ANNUAL REPORT

07

Full Steam Ahead
Striking for the Best

Shougang Concord Technology Holdings Limited

Stock Code: 521

Contents

Corporate Information

Board of Directors

Cao Zhong *(Chairman)*
Chau Chit *(Managing Director)*
Tzu San Te *(Executive Director)*
Chen Jianyong *(Executive Director)*
Leung Shun Sang, Tony *(Non-executive Director)*
Chen Jang Fung *(Non-executive Director)*
Chan Wah Tip, Michael *(Non-executive Director)*
Lee Fook Sun *(Non-executive Director)*
Kan Lai Kuen, Alice
(Independent Non-executive Director)
Wong Kun Kim
(Independent Non-executive Director)
Leung Kai Cheung
(Independent Non-executive Director)

Executive Committee

Cao Zhong *(Chairman)*
Chau Chit
Tzu San Te
Chen Jianyong

Audit Committee

Wong Kun Kim *(Chairman)*
Chan Wah Tip, Michael
Kan Lai Kuen, Alice
Leung Kai Cheung

Nomination Committee

Cao Zhong *(Chairman)*
Leung Shun Sang, Tony *(Vice Chairman)*
Kan Lai Kuen, Alice
Wong Kun Kim
Leung Kai Cheung

Remuneration Committee

Leung Shun Sang, Tony *(Chairman)*
Cao Zhong *(Vice Chairman)*
Kan Lai Kuen, Alice
Wong Kun Kim
Leung Kai Cheung

Company Secretary

Cheng Man Ching

Qualified Accountant

Chow Shu Wing

Auditor

Deloitte Touche Tohmatsu

Share Registrars

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Registered Office

Room 01-04, 5th Floor
Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

Stock Code

521

Website

www.shougang-tech.com.hk

Directors' Biographies

Mr. Cao Zhong, aged 48, graduated from Zhejiang University, the People's Republic of China and Graduate School, The Chinese Academy of Social Sciences with a bachelor degree in engineering and a master degree in economics. Mr. Cao was appointed the Chairman of the Company, the Deputy Chairman and General Manager of Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), the Managing Director of Shougang Concord International Enterprises Company Limited ("Shougang International") and the Chairman of Shougang Concord Century Holdings Limited ("Shougang Century") in November 2001. He was also appointed the Vice Chairman of Shougang Concord Grand (Group) Limited ("Shougang Grand") in November 2001 and has acted concurrently as the Managing Director of Shougang Grand since February 2006. He was appointed the Joint Chairman of Global Digital Creations Holdings Limited ("GDC"), a non-wholly owned subsidiary of Shougang Grand, in February 2005 and is currently the Chairman of GDC. He was appointed an Executive Director of APAC Resources Limited ("APAC") in April 2007 and was re-designated as the Chairman of APAC in May 2007. He is also a director of each of Asset Resort Holdings Limited and Wheeling Holdings Limited, both are substantial shareholders of the Company within the meaning of Part XV of the SFO. He also acts as the Assistant General Manager of Shougang Corporation, the ultimate holding company of Shougang Holding, and the Chairman of China Shougang International Trade and Engineering Corporation. Mr. Cao has extensive experience in corporate management and operation.

Mr. Chau Chit, aged 42, graduated from Zhejiang University. Mr. Chau was appointed an Executive Director of the Company in June 2006 and is currently the Managing Director of the Company. He is a Director and the Chief Executive Officer of Sino Stride Technology (Holdings) Limited, a non-wholly owned subsidiary of the Company which was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 29 July 2002 to 6 November 2006. Mr. Chau is a director and the sole shareholder of Mega Start Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Tzu San Te, aged 36. Mr. Tzu was appointed a Director of the Company in June 2004. He holds a master degree in material science and engineering and has extensive experience in manufacturing and the research and development of photomask.

Mr. Chen Jianyong, aged 37, graduated with a bachelor of science degree in industrial management and a master of science degree in industry engineering and operation research. Mr. Chen was appointed a Director of the Company in June 2006.

Directors' Biographies

Mr. Leung Shun Sang, Tony, aged 65. Mr. Leung was appointed a Director of the Company in April 1993. He is also a Director of each of Shougang International, Shougang Grand, Shougang Century and GDC. He holds a master degree in business administration from New York State University and has over 30 years of experience in finance, investment and corporate management. Mr. Leung is the managing director of CEF Group.

Mr. Chen Jang Fung, aged 54. Mr. Chen was appointed a Director of the Company in November 2003. He graduated from Rochester Institute of Technology, New York with dual master of science degrees in lithography, imaging science and optical instrumentation. Mr. Chen has more than 20 years of hands-on development engineering and management experience in semiconductor industry, and has been awarded more than 20 United States and world-wide patents in the field of optical lithography.

Mr. Chan Wah Tip, Michael, aged 55. Mr. Chan was appointed an Independent Non-executive Director of the Company in August 1996 and was re-designated as Non-executive Director of the Company in September 2004. He is a practising solicitor in Hong Kong and a partner of Wilkinson & Grist.

Mr. Lee Fook Sun, aged 51, graduated from the University of Oxford with a Bachelor of Arts (Honours) and a Master of Arts (Engineering Science) degree and completed the Stanford Executive Programme at Stanford University. Mr. Lee was appointed a Non-executive Director of the Company in December 2007. Mr. Lee served in the Singapore Ministry of Defence as Director of Joint Intelligence Directorate from 1996 to 2000 and retired from active military services with a rank of Brigadier General. Currently, he is the Deputy President, Operations and President, Defence Business of Singapore Technologies Electronics Limited, a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Ms. Kan Lai Kuen, Alice, aged 53. Ms. Kan was appointed an Independent Non-executive Director of each of the Company and Shougang International in September 2004. She is a fellow member of The Association of Chartered Certified Accountants, a fellow member of the CPA Australia and an associate member of The Hong Kong Institute of Certified Public Accountants. She is also a fellow member of the Hong Kong Institute of Directors. She has over 15 years of experience in corporate finance and is well experienced in both the equity and debt markets. She held various senior positions in international and local banks and financial institutions and is currently a controlling shareholder and the managing director of each of Asia Investment Management Limited and Asia Investment Research Limited, both companies are licensed corporations under the SFO. Ms. Kan is licensed as a responsible officer of each of Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited under the SFO. Ms. Kan is also an independent non-executive director of each of Regal Hotels International Holdings Limited, G-Vision International (Holdings) Limited, Sunway International Holdings Limited, Shimao Property Holdings Limited and CASIL Telecommunications Holdings Limited, all of which are listed companies in Hong Kong.

Directors' Biographies

Mr. Wong Kun Kim, aged 63. Mr. Wong was appointed an Independent Non-executive Director of each of the Company and Shougang International in September 2004. He holds a bachelor degree in economics, a master degree in business administration and a doctorate of philosophy. He is a member of the Chartered Institute of Marketing and Chartered Management Institute and is licensed as a responsible officer of each of Asia Investment Management Limited and Asia Investment Research Limited under the SFO. Mr. Wong has over 30 years of experience working as senior executives for various multinational corporations engaged in trading, manufacturing, finance and real estates. He had served as consultants and directors for different listed companies in Mainland China, Hong Kong, Taiwan and United States of America and is currently an independent non-executive director of Sunway International Holdings Limited, a Hong Kong listed company.

Mr. Leung Kai Cheung, aged 62. Mr. Leung was appointed an Independent Non-executive Director of each of the Company and Shougang International in June 2006. He graduated from the Chinese University of Hong Kong with a bachelor degree in business. He had been a senior executive of Citibank, N.A. and the general manager of Barclays Bank PLC in charge of Kowloon and New Territories district. He is currently the chairman of each of Star International Enterprises Limited and Shinon Technologies Limited. He is one of the founding shareholders of Prosticks International Holdings Limited whose shares are listed on the GEM of the Stock Exchange. Mr. Leung has extensive financial knowledge and business management experience and is familiar with the business environment of both Hong Kong and Mainland China and the operation of listed companies.

Main Operational Structure

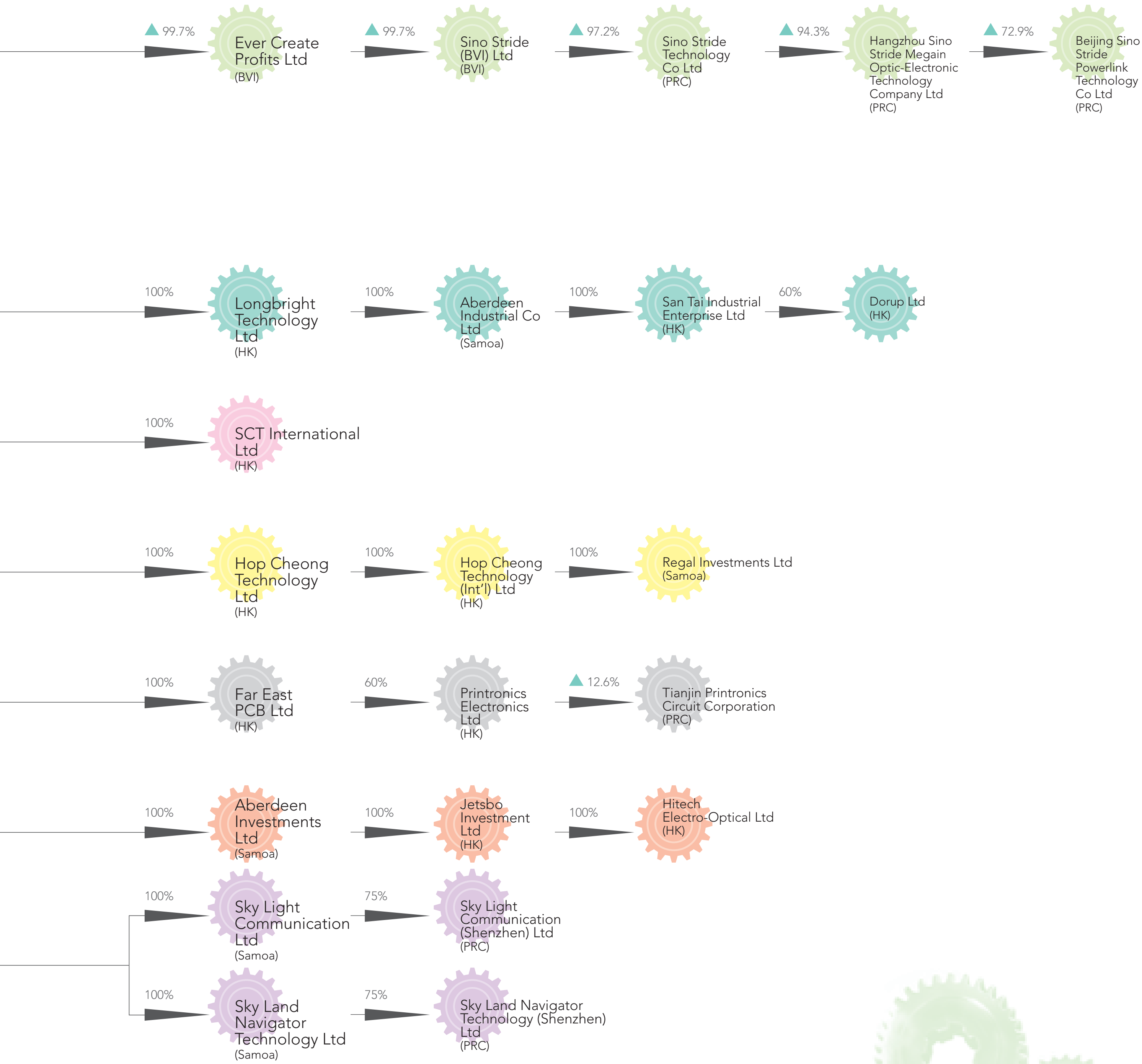
As at 31 December 2007

Shougang Concord Technology Holdings Limited
(Stock Code: 521)

Business	Holding	Company
Development and provision of system integration solutions	99.7%	Sino Stride Technology (Holdings) Ltd (Cayman Islands)
Manufacture of photomask	100%	Remarkable Mask Technology Company Ltd (Cayman Islands)
Manufacture and sale of telephone accessories and power cords	100%	Santai Manufacturing Ltd (HK)
Manufacture and sale of adaptors and electronics products	100%	SCT Electronics Ltd (HK)
Manufacture and sale of high precision metal parts	100%	Hop Cheong Holdings Ltd (Cook Islands)
Manufacture and sale of printed circuit boards	100%	Printronics Group Ltd (HK)
Administration and services	100%	Santai Corporate Services Ltd (HK)
Development and sale of GPS equipment and Geographic Information System	100%	3S Technology Holdings Ltd (Samoa)
Copper wire drawing	50%	Hoperise Industrial Ltd (HK)

Main Operational Structure

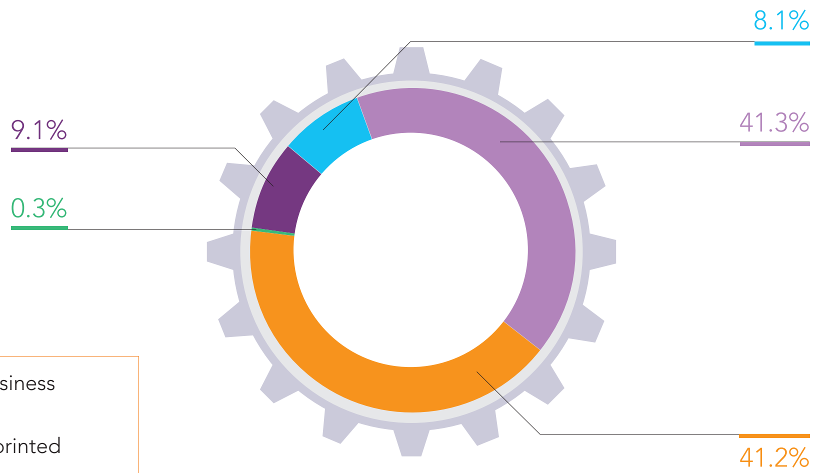
As at 31 December 2007



Note:
▲ attributable interest held by Shougang Concord Technology Holdings Limited

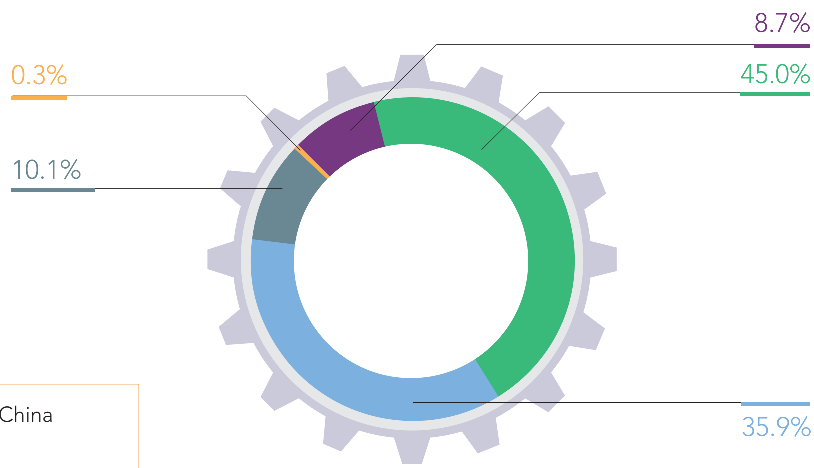
Financial Highlights

Turnover by principal activity for the year 2007



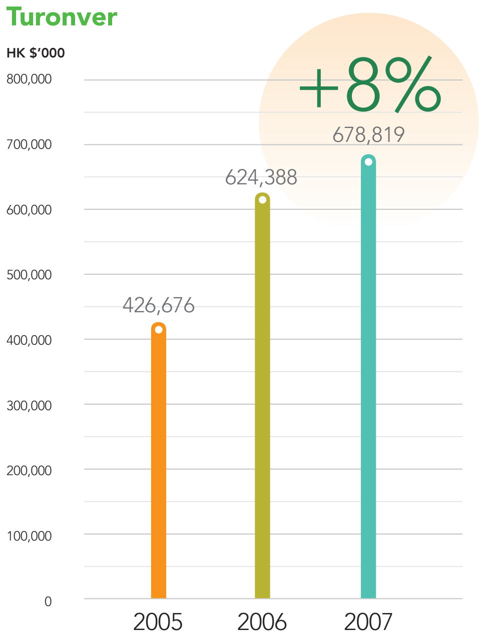
- Intelligent information business
- Traditional business
- Manufacture and sale of printed circuit boards
- Manufacture and sale of high precision metal components
- Photomask and others

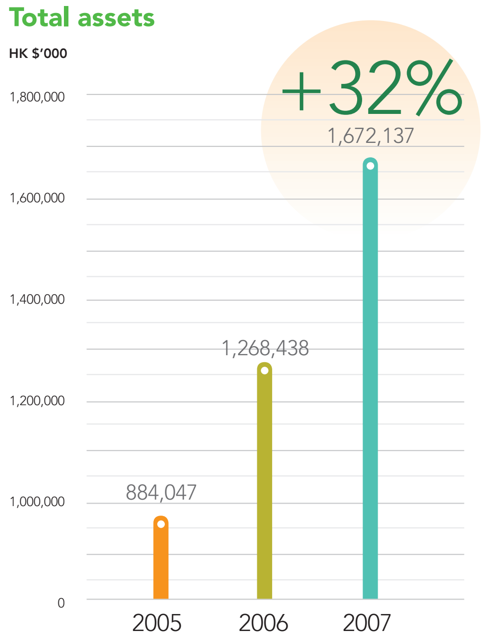
Turnover by geographical location for the year 2007

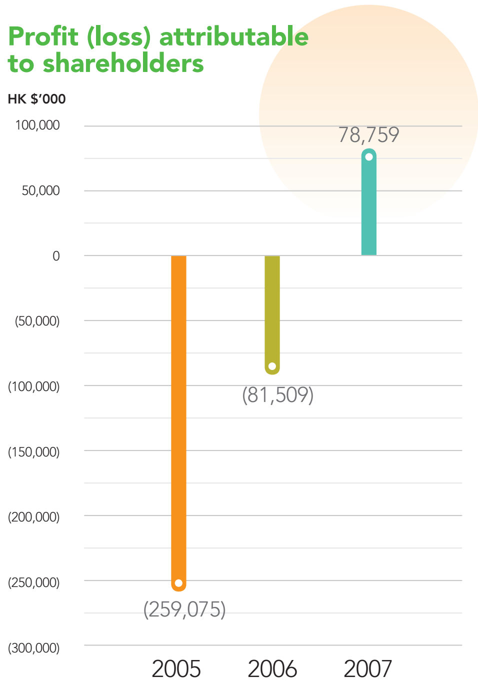


- The People's Republic of China
- Hong Kong
- Europe
- Australia
- Others

Financial Highlights







Chairman's Statement

The year 2007 saw the Group's return from loss to profit, marking the initial success of its operational reform.

In the beginning, the Group successfully relocated the logistics operations and control centre of its traditional activities from Hong Kong to factory site of Dongguan, which enabled the Group to run the operational system of its traditional businesses under the same root for easy management through a newly-established wholly-owned company in mainland China. In addition, efforts have been stepped up to improve cost control and risk assessment in our business to reduce cost and risk of the traditional business.

