indefinitely, and of HK$11,821,000 (2006: HK$42,066,000) in Mainland China that are available for a maximum of five years, 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.

At 31 December 2007, there was no significant unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, jointly-controlled entities or associates (2006: Nil).

27. Inventories

Inventories of the Group are materials and equipment held for construction contracts.

28. Amounts Due from/to Customers for Contract Work

	Group	
	2007	2006
	HK$'000	HK$'000
Amounts due from customers for contract work	**29,880**	12,717
Amounts due to customers for contract work	**(15,487)**	(15,998)
	14,393	(3,281)
Contract costs incurred plus recognised profits less recognised losses to date	**54,803**	16,298
Less: Progress billings	**(40,410)**	(19,579)
	14,393	(3,281)

Notes to Financial Statements

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29. Trade and Bills Receivables

		Group	
	Notes	2007 HK$'000	2006 HK$'000
Trade and bills receivables due from:			
Third parties		**128,766**	169,003
A substantial shareholder	*(a)*	**1,017**	–
A jointly-controlled entity	*(a)*	**53**	1,024
Related companies	*(a), (b)*	**6,117**	13,050
		135,953	183,077
Impairment	*(c)*	**(23,876)**	(13,952)
	(d)	**112,077**	169,125
Portion classified as current assets		**(95,522)**	(161,369)
Non-current portion		**16,555**	7,756

Notes:

(a) The balances with the substantial shareholder, jointly-controlled entity and related companies are unsecured, interest-free and have no fixed terms of repayment.

(b) Included in the amounts due from related companies is an amount of HK$4,787,000 (2006: HK$11,800,000) due from a company which has a common director with the Company. The maximum outstanding amount due from this related company during the year was HK$11,800,000 (2006: HK$32,062,000).

(c) The movements in the provision for impairment of trade and bills receivables are as follows:

	Group	
	2007 HK$'000	2006 HK$'000
At 1 January	**13,952**	30,146
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 10)*	**9,034**	(16,147)
Exchange realignment	**890**	(47)
At 31 December	**23,876**	13,952

The above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and 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.

Notes to Financial Statements

31 December 2007

29. Trade and Bills Receivables (continued)

Notes: (continued)

(d) The various group companies have different credit policies, depending on the requirements of their markets in which they operate and the businesses they engage in. Certain customers are allowed to settle the construction contract sum by three annual instalments. An aged analysis of the trade and bills receivables is regularly prepared and closely monitored in order to minimise any related credit risk. Trade and bills receivables are non-interest-bearing.

An aged analysis of the Group's trade and bills receivables as at the balance sheet date, based on the payment due date and net of impairment, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Neither past due nor impaired	**16,555**	7,756
Past due but not impaired:		
Current and within 3 months	**76,748**	129,338
4 to 6 months	**5,181**	1,346
7 to 12 months	**6,976**	14,369
Over 1 year	**6,617**	16,316
	95,522	161,369
	112,077	169,125

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

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 Financial Statements

31 December 2007

30. Prepayments, Deposits and Other Receivables

		Group		Company	
		2007	2006	**2007**	2006
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Prepayments		**2,591**	4,733	**291**	295
Deposits and other receivables		**72,221**	102,649	**7,614**	347
Loans to subsidiaries	*(a)*	**–**	–	**6,383**	37,927
Due from subsidiaries	*(b)*	**–**	–	**29,759**	25,568
Due from jointly-controlled entities	*(b)*	**2,580**	5,570	**–**	–
Due from an associate	*(b)*	**364**	5	**–**	–
Due from related companies	*(b)*	**21,974**	17,776	**–**	732
Due from minority shareholders	*(b)*	**1,704**	1,625	**–**	–
		101,434	132,358	**44,047**	64,869
Impairment	*(c)*	**(9,839)**	(2,940)	**(11,207)**	(6,000)
		91,595	129,418	**32,840**	58,869
Portion classified as current assets		**(91,595)**	(128,621)	**(32,840)**	(58,869)
Non-current portion		**–**	797	**–**	–

Notes:

(a) The loan to a subsidiary of HK$6,383,000 as at 31 December 2007 is unsecured, bears interest at 4.5% per annum and is repayable in 2008. The loans to subsidiaries as at 31 December 2006 comprised two unsecured loans with respective principal amounts of HK$12,913,000 and HK$25,014,000, which bore interest at 5.0% and 4.75%, respectively and were repayable in 2007 and had no fixed terms of repayment, respectively.

