大中華實業控股有限公司

GREATER CHINA HOLDINGS LIMITED

Incorporated in Bermuda with limited liability

GREATER CHINA

Annual Report 2007

Stock Code: 431

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ms. Ma Xiaoling *(Chairman)*
Mr. Chan Sze Hon
Ms. Chan Siu Mun

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Ching Men Ky, Carl
Mr. Lin Ruei Min
Mr. Shu Wa Tung, Laurence

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Chan Siu Mun

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China
Dah Sing Bank
Industrial and Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISORS

Sit, Fung, Kwong & Shum
Michael Cheuk, Wong & Kee

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1301
1 Lyndhurst Tower
1 Lyndhurst Terrace
Central
Hong Kong

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

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

STOCK CODE

431

WEBSITE

http://www.irasia.com/listco/hk/greaterchina/index.htm

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Greater China Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I would like to present the annual report for the year ended 31 December 2007.

REVIEW OF OPERATIONS

The year of 2007 is full of challenge and opportunity for the Group. For the operation of production and sale of fertilizers and chemicals, the competition remains keen and it is very crucial to control costs and strive to maintain market share in the industry. In view of this, the Board will actively focus on identify other potential project which will maximize returns to our shareholders.

For the industrial property development business, the depot facilities in Taicang, the People's Republic of China (the "PRC") are under construction and are expected to commence business by the end of 2008.

During the year, the disposal of the Group's investment property, 1 Lyndhurst Tower, was completed. With the proceeds from the disposal, the Group is in a strong financial position which enable the Group to invest in future projects with solid growth potential.

PROSPECTS

Given the rapid economic growth in the PRC, the Board is confident that the operation of logistic services in the PRC will allow the Group to capture the business deriving from the increasing demand in import and export trading. With the acquisition of the remaining equity interests of a subsidiary engaged in the industrial property development with focus on port infrastructure in Taicang, PRC, the Group is in a direct control towards the development of such business as one of the operation segments of the Group.

In the meantime, the Board will continue to evaluate potential investment projects which are in line with the overall business strategy and create positive returns to the shareholders as a whole.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our staff for their diligence, dedication, loyalty and integrity towards the Group. I would also like to express my gratitude to our shareholders, customers, bankers and other business partners for their trust and support to the Group throughout the year.

Ma Xiaoling
Chairman

Hong Kong, 18 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2007, turnover generated from the continuing operations of the Group amounted to HK$5,218,000 (2006: HK$3,298,000), loss from continuing operations amounted to HK$22,916,000 (2006: HK$30,352,000) and loss attributable to the equity holders of the Company (including both continuing and discontinued operations) amounted to HK$32,200,000 (2006: net profit of HK$98,422,000). The significant decrease in the results of the Group is due to the recognition of a gain on change in fair value of the investment properties of HK$121,400,000 recorded in 2006 but no similar gain was recorded in the year of 2007.

During the year of 2007, segment profit from the production and sale of fertilizers and chemicals of HK$900,000 (2006: loss of HK$1,186,000) was resulted due to the increase in turnover and the effort of the management in the improvement in cost control. Despite this, the competition in the industry remains keen and the management will strive to maintain the market share. At the same time, the management will focus on other future projects which will maximize returns to the shareholders.

During the period under review, the Group disposed of its investment properties, the entire equity interest of a subsidiaries which holds 1 Lyndhurst Tower in Hong Kong (the “Disposal”), and thus discontinued its operation of the investment properties segment. The selling price represented a premium of over 30% of the valuation of the investment properties in June 2006 and the relevant gain on change in fair value of the investment properties as mentioned above had been recognized in the year of 2006 when the provisional sale and purchase agreement to dispose of the said investment properties was signed in December 2006. The Disposal was completed in March 2007.

For the industrial property development business, the depot facilities were still under construction during the reporting period.

FINANCIAL REVIEW

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group has current ratio of approximately 17.85 compared to that of 1.89 as at 31 December 2006 and the gearing ratio was 0.03 compared to that of 0.83 as at 31 December 2006. The calculation of gearing ratio was based on the total borrowings as at 31 December 2007 of HK$9,142,000 (2006: HK$246,946,000) and the equity attributable to equity holders at 31 December 2007 of HK$279,590,000 (2006: HK$298,988,000).

During the period under review, all bank loans obtained in Hong Kong was repaid in full following the completion of the Disposal. The Group’s bank and cash position was also improved from HK$57,361,000 as at 31 December 2006 to HK$206,289,000 as at 31 December 2007 accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS

There were no significant capital commitment as at 31 December 2007 which would require a substantial use of the Group's present cash resources or external funding.