Moreover, the Group acquired a new Electronic Beam Writer during the year to cope with the fast-growing orders resulting from a rapid increase in photomask sales and an expanding clientele. The new facility is expected to become operational in 2008. Due to substantial depreciation charge, our photomask project continued to record a loss in 2007. But the Group remains optimistic about the prospects of this segment. The Group intends to establish a joint venture company mainly for conducting research and development and manufacturing of photomasks, to which our existing photomask production machinery and equipment will be transferred. The Group believes that the introduction of massive capital resources and advanced technology support from overseas investors can help enhance the efficiency and technology for the production of photomasks.

The Group increased its interests in Sino Stride Technology Holdings Limited ("SST") again to 99.7% by the issuance of new shares in 2007. As a leading provider of system integration solutions, SST will generate substantial earnings, further expand business and improve profits for the Group in the future, given the rising demand for system integration solutions in China.

Chairman's Statement

In 2007, the Group disposed of part of its interest in the Printronics Electronics Limited ("Printronics Electronics"), which owns 21.01% of Tianjin Printronics Circuit Corporation ("TPC"), realising a gain of approximately HK$120,000,000. The disposal has brought significant profit and cash flow for the Group. The Group will keep a close watch on any changes in the market and consider the disposal of the remaining interests if a reasonable return is available to enhance the Group's return and cash flow.

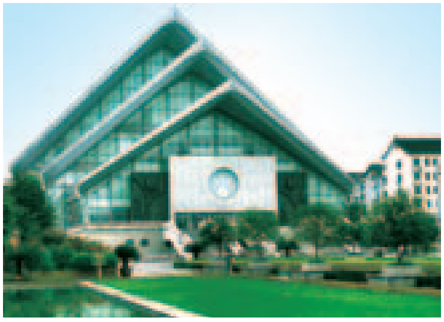
The Group will participate in the operation of multi-media information services for digital cable television networks and has entered into a cooperation agreement with Guangdong Southern Yinshi Network Media Company Limited ("Southern Yinshi"), pursuant to which the Group, as a technical service provider and equipment supplier, will provide technical services to Southern Yinshi, including technical solutions and set-top boxes, required by Southern Yinshi. The Group believes that the growing trend towards digital broadcasting from analogue signal broadcasting will drive a boom in digital TV services in mainland China and translate into strong income and return for the Group.

On behalf of the Board of Directors, I would like to express our sincere thanks to our customers, vendors, shareholders and business partners for their continuous support and would like to extend my gratitude to all management and staff for their dedication and contribution to the Group's continued progress throughout the year.

Cao Zhong
Chairman

Hong Kong, 16 April 2008

Management Discussion and Analysis



BUSINESS REVIEW

Turnover of the Group grew to HK$678,000,000 for the year ended 31 December 2007, representing an increase of 8.7% over the same period of the previous year. The increase was mainly attributable to the contribution of turnover amounting to approximately HK$280,000,000 by Sino Stride Technology (Holdings) Limited ("SST") acquired by the Group in April 2006.

The Group reported a profit attributable to shareholders of HK$78,759,000 for the year of 2007, while a loss of HK$81,509,000 was posted for the same period of the previous year.

System integration solution services

Upon the consolidation of SST into the Group's operating results for the year ended 31 December 2007, the turnover and operating profits amounted to HK$280,410,000 (2006: HK$187,718,000) and HK$16,770,000 (2006: HK$27,780,000) respectively. The increase in the turnover was mainly attributable to the consolidation of whole year results of SST for 2007 while only nine months results of SST were consolidated for the same period of the previous year.

The Group increased its interests in SST again to 99.7% by the issuance of new shares in 2007. As a leading provider of system integration solutions, SST will generate substantial earnings, further expand business and improve profits for the Group in the future, given the rising demand for system integration solutions in China.

Photomasks

The segment strives to secure orders from customers and improve cost effectiveness. Its turnover increased from HK$42,542,000 in 2006 to HK$46,461,000 in 2007, while loss decreased from HK$65,660,000 to HK$64,214,000, suggesting that the Group's strategy to position itself as a manufacturer of high–end photomask products that applies core technology to the manufacture of quality photomasks, and its ongoing marketing efforts to this end have taken effect.

Management Discussion and Analysis

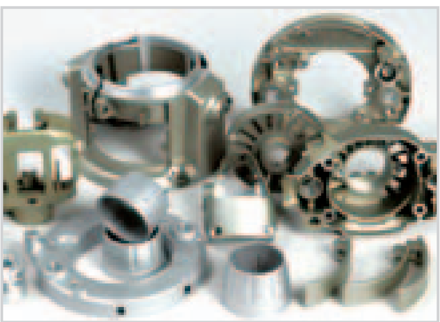
Traditional business

Traditional business comprises the trading and manufacturing of telephone accessories, power cords, adaptors and electronic products. Its turnover slightly fell by 6% to HK$279,289,000 (2006: HK$297,173,000), while loss attributable to the Group decreased by 26% to HK$5,557,000 (2006: HK$7,543,000).

The success in relocating the logistics and control centres of the traditional business from Hong Kong to the factory sites in Dongguan in 2007 has enabled the Group to run the operational system of the traditional business under the same roof for easy management and streamlining the structure. The Group believes the results of the conventional manufacturing segment may be improved in the future.

Printed circuit boards

Since the segment has been reporting losses due to the intense competition in the printed circuit boards sector and the increased costs of raw materials, the Group has switched the operational pattern of this segment from carrying out the production of printed circuit boards by itself to subleasing its factory buildings and assets. The Group will re–assess the potential of the printed circuit boards sector. As a result of the revised operational pattern, the segment reported a turnover of approximately HK$1,980,000 (i.e. the income from subleasing) (2006: the turnover of printed circuit boards manufacturing was HK$24,453,000), while operating loss attributable to the Group decreased sharply from HK$19,414,000 to HK$2,137,000 in 2007.



High–precision metal components

Sales from the segment slightly decreased by 4.4% to HK$61,259,000 (2006: HK$64,065,000) while segment loss decreased to HK$554,000 (2006: HK$3,286,000).

Management Discussion and Analysis

Jointly controlled entity – copper wire

The global copper prices fell back in the first quarter of 2007, picked up again from the second quarter to the third quarter and started falling back in the fourth quarter.

Sales from the jointly controlled entity engaged in the copper wire manufacturing increased by 17%. Profit attributable to the Group fell from approximately HK$16,021,000 in 2006 to approximately HK$6,776,000 in 2007. The fall in the profit was largely a result of copper prices falling back in the beginning of the year.

Associate – Tianjin Printronics Circuit Corporation ("TPC")

Turnover of TPC increased by 26% to HK$431,880,000 and profits attributable to the Group amounted to approximately HK$15,585,000 (2006: HK$17,863,000).

TPC announced on 23 April 2007 the issuance of 50,000,000 new shares at a price of Renminbi 8.28 per share by way of an initial public offering, and as a result the Group's interests in TPC were diluted from approximately 28.17% to approximately 21.01% so that a gain on dilution of interest of approximately HK$64,000,000 were reported. Trading in the shares of TPC commenced on the Shenzhen Stock Exchange on 16 May 2007. The total market capitalization of the 41,319,704 shares of TPC owned by the Group was approximately Renminbi 666,000,000 as at 31 December 2007.

In July 2007, the Group disposed of its 40% interests in Printronics Electronics Limited (which owns 21.01% interests in TPC) to an independent third party, and received a consideration of approximately HK$180,000,000 and gain of approximately HK$120,000,000 was resulted from the disposal.

The Group will keep a close watch on any changes in the market and consider the disposal of the remaining interests if a reasonable return is available.

Management Discussion and Analysis

PROSPECTS

The Group believes its profits and cash flows could be improved by reorganising the operational structure of the traditional business and increasing its interests in SST.

Moreover, the Group intends to establish a joint venture in China in 2008, which will be principally engaged in the research and development and manufacturing of photomasks. The Group intends to transfer to the joint venture the existing machinery and equipment for the production of photomasks for a consideration of approximately US$83,250,000. The Group believes that the introduction of massive capital resources and advanced technology support from overseas investors can help enhance the efficiency and technology for the production of photomasks, and that the formation of the joint venture in China can reduce production costs and broaden profit margin and has a positive effect on stepping up its presence in the photomasks sector in China.

The Group will also participate in the establishment of an operational platform for the provision of multi–media information services based on a digital cable television network in China. A cooperation agreement has been entered into with Guangdong Southern Yinshi Network Media Company Limited ("Southern Yinshi"), pursuant to which local digital television project companies (collectively the "local project companies") will be set up in various local cities, counties (municipalities) and regions. Southern Yinshi will assign to the local project companies all the long–term authorised rights to use, operate and administer, as well as the authorised right to receive income from, cable television networks in various local cities, counties (municipalities) and regions. As a technical service provider and equipment supplier, the Group will provide technical services to Southern Yinshi and the local project companies, including technical solutions and equipment such as set top box.

The Group believes as analogue signal broadcasting will all be phased out and replaced by digital broadcasting in China by 2015, the digital television business will grow rapidly in China, and will become one of the principal activities of the Group generating substantial income and return.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's gearing ratio (total borrowings divided by equity) increased to 0.41 (2006: 0.29) whereas current ratio (current assets divided by current liabilities) increased to 1.5 (2006: 1.05).

As at 31 December 2007, bank loans increased by approximately HK$201,294,000 to HK$359,897,000 (2006: HK$158,603,000).

As at 31 December 2007, the capital commitments already signed up but not yet provided for as well as already authorised but not yet signed up by the Group amounted to approximately HK$3,572,000 (2006: HK$1,310,000) and HK$2,080,000 (2006: HK$920,000) respectively.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Exposure to fluctuation in exchange rates did not have any material effect on the Group's financial results as both the Group's borrowings and revenue were mostly denominated in Hong Kong Dollars or United States Dollars.

CAPITAL STRUCTURE

During the year, certain eligible directors and employees exercised their share options to subscribe for a total of 38,794,000 shares. Moreover, 133,523,480 new shares were issued to acquire additional interests in SST. Details of movements in the issued ordinary share capital and share options are set out in notes 37 and 38 to the financial statements.

Management Discussion and Analysis

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

Other than the deemed partial disposal in TPC, partial disposal of 40% shares in Printronics Electronics Limited and acquisition of additional interest in SST as detailed above, the Group had no material acquisition, disposals and significant investment during the year ended 31 December 2007.

CONTINGENT LIABILITIES

The contingent liabilities of the Group, mainly from guarantees for banking facilities granted to a jointly controlled entity, increased from approximately HK$67,278,000 in 2006 to approximately 77,927,000 as at 31 December 2007. In addition, one of the subsidiaries, SST has provided a cross guarantee of approximately 58,300,000 (2006: HK$9,000,000) for credit facilities granted to third parties.

EMPLOYEES AND REMUNERATION POLICY

The Group had a total of approximately 2,638 employees as at 31 December 2007.

The remuneration policy of the Group is to ensure that the overall remunerations are fair and competitive in order to motivate and retain existing employees and at the same time to attract prospective employees. The remuneration policy has been formulated after having taken into account local practices in various geographical locations in which the Group and its associates are operating. These remuneration packages comprise basic salaries, allowances, retirement schemes, service bonuses, fixed bonuses, performance–based incentives and share options, where appropriate.

Corporate Governance Report

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2007, except for the following deviation:–

- Under code provision A.4.1 of the Code, Non-executive directors should be appointed for a specific term and subject to re-election.

  None of the existing Non-executive Directors of the Company was appointed for a specific term. However, Non-executive Directors of the Company are subject to retirement by rotation and re-election at annual general meetings at least once every three years in accordance with the provisions of the articles of association of the Company (the "Articles"). As such, the Company considers that sufficient measures have been taken to ensure the Company's corporate governance practices are no less exacting than those in the Code. In order to comply with the code provision A.4.1 of the Code, an engagement letter has been entered with each of the Non-executive Directors of the Company for a term of three years commencing on 1 January 2008.

BOARD OF DIRECTORS

Composition

The Board currently comprises four Executive Directors, four Non-executive Directors and three Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report.

The Board includes a balanced composition of executive and non-executive directors so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Non-executive Directors are of sufficient calibre and number for their views to carry weight. The functions of Non-executive Directors include, but not limited to:

- bringing an independent judgement at Board meetings;

- taking the lead where potential conflicts of interests arise;

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Composition (continued)

- serving on Board committees if invited; and
- scrutinising the Company's performance.

The Board members have no financial, business, family or other material/relevant relationships with each other.

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

Composition of the Board, including names of Independent Non-executive Directors of the Company, is disclosed in all corporate communications to shareholders.

Role and function

The Board is responsible for overall strategic formulation and performance monitoring of the Company and its subsidiaries (the "Group"). It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Board meetings

The Board has four scheduled meetings a year at approximately quarterly intervals. Additional meetings would be arranged, if and when required. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Articles.

The Company Secretary assists the Chairman in drawing the agenda of each meeting and each Director may request inclusion of matters in the agenda. Generally, at least 14 days' notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in such form and quality as will enable the Board to make an informed decision on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and all applicable rules and regulations are followed.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Board meetings (continued)

The Company Secretary is responsible for taking minutes of Board and Board committee meetings, drafts and final versions of which would be sent to Directors for comments and records respectively, in both cases within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, a Board meeting will be held instead of by way of circulation.

Attendance records

During the financial year ended 31 December 2007, the Directors have made active contribution to the affairs of the Group and six Board meetings were held to consider various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Details of Directors' attendance records in 2007 are as follows:–

	Meetings attended/Eligible to attend
Executive Directors	
Cao Zhong	6/6
Chau Chit	5/6
Tzu San Te	5/6
Chen Jianyong	5/6
Non-executive Directors	
Leung Shun Sang, Tony	6/6
Chen Jang Fung	0/6
Chan Wah Tip, Michael	5/6
Tse Chun Sing *(resigned on 1 December 2007)*	5/5
Lee Fook Sun *(appointed on 1 December 2007)*	1/1
Independent Non-executive Directors	
Kan Lai Kuen, Alice	6/6
Wong Kun Kim	5/6
Leung Kai Cheung	6/6

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Access to information

The Directors may seek independent professional advice in appropriate circumstances, at the Company's expenses. The Company will, upon request, provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each Board meeting. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Appointments and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will review the profiles of the candidates and make recommendations to the Board on the appointment, re-nomination and retirement of Directors.

According to the Articles, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such annual general meeting. Every Director, including those appointed for a specific term, is subject to retirement by rotation at least once every three years.

Every newly appointed Director will be given an introduction of regulatory requirements. The Directors are continually updated on the latest development of the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practice.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. One of the Independent Non-executive Directors has appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

Directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and the Managing Director are separate and are not performed by the same individual to reinforce their independence and accountability. Mr. Cao Zhong assumes the role of the Chairman and Mr. Chau Chit serves as the Managing Director of the Company. The Chairman provides leadership for the Board and overall strategic formulation for the Group. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

With the support of Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

BOARD COMMITTEE

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Executive Committee

An Executive Committee of the Board was established in April 2005 and comprises all Executive Directors of the Company.

As at 31 December 2007, the members of the Executive Committee were as follows:–

- Mr. Cao Zhong *(Chairman)*
- Mr. Chau Chit
- Mr. Tzu San Te
- Mr. Chen Jianyong

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group. The Executive Committee meets as and when required. During the year, thirty-six meetings of the Executive Committee were held.

Corporate Governance Report

BOARD COMMITTEE (continued)

Audit Committee

The Company has an Audit Committee which was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants in December 1997. In November 2005, the Board adopted new terms of reference as the terms of reference of the Audit Committee for compliance with the requirements of the Listing Rules. The terms of reference of the Audit Committee are available on request and are posted on the Company's website.

The principal duties of the Audit Committee include, among other things:

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements; and
- reviewing the Company's financial reporting system and internal control procedures.

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice if it considers necessary. It is given access to and assistance from the employees and reasonable resources to discharge its duties properly.

The Audit Committee comprises one Non-executive Director and three Independent Non-executive Directors. None of the members of the Audit Committee are former partners of the auditor of the Company. The members of the Audit Committee during the year and their attendance were as follows:

	Meetings attended/Eligible to attend
Wong Kun Kim *(Chairman)*	2/2
Chan Wah Tip, Michael	2/2
Kan Lai Kuen, Alice	2/2
Leung Kai Cheung	2/2

During the year, two meetings of the Audit Committee were held for, amongst other things:

- reviewing the final results of the Group for the financial year ended 31 December 2006; and
- reviewing the interim results of the Group for the six months ended 30 June 2007.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

Corporate Governance Report

BOARD COMMITTEE (continued)

Nomination Committee

The Company established the Nomination Committee in April 2005 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Nomination Committee are available on request and are posted on the Company's website.

The principal duties of the Nomination Committee include:

- reviewing the structure, size and composition of the Board;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on relevant matters relating to the appointment and re-appointment of Directors and succession planning for Directors; and
- assessing the independence of Independent Non-executive Directors.

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The members of the Nomination Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Cao Zhong *(Chairman)*	1/1
Leung Shun Sang, Tony *(Vice Chairman)*	1/1
Kan Lai Kuen, Alice	1/1
Wong Kun Kim	1/1
Leung Kai Cheung	1/1

The Independent Non-executive Directors of the Company constitute the majority of the committee.

During the year, one meeting of the Nomination Committee was held for considering the nomination of Mr. Lee Fook Sun as a Non-executive Director of the Company.

Corporate Governance Report

BOARD COMMITTEE (continued)

Remuneration Committee

The Company established the Remuneration Committee in April 2005 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Remuneration Committee are available on request and are posted on the Company's website.

The principal duties of the Remuneration Committee include:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving performance-based remuneration;
- determining the specific remuneration packages of all Executive Directors and senior management and making recommendation to the Board of the remuneration of Non-executive Directors;
- reviewing and approving the compensation payable to Executive Directors and senior management and the compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee may consult the Chairman about their proposals relating to the remuneration of other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The members of the Remuneration Committee during the year and their attendance were as follows:–

	Meetings attended/Eligible to attend
Leung Shun Sang, Tony *(Chairman)*	2/2
Cao Zhong *(Vice Chairman)*	2/2
Kan Lai Kuen, Alice	2/2
Wong Kun Kim	2/2
Leung Kai Cheung	2/2

The Independent Non-executive Directors of the Company constitute the majority of the committee.

Corporate Governance Report

BOARD COMMITTEE (continued)

Remuneration Committee (continued)

During the year, two meetings of the Remuneration Committee were held for, amongst other things:

- reviewing the remuneration policies of the Company and the remuneration and terms of service contracts of the Executive Directors of the Company;
- determining the bonuses of the Executive Directors of the Company for the years 2006 and 2007; and
- making recommendations to the Board on the directors' fee of the Non-executive Directors of the Company for the years 2007 and 2008.

INTERNAL CONTROL

The Board is of the opinion that sound internal control systems will contribute to the effectiveness and efficiency of operations of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board is responsible for overall ensuring, maintaining and overseeing the internal control systems of the Group. The Executive Committee and the Audit Committee help the Board to discharge its responsibilities of ensuring and maintaining sound internal control functions by regularly and continuously reviewing and monitoring the internal control systems and processes so as to ensure that they can provide reasonable assurance against material errors of the Group.