(b) The balances with subsidiaries, jointly-controlled entities, an associate, related companies and minority shareholders are unsecured, interest-free and have no fixed terms of repayment, expect for an amount of HK$17,285,000 (2006: HK$11,297,000) due from a related company which is repayable by instalments by 2008. Included in the balances is an amount due from a related company, which has a common director with the Company, with the maximum amount outstanding during the year amounting to HK$17,285,000 (2006: HK$19,187,000).

Notes to Financial Statements

31 December 2007

30. Prepayments, Deposits and Other Receivables (continued)

Notes: (continued)

(c) The movements in the provision for impairment of other receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 1 January	**2,940**	9,558	**6,000**	–
Impairment/(reversal of impairment) during the year recognised in the income statement, net *(note 10)*	**6,711**	(7,000)	**5,207**	6,000
Exchange realignment	**188**	382	**–**	–
At 31 December	**9,839**	2,940	**11,207**	6,000

31. Pledged Deposits and Cash and Cash Equivalents

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**728,263**	302,383	**507,755**	46,160
Less: Pledged deposits *(note (a))*	**(9,890)**	(21,331)	**–**	–
Cash and cash equivalents	**718,373**	281,052	**507,755**	46,160

Notes:

(a) The Group's pledged deposits of HK$9,890,000 (2006: HK$20,808,000) as at 31 December 2007 served as tender deposits to secure certain construction contracts of the Group. In addition to that, in the prior year, certain bank deposits of the Group in an aggregate amount of HK$523,000 as at 31 December 2006 were pledged to banks to secure certain bank borrowings of the Group (note 34(b)(iii)).

(b) At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$253,806,000 (2006: HK$243,284,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to Financial Statements

31 December 2007

31. Pledged Deposits and Cash and Cash Equivalents (continued)

Notes: (continued)

(c) 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 one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts the cash and bank balances approximate to their fair values.

32. Trade and Bills Payables

An aged analysis of the Group's trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Within 3 months	**185,867**	74,992
4 to 6 months	**16,213**	4,542
7 to 12 months	**5,516**	3,026
Over 1 year	**8,002**	13,631
	215,598	96,191
Comprising amounts payable to:		
Third parties	**198,434**	91,260
A jointly-controlled entity	**–**	1,056
Associates	**12,718**	3,875
A related company	**4,446**	–
	215,598	96,191

The balances with the jointly-controlled entity, associates and the related company are unsecured, interest-free and have no fixed terms of repayment.

The trade and bills payables are non-interest-bearing and normally settled within 30 to 90 days.

Notes to Financial Statements

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33. Other Payables and Accruals

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other liabilities	**53,922**	110,474	**613**	989
Accruals	**17,770**	37,187	**3,571**	1,968
Temporary receipt	**7,145**	–	**7,145**	–
Due to a subsidiary	**–**	–	**1,885**	1,927
Due to a jointly-controlled entity	**64**	10	**–**	–
Due to an associate	**3,917**	2	**–**	–
Due to related companies	**2,074**	–	**–**	–
Due to minority shareholders	**–**	11,008	**–**	–
	84,892	158,681	**13,214**	4,884

The balances with the subsidiary, jointly-controlled entity, associate, related companies and minority shareholders are unsecured, interest-free and have no fixed terms of repayment.

Other liabilities are non-interest-bearing and have an average term of 3 to 6 months.