The Group does not anticipate any material foreign exchange exposure since its cash, borrowings, revenue and expenses are denominated in Hong Kong dollars and Renminbi ("RMB").

PROSPECTS

Following the completion of the Disposal in March 2007, the Group was in a strong financial position. Given the potential growth in the import and export trading in the People's Republic of China (the "PRC"), the management is optimistic towards the future of the operations of logistic services in the PRC. In view of this, the Group acquired the remaining interests of the subsidiary engaged in the industrial property development with focus on port infrastructure in Taicang, PRC via two acquisitions.

On 27 July 2007, the Group entered into the sale and purchase agreement with two minority shareholders (the "First Sellers") of Keycharm Investments Limited ("Keycharm"), a 51% owned subsidiary of the Group which in turn holds 85.71% of the joint venture engaged in the industrial property development with focus on port infrastructure in Taicang, PRC (the "JV Company"), pursuant to which the Group agreed to acquire from the First Sellers the remaining 49% interest in Keycharm and the loans of RMB58,800,000 due to the First Sellers from Keycharm, at a total consideration of RMB63,300,000, RMB53,300,000 of which be paid in cash and the balance of RMB10,000,000 be satisfied by issue and allotment of new shares of the Company.

On 9 November 2007, the Group entered into a shareholding transfer agreement with the minority shareholder (the "Second Seller") of the JV Company pursuant to which the Group agreed to acquire from the Second Seller the remaining 14.29% equity interest of the JV Company at a cash consideration of RMB20,000,000. Following the two acquisitions, the JV Company became a wholly owned subsidiary of the Group.

The management considers that the acquisitions would allow the Group to further exercise a direct control of the JV Company and in line with the business strategy of the Group to increase its exposure in the industrial properties and logistic industry.

The depot infrastructure is still under construction and is expected to commence business by the end of 2008.

In the meantime, the Board will continue to strive to maximize the returns of the shareholders by monitoring the development progress of the depot infrastructure operations and identifying potential projects with positive growth, reasonable returns and in line with the overall business strategy of the Group.

CHARGES ON ASSETS

As at 31 December 2007, property, plant and equipment of HK$7,127,000 (2006: HK$7,005,000) are pledged against a bank loan granted to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 31 December 2007.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group has approximately 61 employees. Remuneration is determined by reference to their respective qualifications and experience and according to the prevailing industry practice. Besides salary payments, other staff benefits include contribution of mandatory provident fund, a discretionary bonus program and a share option scheme.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Ms. Ma Xiaoling, aged 31, is the Chairman of the Company since July 2005. Ms. Ma graduated from Lanzhou Commercial College in the People's Republic of China (the "PRC") in 1998 majoring in International Trade and obtained a Bachelor Degree in Economics. Ms. Ma has years of experience in property development and investments in the PRC and Hong Kong. Ms. Ma is the sole director and beneficial owner of Keenlead Holdings Limited, which is the controlling shareholder of the Company.

Mr. Chan Sze Hon, aged 34, was appointed as Executive Director since July 2005. He graduated from City University of Hong Kong with a Bachelor of Arts Degree in Accountancy and is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He has 12 years of experience in accounting and financial management and had worked for an international accounting firm in Hong Kong. Mr. Chan is also an independent non-executive director of China Mining Resources Group Limited, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), Blu Spa Holdings Limited and Era Information & Entertainment Limited, both shares of which are listed on the Growth Enterprise Market of the Stock Exchange.

Ms. Chan Siu Mun, aged 33, was appointed as an executive director of the Company since March 2008. Ms. Chan holds a Bachelor of Business Administration (Accounting and Finance) degree from the University of Hong Kong. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Chan has over 10 years of experience in auditing, accounting and financial management. Before joining the Company, she worked in an international professional audit firm and a number of listed companies. Ms. Chan is currently an executive director of Climax International Company Limited, whose shares are listed on the Main Board of the Stock Exchange. She was also an executive director of ProSticks International Holdings Limited, whose shares are listed on the Growth Enterprise Market of the Stock Exchange, for the period from July 2007 to March 2008.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ching Men Ky, Carl, aged 63, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from Tak Ming College with a Bachelor Degree in Business and was awarded with an Honorable Doctorate Degree from Beijing International Business School) in the PRC. Mr. Ching has years of experience in business management. He has also been participating in various social activities and has been acting as the director of United World Chinese Association Limited and the director of Asian Professional Basketball Management and Development Company Limited. Mr. Ching is currently an executive director of Sino Union Petroleum & Chemical International Limited, whose shares are listed on the Main Board of the Stock Exchange.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Lin Ruei Min, aged 64, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from the Department of Politics of Fu Hsing Kang College in Taiwan. Mr. Lin is currently the Chief Consultant of an asset management consultant company in Taiwan. He is the founder of Taiwan branch of United World Chinese Association Limited.