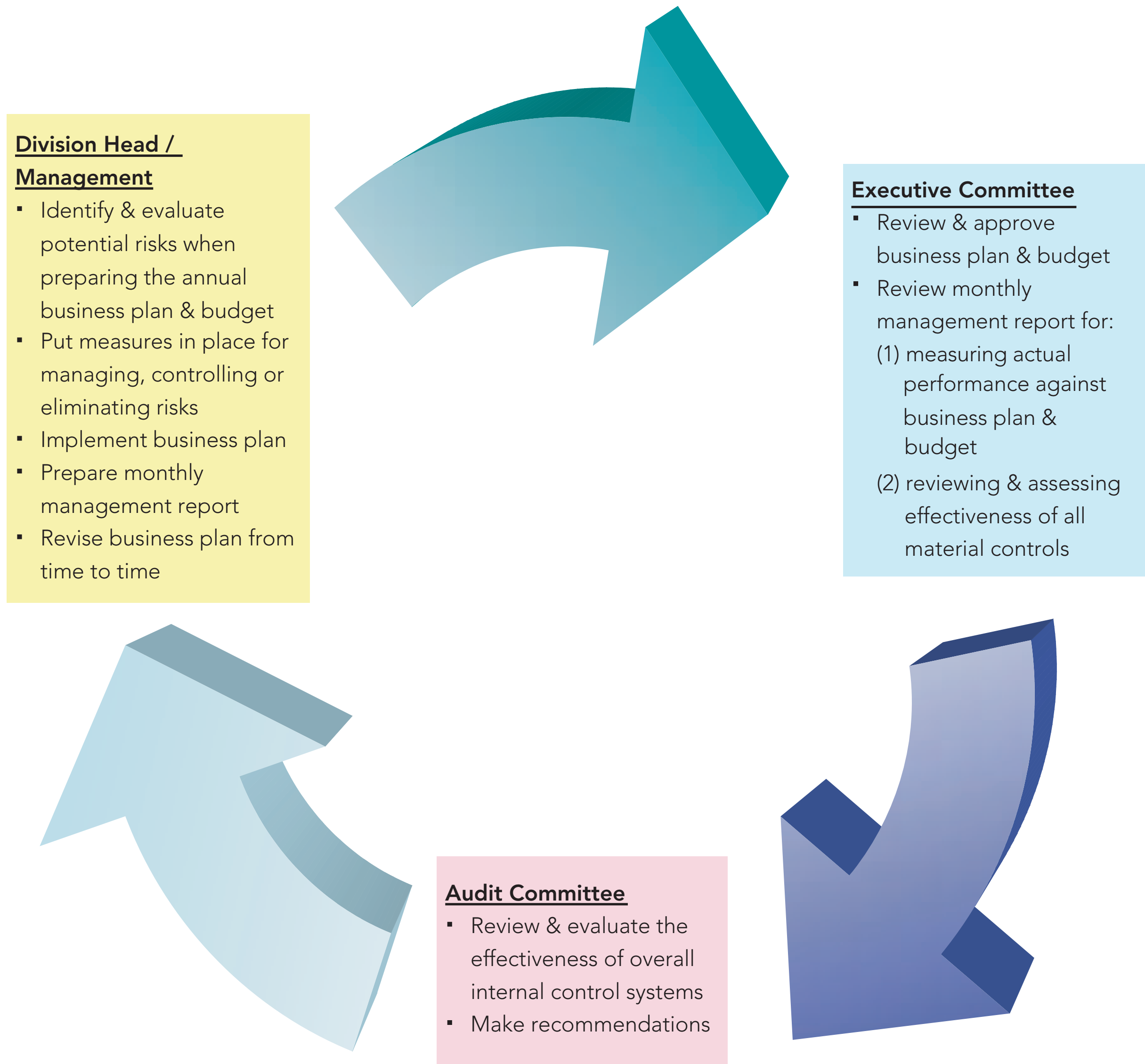
The internal control system is embedded within the business processes so that it functions as an integral part of the overall operations of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of the corresponding authorities to each post. Based on the organization structure, a reporting system has been developed which includes a reporting system from division head of each principal business unit to the Executive Committee.

Business plan and budget are prepared by the division head of each principal business unit annually. In preparing the business plans and budgets, the management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or eliminate such risks.

The business plans and budgets are subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management report on the operational and financial results of each principal business unit and measures the actual performance of the Group against the business plan and budget concerned. The Executive Committee holds periodical meetings with the senior management of each principal business unit and the finance team to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls and brings relevant matters to the attention of the Audit Committee.

Corporate Governance Report

INTERNAL CONTROL (continued)



The internal control system is documented and if any revision is required, such information will be submitted to the Executive Committee for evaluation.

Corporate Governance Report

INTERNAL CONTROL (continued)

The Board considers that it is an ongoing and continuous process for the Group to review and improve its internal control systems in order to ensure that they can meet with the dynamic and ever changing business environment. During the year under review, the Board has been, through the Executive Committee and the Audit Committee, continuously reviewing the effectiveness of the Group's internal control systems. In the year, the Audit Committee took the initiatives to strengthen the overall internal control function and enhance risk management within the Group by making recommendation to the Board to carry out an independent internal control audit. On the recommendation of the Audit Committee, the Group has engaged professional firms in early 2007 to carry out independent review on the key internal control systems of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2007.

Employees who are deemed to be in possession of unpublished price sensitive information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:–

Services rendered	**Fee paid/payable** *HK$'000*
Audit services	2,670
Non-audit services:	
Taxation	338
	3,008

Corporate Governance Report

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the interim and annual financial statements, announcements and other financial disclosure required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditors of the Company, Messrs. Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 47 to 48 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.shougang-tech.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor are also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in the Company's circulars convening a general meeting. The chairman of a general meeting also explains the procedures for demanding and conducting a poll before putting a resolution to the vote on a show of hands and (except where a poll is demanded) reveals how many proxies for and against have been filed in respect of each resolution. The results of the poll, if any, will be published on the websites of the Stock Exchange and the Company respectively.

Report of the Directors

The Directors herein present their report and the audited financial statements of 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. The activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 21, 22 and 23 to the financial statements respectively.

RESULTS

The results of the Group for the year ended 31 December 2007 and the state of affairs of the Group at that date are set out in the financial statements on pages 49 to 139.

FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on page 140 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 16 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 37 to the financial statements.

Report of the Directors

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on pages 53 to 54 of this annual report and in note 40 to the financial statements, respectively.

DIRECTORS

The Directors of the Company during the year were as follows:

Cao Zhong	
Chau Chit	
Tzu San Te	
Chen Jianyong	
Leung Shun Sang, Tony	
Chen Jang Fung	
Chan Wah Tip, Michael	
Lee Fook Sun	*(appointed on 1 December 2007)*
Kan Lai Kuen, Alice*	
Wong Kun Kim*	
Leung Kai Cheung*	
Tse Chun Sing	*(resigned on 1 December 2007)*

* *Independent non-executive Directors*

In accordance with clauses 94 and 103(A) of the Company's articles of association, Mr. Cao Zhong, Mr. Leung Shun Shan, Tony, Mr. Lee Fook Sun, Ms. Kan Lai Kuen, Alice and Mr. Wong Kum Kim will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

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.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The Directors of the Company who held office at 31 December 2007 had the following interests in the shares and underlying shares of the Company at the balance sheet date as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (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 (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Long positions in the shares and underlying shares of the Company

		Number of shares/underlying shares held in the Company			
Name of Director	**Capacity in which interests are held**	**Interests in shares**	**Interests under equity derivatives***	**Total interests**	**Total interests as to % to the issued share capital as at 31.12.2007**
Cao Zhong	Beneficial owner	–	23,464,000	23,464,000	1.24%
Chau Chit	Beneficial owner and interests of a controlled corporation	301,160,000	15,438,000	316,598,000	16.77%
Tzu San Te	Beneficial owner	9,000,000	3,008,000	12,008,000	0.64%
Chen Jianyong	Beneficial owner	5,000,000	5,292,000	10,292,000	0.55%
Leung Shun Sang, Tony	Beneficial owner	3,269,810	25,170,000	28,439,810	1.51%
Chen Jang Fung	Beneficial owner	–	1,714,000	1,714,000	0.09%
Chan Wah Tip, Michael	Beneficial owner	–	2,114,000	2,114,000	0.11%
Kan Lai Kuen, Alice	Beneficial owner	–	1,714,000	1,714,000	0.09%
Wong Kum Kim	Beneficial owner	–	1,714,000	1,714,000	0.09%
Leung Kai Cheung	Beneficial owner	–	1,714,000	1,714,000	0.09%

* *The relevant interests are unlisted physically settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK$0.25 each in the share capital of the Company are issuable. The share options are personal to the respective Directors. Further details of the share options are set out in the section headed "Share Options Schemes" below.*

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Long positions in the shares and underlying shares of the Company (continued)

Save as disclosed above, at the balance sheet date, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Pursuant to Rule 8.10 of the Listing Rules, the following Director has declared interests in the following business (other than the business where the Director of the Company was appointed as director to represent the interests of the Company and/or any member of the Group) which is considered to compete or is likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose business is considered to compete or likely to compete with the businesses of the Group	Description of business of the entity which is considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Lee Fook Sun	Singapore Technologies Electronics Limited ("ST Electronics")#	Intelligent information business	Director

Such business may be carried out through its subsidiaries.

The Board of Directors of the Company is independent from the board of the above-mentioned entity and is accountable to the Company's shareholders. Coupled with the diligence of the Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of the entity.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At the balance sheet date, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares of the Company

Names of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the total issued share capital of the Company as at 31.12.2007	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	444,865,098	23.57%	1
Asset Resort Holdings Limited ("Asset Resort")	Beneficial owner	231,515,151	12.26%	1
Wheeling Holdings Limited ("Wheeling")	Beneficial owner	170,044,069	9.01%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	124,069,394	6.57%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	107,654,173	5.70%	2
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	124,069,394	6.57%	3

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares of the Company (continued)

Names of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the total issued share capital of the Company as at 31.12.2007	Note(s)
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	124,069,394	6.57%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	124,069,394	6.57%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	124,069,394	6.57%	3
Mega Start Limited ("Mega Start")	Beneficial owner	301,160,000	15.95%	4
Chau Chit	Interests of a controlled corporation	301,160,000	15.95%	4
Temasek Holdings (Private) Limited ("Temasek")	Interests of controlled corporations	133,523,480	7.07%	5
Singapore Technologies Engineering Ltd ("ST Engineering")	Interests of a controlled corporation	133,523,480	7.07%	5
ST Electronics	Beneficial owner	133,523,480	7.07%	5

Notes:

1. Asset Resort and Wheeling were wholly-owned subsidiaries of Shougang Holding and their respective interests were included in the interests held by Shougang Holding.

2. Max Same was a wholly-owned subsidiary of Cheung Kong and its interest was included in the interests held by Cheung Kong.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares of the Company (continued)

Notes: (continued)

3. Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

   In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

   By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

4. Mega Start was wholly-owned by Mr. Chau Chit. Accordingly, Mr. Chau Chit was deemed to be interested in the shares held by Mega Start. Such interest was also disclosed as the interest of Mr. Chau Chit in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

5. ST Electronics was a wholly-owned subsidiary of ST Engineering which in turn was controlled by Temasek as to 51.18%. By virtue of the SFO, each of ST Engineering and Temasek was deemed to be interested in the interest held by ST Electronics.

Save as disclosed above, at the balance sheet date, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position of 5% or more in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this report.

Report of the Directors

SHARE OPTION SCHEMES

(a) Share Option Scheme of the Company

On 7 June 2002, the Scheme which complies with the requirements of Chapter 17 of the Listing Rules was adopted by the shareholders of the Company.

The purpose of the Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contributions to the Company and/or its subsidiaries and/or its associated companies. The Scheme will remain in force for a period of 10 years commencing on 7 June 2002, being the date of adoption of the Scheme, to 6 June 2012.

Under the Scheme, the Directors may, at their discretion, offer Directors (including executive and non-executive Directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who, in the sole discretion of the Directors, will contribute or have contributed to the Company or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of the Company.

The total number of shares which may be issued upon exercise of all outstanding share options granted under the Scheme is 287,723,000 which represents approximately 14.93% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares available for issue upon exercise of all share options which may be granted under the Scheme is 596,350, representing approximately 0.03% of the issued share capital of the Company as at the date of this annual report. The total number of shares issued and to be issued upon the exercise of share options granted under the Scheme (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue (based on the date of offer) and an aggregate value of HK$5 million (based on the closing price of the Company's shares at the date of each offer), within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(a) Share Option Scheme of the Company (continued)

The period during which a share option may be exercised will be determined by the Directors of the Company at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors of the Company are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option will be determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the official closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the official closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Scheme. The offer of a grant of share options must be accepted within 60 days from the date of the offer.

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

Report of the Directors

SHARE OPTION SCHEMES (continued)

(a) Share Option Scheme of the Company (continued)

No share option was cancelled in accordance with the terms of the Scheme during the year. Details of the movements in the share options under the Scheme during the year were as follows:

Category or name of grantees	Options to subscribe for shares of the Company: At the beginning of the year	Granted during the year[1]	Exercised during the year[2]	Lapsed during the year[3]	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company								
Cao Zhong	8,026,000	–	–	–	8,026,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.580
	–	15,438,000	–	–	15,438,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
	8,026,000	15,438,000	–	–	23,464,000			
Chau Chit	–	15,438,000	–	–	15,438,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
Tzu San Te	–	12,008,000	(9,000,000)	–	3,008,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
Chen Jianyong	–	10,292,000	(5,000,000)	–	5,292,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
Leung Shun Sang, Tony	4,816,000	–	–	–	4,816,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.580
	3,200,000	–	–	–	3,200,000	14.03.2003	14.03.2003 – 13.03.2013	HK$0.495
	–	17,154,000	–	–	17,154,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
	8,016,000	17,154,000	–	–	25,170,000			

Report of the Directors

SHARE OPTION SCHEMES (continued)

(a) Share Option Scheme of the Company (continued)

Category or name of grantees	Options to subscribe for shares of the Company: At the beginning of the year	Granted during the year[1]	Exercised during the year[2]	Lapsed during the year[3]	At the end of the year	Date of grant	Exercise period	Exercise price per share
Chen Jang Fung	–	1,714,000	–	–	1,714,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
Chan Wah Tip, Michael	400,000	–	–	–	400,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.580
	–	1,714,000	–	–	1,714,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
	400,000	1,714,000	–	–	2,114,000			
Tse Chun Sing[4]	1,000,000	–	(1,000,000)	–	–	15.11.2002	15.11.2002 – 14.11.2012	HK$0.580
	–	10,292,000	(10,292,000)	–	–	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
	1,000,000	10,292,000	(11,292,000)	–	–			
Kan Lai Kuen, Alice	–	1,714,000	–	–	1,714,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
Wong Kun Kim	–	1,714,000	–	–	1,714,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
Leung Kai Cheung	–	1,714,000	–	–	1,714,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
	17,442,000	89,192,000	(25,292,000)	–	81,342,000			
Employees of the Group	2,922,000	–	(1,002,000)	(1,918,000)	2,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.580
	2,000	–	–	(2,000)	–	14.03.2003	14.03.2003 – 13.03.2013	HK$0.495
	–	12,500,000	(11,000,000)	(1,000,000)	500,000	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
	2,924,000	12,500,000	(12,002,000)	(2,920,000)	502,000			
Other participants	40,130,000	–	–	–	40,130,000	15.11.2002	15.11.2002 – 14.11.2012	HK$0.580
	14,069,000	–	–	–	14,069,000	14.03.2003	14.03.2003 – 13.03.2013	HK$0.495
	15,982,000	–	–	–	15,982,000	18.03.2004	18.03.2004 – 17.03.2014	HK$1.200
	–	1,500,000	(1,500,000)	–	–	19.01.2007	19.01.2007 – 18.01.2017	HK$0.406
	70,181,000	1,500,000	(1,500,000)	–	70,181,000			
	90,547,000	103,192,000	(38,794,000)	(2,920,000)	152,025,000			

Report of the Directors

SHARE OPTION SCHEMES (continued)

(a) Share Option Scheme of the Company (continued)

Notes:

1. (a) The closing price of the shares of the Company immediately before the date on which the share options were granted was HK$0.395 per share.

   (b) The fair value of the share options determined at the date of grant using the Binomial Option Valuation pricing model was approximately HK$11,194,000. Details of the calculation of the fair value of the share options are set out in note 38 to the financial statements.

2. The weighted average closing price of the shares of the Company immediately before the dates on which the share options were exercised was approximately HK$1.03 per share.

3. The share options were held by a grantee who ceased to be an employee of the Group during the year and such options were lapsed on 1 June 2007.

4. Mr. Tse Chun Sing resigned as director of the Company on 1 December 2007.

(b) Share option scheme of a subsidiary of the Company – Remarkable Mask Technology Company Limited

Remarkable Mask Technology Company Limited ("Remarkable"), an indirect wholly-owned subsidiary of the Company, has approved a share option scheme (the "Remarkable Scheme") by a shareholder's resolution passed on 10 May 2004. The Remarkable Scheme was subject to the approval of the shareholders of the Company and has become effective on 8 June 2004 as a result of the passing of an ordinary resolution approving the same by the shareholders of the Company at its extraordinary general meeting held on the same day.

The purpose of the Remarkable Scheme is to enable Remarkable to grant share options to selected participants as incentives or rewards for their contribution to Remarkable or its subsidiaries. The Remarkable Scheme will remain in force for a period of 10 years commencing on 8 June 2004, being the date on which the Remarkable Scheme was approved by the shareholders of the Company, to 7 June 2014.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(b) Share option scheme of a subsidiary of the Company – Remarkable Mask Technology Company Limited (continued)

Under the Remarkable Scheme, the directors of Remarkable may, at their absolute discretion, offer directors or proposed directors (including executive, non-executive or independent non-executive directors), employees or proposed employees (whether full-time or part-time), suppliers and customers of Remarkable or any of its subsidiaries or any of its associated companies, persons or entities that provide consultancy, advices, research, development or other technological support to Remarkable or any of its subsidiaries or any of its associated companies, partners or business associates and shareholders of Remarkable or any of its subsidiaries or any of its associated companies or holders of any securities issued by Remarkable or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of Remarkable, provided always that such determination shall be subject to the approval of the Directors of the Company or any committee duly constituted thereof.

No share option was granted in accordance with the terms of the Remarkable Scheme since its adoption.

The total number of shares of Remarkable available for issue upon exercise of all share options which may be granted under the Remarkable Scheme is 3,300,000, representing approximately 7.33% of the issued share capital of Remarkable as at the date of this annual report. The total number of shares of Remarkable issued and to be issued upon the exercise of share options granted under the Remarkable Scheme (including both exercised and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of Remarkable as at the date of grant. Any further grant of share options in excess of this limit is subject to the approval of shareholders of the Company in a general meeting. Share options granted to Directors, chief executives or substantial shareholders of the Company, or to any of their associates, are subject to approval in advance by the Independent Non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of Remarkable in issue (based on the date of offer), within any 12-month period, are subject to the approval of shareholders of the Company in advance in a general meeting.

The period during which a share option may be exercised will be determined by the directors of Remarkable at their absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the Remarkable Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the directors of Remarkable are empowered to impose at their discretion any such minimum period at the time of grant of any share options, provided always that such conditions shall be subject to the approval of the Directors of the Company or any committee duly constituted thereof.