Notes to Financial Statements

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34. Bank Borrowings

	Group	
	2007	2006
	HK$'000	HK$'000
Trust receipt loans, secured	–	3,001
Bank loans:		
Secured	–	4,911
Unsecured	–	75,439
	–	80,350
Total bank borrowings	–	83,351
Bank borrowings repayable:		
Within one year or on demand	–	76,928
In the second year	–	2,850
In the third to fifth years, inclusive	–	2,363
After five years	–	1,210
	–	83,351
Portion classified as current liabilities	–	(76,928)
Non-current portion	–	6,423

Notes to Financial Statements

31 December 2007

34. Bank Borrowings (continued)

Notes:

(a) The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Group	
	2007	2006
	HK$'000	HK$'000
RMB	–	70,000
Singapore dollars	–	11,862
Malaysian Ringgits	–	656
Indonesia Rupiah	–	833
	–	83,351

(b) The Group's secured bank borrowings as at 31 December 2006 were secured by:

(i) certain buildings of the Group with a then aggregate net carrying amount of HK$31,871,000 (note 18(b));

(ii) an investment property of the Group with a then carrying value of HK$12,750,000 (note 19);

(iii) certain bank deposits of the Group of HK$523,000 (note 31(a)); and

(iv) leasehold land and buildings held by a minority shareholder of a subsidiary.

(c) The carrying amounts of the Group's bank borrowings as at 31 December 2006 approximated to their fair values.

Notes to Financial Statements

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35. Share Capital

	Company 2007 HK$'000	Company 2006 HK$'000
Authorised:		
1,000,000,000 ordinary shares of HK$1 each	**1,000,000**	1,000,000
Issued and fully paid:		
681,481,150 (2006: 591,981,150) ordinary shares of HK$1 each	**681,481**	591,981

A summary of the movements in the Company's issued ordinary share capital during the years ended 31 December 2007 and 2006 is as follows:

	Number of shares in issue	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2006	493,981,150	493,981	–	493,981
Allotment of new shares *(note (a))*	98,000,000	98,000	9,800	107,800
Share issue expenses	–	–	(3,839)	(3,839)
At 31 December 2006 and 1 January 2007	591,981,150	591,981	5,961	597,942
Allotment of new shares *(note (b))*	50,000,000	50,000	165,000	215,000
Share options exercised *(note (c))*	39,500,000	39,500	4,175	43,675
Share issue expenses	–	–	(5,856)	(5,856)
At 31 December 2007	681,481,150	681,481	169,280	850,761

Notes to Financial Statements

31 December 2007

35. Share Capital (continued)

Notes:

(a) Pursuant to the placing and subscription agreement entered into between the Company, one of its then holding companies and a placing agent on 30 November 2006, 98,000,000 ordinary shares of the Company were allotted at a price of HK$1.1 each to the then holding company for a total cash consideration, before any issuance expenses, of HK$107,800,000.

(b) Pursuant to the placing and subscription agreement entered into between the Company, a substantial shareholder of the Company and a placing agent on 11 June 2007, 50,000,000 ordinary shares of the Company were allotted at a price of HK$4.3 each to the substantial shareholder for a total cash consideration, before any issuance expenses, of HK$215,000,000.

(c) During the year ended 31 December 2007, the subscription rights attaching to 39,500,000 share options were exercised at the subscription price of HK$1 per share, resulting in the issue of 39,500,000 ordinary shares of HK$1 each for a total cash consideration of HK$39,500,000. Details of the Company's share option scheme (the "Scheme") and the share options issued under the Scheme are included in note 36 to the financial statements.

36. Share Option Scheme

The Company operates the Scheme to give executives and key employees of the Group an interest in preserving and maximising shareholders' value in the longer term, to enable the Company and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for future performance. Eligible participants of the Scheme include the executive directors and employees of the Company or any of its subsidiaries. The Scheme became effective on 18 June 2001 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 10% of the number of ordinary shares of the Company in issue at any time. The maximum number of ordinary shares issuable under share options to each eligible participant in the Scheme is limited to 25% of the aggregate number of ordinary shares for the time being issued and issuable under the Scheme.

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 five years from the date on which the offer of the share options is accepted or on the expiry date of the Scheme, whichever is earlier.

Notes to Financial Statements

31 December 2007

36. Share Option Scheme (continued)

The exercise price of the share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Company's ordinary shares on the Stock Exchange on the date of offer of the share options; (ii) the average closing price of the Company's ordinary shares on the Stock Exchange for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's ordinary shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings. The share options are non-transferrable and lapsed when expired or the grantee ceased to be an employee of the Group.

The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The following table sets out the movements in the share options granted under the Scheme during the years ended 31 December 2007 and 2006:

		2007		2006	
	Notes	**Weighted average exercise price (HK$ per share)**	**Number of share options**	Weighted average exercise price (HK$ per share)	Number of share options
At 1 January		**1.00**	**45,200,000**	1.04	28,060,000
Granted during the year	*(a)*	**4.03**	**59,980,000**	1.00	31,500,000
Forfeited during the year	*(b)*	**–**	**–**	1.00	(100,000)
Exercised during the year	*(c)*	**1.00**	**(39,500,000)**	–	–
Lapsed during the year		**–**	**–**	1.07	(14,260,000)
At 31 December	*(d)*	**3.77**	**65,680,000**	1.00	45,200,000

Notes to Financial Statements

31 December 2007

36. Share Option Scheme (continued)

Notes:

(a) 59,980,000 (2006: 31,500,000) share options were granted during the year. The fair value of the share options granted during the year was HK$68,079,000 (2006: HK$5,214,000), of which HK$13,819,000 (2006: HK$5,214,000) was recognised by the Group in the income statement as a share option expense during the year ended 31 December 2007.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the input to the model used:

	2007	2006
Dividend yield (%)	**–**	–
Expected volatility (%)	**53.68**	48.27 to 48.44
Risk-free interest rate (%)	**2.99 to 3.14**	4.68 to 4.71
Expected life of share options (months)	**12 to 31**	24 to 30

The expected life of the share options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the volatility for the last 208 weeks (2006: 24 to 30 months) is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the share options granted was incorporated into the measurement of fair value.

(b) During the year ended 31 December 2006, 100,000 share options were forfeited due to the resignation of an employee during that year.

(c) There were 39,500,000 (2006: Nil) share options exercised during the year. The weighted average share price at the date of exercise for share options exercised during the year was HK$2.65.

(d) At the balance sheet date, the Company had 65,680,000 (2006: 45,200,000) share options outstanding under the Scheme, which represented approximately 9.6% (2006: 7.6%) of the Company's ordinary shares in issue at that date.

Notes to Financial Statements

31 December 2007

36. Share Option Scheme (continued)

Notes: (continued)

(d) (continued)

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2007

Number of share options	**Exercise price** HK$ per share	**Exercise period**
5,700,000	1.0	27 June 2006 – 16 June 2011
59,980,000	4.03	30 October 2007 – 17 June 2011
65,680,000		

2006

Number of share options	**Exercise price** HK$ per share	**Exercise period**
13,800,000	1.0	18 January 2002 – 17 January 2007
31,400,000	1.0	27 June 2006 – 16 June 2011
45,200,000		

The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 65,680,000 (2006: 45,200,000) additional ordinary shares of the Company and additional share capital of HK$65,680,000 (2006: HK$65,680,000) and share premium of approximately HK$181,739,000 (2006: Nil), before any issuance expenses.

Notes to Financial Statements

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37. Reserves

(a) Group

(i) The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 35 and 36 of the financial statements.

(ii) The share option reserve comprises the fair value of share options vested which are yet to be exercised, as further explained in the accounting policy of share-based payment transactions in note 2.4 to the financial statements. The amount will either to be transferred to the share premium account when the related options are exercised, or transferred to retained profits/accumulated losses should the related options expire or be forfeited.

(iii) The capital reserve arose from the deemed disposals of a partial interest in CIT Development and the share of movements in its non-distributable reserves during the year.

(iv) PRC reserve funds are reserves set aside in accordance with the PRC Companies Law or the Law of the PRC on Joint Ventures Using Chinese and Foreign Investment as applicable to the Group's PRC subsidiaries, jointly-controlled entities and associates. None of the Group's PRC reserve funds as of 31 December 2007 was distributable in the form of cash dividends.