Report of the Directors

SHARE OPTION SCHEMES (continued)

(b) Share option scheme of a subsidiary of the Company – Remarkable Mask Technology Company Limited (continued)

The exercise price in relation to each share option will be determined by the directors of Remarkable at their discretion and shall not be less than the nominal value of the shares of Remarkable and shall be subject to the approval of the directors of the Company or any committee duly constituted thereof. The exercise price in respect of each share option granted after the Company has contemplated a separate listing of Remarkable on the main board or the Growth Enterprise Market ("GEM") of the Stock Exchange or an overseas stock exchange and up to the listing date of Remarkable must be not lower than the new issue price (if any) of the shares of Remarkable. In the event that Remarkable is separately listed on the main board or the GEM of the Stock Exchange or an overseas stock exchange, the Remarkable Scheme will continue to have effect pursuant to the terms thereof and the exercise price of each share option in respect of an offer made after such listing shall be at least the higher of (i) the closing price of shares of Remarkable as stated in the stock exchange's daily quotations on the date of offer of share options; (ii) the average closing price of shares of Remarkable as stated in the stock exchange's daily quotations for the five business days immediately preceding the date of offer of share options (and for the purpose of calculating the exercise price where Remarkable has been listed for less than five business days, the new issue price shall be used as the closing price for any business day falling within the period before listing); and (iii) the nominal value of the shares of Remarkable.

Each of the grantees is required to pay HK$1 as consideration for the grant of share options in accordance with the Remarkable Scheme. The offer of a grant of share options must be accepted within 28 days from the date of the offer.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company did not have any reserves available for distribution as calculated in accordance with provisions of Section 79B of the Companies Ordinance.

The Company's capital reserve represents a non-distributable reserve.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers accounted for less than 30% of the total sales for the year and purchases from the five largest suppliers accounted for less than 30% of the total purchases for the year.

CONTINUING CONNECTED TRANSACTIONS

As stated in the announcement of the Company dated 4 January 2007, the Company entered into a master agreement (the "Master Agreement") with Shougang Concord Century Holdings Limited ("Shougang Century") on 3 January 2007 to renew the transactions as disclosed in the joint announcement published by the Company and Shougang Century on 4 May 2004 in relation to the sale and purchase of copper sheets and brass sheets between the respective subsidiaries of the Company and Shougang Century. Pursuant to the Master Agreement, the Company and/or its associates has agreed to purchase from Shougang Century and/or its associates, and Shougang Century and/or its associates has agreed to supply to the Company and/or its associates, copper sheets, brass sheets and other copper and brass products for a term of three years commencing on 1 January 2007 (the "Transactions"). The annual cap for the Transactions under the Master Agreement for each financial year ending 31 December 2007, 31 December 2008 and 31 December 2009 would be HK$10,000,000 and each of the relevant percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules would be less than 2.5%. The Transactions would constitute continuing connected transactions for the Company and was only subject to reporting and announcement requirements as set out in Rule 14A.45 to 14A.47 of the Listing Rules.

The aforesaid Transactions which took place during the year under review were entered into in the ordinary and usual course of business and were conducted on normal commercial terms. Such continuing connected transactions could facilitate the operations of the companies concerned and are fair and reasonable so far as the shareholders of the respective companies as a whole. Details of such Transactions for the financial year ended 31 December 2007 are set out in note 47 to the financial statements under the heading "Related Party Transactions".

Save as aforesaid and as far as the transactions which took place in the year under review are concerned, the transactions as set out in notes (a)(iii), (a)(iv) and (a)(x) to the financial statements under the heading of "Related Party Transactions" were connected transactions which have been previously disclosed by way of announcements. The transactions as set out in notes (a)(i), (a)(ii), (a)(v) and (a)(vi) to the financial statements under the heading of "Related Party Transactions" were connected transactions or incidental to the connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules. The remaining transactions which took place during the year as set out under the heading of "Related Party Transactions" did not constitute connected transactions.

Report of the Directors

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 18 to 29 of this annual report.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 48 to the financial statements.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

By Order of the Board
Cao Zhong
Chairman

Hong Kong, 16 April 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF
SHOUGANG CONCORD TECHNOLOGY HOLDINGS LIMITED
首長科技集團有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shougang Concord Technology Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 49 to 139, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 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 consolidated financial statements are free from material misstatement.

Independent Auditor's Report

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Revenue	7	678,819	624,388
Cost of sales		(674,675)	(623,556)
Gross profit		4,144	832
Other income	9	9,775	20,896
Fair value changes on investment properties		1,542	564
Selling and distribution costs		(19,773)	(17,036)
Administrative expenses		(95,354)	(82,765)
Gain on partial disposal of a subsidiary	22	125,942	–
Gain on deemed partial disposal of an associate	22	64,246	–
Gain on disposal of an associate		183	–
Share of results of associates		15,552	17,780
Share of results of jointly controlled entities		4,804	5,592
Finance costs	10	(20,472)	(19,901)
Profit (loss) before tax		90,589	(74,038)
Income tax (expense) credit	11	(3,498)	534
Profit (loss) for the year	12	87,091	(73,504)
Attributable to:			
Equity holders of the Company		78,759	(81,509)
Minority interests		8,332	8,005
		87,091	(73,504)
Earnings (loss) per share	15		
Basic		4.46 HK cents	(5.12 HK cents)
Diluted		4.31 HK cents	N/A

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment properties	16	11,092	9,550
Property, plant and equipment	17	246,690	265,094
Prepaid lease payments	18	9,386	9,779
Goodwill	19	222,842	138,144
Intangible assets	20	3,075	3,250
Investments in associates	22	151,969	68,684
Investments in jointly controlled entities	23	185,692	178,639
Available-for-sale investments	24	14,514	6,250
Club debentures	25	630	445
Deferred tax assets	41	3,010	2,147
		848,900	681,982
Current assets			
Prepaid lease payments	18	393	393
Inventories	26	127,599	106,545
Trade and bills receivables	27	182,202	189,951
Prepayments, deposits and other receivables		173,273	74,579
Amounts due from customers for contract work	28	168,581	157,599
Tax recoverable		17	126
Pledged bank deposits	31	35,982	20,049
Time deposits	32	80,000	–
Bank balances and cash	32	55,190	37,214
		823,237	586,456
Current liabilities			
Trade and bills payables	33	187,068	137,942
Other payables, deposits received and accruals		96,262	79,172
Amounts due to customers for contract work	28	38,059	19,445
Amount due to a related company	34	–	143,483
Amount due to a jointly controlled entity	29	10,126	7,471
Tax liabilities		7,374	9,192
Bank borrowings – due within one year	35	197,214	134,905
Obligations under finance leases – due within one year	36	12,442	22,446
Bank overdrafts	32	–	6,283
		548,545	560,339
Net current assets		274,692	26,117
Total assets less current liabilities		1,123,592	708,099

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current liabilities			
Bank borrowings – due after one year	35	162,683	23,698
Obligations under finance leases – due after one year	36	17,770	6,859
Deferred tax liabilities	41	160	150
		180,613	30,707
Net assets		942,979	677,392
Capital and reserves			
Share capital	37	471,947	428,867
Reserves		393,480	189,783
Equity attributable to equity holders of the Company		865,427	618,650
Minority interests		77,552	58,742
Total equity		942,979	677,392

The financial statements on pages 49 to 139 were approved and authorised for issue by the Board of Directors on 16 April 2008 and are signed on its behalf by:

Cao Zhong
DIRECTOR

Chau Chit
DIRECTOR

Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	17	12,232	17,948
Prepaid lease payments	18	–	5,765
Investments in subsidiaries	21	59,729	51,561
Advances to subsidiaries	21	163,223	162,146
Club debentures	25	520	365
		235,704	237,785
Current assets			
Prepaid lease payments	18	–	276
Other receivables		519	3,108
Amounts due from subsidiaries	30	873,786	579,938
Time deposits	32	80,000	–
Bank balances and cash	32	17,322	2,201
		971,627	585,523
Current liabilities			
Other payables		11,957	4,442
Amounts due to subsidiaries	30	230,258	38,574
Amount due to a related company	34	–	143,483
Bank borrowings – due within one year	35	105,601	43,222
Bank overdrafts	32	–	5,568
		347,816	235,289
Net current assets		623,811	350,234
Total assets less current liabilities		859,515	588,019
Non-current liability			
Bank borrowings – due after one year	35	162,683	23,698
Net assets		696,832	564,321
Capital and reserves			
Share capital	37	471,947	428,867
Reserves	40	224,885	135,454
Equity attributable to equity holders of the Company		696,832	564,321

Cao Zhong
DIRECTOR

Chau Chit
DIRECTOR

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital redemption reserve	Other reserves	Translation reserve	Capital reserve	Share option reserve	Accumulated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Note a)		(Note b)					
At 1 January 2006	299,751	405,628	2,084	–	1,661	53,690	–	(294,485)	468,329	10,555	478,884
Share of changes in equity of associates	–	–	–	–	1,957	–	–	–	1,957	–	1,957
Share of changes in equity of jointly controlled entities	–	–	–	–	1,626	–	–	–	1,626	–	1,626
Exchange difference arising on translation to presentation currency	–	–	–	–	2,398	–	–	–	2,398	1,550	3,948
Net income recognised directly in equity	–	–	–	–	5,981	–	–	–	5,981	1,550	7,531
(Loss) profit for the year	–	–	–	–	–	–	–	(81,509)	(81,509)	8,005	(73,504)
Total recognised income and expenses for the year	–	–	–	–	5,981	–	–	(81,509)	(75,528)	9,555	(65,973)
Shares issued at premium for acquisition of subsidiaries	129,116	97,961	–	–	–	–	–	–	227,077	39,805	266,882
Share issue expenses	–	(1,801)	–	–	–	–	–	–	(1,801)	–	(1,801)
Deemed acquisition of subsidiaries	–	–	–	–	–	–	–	573	573	(573)	–
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(600)	(600)
Appropriations	–	–	–	360	–	–	–	(360)	–	–	–
	129,116	96,160	–	360	–	–	–	213	225,849	38,632	264,481
At 31 December 2006 and 1 January 2007	428,867	501,788	2,084	360	7,642	53,690	–	(375,781)	618,650	58,742	677,392
Share of changes in equity of associates	–	–	–	–	4,083	–	–	–	4,083	–	4,083
Share of changes in equity of jointly controlled entities	–	–	–	–	2,249	–	–	–	2,249	–	2,249
Exchange difference arising on translation to presentation currency	–	–	–	–	5,977	–	–	–	5,977	1,874	7,851
Net income recognised directly in equity	–	–	–	–	12,309	–	–	–	12,309	1,874	14,183
Profit for the year	–	–	–	–	–	–	–	78,759	78,759	8,332	87,091
Released upon partial disposal of an associate	–	–	–	–	(746)	–	–	–	(746)	55,864	55,118
Total recognised income and expenses for the year	–	–	–	–	11,563	–	–	78,759	90,332	66,070	156,392
Recognition of equity-settled share based payments	–	–	–	–	–	–	11,194	–	11,194	–	11,194
Exercise of share options	9,699	10,391	–	–	–	–	(3,991)	–	16,099	–	16,099
Share options lapsed	–	–	–	–	–	–	(100)	100	–	–	–
Arising from acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	2,438	2,438
Shares issued at premium for acquisition of additional interests in subsidiaries	33,381	96,137	–	–	–	–	–	–	129,518	(44,820)	84,698
Deemed acquisition of associates	–	–	–	–	–	–	–	–	–	722	722
Share issue expenses	–	(356)	–	–	–	–	–	–	(356)	–	(356)
Dividend paid to minority interests	–	–	–	–	–	–	–	–	–	(5,600)	(5,600)
	43,080	106,172	–	–	–	–	7,103	100	156,455	(47,260)	109,195
At 31 December 2007	471,947	607,960	2,084	360	19,205	53,690	7,103	(296,922)	865,427	77,552	942,979

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2007

Notes:

(a) Other reserves represent the aggregate amounts of surplus reserve fund and enterprise reserve fund.

Certain subsidiaries operating in the People's Republic of China (the "PRC") are required to transfer 5% of the profit after tax (as determined under the management of the relevant subsidiaries and in accordance with PRC Generally Accepted Accounting Principles) to the surplus reserve fund until the fund balance reaches 50% of the registered capital of those subsidiaries. The reserve fund can be used to offset accumulated losses expand the existing operations or convert into additional capital of the subsidiaries.

These subsidiaries are also required to transfer 5% of the profit after tax (as determined under the management of the relevant subsidiaries and in accordance with PRC Generally Accepted Accounting Principles) to the enterprise development fund. The fund can only be used for development of the enterprise and is not available for distribution to shareholders.

(b) By a special resolution passed at an extraordinary general meeting and subsequently approved by the Supreme Court of Hong Kong in 1993, the share premium of the Company was reduced by an amount of HK$270,000,000. This amount was used to reduce the Company's accumulated losses of HK$216,310,000 and the balance of HK$53,690,000 was credited to the Company's capital reserve which is non-distributable.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**90,589**	(74,038)
Adjustments for:		
Amortisation of intangible assets	**295**	1,049
Depreciation of property, plant and equipment	**68,045**	68,684
Gain on disposal of assets classified as held for sale	**–**	(5,867)
Gain on partial disposal of a subsidiary	**(125,942)**	–
Gain on deemed partial disposal of an associate	**(64,246)**	–
Gain on disposal of an associate	**(183)**	–
(Reversal of) impairment loss recognised on club debentures	**(185)**	115
Impairment loss recognised on intangible assets	**–**	950
Impairment loss recognised on inventories	**7,639**	600
Impairment loss recognised on trade receivables	**5,162**	2,920
Impairment loss recognised on amounts due from customers for contract work	**2,801**	–
Increase in fair value of investment properties	**(1,542)**	(564)
Interest income	**(420)**	(682)
Interest on amount due to a related company	**6,387**	6,017
Interest on bank borrowings and finance leases	**14,085**	13,884
(Gain) loss on disposal of property, plant and equipment	**(96)**	212
Release of prepaid lease payments to consolidated income statement	**393**	393
Share-based payment expense	**11,194**	–
Share of results of associates	**(15,552)**	(17,780)
Share of results of jointly controlled entities	**(4,804)**	(5,592)
Operating cash flows before movements in working capital	**(6,380)**	(9,699)
(Increase) decrease in inventories	**(26,603)**	3,577
Decrease (increase) in trade and bills receivables	**4,888**	(10,207)
Increase in prepayments, deposits and other receivables	**(84,984)**	(8,297)
(Increase) decrease in amounts due from customers for contract work	**(5,472)**	16,494
Decrease in amounts due from associates	**–**	2,682
Decrease in amount due from a jointly controlled entity	**–**	1,629
Increase (decrease) in trade and bills payables	**46,339**	(13,077)
(Decrease) increase in other payables, deposits received and accruals	**(672)**	16,597
Increase (decrease) in amounts due to customers for contract work	**17,636**	(24,697)
Increase in amount due to a jointly controlled entity	**2,655**	7,471
Cash used in operations	**(52,593)**	(17,527)
Interest paid	**(20,472)**	(13,884)
PRC Income Tax (paid) refunded	**(5,450)**	119
Hong Kong Profits Tax (paid) refunded	**(954)**	73
NET CASH USED IN OPERATING ACTIVITIES	**(79,469)**	(31,219)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
(Increase) decrease in time deposits		(80,000)	28,868
(Increase) decrease in pledged bank deposits		(15,187)	834
Purchases of property, plant and equipment		(23,393)	(14,929)
Proceeds from partial disposal of a subsidiary		181,806	–
Proceeds from disposal of an associate		755	–
Interest received		420	682
Proceeds from disposal of property, plant and equipment		132	1,174
Acquisition of subsidiaries	39	54	11,617
Proceeds from disposal of non-current assets classified as held for sale		–	27,152
Dividend received from a jointly controlled entity		–	15,000
NET CASH FROM INVESTING ACTIVITIES		64,587	70,398
FINANCING ACTIVITIES			
Repayment to a related company		(434,757)	–
Repayment of bank loans		(119,659)	(123,245)
Repayment of obligations under finance leases		(24,545)	(34,686)
Dividend paid to minority interests		(5,600)	(600)
Share issue expenses		(356)	(1,801)
New bank loans raised		294,764	86,567
Loan from a related company		291,274	54,047
Increase in trust receipt loans		21,389	7,129
Exercise of share options		16,099	–
Repayment to amount due to a shareholder		–	(24,700)
Advance from a related company		–	4,753
NET CASH FROM (USED IN) FINANCING ACTIVITIES		38,609	(32,536)
NET INCREASE IN CASH AND CASH EQUIVALENTS		23,727	6,643
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		30,931	23,952
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		532	336
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		55,190	30,931
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		55,190	37,214
Bank overdrafts		–	(6,283)
		55,190	30,931

Notes To The Financial Statements

For the year ended 31 December 2007

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a private company incorporated in Hong Kong is the controlling shareholder of the Company. The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 21, 22 and 23, respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as functional currency of the Company.

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

In the current year, the Group and the Company have applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the financial year of the Group and the Company beginning 1 January 2007.

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

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

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

Notes To The Financial Statements

For the year ended 31 December 2007

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

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combination[2]
HKFRS 8	Operating Segments[1]
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

The adoption of HKFRS 3 (revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company are in the process of assessing the impact of the new or revised standards and interpretations on the results and the financial position of the Group and the Company.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

Acquisition of additional interests of subsidiaries that do not result in change in control do not fall within the definition of business combination under HKFRS 3 Business Combinations. The excess of the cost of acquisition over the carrying amount of assets and liabilities of the subsidiary is recognised as goodwill.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

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

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

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investments in associates

An associate is an entity over which an investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

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

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Rental income is recognised on a straight line basis over the relevant lease terms.

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

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

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Installation contracts

Revenue generated from installation contracts comprise the followings:

Sale of hardware (including computer hardware, purchased computer software, parts and components and equipment)

Sales of goods are recognised when goods are delivered and title has passed. Cost of goods sold are recognised when goods are received and title has passed.

Provision of services (installation, system development, system integration, system design and related services)

Where the outcome of a contract for the installation of network systems can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received included in other payables, deposits received and accruals. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and bills receivables.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold properties	Over the shorter of lease terms or 2%
Machinery, moulds and tools	4% – 20%
Equipment, furniture and fixtures	15% – 20%
Motor vehicles	25% to $33^1/_3$%
Leasehold improvements	Over the shorter of lease terms or 4%

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

Prepaid lease payments

Payments for obtaining land use rights are accounted for as prepaid lease payments and are charged to the consolidated income statement on a straight line basis over the lease terms. Prepaid lease payments which are to be charged to the consolidated income statement in the next twelve months or less are classified as current assets.

Intangible assets

Research and development expenditure

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

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

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Club debenture

Club debentures are stated at cost, less any identified impairment losses.

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Leasehold land and building

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

Foreign currencies

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

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

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

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefits costs

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

Government grants

Government grants are recognised as income when the Group was entitled to obtain the grants and are reported separately as "other income".

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes consolidated income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. The Company's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, advances to subsidiaries, amounts due from subsidiaries, amounts due from customers for contract work, pledged bank deposits, time deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 30 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis, of which the interest expense is included in net gains or losses.

Financial liabilities

Financial liabilities including trade and bills payable, other payables, amounts due to subsidiaries, amount due to a related company, amount due to a jointly controlled entity, bank borrowings, obligations under finance leases and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group and the Company measure the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Group and the Company have transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Equity settled share-based payment transactions

Share options granted to employees on or before 7 November 2002, or granted after 7 November 2002 and vested before 1 January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded 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 as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted to employees after 7 November 2002 and vested on or after 1 January 2005

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

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

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity settled share-based payment transactions (continued)

Share options granted to suppliers/consultants

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

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group and the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Borrowings costs

All borrowings costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

4. KEY SOURCES OF 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.

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For the year ended 31 December 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill is approximately HK$222,842,000 (2006: HK$138,144,000). Details of the recoverable amount calculation are disclosed in note 19.

Income taxes

As at 31 December 2007, a deferred tax asset of approximately HK$19,214,000 (2006: HK$25,998,000) and HK$2,995,000 (2006: HK$2,147,000) in relation to unused tax losses and other deductible temporary differences respectively has been recognised (note 41) while deferred tax asset of approximately HK$129,630,000 (2006: HK$103,329,000) in relation to unused tax losses has not been recognised. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the actual future assessable profits generated are more or less than expected, a recognition or reversal of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a recognition or reversal takes place.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the amount due to a related company, bank borrowings and obligations under finance leases disclosed in notes 34, 35 and 36, net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2007 HK$'000	2006 HK$'000
THE GROUP		
Financial assets		
Loans and receivables (including cash and cash equivalents)	633,055	427,432
Available-for-sale financial assets	14,514	6,250
Financial liabilities		
Amortised cost	604,765	501,447
THE COMPANY		
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,134,850	747,393
Financial liabilities		
Amortised cost	510,499	258,987

6b. Financial risk management objectives and polices

The Group's and the Company's major financial instruments include available-for-sale investments, trade and bills receivables, other receivables, advances to subsidiaries, amounts due from subsidiaries, amounts due from customers for contract work, pledged bank deposits, time deposits, bank balances, trade and bills payables, other payables, amounts due to subsidiaries, amount due to a related company, amount due to a jointly controlled entity, bank borrowings, obligations under finance leases and bank overdrafts. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and polices (continued)

Market risk

(i) Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, and certain bank balances, trade receivables, trade payables and bank borrowings of the Group are denominated in foreign currency, which expose the Group to foreign currency risk. The Company's foreign currency risk exposure is mainly derived from bank balances and bank borrowings denominated in foreign currency. The management monitors foreign exchange expense by closely monitoring the movement of foreign currency rate.

The carrying amounts of the Group's and the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
THE GROUP				
Euro	**–**	441	**1,649**	1,039
Japanese Yen	**–**	–	**1,725**	1,533
Renminbi	**36,700**	27,647	**36,767**	35,331
United States dollar	**63,569**	84,725	**29,256**	27,427
THE COMPANY				
Japanese Yen	**–**	–	**1,725**	1,533
United States dollar	**73**	491	**10,181**	2,590

Sensitivity analysis

As the exposure to foreign currency risk is mainly derived from group entities with Hong Kong dollar as functional currency, and Hong Kong dollar is pegged to the United States dollar under the Linked Exchange Rate System, the Group's and the Company's exposure to United States dollar exchange rate risk is minimal. The Group is mainly exposed to the fluctuations in Euro, Japanese Yen and Renminbi against Hong Kong dollar, functional currency of respective group entity. The Company is mainly exposed to fluctuations in Japanese Yen against Hong Kong dollar, functional currency of the Company.

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and polices (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in Hong Kong dollar against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currencies rates. A positive number below indicates an increase/decrease in profit (loss) for the year where the Hong Kong dollar strengthen 5% against the relevant currencies. For a 5% weakening of Hong Kong dollars against the relevant currencies, there would be an equal and opposite impact on the profit (loss) for the year and the balances below would be negative.

	Euro		Japanese Yen		Renminbi	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
THE GROUP						
Profit (loss) for the year (i)	**82**	30	**87**	77	**3**	384
THE COMPANY						
Loss for the year (ii)	**–**	–	**87**	77	**–**	–

(i) This is mainly attributable to the exposure outstanding on foreign currency trade receivables, trade payables and bank borrowings at year end.

(ii) This is mainly attributable to the exposure outstanding on foreign currency bank borrowings at year end.

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and polices (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to amounts due to a related company and fixed-rate bank borrowings (see notes 34 and 35 for details of these borrowings).

The Group and the Company are also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 35 for details of these borrowings). It is the Group's and the Company's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group and the Company cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offer Rate arising from the bank borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by approximately HK$1,357,000 (2006: loss for the year increase/decrease by approximately HK$391,000) and the Company's loss for the year would increase/decrease by approximately HK$1,341,000 (2006: loss for the year increase/decrease of approximately HK$362,000). This is mainly attributable to the Group's and the Company's exposure to interest rates on its variable-rate bank borrowings.

The Group's and the Company's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate bank borrowings.

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and polices (continued)

Credit risk

As at 31 December 2007, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge obligations by the counter parties and financial guarantees provided by the Group and the Company arises from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities in related to the financial guarantee issued by the Group and the Company as disclosed in note 45.

In order to minimise the credit risk, management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk on trade and bills receivables and amounts due from customers for contract work with exposure spread over a number of counterparties and customers. No material credit risk exposure on the financial guarantee granted by the Group and the Company is noted because the jointly controlled entity, the third parties and the subsidiary disclosed in note 45 have strong financial positions and the risk of default payment are low.

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and polices (continued)

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's and the Company's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	1–2 years	2-5 years	Total undiscounted cash flows	Carrying amount at 31.12.2007
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP							
2007							
Trade and bills payables	–	116,655	70,413	–	–	187,068	187,068
Other payables	–	17,462	–	–	–	17,462	17,462
Amount due to a jointy controlled entity	–	10,126	–	–	–	10,126	10,126
Bank borrowings							
– fixed rate	5.87	27,675	65,565	–	–	93,240	88,404
– variable rate	6.18	25,905	94,066	166,346	4,674	290,991	271,493
Obligations under finance leases	6.27	5,013	9,416	7,353	12,831	34,613	30,212
		202,836	239,460	173,699	17,505	633,500	604,765

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and polices (continued)

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	Less than 3 months HK$'000	3 months to 1 year HK$'000	1–2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2006 HK$'000
2006							
Trade and bills payables	–	63,660	74,282	–	–	137,942	137,942
Other payables	–	18,360	–	–	–	18,360	18,360
Amount due to a related company – fixed rate	5.15	144,113	–	–	–	144,113	143,483
Amount due to a jointly controlled entity	–	7,471	–	–	–	7,471	7,471
Bank overdrafts	8.50	6,755	–	–	–	6,755	6,283
Bank borrowings							
– fixed rate	4.48	23,675	67,565	–	–	91,240	86,660
– variable rate	6.65	12,578	39,129	22,070	2,844	76,621	71,943
Obligations under finance leases	5.53	6,509	17,041	7,001	–	30,551	29,305
		283,121	198,017	29,071	2,844	513,053	501,447

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (continued)

6b. Financial risk management objectives and polices (continued)

Liquidity risk (continued)

Liquidity and interest risk tables (continued)

	Weighted average effective interest rate %	Less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	1–2 years *HK$'000*	2-5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31.12.2007 *HK$'000*
THE COMPANY							
2007							
Other payables	–	11,957	–	–	–	11,957	11,957
Amounts due to subsidiaries	–	230,258	–	–	–	230,258	230,258
Bank borrowings – variable rate	6.17	25,397	89,588	166,346	4,674	286,005	268,284
		267,612	89,588	166,346	4,674	528,220	510,499

	Weighted average effective interest rate %	Less than 3 months *HK$'000*	3 months to 1 year *HK$'000*	1–2 years *HK$'000*	2-5 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount at 31.12.2006 *HK$'000*
2006							
Other payables	–	4,442	–	–	–	4,442	4,442
Amounts due to subsidiaries	–	38,574	–	–	–	38,574	38,574
Amount due to a related company – fixed rate	5.15	144,113	–	–	–	144,113	143,483
Bank borrowings – variable rate	6.63	11,646	34,937	22,070	2,844	71,497	66,920
Bank overdrafts – variable rate	8.70	5,725	–	–	–	5,725	5,568
		204,500	34,937	22,070	2,844	264,351	258,987

At 31 December 2007 and 2006, it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the carrying amount of financial guarantee contract which is assessed as insignificant at year end date has not been presented above.

Notes To The Financial Statements

For the year ended 31 December 2007

6. FINANCIAL INSTRUMENTS (continued)

6c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

7. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes, revenue arising from installation contracts, services rendered and rental income for the year, and is analysed as follows:

	2007 *HK$'000*	2006 *HK$'000*
Sales of goods	**397,905**	465,760
Revenue from installation contracts	**270,276**	149,018
Rendering of services	**8,485**	9,222
Property rental income	**2,153**	388
	678,819	624,388

Notes To The Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into six operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Traditional business – Manufacture and distribution of telephone accessories, power cords and adaptors.

Printed circuit boards – Manufacture and distribution of printed circuit boards.

High precision metal components – Manufacture and distribution of high precision metal components.

Photomask business – Manufacture of photomasks.

Intelligent information business – Development and provision of system integration solutions, system design and sale of system hardware.

Others – Provision of management services and leasing of investment properties.

Inter-segment sales are charged at prevailing market prices.

Notes To The Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31 December 2007

	Traditional business HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Intelligent information business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
REVENUE								
External sales	279,289	1,980	61,529	46,461	280,410	9,150	–	678,819
Inter-segment sales	623	–	4	–	–	9,235	(9,862)	–
Total	279,912	1,980	61,533	46,461	280,410	18,385	(9,862)	678,819
RESULT								
Segment results	(5,557)	(2,137)	(554)	(64,214)	16,770	(25,285)	–	(80,977)
Unallocated corporate expenses								(24,608)
Unallocated corporate income								5,919
Gain on partial disposal of a subsidiary		125,942						125,942
Gain on deemed partial disposal of an associate		64,246						64,246
Gain on disposal of an associate					183			183
Share of results of associates		15,585			(33)			15,552
Share of results of jointly controlled entities					(1,972)	6,776		4,804
Finance costs								(20,472)
Profit before tax								90,589
Income tax expense								(3,498)
Profit for the year								87,091

Notes To The Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31 December 2007

	Traditional business HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Intelligent information business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
BALANCE SHEET								
Segment assets	146,604	16,736	32,315	166,687	619,988	162,803		1,145,133
Investments in associates		149,379			2,590			151,969
Investments in jointly controlled entities					470	185,222		185,692
Unallocated corporate assets								189,343
Consolidated total assets								1,672,137
Segment liabilities	94,254	4,703	19,444	18,948	186,463	7,703		331,515
Unallocated corporate liabilities								397,643
Consolidated total liabilities								729,158
OTHER INFORMATION								
Capital expenditure by the Group	2,063	–	246	38,939	5,460	2,137	–	48,845
Capital expenditure through acquisition of a subsidiary	–	–	–	–	84,698	555	–	85,253
Depreciation of property, plant and equipment	7,218	2,970	2,022	49,419	2,015	4,401	–	68,045
Amortisation of intangible assets	–	–	–	–	295	–	–	295
Gain on disposal of property, plant and equipment	–	–	(3)	–	(93)	–	–	(96)
Impairment loss recognised on trade receivables	4,078	–	–	464	620	–	–	5,162
Impairment loss recognised (reversed) on inventories	8,987	(2,178)	–	930	(363)	263	–	7,639

Notes To The Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2006

	Traditional business HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Intelligent information business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
REVENUE								
External sales	297,173	24,453	64,065	42,542	187,718	8,437	–	624,388
Inter-segment sales	34,609	–	–	–	–	25,626	(60,235)	–
Total	331,782	24,453	64,065	42,542	187,718	34,063	(60,235)	624,388
RESULT								
Segment results	(7,543)	(19,414)	(3,286)	(65,660)	27,780	(2,563)	(221)	(70,907)
Unallocated corporate expenses								(11,097)
Unallocated corporate income								4,495
Share of results of associates		17,863			(83)			17,780
Share of results of jointly controlled entities					(10,429)	16,021		5,592
Finance costs								(19,901)
Loss before tax								(74,038)
Income tax credit								534
Loss for the year								(73,504)

Notes To The Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

For the year ended 31 December 2006

	Traditional business HK$'000	Printed circuit boards HK$'000	High precision metal components HK$'000	Photomask business HK$'000	Intelligent information business HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000
BALANCE SHEET								
Segment assets	177,954	27,196	41,248	179,102	452,175	77,209		954,884
Investments in associates		66,315			2,369			68,684
Investments in jointly controlled entities					2,445	176,194		178,639
Unallocated corporate assets								66,231
Consolidated total assets								1,268,438
Segment liabilities	80,997	9,420	20,763	24,375	104,913	147,045		387,513
Unallocated corporate liabilities								203,533
Consolidated total liabilities								591,046
OTHER INFORMATION								
Capital expenditure by the Group	4,840	689	837	5,049	1,218	2,296	–	14,929
Capital expenditure through acquisition of subsidiaries	–	–	–	–	152,441	–	–	152,441
Depreciation of property, plant and equipment	9,051	3,285	2,024	48,676	1,764	3,884	–	68,684
Amortisation of intangible assets	–	–	–	–	1,049	–	–	1,049
Loss (gain) on disposal of property, plant and equipment	555	–	–	–	(184)	(159)	–	212
Gain on disposal of assets classified as held for sale	–	–	–	–	–	5,867	–	5,867
Impairment loss recognised on trade receivables	2,311	–	–	428	181	–	–	2,920
Impairment loss recognised on inventories	–	–	–	600	–	–	–	600
Impairment loss recognised on intangible assets	–	–	–	–	950	–	–	950

Notes To The Financial Statements

For the year ended 31 December 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

The Group's operations are located in Hong Kong, the People's Republic of China (other than Hong Kong) (the "PRC"), Europe and Australia.

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

	2007 HK$'000	2006 HK$'000
The PRC	305,405	205,674
Hong Kong	243,723	292,688
Europe	68,437	68,444
Australia	1,874	6,438
Others	59,380	51,144
	678,819	624,388

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

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
The PRC	766,752	707,177	93,777	165,031
Hong Kong	378,381	247,707	40,321	2,339
	1,145,133	954,884	134,098	167,370

Notes To The Financial Statements

For the year ended 31 December 2007

9. OTHER INCOME

	2007 *HK$'000*	2006 *HK$'000*
Interest on bank deposits	420	682
Proceeds from sale of scrap	1,924	6,081
Gain on disposal of assets classified as held for sale	–	5,867
Government grants *(note)*	1,204	200
Recovery from insurance claim	1,357	4,464
Others	4,870	3,602
	9,775	20,896

Note: For the year ended 31 December 2007, government grants of approximately HK$1,204,000 (2006: HK$200,000) had been received as a reward for innovative software development of the entity, which was recognised when the entity was entitled to the reward. There were no unfulfilled conditions or contingencies relating to the government grants.

10. FINANCE COSTS

	2007 *HK$'000*	2006 *HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	12,573	10,900
Finance leases	1,512	2,984
Amounts due to related companies	6,387	6,017
	20,472	19,901

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For the year ended 31 December 2007

11. INCOME TAX EXPENSE (CREDIT)

	2007 HK$'000	2006 HK$'000
Current tax:		
Hong Kong	1,037	634
Other regions in the PRC	4,805	3,077
	5,842	3,711
Overprovision in prior years:		
Hong Kong	(1,491)	(295)
Change in tax rate *(note)*	–	(1,627)
	4,351	1,789
Deferred tax *(note 41)*	(853)	(2,323)
	3,498	(534)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both years.

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

Certain subsidiaries operating in PRC are qualified as advanced technology enterprises and operate in one of the approved high and new technology industrial development zones of PRC and are thus subject to preferential tax rates of 15% to 16.5%.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations would impose a single tax rate of 25% for all the enterprises from 1 January 2008. However, as certain subsidiaries operating in the PRC are still qualified as advanced technology enterprises till 2008 thus still subject to preferential tax rates of 15% to 16.5%. The directors of the Company are of the opinion that if these subsidiaries are able to obtain qualification of advanced technology enterprise, then these enterprises will still able to enjoy the preferential tax rate of 15% to 16.5% from 2009 onwards. Deferred tax balance is calculated using tax rates that have been enacted or substantially enacted when the liability is settled or the asset is realised.

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11. INCOME TAX EXPENSE (CREDIT) (continued)

Note: During the year ended 31 December 2006, one of the subsidiaries of the Company was designated as one of the Most Outstanding Software Enterprises of year 2005 as defined by the National Development Bureau of the PRC and was subject to income tax rate of 10% for the year ended 31 December 2005, being a preferential tax rate applicable to the Most Outstanding Software Enterprises. This resulted in a tax refund of approximately HK$1,627,000.

The tax expense (credit) for the year can be reconciled to the profit (loss) before tax as follows:

	2007 *HK$'000*	2006 *HK$'000*
Profit (loss) before tax	90,589	(74,038)
Tax at Hong Kong Profits Tax rate of 17.5%	15,853	(12,957)
Tax effect of expenses not deductible for tax purposes	2,305	1,056
Tax effect of income not taxable for tax purposes	(36,998)	(298)
Tax effect of share of results of associates	(2,722)	(3,112)
Tax effect of share of results of jointly controlled entities	(841)	(979)
Utilisation of tax losses not recognised in previous years	(786)	(409)
Tax effect of tax losses not recognised	27,087	18,124
Effect of different tax rates of subsidiaries operating in PRC	1,091	(37)
Overprovision in prior years	(1,491)	(295)
Change in tax rate	–	(1,627)
Tax expense (credit) for the year	3,498	(534)

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For the year ended 31 December 2007

12. PROFIT (LOSS) FOR THE YEAR

	2007 HK$'000	2006 HK$'000
Profit (loss) for the year has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration *(note 13)*:		
– Salaries, wages and other benefits	110,210	97,177
– Retirement benefit scheme contributions	3,458	4,346
Total staff costs	113,668	101,523
Amortisation of intangible assets (included in administrative expenses)	295	1,049
Auditors' remuneration	2,670	2,158
Cost of inventories recognised as expenses *(note a)*	614,787	585,486
Depreciation of property, plant and equipment	68,045	68,684
(Gain) loss on disposal of property, plant and equipment	(96)	212
Impairment loss (reversed) recognised on club debentures *(note b)*	(185)	115
Impairment loss recognised on trade receivables	5,162	2,920
Impairment loss recognised on amounts due from customers for contract work	2,801	–
Impairment loss recognised on intangible assets	–	950
Impairment loss recognised on inventories	7,639	600
Net foreign exchange losses	6,802	1,834
Release of prepaid lease payments to consolidated income statement	393	393
Research and development costs (included in administrative expenses)	824	137
Share of tax of associates (included in share of results of associates)	2,223	2,194
Share of tax of jointly controlled entities (included in share of results of jointly controlled entities)	51	93

Notes:

a. Included in the Group's gross profit for the year ended 31 December 2006 was profit of HK$11,319,000 derived from the disposal of a batch of slow moving finished goods carried by a subsidiary acquired during the year ended 31 December 2006, the carrying value of which had been reduced substantially to the net realisable value prior to its acquisition by the Group.

b. During the year, the market values of club debentures have been increased due to the appreciation of market values of club debentures. As a result, a reversal of previously recognised impairment loss amounted to HK$185,000 has been recognised and included in administrative expenses.