Notes to Financial Statements

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37. Reserves (continued)

(b) Company

	Notes	Share premium account HK$'000	Share option reserve HK$'000	Property revaluation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2006		–	–	31,799	(117,876)	(86,077)
Share issue expenses and total income and expense recognised directly in equity	35	(3,839)	–	–	–	(3,839)
Loss for the year		–	–	–	(75,735)	(75,735)
Total income and expense for the year		(3,839)	–	–	(75,735)	(79,574)
Issue of shares	35(a)	9,800	–	–	–	9,800
Equity-settled share option arrangements		–	5,214	–	–	5,214
Transfer to accumulated losses		–	–	(922)	922	–
At 31 December 2006 and 1 January 2007		5,961	5,214	30,877	(192,689)	(150,637)
Share issue expenses and total income and expense recognised directly in equity	35	(5,856)	–	–	–	(5,856)
Profit for the year		–	–	–	231,099	231,099
Total income and expense for the year		(5,856)	–	–	231,099	225,243
Issue of shares	35(b)	165,000	–	–	–	165,000
Exercise of share options	36	4,175	(4,175)	–	–	–
Equity-settled share option arrangements	36	–	13,819	–	–	13,819
Transfer to retained profits		–	–	(30,877)	30,877	–
Proposed 2007 final dividend	16	–	–	–	(54,702)	(54,702)
At 31 December 2007		169,280	14,858	–	14,585	198,723

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38. Disposal and Deconsolidation of Subsidiaries

(a) Disposal of subsidiaries

During the year ended 31 December 2007, the Group disposed of all its entire 51% equity interest in each of BD Ah Yat and Boda for respective cash considerations of HK$25,300,000 and HK$5,000,000, further details of which are set out in notes 14 and 42(b)(i), respectively.

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Net assets disposed of:			
Property, plant and equipment	*18*	**20,148**	–
Interests in jointly-controlled entities		**1,210**	–
Inventories		**53,267**	–
Trade and bills receivables		**7,985**	–
Prepayments, deposits and other receivables		**20,050**	–
Pledged deposits		**523**	–
Cash and bank balances		**18,562**	–
Trade and bills payables		**(18,209)**	–
Tax payable		**(2,775)**	–
Other payables and accruals		**(41,919)**	–
Bank borrowings		**(16,627)**	–
Minority interests		**(18,484)**	–
		23,731	
Goodwill derecognised upon disposal	*20*	**3,072**	–
Exchange fluctuation reserve realised		**(820)**	–
Costs associated with the disposals		**300**	–
Gain on disposal of interests in subsidiaries, net	*5*	**4,017**	–
		30,300	–
Satisfied by cash consideration, at fair value		**30,300**	–

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38. Disposal and Deconsolidation of Subsidiaries (continued)

(a) Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Notes	2007 HK$'000	2006 HK$'000
Cash and bank balances disposed of		**(18,562)**	–
Cash consideration, at fair value		**30,300**	–
Considerations receivable at end of year	*14, 42(b)(i)*	**(12,313)**	–
Costs associated with the disposals		**(300)**	–
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries		**(875)**	–

(b) Deconsolidation of subsidiaries

Owing to the dilution of the Group's effective equity interest in CIT Development from 50.5% to 45.53% upon the issuance of 468,000,000 new ordinary shares by CIT Development in May 2007, CIT Development ceased to be a subsidiary of the Group and became an associate of the Group during the year (note 6). Accordingly, CIT Development and its subsidiaries were deconsolidated during the year ended 31 December 2007.

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38. Disposal and Deconsolidation of Subsidiaries (continued)

(b) Deconsolidation of subsidiaries (continued)

An analysis of the net assets deconsolidated in respect of which is as follows:

	Notes	2007 HK$'000	2006 HK$'000
Net assets deconsolidated:			
Property, plant and equipment	18	5,508	–
Other intangible assets	21	1,066	–
Inventories		3,449	–
Trade and bills receivables		42,918	–
Prepayments, deposits and other receivables		10,336	–
Cash and bank balances		182,915	–
Trade and bills payables		(7,579)	–
Tax payable		(1,121)	–
Other payables and accruals		(4,821)	–
Minority interests		(131,417)	–
		101,254	–
Reclassification to interests in associates from interests in subsidiaries		101,254	–

An analysis of the net outflow of cash and cash equivalents in respect of the deconsolidation of CIT Development and its subsidiaries is as follows:

	2007 HK$'000	2006 HK$'000
Cash and bank balances deconsolidated and the net outflow of cash and cash equivalents in respect of the deconsolidation of subsidiaries	(182,915)	–

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39. Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31 December 2007 (2006: Nil).