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For the year ended 31 December 2007

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 12 (2006: 14) directors are as follows:

	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Performance related incentive payment *HK$'000* (Note 1)	Share-based payments *HK$'000* (Note 2)	Retirement benefit scheme contributions *HK$'000*	Total emoluments *HK$'000*
2007						
Cao Zhong	–	–	750	1,696	–	2,446
Chau Chit	–	1,800	750	1,696	12	4,258
Chen Jianyong	–	1,200	200	1,131	12	2,543
Tzu San Te	–	1,209	195	1,320	12	2,736
Tse Chun Sing	50	856	–	1,131	75	2,112
Chen Jang Fung	120	–	–	188	–	308
Leung Kai Cheung	150	–	–	188	–	338
Leung Shun Sang, Tony	120	–	–	1,885	–	2,005
Chan Wah Tip, Michael	150	–	–	188	–	338
Kan Lai Kuen, Alice	150	–	–	188	–	338
Wong Kun Kim	150	–	–	188	–	338
Lee Fook Sun	10	–	–	–	–	10
	900	5,065	1,895	9,799	111	17,770
2006						
Cao Zhong	300	–	–	–	–	300
Chau Chit	–	985	300	–	13	1,298
Chen Jianyong	–	650	100	–	7	757
Zhang Wenhui	–	1,501	–	–	68	1,569
Tzu San Te	–	1,208	98	–	12	1,318
Tse Chun Sing	–	1,493	124	–	149	1,766
Chen Jang Fung	120	–	–	–	–	120
Leung Kai Cheung	81	–	–	–	–	81
Leung Shun Sang, Tony	120	–	–	–	–	120
Chan Wah Tip, Michael	150	–	–	–	–	150
Choy Hok Man, Constance	63	–	–	–	–	63
Kan Lai Kuen, Alice	150	–	–	–	–	150
Kwan Bo Ren, Dick	78	–	–	–	–	78
Wong Kun Kim	150	–	–	–	–	150
	1,212	5,837	622	–	249	7,920

Notes To The Financial Statements

For the year ended 31 December 2007

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Notes:

1. Performance related incentive payment is determined based on the individual performance of the Directors.

2. Share-based payments represent fair value at grant date of share options amortised to the consolidated income statement during the year. The share options are issued under the Company's share option scheme as detailed in note 38.

No directors waived any emoluments for the years ended 31 December 2007 and 2006.

(b) Employees' Emoluments

During the year, the five highest paid individuals included five directors (2006: four directors), details of whose emoluments are set out above. The emoluments of the remaining one highest paid individual for the year ended 31 December 2006 are as follows:

	HK$'000
Salaries and other benefits	1,072
Retirement benefits schemes contributions	7
	1,079

14. DIVIDEND

No dividend was paid or proposed in respect of the year 2007 (2006: Nil).

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For the year ended 31 December 2007

15. EARNINGS (LOSS) PER SHARE

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

	2007 *HK$'000*	2006 *HK$'000*
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (Profit (loss) for the year attributable to equity holders of the Company)	78,759	(81,509)

	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,765,735	1,590,910
Effect of dilutive potential ordinary shares:		
– share options	60,786	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	1,826,521	1,590,910

16. INVESTMENT PROPERTIES

	THE GROUP *HK$'000*
FAIR VALUE	
At 1 January 2006	8,986
Increase in fair value recognised in the consolidated income statement	564
At 31 December 2006 and 1 January 2007	9,550
Increase in fair value recognised in the consolidated income statement	1,542
At 31 December 2007	11,092

Notes To The Financial Statements

For the year ended 31 December 2007

16. INVESTMENT PROPERTIES (continued)

The fair value of the Group's investment properties at 31 December 2007 have been arrived at on the basis of a valuation carried out on that date by Messrs. AA Property Services Limited, independent qualified professional valuers not connected with the Group. Messrs. AA Property Services Limited are members of the Institute of Valuers, and have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

All of the Group's investment properties located in Hong Kong have been pledged to secure the banking facilities granted to the Group.

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
The carrying value of investment properties shown above comprises:		
Long leases in Hong Kong	**7,560**	6,580
Long leases in the PRC	**3,532**	2,970
	11,092	9,550

Notes To The Financial Statements

For the year ended 31 December 2007

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Machinery, moulds and tools HK$'000	Equipment, furniture and fixtures HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Total HK$'000
THE GROUP							
COST							
At 1 January 2006	72,222	2,100	705,106	100,352	7,989	59,038	946,807
Additions	181	–	9,779	3,425	470	1,074	14,929
Acquired on acquisition of subsidiaries *(note 39)*	2,389	–	–	2,752	2,760	1,290	9,191
Write-off/disposals *(note)*	(134)	–	(10,770)	(316)	(1,852)	(108)	(13,180)
Exchange realignment	103	–	–	216	275	73	667
At 31 December 2006 and 1 January 2007	74,761	2,100	704,115	106,429	9,642	61,367	958,414
Additions	397	57	38,912	2,464	5,252	1,763	48,845
Transfer	–	(194)	194	–	–	–	–
Acquired on acquisition of subsidiaries *(note 39)*	–	–	–	555	–	–	555
Write-off/disposals	–	–	(145)	–	(489)	–	(634)
Exchange realignment	166	–	–	350	354	115	985
At 31 December 2007	75,324	1,963	743,076	109,798	14,759	63,245	1,008,165
DEPRECIATION AND IMPAIRMENT							
At 1 January 2006	27,985	–	490,508	81,831	7,226	28,564	636,114
Provided for the year	2,628	–	56,472	5,360	854	3,370	68,684
Eliminated on write-off/disposals	(47)	–	(10,309)	(157)	(1,219)	(62)	(11,794)
Exchange realignment	9	–	–	119	165	23	316
At 31 December 2006 and 1 January 2007	30,575	–	536,671	87,153	7,026	31,895	693,320
Provided for the year	2,410	–	55,334	5,537	1,669	3,095	68,045
Eliminated on write-off/disposals	–	–	(145)	–	(453)	–	(598)
Exchange realignment	27	–	–	216	218	247	708
At 31 December 2007	33,012	–	591,860	92,906	8,460	35,237	761,475
CARRYING VALUES							
At 31 December 2007	42,312	1,963	151,216	16,892	6,299	28,008	246,690
At 31 December 2006	44,186	2,100	167,444	19,276	2,616	29,472	265,094

Notes To The Financial Statements

For the year ended 31 December 2007

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Note: During the year ended 31 December 2006, flooding in the Group's factory in Dongguan, the PRC caused significant damage to machinery of the Group. As a result, machinery with carrying value of approximately HK$461,000 was written off.

Included in the leasehold land and buildings is a lease payment that amounted to approximately HK$2,325,000 (2006: HK$2,319,000), that cannot be allocated reliably between the land portion and building portion.

The carrying value of machinery, moulds and tools, includes an amount of approximately HK$57,902,000 (2006: HK$49,988,000) in respect of machinery held under finance leases.

	Leasehold buildings	Machinery, moulds and tools	Equipment, furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY						
COST						
At 1 January 2006	25,695	43,700	18,185	29	21,077	108,686
Additions	–	–	1,215	–	784	1,999
At 31 December 2006 and 1 January 2007	25,695	43,700	19,400	29	21,861	110,685
Additions	–	–	5	–	6	11
Disposals	(2,315)	–	–	–	(2,749)	(5,064)
At 31 December 2007	23,380	43,700	19,405	29	19,118	105,632
DEPRECIATION						
At 1 January 2006	14,888	43,700	18,185	29	13,951	90,753
Provided for the year	1,027	–	128	–	829	1,984
At 31 December 2006 and 1 January 2007	15,915	43,700	18,313	29	14,780	92,737
Provided for the year	950	–	321	–	601	1,872
Eliminated on disposals	(293)	–	–	–	(916)	(1,209)
At 31 December 2007	16,572	43,700	18,634	29	14,465	93,400
CARRYING VALUES						
At 31 December 2007	6,808	–	771	–	4,653	12,232
At 31 December 2006	9,780	–	1,087	–	7,081	17,948

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17. PROPERTY, PLANT AND EQUIPMENT (continued)

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The carrying value of leasehold land and buildings shown above comprises:				
Long leases in Hong Kong	**1,945**	2,037	**–**	1,928
Medium-term leases in Hong Kong	**1,526**	1,568	**–**	–
Long leases in the PRC	**513**	550	**–**	–
Medium-term leases in the PRC	**38,328**	40,031	**6,808**	7,852
	42,312	44,186	**6,808**	9,780

18. PREPAID LEASE PAYMENTS

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The prepaid lease payments comprise:				
Long-term leasehold land in Hong Kong	**5,765**	6,041	**–**	6,041
Medium-term leasehold land in Hong Kong	**1,018**	1,046	**–**	–
Long-term leasehold land in the PRC	**233**	255	**–**	–
Medium-term leasehold land in the PRC	**2,763**	2,830	**–**	–
	9,779	10,172	**–**	6,041
Analysed for reporting purposes as:				
Current asset	**393**	393	**–**	276
Non-current asset	**9,386**	9,779	**–**	5,765
	9,779	10,172	**–**	6,041

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19. GOODWILL AND IMPAIRMENT TESTING

	2007 HK$'000	2006 HK$'000
COST AND CARRYING AMOUNT		
At 1 January	138,144	–
Arising on acquisition of subsidiaries	–	138,144
Arising on acquisition of additional interests of subsidiaries *(note)*	84,698	–
At 31 December	222,842	138,144

The goodwill carried at the balance sheet solely arose from the acquisition of Sino Stride Technology Holdings Limited ("SST") in both years (note 39). SST is in the intelligent information business segment and the operation of SST is the cash generating unit ("CGU") for the purpose of impairment testing of goodwill. The goodwill arising on the acquisition of SST is attributable to the anticipated profitability of the revenue from installation contracts and the anticipated future operating synergies from the combination.

During the year ended 31 December 2007, management has appointed an independent valuer to perform a business valuation on SST. Management of the Group has determined that there are no impairments on the goodwill arising from the acquisition of SST as the recoverable amount of SST (being the CGU to which the goodwill has been allocated) is in excess of the aggregate carrying amounts of the goodwill and the net asset value of SST as calculated in the valuation report. The recoverable amount of SST has been determined on the basis of value in use calculation and is based on certain key assumptions. The value in use calculation is based on cash flow projections prepared from financial budgets approved by the management of the Group covering a five-year period, and a discount rate of 14%. Cash flows beyond the 5-year period are extrapolated using a 3% steady growth rate. This growth rate is based on the relevant growth forecasts and does not exceed the average long-term growth rate for the industry. The cash flow projections are prepared based on the expected gross margins determined based on past performance and management's expectations for the market development.

Note: The goodwill arising on acquisition of additional interests of subsidiaries is calculated as the difference between the consideration for the additional interests and the book value of the net assets of the subsidiaries.

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20. INTANGIBLE ASSETS

	Development costs HK$'000	Project contracts HK$'000	Total HK$'000
THE GROUP			
COST			
Acquired on acquisition of subsidiaries	3,633	1,473	5,106
Exchange realignment	465	–	465
At 31 December 2006 and 1 January 2007	4,098	1,473	5,571
Exchange realignment	246	–	246
At 31 December 2007	4,344	1,473	5,817
AMORTISATION AND IMPAIRMENT			
Charge for the year	828	221	1,049
Exchange realignment	322	–	322
Impairment loss recognised in the year	950	–	950
At 31 December 2006 and 1 January 2007	2,100	221	2,321
Charge for the year	–	295	295
Exchange realignment	126	–	126
At 31 December 2007	2,226	516	2,742
CARRYING VALUES			
At 31 December 2007	2,118	957	3,075
At 31 December 2006	1,998	1,252	3,250

All of the Group's development costs and project contracts were purchased as part of a business combination in the year ended 31 December 2006.

Development costs and project contracts have definite useful lives. Such intangible assets are amortised on a straight-line basis over 5 years.

Development costs represent costs incurred for the design and development of intelligent information systems for the intelligent business segment. The amortisation for development costs will commence when the systems are available for use.

Project contracts represented the contract based intangible assets relating to system installation and integration project contracts recognised upon acquisition of subsidiaries as stated in note 39.

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21. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES

	THE COMPANY	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**26,756**	26,749
Capital contributions	**33,950**	25,789
Less: impairment loss recognised	**(977)**	(977)
	59,729	51,561
Advances to subsidiaries	**163,223**	162,146

Capital contributions represent imputed interest on interest-free advances to subsidiaries.

The advances to subsidiaries are unsecured and non-interest bearing. In the opinion of the Directors, the Company will not demand repayment within one year from the balance sheet date and the advances are therefore considered as non-current. Such interest-free advances are measured at amortised cost using the effective interest method at the rate of 5% (2006: 6%) per annum, being the prevailing market borrowing rate of interest for a similar instrument.

Details of the Company's principal subsidiaries at 31 December 2007 and 2006 are as follows:

Name of subsidiary	Place/ country of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
				2007	2006	
				%	%	
Aberdeen Industrial Company Limited 阿勃玎實業有限公司	Samoa	The PRC	1 ordinary share of US$1	**100***	100*	Manufacture of telephone accessories, power cords and adaptors
Aberdeen Investments Limited 阿勃玎投資有限公司	Samoa	Hong Kong	1 ordinary share of US$1	**100***	100*	Property investment
Beijing Sino Stride Powerlink Technology Co., Ltd # 北京中程匯強科技有限公司	The PRC	The PRC	Registered capital RMB10,000,000	**72.9***	52.4*	System design and sale of system hardware

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21. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2007 %	2006 %	Principal activities
Chongqing SinoStride Technology Co., Ltd. @ 重慶中程科技有限公司	The PRC	The PRC	Registered capital RMB5,600,000	**99.3***	71.3*	System value-added service solution and development
Dongguan Dongjiang Wire and Cable Company Limited @ 東莞東江電線電纜有限公司	The PRC	The PRC	Registered capital HK$6,000,000	**60***	60	Manufacture of telephone cables and wires
Dongguan Santai Electrical Appliances Co., Ltd. ^ 東莞三泰電器有限公司	The PRC	The PRC	Registered capital HK$64,000,000	**100***	100*	Manufacture and sale of electronic products
Dorup Limited 霖高有限公司	Hong Kong	Hong Kong	2,000,000 ordinary shares of HK$1 each	**60***	60*	Marketing of telephone cords and power cords
Ever Create Profits Limited 創益有限公司	BVI	Hong Kong	1 ordinary share of US$1	**99.7***	71.6*	System design and sale of system hardware
Hitech Electro-Optical Limited 華太光電有限公司	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	**100***	100*	Property investment
Hitech Property Limited	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	**100***	100*	Property investment
Hop Cheong Holdings Limited	Cook Islands	Hong Kong	3,500 ordinary shares of US$1 each	**100**	100	Investment holding

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21. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2007 %	2006 %	Principal activities
Hop Cheong Technology Limited 合昌科技有限公司	Hong Kong	The PRC	1,000,000 ordinary shares of HK$1 each	**100***	100*	Provision of management services
Hop Cheong Technology (International) Limited 合昌科技(國際)有限公司	Hong Kong	The PRC	2 ordinary shares of HK$1 each	**100***	100*	Marketing of high precision metal parts
Jetsbo Investment Limited 捷士寶投資有限公司	Hong Kong	Hong Kong	10,000 ordinary shares of HK$1 each	**100***	100*	Property investment
Made Connection Limited	Samoa	Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
Printronics China Limited 普林中國有限公司	Hong Kong	Hong Kong	2 ordinary shares of HK$10 each	**100***	100*	Investment holding
Printronics Electronics Limited 普林電子有限公司	Hong Kong	Hong Kong	5 ordinary shares of HK$1 each	**60**	100	Investment holding
Printronics Group Limited 普林集團有限公司	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	**100**	100	Investment holding
Remarkable Mask Technology Company Limited 卓越光掩模科技有限公司	Cayman Islands	Hong Kong	45,000,000 ordinary share of US$1 each	**100***	100*	Manufacture of photomask

Notes To The Financial Statements

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21. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

Name of subsidiary	Place/ country of incorporation/ registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company 2007 %	2006 %	Principal activities
San Tai Industrial Enterprise Limited	Hong Kong	The PRC	2 ordinary shares of HK$1 each	**100***	100*	Marketing and distribution of telephone accessories and power cords
Santai Corporate Services Limited	Hong Kong	Hong Kong	2 ordinary shares of HK$1 each	**100**	100	Provision of management services
Santai Manufacturing Limited 三泰實業有限公司	Hong Kong	The PRC	10,000 ordinary shares of HK$1 each	**100**	100	Trading of goods or the manufacture of telephone accessories and power cords
SCT Electronics Limited SCT 電子有限公司	Hong Kong	The PRC	2 ordinary shares of HK$1 each	**100**	100	Marketing of adaptors and electronic products
SCT International Limited	Hong Kong	The PRC	2 ordinary shares of HK$1 each	**100***	100*	Marketing of raw materials for adaptors and electronic products
Sino Stride Technology (Holdings) Limited 中程科技集團有限公司	Cayman Island	Hong Kong	1,082,170,000 ordinary shares of HK$0.01 each	**99.7***	71.6*	Investment holding
Sino Stride Technology Co., Ltd @ 中程科技有限公司	The PRC	The PRC	Registered capital RMB83,000,000	**97.2***	69.8*	System value-added service solution and development
廣州市易家通互動信息發展有限公司 #	The PRC	The PRC	Registered capital RMB15,050,000	**80***	– *(note 1)*	Investment holding
深圳市泰格信息科技開發有限公司 #	The PRC	The PRC	Registered capital RMB5,000,000	**100***	– *(note 2)*	Investment holding

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For the year ended 31 December 2007

21. INVESTMENTS IN SUBSIDIARIES/ADVANCES TO SUBSIDIARIES (continued)

* Indirectly held through subsidiaries

@ Registered under the laws of the PRC as a Sino-foreign co-operative joint venture

^ Registered under the laws of the PRC as a wholly-foreign owned enterprise

Registered under the laws of the PRC in the form of domestic incorporated entity

Notes:

1. Acquired during the year ended 31 December 2007.
2. Incorporated during the year ended 31 December 2007.

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.

None of the subsidiaries had issued any debt securities at the end of the year.

22. INVESTMENTS IN ASSOCIATES

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Cost of investments in associates:		
Listed in Shenzhen Stock Exchange *(note 2)*	**18,957**	–
Unlisted	**2,359**	21,316
Share of post-acquisition profits and reserves, net of dividends received	**130,653**	47,368
	151,969	68,684
Fair value of listed investment	**705,600**	–

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22. INVESTMENTS IN ASSOCIATES (continued)

At 31 December 2007 and 2006, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of establishment and operation	Proportion of nominal value of registered capital held by the Group		Principal activities
			2007	2006	
Hangzhou Sino Stride Hospital Xingda System Technology Co., Ltd. 杭州中程興達醫療設備有限公司	Corporate	The PRC	28.29%	20.31%	Sale of medical equipment
Hangzhou Vico Software Engineering Co. Ltd. 杭州維科軟件工程有限責任公司	Corporate	The PRC	– *(note 1)*	38.40%	System value-added service solution and development
Shenzhen Fasten Sino Stride Technology Limited 深圳市法爾勝中程科技有限公司	Corporate	The PRC	38.88%	27.92%	Sale of hardware and equipment related to system integration and system design
Tianjin Printronics Circuit Corporation ("TPC") 天津普林電路股份有限公司	Sino-foreign equity joint venture	The PRC	21.01% *(note 2)*	28.17%	Manufacture of printed circuit boards
Zhejiang University Sino Stride Fire Prevention Engineering Co. Ltd. 浙江浙大中程消防工程有限公司	Corporate	The PRC	– *(note 3)*	26.18%	Fire prevention system installation

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22. INVESTMENTS IN ASSOCIATES (continued)

Notes:

1. Disposed during the year ended 31 December 2007.

2. On 23 April 2007, TPC issued 50 million new shares at a price of RMB8.28 per share by way of an initial public offering on a fully underwritten basis. It was listed on Shenzhen Stock Exchange during the year. A gain on dilution of interest of approximately HK$64,246,000 resulted from the change of equity interest held by the Group from approximately 28.17% to 21.01%.

   On 11 July 2007, the Group through a wholly-owned subsidiary, entered into a share transfer agreement (the "Agreement") with an independent third party (the "Purchaser") to sell 40% shares of Printronics Electronics Limited, a company which held the approximately 21.01% equity interest in TPC, to the Purchaser at a consideration of approximately HK$181,806,000 and the Group recorded a gain of approximately HK$125,942,000. Upon the completion of the Agreement on 18 July 2007, the Group has an effective interest of approximately 12.6% in TPC.

   As Printronics Electronics Limited is still a 60% held subsidiary of the Group and it is able to exercise significant influence over TPC because of its 21.01% direct shareholding in TPC, TPC is still regarded as an associate of the Group.

3. Deregistered during the year ended 31 December 2007.

The summarised financial information in respect of the Group's associates is set out below:

	2007 HK$'000	2006 HK$'000
Total assets	877,603	433,163
Total liabilities	(131,239)	(190,331)
Net assets	746,364	242,832
Group's share of net assets of associates	151,969	68,684
Revenue	432,614	344,340
Profit for the year	65,558	63,055
Group's share of result of associates for the year	15,552	17,780

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For the year ended 31 December 2007

22. INVESTMENTS IN ASSOCIATES (continued)

The Group has discontinued recognition of its share of losses of an associate. The amount of the unrecognised share of the loss of this associate, extracted from its management accounts, both for the year and cumulatively, are as follows:

	2007 *HK$'000*	2006 *HK$'000*
Unrecognised share of loss for the year	–	125
Accumulated unrecognised share of loss	–	125

23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2007 *HK$'000*	2006 *HK$'000*
Cost of unlisted investments in jointly controlled entities	42,928	42,928
Share of post-acquisition profits and reserves, net of dividends received	142,764	135,711
	185,692	178,639

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23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

At 31 December 2007 and 2006, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of incorporation and operation	Proportion of nominal value of issued share capital/ registered capital indirectly held by the Company 2007	2006	Issued and fully paid share capital/ registered capital	Principal activities
Hoperise Industrial Limited 興揚實業有限公司	Incorporated	Hong Kong	50%	50%	HK$20,010,000	Copper wire drawing
深圳天際信和科技有限公司 Sky Light Communication (Shenzhen) Limited	Sino-foreign equity joint venture	The PRC	75% *(note)*	75% *(note)*	RMB20,000,000	Development and integration of the space information technical and multimedia software
深圳天地導航科技有限公司 Sky Land Navigator Technology (Shenzhen) Limited	Sino-foreign equity joint venture	The PRC	75% *(note)*	75% *(note)*	RMB20,000,000	Development and integration for software and hardware for the intelligent traffic field

Note: According to the joint venture agreements, the Group is in a position to exercise joint control over the above entities through participation in their Boards of Directors. The Board of Directors of the entities comprise 6 directors of which 3 are appointed by the Group. Two-third of the Board of Directors are required to pass major board resolutions. Accordingly, these entities have been accounted for as jointly controlled entities.

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For the year ended 31 December 2007

23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

The summarised financial information in respect of the Group's interests in jointly controlled entity is set out below:

	2007 HK$'000	2006 HK$'000
Current assets	333,464	294,251
Non-current assets	47,305	47,182
Current liabilities	(195,058)	(162,722)
Non-current liabilities	(19)	(72)
Income	771,720	644,732
Expenses	766,916	639,140

24. AVAILABLE-FOR-SALE INVESTMENTS

	2007 HK$'000	2006 HK$'000
Unlisted equity investments	14,514	6,250

The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the PRC. Their main principal activities are provision of software development, repair and maintenance of motor vehicles and television broadcasting services. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the Directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes To The Financial Statements

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25. CLUB DEBENTURES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cost	**960**	960	**780**	780
Impairment loss recognised	**(330)**	(515)	**(260)**	(415)
	630	445	**520**	365

Club debentures are tested for impairment annually and whenever there is an indication that it may be impaired. An impairment loss of approximately HK$185,000 was reversed (2006: HK$115,000 was recognised) during the year by reference to the market values for second hand market prices of similar club debentures.

26. INVENTORIES

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**23,804**	44,080
Work in progress	**9,430**	9,660
Finished goods	**94,365**	52,805
	127,599	106,545

27. TRADE AND BILLS RECEIVABLES

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
Trade and bills receivables	**238,462**	241,049
Less: allowance for doubtful debts	**(56,260)**	(51,098)
	182,202	189,951

Notes To The Financial Statements

For the year ended 31 December 2007

27. TRADE AND BILLS RECEIVABLES (continued)

Trading terms with customers are principally on credit, except for new customers, where cash on delivery is normally required. Invoices are normally payable in the range of 30 to 180 days of issuance, except for certain well established customers, where the terms are extended to one year. Each customer has a designated credit limit.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on invoice date, and net of allowance for doubtful debts, is as follows:

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
0 – 90 days	**136,933**	129,495
91 – 180 days	**22,545**	43,453
181 – 365 days	**15,555**	12,879
1 – 2 years	**7,165**	3,872
Over 2 years	**4**	252
	182,202	189,951

Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. 73% (2006: 68%) of the trade receivables that are neither past due nor impairment have the best credit scoring attributable under the internal credit scoring system used by the Group.

Included in the Group's trade receivable balance are debtors with an aggregate carrying amount of approximately HK$49,328,000 (2006: HK$60,800,000) which are past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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27. TRADE AND BILLS RECEIVABLES (continued)

Aging of trade receivables which are past due but not impaired

	2007 HK$'000	2006 HK$'000
0 – 90 days	5,032	2,429
91 – 180 days	21,572	41,368
181 – 365 days	15,555	12,879
1 – 2 years	7,165	3,872
Over 2 years	4	252
Total	49,328	60,800

Movement in the allowance for doubtful debts

	2007 HK$'000	2006 HK$'000
Balance at beginning of the year	51,098	62,354
Impairment losses recognised on receivables	5,162	2,920
Amounts written off as uncollectible	–	(14,176)
Balance at end of the year	56,260	51,098

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of approximately HK$56,260,000 (2006: HK$51,098,000) which have been placed under liquidation or in severe financial difficulties. The Group does not hold any collateral over these balances.

The Group's trade and bills receivables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2007 HK$'000	2006 HK$'000
Euro	–	441
Renminbi	26,771	22,854
United States dollar	62,219	83,989

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For the year ended 31 December 2007

28. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2007 HK$'000	2006 HK$'000
Contracts in progress at the balance sheet date		
Contract costs incurred plus recognised profits less recognised losses *(note)*	1,018,406	727,992
Less: progress billings	(887,884)	(589,838)
	130,522	138,154
Analysed for reporting purposes of:		
Amounts due from contract customers	168,581	157,599
Amounts due to contract customers	(38,059)	(19,445)
	130,522	138,154

Note: Amount includes cost of hardware sold which has not been billed amounting to approximately HK$641,611,000 (2006: HK$464,459,000).

At 31 December 2007, retentions held by customers for contract works amounted to approximately HK$46,514,000 (2006: HK$52,218,000) which was included in amounts due from customers for contract work. Advances received from customers for contract work amounted to approximately HK$13,252,000 (2006: HK$21,031,000) which was included in other payables, deposits received and accruals.

29. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

The amount is unsecured, non interest-bearing and repayable on demand. It is trade-related and aged within three months based on invoice date.

30. AMOUNTS DUE FROM (TO) SUBSIDIARIES

THE COMPANY

The amounts are unsecured, non interest-bearing and repayable on demand.

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For the year ended 31 December 2007

31. PLEDGED BANK DEPOSITS

THE GROUP

Pledged bank deposits represent deposits pledged to banks to secure the banking facilities granted to the Group. The deposits have been pledged to secure short-term bank loans and are therefore classified as current assets.

The pledged bank deposits carry interest at market rates ranging from 1.71% to 2.99% (2006: 1.98% to 3.33%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

32. TIME DEPOSITS, BANK BALANCES AND BANK OVERDRAFTS

THE GROUP AND THE COMPANY

Time deposits carry interest at market rates at 2.75% (2006: Nil) per annum.

Bank balances carry interest at prevailing bank saving deposits rates ranging from 0.75% to 2.3% (2006: 0.75% to 3%) per annum.

Bank overdrafts carry interest at market rates ranging from 8.25% to 8.75% per annum for the year ended 31 December 2006.

The Group's and the Company's bank balances that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2007 ***HK$'000***	2006 *HK$'000*
THE GROUP		
Renminbi	**9,929**	4,793
United States dollar	**1,350**	736
THE COMPANY		
United States dollar	73	491

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33. TRADE AND BILLS PAYABLES

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

	THE GROUP	
	2007	2006
	HK$'000	*HK$'000*
0 – 90 days	**106,848**	88,442
91 – 180 days	**56,590**	29,828
181 – 365 days	**10,935**	11,446
1 – 2 years	**9,807**	5,765
Over 2 years	**2,888**	2,461
	187,068	137,942

The average credit period for purchase of goods ranged from 90 to 180 days. The Group has financial risk management policies in place to ensure that all payables are within the credit time frame.

The Group's trade and bills payables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2007	2006
	HK$'000	*HK$'000*
Euro	**1,649**	1,039
Renminbi	**36,767**	35,331
United States dollar	**18,759**	24,838

34. AMOUNT DUE TO A RELATED COMPANY

THE GROUP AND THE COMPANY

At 31 December 2006, the balance represented amount due to Shougang (Hong Kong) Finance Company Limited, a wholly owned subsidiary of Shougang Holding. The amounts of approximately HK$86,263,000, HK$36,674,000 and HK$20,546,000 bore interest at 5%, 5.1375% and 5.825% per annum, respectively. The amount was unsecured and fully settled during the year.

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35. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Secured bank loans	**24,026**	45,865	**23,692**	44,645
Unsecured bank loans	**288,404**	86,660	**200,000**	–
Secured trust receipt loans	**47,467**	26,078	**44,592**	22,273
	359,897	158,603	**268,284**	66,918
Carrying amount repayable:				
On demand or within one year	**197,214**	134,905	**105,601**	43,222
More than one year, but not exceeding two years	**160,865**	20,990	**160,865**	20,990
More than two years, but not exceeding three years	**894**	858	**894**	858
More than three year, but not exceeding four years	**924**	902	**924**	902
More than four year, but not exceeding five years	**–**	948	**–**	948
	359,897	158,603	**268,284**	66,920
Less: Amounts due within one year shown under current liabilities	**(197,214)**	(134,905)	**(105,601)**	(43,222)
	162,683	23,698	**162,683**	23,698

THE GROUP

Bank borrowings include approximately HK$88,404,000 (2006: HK$86,660,000) fixed-rate borrowings and the remaining bank borrowings are variable-rate borrowings which carry interest at approximately Hong Kong Interbank Offer Rate plus 2% per annum.

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For the year ended 31 December 2007

35. BANK BORROWINGS (continued)

The ranges of effective interest rate (which are also equal to contracted interest rates) on the Group's borrowings are:

	2007	2006
Fixed-rate borrowings	6.08 to 8.02%	5.58% to 6.73%
Variable-rate borrowings	3.61 to 8.75%	4.48% to 8.75%

THE COMPANY

All bank borrowings are variable-rate borrowings which carry interest at approximately Hong Kong Interbank Offer Rate plus 2% per annum and range of effective interest rate (which are also equal to contracted interest rates) on the Company's borrowings are 3.61% to 8.75% (2006: 4.68% to 8.75%) per annum.

The Group's and the Company's borrowings that are denominated in currencies other the functional currency of the respective group entities are set out below:

	2007 *HK$'000*	2006 *HK$'000*
THE GROUP		
Japanese Yen	1,725	1,533
United States dollar	10,497	2,589
THE COMPANY		
Japanese Yen	1,725	1,533
United States dollar	10,181	2,590

During the year, the Group obtained new loans in the amount of HK$294,764,000 (2006: HK$86,567,000). The loans bear interest at market rates and will be repayable in or before 2009.

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35. BANK BORROWINGS (continued)

THE COMPANY (continued)

The bank borrowings and banking facilities are secured by:

(i) certain of the investment properties, prepaid lease payments, and buildings of the Group, which had an aggregate carrying value at the balance sheet date of approximately HK$7,560,000 (2006: HK$6,580,000), HK$1,018,000 (2006: HK$1,046,000) and HK$1,526,000 (2006: HK$1,568,000) respectively.

(ii) certain of the machinery of the Group which had an aggregate carrying value at the balance sheet date of approximately HK$49,372,000 (2006: HK$74,059,000);

(iii) the carrying amount of accounts receivable of the Group pledged as security for banking facilities amounted to approximately HK$334,000 (2006: HK$1,221,000);

(iv) the pledge of certain of the Group's bank deposits amounting to approximately HK$35,982,000 (2006: HK$20,049,000); and

(v) certain properties owned by Sino Stride Holdings Limited, a related company. Details of relationship are set out in note 47 (v).

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36. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its machineries under finance leases. The average lease terms is three years. For the year ended 31 December 2007, the average effective borrowing rate ranged from 2.98% to 9.15% (2006: 4.76% to 8.16%) per annum. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
THE GROUP				
Amounts payable under finance leases:				
Within one year	**14,470**	23,550	**12,442**	22,446
In more than one year but not more than two years	**7,427**	7,001	**6,034**	6,859
In more than two years but not more than three years	**6,978**	–	**6,158**	–
In more than three years but not more than four years	**5,815**	–	**5,578**	–
	34,690	30,551	**30,212**	29,305
Less: Future finance charges	**(4,478)**	(1,246)	**N/A**	N/A
Present value of lease obligations	**30,212**	29,305	**30,212**	29,305
Less: Amount due for settlement within one year shown under current liabilities			**(12,442)**	(22,446)
			17,770	6,859

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

At 31 December 2006, the Group's finance lease obligations that are denominated in currencies other than the functional currency of the subsidiary which entered into these arrangements are approximately USD52,000 (2007: Nil).

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37. SHARE CAPITAL

	2007 Number of shares	2007 Amount HK$'000	2006 Number of shares	2006 Amount HK$'000
Ordinary shares of HK$0.25 each				
Authorised:				
At beginning of year	4,000,000,000	1,000,000	2,000,000,000	500,000
Increase during the year *(note)*	–	–	2,000,000,000	500,000
At end of year	4,000,000,000	1,000,000	4,000,000,000	1,000,000
Issued and fully paid:				
At beginning of year	1,715,469,509	428,867	1,199,003,583	299,751
Exercise of share options	38,794,000	9,699	–	–
Issued as consideration for the acquisition of SST *(note 39)*	133,523,480	33,381	516,465,926	129,116
At end of year	1,887,786,989	471,947	1,715,469,509	428,867

Note: By the ordinary resolution passed on 26 May 2006 at the annual general meeting, the authorised share capital of the Company was increased from HK$500 million to HK$1,000 million by the creation of additional 2,000 million shares of HK$0.25 each. The new shares rank pari passu with the existing shares in all respects.

38. SHARE-BASED PAYMENT TRANSACTIONS

A share option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the Board of Directors (the "Board") of the Company may, subject to and in accordance with the provisions of the 2002 Scheme and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), grant share options to any eligible participant to subscribe for shares in the capital of the Company.

The maximum number of shares issued and to be issued upon exercise of options granted to each eligible participant under the 2002 Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company in issue, as at the date of grant.

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38. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The period during which an option may be exercised will be determined by the Board at its absolute discretion, save that no option may be exercised later than 10 years after it has been granted.

On acceptance of an offer, HK$1 should be payable by the grantee. The exercise price per share in relation to an option shall be a price to be determined by the Board and shall be no less than the highest of (a) the official closing price of the shares of the Company as stated in the daily quotation sheet issued by the Stock Exchange on the date on which the option is offered to an eligible participant; (b) the official average closing prices of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of offer of option to an eligible participant; and (c) the nominal value of shares of the Company on the date of offer of option to an eligible participant.

The following tables disclose details and movements in share options under the 2002 Scheme during the years ended 31 December 2007 and 2006:

				Number of shares under options				
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2006, 31.12.2006 and 1.1.2007	Granted during the year	Exercised during the year	Lapsed during the year	At 31.12.2007
Directors of the Company	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58	14,242,000	–	(1,000,000)	–	13,242,000
	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495	3,200,000	–	–	–	3,200,000
	19.1.2007	19.1.2007 – 18.1.2017	HK$0.406	–	89,192,000	(24,292,000)	–	64,900,000
				17,442,000	89,192,000	(25,292,000)	–	81,342,000
Employees of the Group	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58	2,922,000	–	(1,002,000)	(1,918,000)	2,000
	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495	2,000	–	–	(2,000)	–
	19.1.2007	19.1.2007 – 18.1.2017	HK$0.406	–	12,500,000	(11,000,000)	(1,000,000)	500,000
				2,924,000	12,500,000	(12,002,000)	(2,920,000)	502,000
Other participants*	15.11.2002	15.11.2002 – 14.11.2012	HK$0.58	40,130,000	–	–	–	40,130,000
	14.3.2003	14.3.2003 – 13.3.2013	HK$0.495	14,069,000	–	–	–	14,069,000
	18.3.2004	18.3.2004 – 17.3.2014	HK$1.200	15,982,000	–	–	–	15,982,000
	19.1.2007	19.1.2007 – 18.1.2017	HK$0.406	–	1,500,000	(1,500,000)	–	–
				70,181,000	1,500,000	(1,500,000)	–	70,181,000
				90,547,000	103,192,000	(38,794,000)	(2,920,000)	152,025,000
Exercisable at the end of the year				90,547,000				152,025,000

* Other participants include persons who will contribute or have contributed, to the Company or any subsidiaries or any associated companies of the Company.

All share options are vested at the date of grant.

Notes To The Financial Statements

For the year ended 31 December 2007

38. SHARE-BASED PAYMENT TRANSACTIONS (continued)

In respect of share options exercised during the year ended 31 December 2007, the weighted average share price at the dates of exercise is HK$1.026.

During the year ended 31 December 2007, share options were granted on 19 January 2007 and vested immediately. The estimated fair value of the options determined at the date of grant using the Binomial model was HK$11,194,000.

The closing price of the Company's shares immediately before 19 January 2007, the date of grant of the 2002 scheme options, was HK$0.395.