At the balance sheet date, contingent liabilities of the Company not provided for in the financial statements comprised guarantees of HK$212,766,000 (2006: HK$181,500,000) in aggregate given to banks in connection with the banking facilities granted to subsidiaries, which had not been utilised as at 31 December 2007 (2006: utilised to the extent of HK$74,255,000).

40. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties (note 19) under operating lease arrangements, with the leases negotiated for terms ranging from 1 to 5 years (2006: 1 to 5 years). The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**1,916**	2,964
In the second to fifth years, inclusive	**1,010**	6,059
	2,926	9,023

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40. Operating Lease Arrangements (continued)

(b) As lessee

The Group leases certain of its office properties, restaurant premises and staff quarters under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 2 years (2006: 1 to 10 years). In the prior year, under certain lease agreements for the restaurant premises (the operation of which has been discontinued during the year – note 14), contingent rentals in excess of the minimum lease payments were payable if the revenue of such restaurants reached the pre-determined level.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**3,891**	21,475	**1,058**	858
In the second to fifth years, inclusive	**116**	23,459	**110**	385
After five years	**–**	1,353	**–**	–
	4,007	46,287	**1,168**	1,243

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41. Capital Commitments

At the balance sheet date, the Group and the Company had the following capital commitments, which are authorised, but not provided for:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital commitments in respect of:				
Addition capital contribution to jointly-controlled entities	**183,512**	–	**183,512**	–
Establishments of new subsidiaries	**–**	–	**32,979**	–
	183,512	–	**216,491**	–

In addition, the Group had the following capital commitments in respect of its share of the jointly-controlled entities' capital commitments:

	Group	
	2007	2006
	HK$'000	HK$'000
Contracted, but not provided for	**22,171**	16,363
Authorised, but not provided for	**118,152**	–
	140,323	16,363

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42. Related Party Disclosures

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

		Group	
		2007	2006
	Notes	**HK$'000**	HK$'000
Interest paid in respect of a loan from a related company	*(i)*	**–**	1,984
Jointly-controlled entities:			
Sale of products	*(ii)*	**261**	4,055
Purchases of products	*(ii)*	**–**	4
Service fee	*(ii)*	**–**	278
Subcontracting fee paid to an associate	*(ii)*	**21,297**	4,863
Entities which have the common directors with the Company:			
Sale of products	*(ii)*	**–**	631
Subcontracting fee expense paid	*(ii)*	**4,873**	24,552
Subcontracting fee income received	*(ii)*	**–**	4,500

Notes:

(i) The interest paid was charged at 4% per annum on the outstanding loan principal.

(ii) These transactions were conducted in terms and conditions mutually agreed between the parties.

(b) Other transactions with related parties

(i) Pursuant to a share transfer agreement dated 31 December 2007, the Group disposed of its entire 51% equity interest in Boda to a related company, which has a common director with the Company, for a cash consideration of RMB4,700,000 (equivalent to approximately HK$5,000,000). The consideration, which was mutually agreed between the parties with reference to the Group's share of equity interest in Boda as at the date of the share transfer agreement, has not been settled as at 31 December 2007.

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42. Related Party Disclosures (continued)

(b) Other transactions with related parties (continued)

(ii) Pursuant to a service contract (the "Service Contract") dated 1 August 2001 signed between the Group and a related company, which has a common director with the Company, the Group would provide certain IT services to the related company for a period of 20 years from the date of the contract. In accordance with a termination agreement dated 30 December 2004 and its supplemental agreement dated 14 March 2006, the Service Contract was early terminated and the related company agreed to pay a compensation of RMB14,600,000 (approximately HK$15,532,000) to the Group. The compensation was fully settled by the related company during the year ended 31 December 2007 and the compensation, net of business tax levied thereon, of HK$14,755,000 is recognised as an other income in the income statement during the year ended 31 December 2007 (note 5).

(c) Outstanding balances with related parties

(i) Details of the Group's amount due from a jointly-controlled entity and an associate as at the balance sheet date are disclosed in notes 23 and 24 to the financial statements, respectively;

(ii) Details of the Group's trade and bills receivables and other receivables due from a substantial shareholder, jointly-controlled entities, an associate, related companies and minority shareholders as at the balance sheet date are disclosed in notes 29 and 30 to the financial statements, respectively; and

(iii) Details of the Group's trade and bills payables and other payables due to jointly-controlled entities, associates, related companies and minority shareholders as at the balance sheet date are disclosed in notes 32 and 33 to the financial statements, respectively.

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42. Related Party Disclosures (continued)

(d) Compensation of key management personnel of the Group:

	2007 HK$'000	2006 HK$'000
Short term employee benefits	**6,255**	6,228
Post-employment benefits	**177**	64
Share-based payments	**11,356**	3,884
Total compensation paid to key management personnel	**17,788**	10,176

Further details of directors' emoluments are included in note 11 to the financial statements.

43. Financial Instruments by Category

All financial assets and liabilities of the Group and the Company as at 31 December 2007 and 2006, except for certain unlisted investments and a golf club debenture being classified as available-for-sale investments, were loans and receivables and financial liabilities stated at amortised cost, respectively.

44. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and short term deposits. These financial instruments are used for the Group's working capital. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The carrying amounts of the Group's financial instruments approximated to their fair values as at each of the balance sheet dates. Fair value estimates are made on a specific point in time and based on relevant market information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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44. Financial Risk Management Objectives and Policies (continued)

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

(a) Business risk

The Group conducts most of its operations in Mainland China, and accordingly, it is subject to special considerations and significant risks. These include risks associated with, inter alia, changes in the political, economic and legal environment in Mainland China.

(b) Interest rate risk

There was no bank borrowings as at 31 December 2007. In the prior year, at 31 December 2006, the bank borrowings of the Group comprised both floating rate and fixed rate debts. Interest expenses were charged to the income statement as incurred. Despite the fact that the Group had bank loans which bore interest at floating rate, in the opinion of the directors, the Group had no significant concentration of interest rate risk.

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments as at the balance sheet date that are exposed to interest rate risk:

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
At 31 December 2007								
Floating rate:								
Pledged deposits	9,890	–	–	–	–	–	9,890	0.9
Bank balances	223,373	–	–	–	–	–	223,373	0.9
Fixed rate:								
Bank balances	495,000	–	–	–	–	–	495,000	3.4

Notes to Financial Statements

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44. Financial Risk Management Objectives and Policies (continued)

(b) Interest rate risk (continued)

	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 3 years HK$'000	More than 3 years but less than 4 years HK$'000	More than 4 years but less than 5 years HK$'000	More than 5 years HK$'000	Total HK$'000	Effective interest rate %
At 31 December 2006								
Floating rate:								
Pledged deposits	21,331	–	–	–	–	–	21,331	0.7
Bank balances	241,052	–	–	–	–	–	241,052	0.7
Bank borrowings	(3,600)	(691)	(737)	(786)	(840)	(602)	(7,256)	2.4
Fixed rate:								
Bank balances	40,000	–	–	–	–	–	40,000	1.0
Bank borrowings	(73,328)	(2,159)	–	–	–	(608)	(76,095)	5.8

(c) Foreign currency risk

The Group's businesses are mainly located in Mainland China and all transactions are conducted in RMB. 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 before tax and of the Group's equity due to changes in fair value of monetary assets and liabilities.

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity HK$'000
2007			
If HK$ weakens against RMB	**5**	**(2,463)**	**7,304**
If HK$ strengthens against RMB	**(5)**	**2,463**	**(7,304)**
2006			
If HK$ weakens against RMB	5	2,436	9,811
If HK$ strengthens against RMB	(5)	(2,436)	(9,811)

Notes to Financial Statements

31 December 2007

44. Financial Risk Management Objectives and Policies (continued)

(d) Credit risk

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, amounts due from jointly-controlled entities and associates and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The carrying amount of trade receivables, other receivables and cash included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has no other financial assets which carry significant exposure to credit risk.

The Group places its cash deposits with major international banks in Hong Kong and state-owned banks in Mainland China. This investment policy limits the Group's exposure to the concentration of credit risk.

(e) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings.