The following assumptions were used to calculate the fair values of share options:

	19 January 2007
Grant date share price	HK$0.395
Exercise price	HK$0.406
Expected life	2.6 years
Expected volatility	50%
Dividend yield	0%
Risk-free interest rate	4.041%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Expected volatility was determined by using the historical volatility of the Company's share price over the previous three years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$11,194,000 for the year ended 31 December 2007 in respect of share options granted by the Company.

Notes To The Financial Statements

For the year ended 31 December 2007

39. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of 廣州市易家通互通信息發展有限公司 ("易家通")

On 4 April 2007, the Group acquired 80% of the issued share capital of 易家通 for cash consideration of RMB12,040,000 (approximately HK$12,040,000). 易家通 has not commenced operations in current year, but it will focus on television broadcasting services in future years upon commencement of operations. The acquisition was accounted for as acquisition of assets and related liabilities.

The net assets acquired in the transaction are as follows:

	HK$'000
Net assets acquired:	
Property, plant and equipment	555
Available-for-sale investments	7,511
Inventories	215
Other receivables	10,583
Bank balances and cash	12,094
Other payables	(16,480)
	14,478
Minority interests	(2,438)
Total consideration, satisfied by cash	12,040
Net cash inflow arising on acquisition:	
Cash consideration paid	(12,040)
Bank balances and cash acquired	12,094
	54

Notes To The Financial Statements

For the year ended 31 December 2007

39. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of SST through business acquisition

In March 2006, the Company acquired 758,819,000 shares of SST, representing approximately 69.8% of the issued share capital of SST through share exchange of 505,879,292 shares of the Company. Subsequently on 4 April 2006, the Company further acquired an aggregate of 15,880,000 shares of SST, representing approximately 1.5% of the issued share capital of SST through share exchange of 10,586,634 shares of the Company. In aggregate, the Company acquired 71.3% interest in SST. The fair value of the ordinary shares of the Company issued as the consideration for the acquisition of SST, determined using the published price available at the dates of acquisition, amounted to approximately HK$227,077,000. SST was incorporated in Cayman Islands and its shares were listed on the Growth Enterprise Market of the Stock Exchange until 6 November 2006, on which date the listing of the shares on the Stock Exchange was withdrawn following the voluntary withdrawal of listing of the shares of SST. The principal activities of SST and its subsidiaries are development and provision of system integration solutions, system design and sale of system hardware.

SST was previously listed on Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and was delisted on 6 November 2006. Before its delisting during November 2006, 4,130,000 shares were repurchased from public by SST and the shares were subsequently cancelled, resulting in the increase in effective shareholding of the Group in SST from 71.3% to 71.6% as at 31 December 2006.

On 23 October 2007, the Company further acquired 304,260,000 shares of SST representing approximately 28.12% of the issued share capital of SST through share exchange of 133,523,480 shares of the Company. The fair value of the ordinary shares of the Company issued as the consideration for the acquisition of the additional interests of SST, determined using the published price available at the date of acquisition, amounted to approximately HK$129,518,000. At 31 December 2007, the Group effectively owned 99.72% shareholding interest in SST.

Notes To The Financial Statements

For the year ended 31 December 2007

39. ACQUISITION OF SUBSIDIARIES (continued)

(b) Acquisition of SST through business acquisition (continued)

The net assets acquired in the purchase transactions acquiring 71.3% interest of SST in 2006, and the goodwill arising, are as follows:

	Acquiree's carrying amount HK$'000	Fair value adjustment HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment	9,191	–	9,191
Intangible assets	3,633	1,473	5,106
Interests in associates	2,359	–	2,359
Available-for-sale investments	6,014	–	6,014
Inventories	36,452	–	36,452
Trade receivables	44,686	–	44,686
Other receivables	51,532	–	51,532
Amounts due from customers for contract works	167,737	–	167,737
Amount due from a related company	4,753	–	4,753
Pledged bank deposits	20,276	–	20,276
Bank balances and cash	11,617	–	11,617
Trade and bill payables	(85,228)	–	(85,228)
Other payables and accruals	(18,273)	–	(18,273)
Amounts due to customers for contract work	(42,445)	–	(42,445)
Tax liabilities	(6,193)	–	(6,193)
Bank borrowings	(78,846)	–	(78,846)
	127,265	1,473	128,738
Minority interests			(4,007)
			124,731
71.3% of net assets acquired			88,933
Goodwill			138,144
Total consideration, satisfied by share exchange			227,077

SST contributed approximately HK$187,718,000 to the Group's revenue and approximately HK$24,765,000 to the Group's profit attributable to equity holders of the Company for the period between the date of acquisition and 31 December 2006. If the acquisition had been completed on 1 January 2006, total Group revenue for the year would have been approximately HK$674,415,000 and loss attributable to equity holders of the Company for the year would have been approximately HK$112,131,000. The pro forma information is for illustrative purposes only and is not necessarily an indicative of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

Notes To The Financial Statements

For the year ended 31 December 2007

40. RESERVES

	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000 (Note)	Share option reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
THE COMPANY						
At 1 January 2006	405,628	2,084	53,690	–	(387,809)	73,593
Loss and recognised expense for the year	–	–	–	–	(34,299)	(34,299)
Shares issued at premium for acquisition of subsidiaries	97,961	–	–	–	–	97,961
Share issue expenses	(1,801)	–	–	–	–	(1,801)
At 31 December 2006 and 1 January 2007	501,788	2,084	53,690	–	(422,108)	135,454
Loss and recognised expense for the year	–	–	–	–	(23,944)	(23,944)
Recognition of equity-settled share based payments	–	–	–	11,194	–	11,194
Exercise of share options	10,391	–	–	(3,991)	–	6,400
Share options lapsed	–	–	–	(100)	100	–
Shares issued at premium for acquisition of subsidiaries	96,137	–	–	–	–	96,137
Share issue expenses	(356)	–	–	–	–	(356)
At 31 December 2007	607,960	2,084	53,690	7,103	(445,952)	224,885

Note: By a special resolution passed at an extraordinary general meeting and subsequently approved by the Supreme Court of Hong Kong in 1993, the share premium of the Company was reduced by an amount of HK$270,000,000. This amount was used to reduce the then Company's accumulated losses of HK$216,310,000 and the balance of HK$53,690,000 was credited to the Company's capital reserve which is non-distributable. At the balance sheet date, the Company did not have any reserve available for distribution (2006: Nil).

Notes To The Financial Statements

For the year ended 31 December 2007

41. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Impairment loss on inventories HK$'000	Impairment loss on trade receivables HK$'000	Impairment loss on amounts due from customers for contract work HK$'000	Total HK$'000
THE GROUP						
At 1 January 2006	30,370	(30,044)	–	–	–	326
(Credit) charge to income for the year	(4,222)	4,046	(403)	(40)	(1,704)	(2,323)
At 31 December 2006 and 1 January 2007	26,148	(25,998)	(403)	(40)	(1,704)	(1,997)
(Credit) charge to income for the year	(6,789)	6,784	(24)	(361)	(463)	(853)
At 31 December 2007	19,359	(19,214)	(427)	(401)	(2,167)	(2,850)

No provision for deferred tax has been recognised for the Company as the amount involved is insignificant.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	2007 HK$'000	2006 HK$'000
Deferred tax assets	**3,010**	2,147
Deferred tax liabilities	**(160)**	(150)
	2,850	1,997

Notes To The Financial Statements

For the year ended 31 December 2007

41. DEFERRED TAXATION (continued)

The Group had recognised deferred tax assets amounted approximately HK$2,995,000 (2006: HK$2,147,000) in relation to deductible temporary differences of a subsidiary as it is probable that taxable profits will be available against which the deductible temporary differences can be utilised.

At the balance sheet date, the Group had unused tax losses of approximately HK$850,534,000 (2006: HK$739,010,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$109,794,000 (2006: HK$148,560,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK$740,740,000 (2006: HK$590,450,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

As at the balance sheet date, the Company had unrecognised tax losses amounting to approximately HK$78,127,000 (2006: HK$41,141,000) which can be carried forward indefinitely. The deferred tax assets have not been recognised due to the unpredictability of future profit streams.

42. MAJOR NON-CASH TRANSACTIONS

(a) During the year 31 December 2007, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK$25,452,000.

(b) During the year 31 December 2007, the Group further acquired 304,260,000 shares of SST representing approximately 28.12% of the issued share capital of SST through exchange of 133,523,480 shares of the Group.

No major non-cash transaction was noted for the year ended 31 December 2006.

Notes To The Financial Statements

For the year ended 31 December 2007

43. OPERATING LEASES

The Group and the Company as lessee

Minimum lease payments paid under operating leases during the year amounted to approximately HK$5,268,000 (2006: HK$5,152,000).

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**4,803**	4,971	**327**	1,309
In the second to third year inclusive	**7,706**	8,333	**–**	327
Over five years	**2,154**	3,100	**–**	–
	14,663	16,404	**327**	1,636

Operating lease payments represent rentals payable by the Group and the Company for certain of its office properties, factory premises and quarters for directors and staff. Leases are negotiated and rentals are fixed for terms ranging from one to ten years.

The Group as lessor

Property and machinery rental income earned during the year was approximately HK$2,291,000 (2006: HK$553,000), less direct operating expenses of approximately HK$6,000 (2006: HK$33,000).

The Group leases its investment properties and machinery under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The investment properties and machinery are expected to generate rental yields of 10% (2006: 2%) on an ongoing basis. All the properties held have committed tenants for the next three years. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes To The Financial Statements

For the year ended 31 December 2007

43. OPERATING LEASES (continued)

The Group as lessor (continued)

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007 HK$'000	2006 HK$'000
Within one year	2,382	2,061
In the second to third years inclusive	2,085	4,231
	4,467	6,292

The Company had no operating lease commitment or arrangement as a lessor at 31 December 2007 and 2006.

44. CAPITAL COMMITMENTS

	THE GROUP	
	2007 HK$'000	2006 HK$'000
Capital expenditure contracted for but not provided in financial statements in respect of the acquisition of:		
– property, plant and equipment	3,572	660
– intangible assets	–	650
	3,572	1,310
Capital expenditure in respect of acquisition of intangible assets authorised but not contracted for	2,080	920

The Company had no capital commitment at 31 December 2007 and 2006.

Notes To The Financial Statements

For the year ended 31 December 2007

45. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantee given to banks in respect of banking facilities to a jointly controlled entity				
– amount guaranteed	**120,750**	105,750	**120,750**	105,750
– amount utilised	**77,927**	67,278	**77,927**	67,278
Cross guarantee given to banks, in respect of banking facilities to third parties				
– amount that could be required to be paid if the guarantee was called upon in entirety	**63,600**	9,000	**–**	–
– amount utilised	**58,300**	9,000	**–**	–
Guarantee given to financial institutions, in respect of finance leases to a subsidiary				
– amount that could be required to be paid if the guarantee was called upon in entirety	**–**	–	**137,320**	137,320
– amount utilised	**–**	–	**29,350**	29,305

The Group and the Company have given financial guarantees to banks and financial institutions in respect of banking facilities and finance leases granted to a jointly controlled entity, third parties and a subsidiary free of charge. The fair value of the financial guarantee contracts assessed by valuer based on credit-rating and default risk of respective companies at date of inception is insignificant.

Notes To The Financial Statements

For the year ended 31 December 2007

46. RETIREMENT BENEFIT SCHEMES

The Group operates a Hong Kong Mandatory Provident Fund Scheme (the "MPF Scheme") for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group contributes 5% of relevant payroll costs to the MPF Scheme, up to a maximum contribution of HK$1,000 per employee monthly, which contribution is matched by employees.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme ("state-managed scheme") operated by the local municipal government. These PRC subsidiaries are required to contribute 8% to 20% of its payroll costs to the state-managed scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the state-managed scheme.

The total cost charged to consolidated income statement of approximately HK$3,458,000 (2006: HK$4,346,000) represents contributions payable to the MPF Scheme and state-managed scheme of approximately HK$1,495,000 (2006: HK$2,622,000) and HK$1,963,000 (2006: HK$1,724,000) respectively.

47. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

	Notes	2007 HK$'000	2006 HK$'000
Management fees paid to a controlling shareholder	(i)	960	960
Management fees paid to a related company	(ii)	660	570
Rental paid to a controlling shareholder	(iii)	–	77
Rental paid to a related company	(iv)	–	912
Rental paid to another related company	(v)	–	208
Interest expenses paid to related companies	(vi)	6,387	6,017
Sales to a jointly controlled entity	(vii)	–	86
Utility expenses charged to a jointly controlled entity	(viii)	8,381	8,042
Purchases from a jointly controlled entity	(ix)	16,399	29,456
Purchases from related companies	(x)	7,087	9,554
Management fee received from a jointly controlled entity	(xi)	104	1,180

Notes To The Financial Statements

For the year ended 31 December 2007

47. RELATED PARTY TRANSACTIONS (continued)

(a) During the year, the Group entered into the following transactions with related parties: (continued)

Notes:

(i) Management fees were paid to Shougang Holding for the provision of management services.

(ii) Management fees were paid to Shougang Concord International Enterprises Company Limited ("Shougang International"), an associate of Shougang Holding, for the provision of management services.

(iii) Rentals were paid to Shougang Holding in relation to premises occupied and held by the Group as staff quarter.

(iv) Rentals were paid to Good News Investment Limited, a wholly-owned subsidiary of Shougang International relating to the premises occupied and used by the Group as its office.

(v) Rentals were paid to Sino Stride Holdings Limited, a company beneficially owned by Mr. Chau Chit, a Director, Ms. Ting Hiu Wan, the spouse of Mr. Chau Chit, and an outsider, in the proportion of 50%, 30% and 20%, respectively, relating to the premises occupied and used by the Group as staff quarters.

(vi) Interest expenses were paid to associates of Shougang Holding and Shougang (Hong Kong) Finance Company Limited, a subsidiary of Shougang Holding for granting interest-bearing loan advanced to the Group.

(vii) Sales to a jointly controlled entity were made according to the comparable market prices and conditions offered to the major customers of the Group.

(viii) Utility expenses charged to a jointly controlled entity were related to the reimbursement of certain utility costs incurred by it. The reimbursement was based on the actual costs incurred.

(ix) Purchases from a jointly controlled entity were made according to the comparable market prices and conditions offered by similar suppliers to the Group.

(x) Purchases were made from Hing Cheong Metals (China & Hong Kong) Limited and Meta International Limited, both are wholly-owned subsidiaries of Shougang Concord Century Holdings Limited of which Shougang Holding is a controlling shareholder.

(xi) Management fee were received from a jointly controlled entity for the provision of management service.

Notes To The Financial Statements

For the year ended 31 December 2007

47. RELATED PARTY TRANSACTIONS (continued)

(b) Compensation of key management personnel

The remuneration of directors and key executives during the year was set out in note 13 which is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

(c) The following guarantees were provided to banks to secure general banking facilities granted to the Group:

Guarantor	Relationship	Type of guarantee	Guarantee amount	
			2007	2006
			HK$'000	*HK$'000*
Mr. Chau Chit	Director of the Company	Personnel guarantee	39,875	26,305
Mr. Ting Hiu Wan	Wife of Mr. Chau Chit	Personnel guarantee	–	5,000
Shougang Holding	Controlling shareholder	Corporate guarantee	278,000	–
Mega Star Limited	Minority shareholder	Corporate guarantee	78,000	–

48. POST BALANCE SHEET EVENTS

(a) On 15 January 2008, the Company entered into a letter of intent for the establishment of a joint venture in the PRC which will be principally engaged in the development and manufacturing of photomasks. The Company will also transfer its existing machinery and equipment for the production of photomasks to the joint venture for a consideration of approximately US$83.25 million. No formal agreements have been entered into up to the date of this report and the directors are not yet in a position to estimate the financial effect of the transactions.

(b) On 22 January 2008, 174,600,000 share options were granted to directors, employees, and other eligible participants of the Company and vested immediately. The exercise period of the share options is ten years from 22 January 2008 to 21 January 2018 and exercise price was HK$0.78 per share.

Notes To The Financial Statements

For the year ended 31 December 2007

48. POST BALANCE SHEET EVENTS (continued)

(c) On 10 March 2008, the Company has entered into a cooperation agreement with 廣東南方銀視網絡傳媒有限公司 (Guangdong Southern Yinshi Network Media Company Limited) ("Southern Yinshi") for the establishment of an operational platform in Guangdong Province for the provision of multi-media information services based on a cabled digital television network.

Pursuant to the cooperation agreement, the Company will provide technical services to Southern Yinshi and the local project companies, including technical solution and equipment. When digitisation of local cabled television officially starts and for a period from the year when normal operation of the local project companies commences to the eighth year, 80% of the total income for the year after deduction for various items of tax payable and fees payable to the relevant television stations of the municipalities or counties and for repayment of loans will be paid to the Company as technical service charges.

Details of the cooperation agreement was set out in the Company's announcement dated 10 March 2008.

(d) On 3 April 2008, the Company entered into conditional subscription agreements with three parties (the "Subscribers"), under which the Company agreed to issue, and the Subscribers agreed to subscribe for, convertible notes with an aggregate principal amount of HK$385,000,000 (the "Convertible Notes"). The Convertible Notes, bearing interest at 3% per annum with maturity period of 3 years from the date of the first issue of the Convertible Notes, can be converted into the Company's shares at a conversion price of HK$1.1 per share (subject to adjustment). Details of the transactions were set out in the Company's announcement dated 3 April 2008.

As at the date of this report, the condition for the subscription agreements has been satisfied and the completion will take place on 17 April 2008 in accordance with the subscription agreements.

Five Year Financial Summary

RESULTS

	For the year ended 31 December				
	2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	**2007** ***HK$'000***
Revenue	387,744	436,532	426,676	624,388	**678,819**
Loss from operations less finance costs	(2,637)	(144,463)	(280,223)	(97,410)	**(120,138)**
Gain on partial disposal of a subsidiary	–	–	–	–	**125,942**
Gain on deemed partial disposal of an associate	–	–	–	–	**64,246**
Gain on disposal of an associate	–	–	–	–	**183**
Share of results of associates	6,040	10,388	10,493	17,780	**15,552**
Share of results of jointly controlled entities	13,755	31,028	13,860	5,592	**4,804**
Profit (loss) before tax	17,158	(103,047)	(255,870)	(74,038)	**90,589**
Income tax credit (expense)	3,876	624	(2,025)	534	**(3,498)**
Profit (loss) for the year	21,034	(102,423)	(257,895)	(73,504)	**87,091**
Attributable to:					
Equity holders of the Company	20,572	(102,793)	(259,075)	(81,509)	**78,759**
Minority interests	462	370	1,180	8,005	**8,332**
Profit (loss) after tax	21,034	(102,423)	(257,895)	(73,504)	**87,091**
Dividends	–	–	–	–	**–**

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2003 *HK$'000*	2004 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	**2007** ***HK$'000***
Total assets	1,163,533	1,083,578	884,047	1,268,438	**1,672,137**
Total liabilities	(352,960)	(364,180)	(405,163)	(591,046)	**(729,158)**
	810,573	719,398	478,884	677,392	**942,979**
Equity attributable to equity holders of the Company	800,968	710,023	468,329	618,650	**865,427**
Minority interests	9,605	9,375	10,555	58,742	**77,552**
	810,573	719,398	478,884	677,392	**942,979**