The liquidity risk of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations and on its ability to obtain external financing to finance the working capital of the Group.

Financial liabilities of the Group and the Company included in current liabilities as at the balance sheet date either had no fixed terms of repayment or were due for repayment within one year.

Notes to Financial Statements

31 December 2007

44. Financial Risk Management Objectives and Policies (continued)

(f) Capital management

The Group's objective for managing capital is to maintain a strong capital base to support the development of its business. The Group recognises the impact on shareholder returns by the level of equity capital employed within the Group and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

An annual Group capital plan is prepared and approved by the board of directors with the objective of maintaining both the optimal amount of capital and the mix between the different components of capital. The Group manages its own capital within the context of the approved annual Group capital plan, which determines the level of risk-weighted asset growth and the optimal amount and mix of capital required to support the planned business growth. As part of the Group's capital management policy, capital generated by subsidiaries in excess of planned requirement will return to the Group, normally by way of dividends.

The Group is primarily a provider of equity capital to its subsidiaries. These investments are substantially funded by the Group's own capital issuance and profit retentions. The Group seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

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31 December 2007

44. Financial Risk Management Objectives and Policies (continued)

(f) Capital management (continued)

The principal forms of capital are included in the following balances on the consolidated balance sheet, namely issued capital and reserves.

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

45. Events After Balance Sheet Date

Subsequent to the balance sheet date, the following significant events occurred:

(i) The Company granted 2,860,000 share options to an executive director and independent non-executive directors of the Company on 4 February 2008 according to the Scheme as referred to in note 36 to the financial statements. The maximum number of shares which can be issued upon exercise of these options are 2,860,000 shares. The exercise price of HK$3.17 was determined based on the average closing price of the previous five trading days before the date of grant. 2,180,000 of the share options is exercisable at any time commencing on 1 May 2008, and the balance is exercisable from 1 May 2009 and, if not otherwise exercised, will lapse on 17 June 2011. The vesting periods of each of the portion is from the date of grant to the respective commencement dates of the exercise periods. The estimated fair value of each option granted has not yet been finalised but is considered to be immaterial. The financial impact will be accounted for as share-based payments compensation to directors in the subsequent accounting period.

(ii) On 12 February 2008 and 2 April 2008, 2,000,000 and 300,000 share options, which were outstanding as at 31 December 2007 and have an exercise price of HK$1.00 per ordinary share of the Company, were exercised. Proceeds from the exercise of the share options amounted to HK$2,300,000, before any issuance expenses, and the Company's issued share capital was increased by the same amount accordingly.

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46. Comparative Amounts

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, certain comparative amounts have been adjusted to conform to the current year's presentation and to show separately comparative amounts in respect of items disclosed for the first time in 2007. In addition, owing to the disposal of the Group's interests in BD Ah Yat during the year, the Group's restaurant operation was discontinued. Accordingly, the comparative income statement has been presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 14).

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 8 April 2008.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below:

	Year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
CONTINUING OPERATIONS					
Revenue	**358,412**	292,419	277,890	285,176	274,455
Profit/(loss) before tax	**304,460**	24,290	(41,704)	23,238	33,938
Tax	**(2,080)**	(4,757)	(867)	(1,654)	913
Profit/(loss) for the year from continuing operations	**302,380**	19,533	(42,571)	21,584	34,851
DISCONTINUED OPERATION					
Profit for the year from discontinued operation	**16,251**	8,932	14,033	7,335	(2,577)
Profit/(loss) for the year	**318,631**	28,465	(28,538)	28,919	32,274
Attributable to:					
Shareholders of the Company	**317,480**	12,080	(35,042)	14,886	21,721
Minority interests	**1,151**	16,385	6,504	14,033	10,553
	318,631	28,465	(28,538)	28,919	32,274

	31 December				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS, LIABILITIES AND MINORITY INTERESTS					
Total assets	**1,539,345**	1,025,319	855,033	948,473	842,277
Total liabilities	**(317,969)**	(360,279)	(338,473)	(397,395)	(330,360)
Minority interests	**(49,059)**	(99,705)	(80,543)	(71,067)	(49,742)
	1,172,317	565,335	436,017	480,011	462,175