Mr. Shu Wa Tung, Laurence, aged 34, appointed in August 2005 and serves on the Audit Committee of the Company, graduated from Deakin University in Australia with a Bachelor Degree in Business majoring in Accounting. Mr. Shu is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a CPA member of CPA Australia. He has years of experience in audit, corporate finance and corporate advisory services. He is currently the chief financial officer and company secretary of a listed company in Hong Kong.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain high standards of corporate governance with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The Company has always recognized the importance of the transparency and accountability towards the shareholders. It is the belief of the Board that shareholders can maximize their benefits from good corporate governance.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices ("Code on Corporate Governance") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, except for the following deviations:

— Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

  Ms. Ma Xiaoling is the chairman and chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly to discuss issues affecting operations of the Company. The Board believes that this structure is conductive to strong and consistent leadership, enabling the Group to make and implement decisions promptly and efficiently. The Board has full confidence in Ms. Ma and believes that her appointment to the posts of chairman and chief executive officer is beneficial to the business prospects of the Company.

— Code A.4.1 stipulates that non-executive directors should be appointed for specific terms and subject to re-election.

  The independent non-executive directors of the Company were not appointed for any specific terms, as they are subject to retirement by rotation at the Company's annual general meeting in accordance with the Company's Byelaws.

THE BOARD

The Board comprises three Executive Directors, being Ms. Ma Xiaoling (Chairman), Mr. Chan Sze Hon and Ms. Chan Sin Mun, and three Independent Non-Executive Directors, being Mr. Ching Men Ky Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung Laurence.

The Board members have no financial, business, family or other material/relevant relationships with each other. Such balanced board composition is formed to ensure strong independence across the Board and has met the recommended practice under the Code on Corporate Governance for the Board to have at least one-third in number of its members comprising Independent Non-Executive Directors.

CORPORATE GOVERNANCE REPORT

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence in accordance with Rule 3.13 of the Listing Rules.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances, but the day-to-day management is delegated to the three Executive Directors, Ms. Ma Xiaoling, Mr. Chan Sze Hon and Ms. Chan Sin Mun. Ms Ma as Chairman and Chief Executive Officer heads the Board and implements the strategies and polices approved by the Board whilst Mr. Chan and Ms. Chan are responsible for the operations of the Group, in particular the finance function.

BOARD MEETING

The Board held 12 meetings during the year. The individual attendance record is as follows:

Directors	**Number of attendance**
Executive directors:	
Ms. Ma Xiaoling	12/12
Mr. Chan Sze Hon	12/12
Ms. Chan Sin Mun *(appointed on 12 March 2008)*	N/A
Independent non-executive directors:	
Mr. Ching Men Ky Carl	12/12
Mr. Lin Ruei Min	11/12
Mr. Shu Wa Tung Laurence	12/12

Directors have timely access to relevant information prior to each board meeting. Directors are given the opportunity to include matters in the agenda for regular board meetings while Directors are entitled to have access to board papers and related materials to allow them to make informed decisions on matters arising from board meetings.

Minutes of board meetings and meetings of other committees are kept by the Company Secretary and are open for inspection by directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all directors whether the directors have complied with the required standard set out in the Model Code regarding directors' securities transactions and all directors confirmed that they have complied with the Model Code.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company has established an audit committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The Group's financial statements for the year ended 31 December 2007 have been reviewed by the audit committee. The audit committee of the Company currently comprises three independent non-executive directors, including Mr. Ching Men Ky, Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung, Laurence.

The audit committee meets twice during the year. The individual attendance record is as follows:

Directors	**Number of attendance**
Mr. Ching Men Ky Carl	2/2
Mr. Lin Ruei Min	2/2
Mr. Shu Wa Tung Laurence	2/2

REMUNERATION COMMITTEE

The Board has established a remuneration committee. The remuneration committee, currently comprising executive directors, Ms. Ma Xiaoling and Mr. Chan Sze Hon, and independent non-executive directors, Mr. Ching Men Ky, Carl, Mr. Lin Ruei Min and Mr. Shu Wa Tung, Laurence, is responsible for advising the Board on the remuneration policy and framework of the Company's directors and senior management member(s), as well as reviewing and determining the remuneration of all executive directors and senior management member(s) with reference to the Company's objectives from time to time. The remuneration committee met once during the year with full attendance to review the remuneration policy and remuneration packages of the Executive Directors and members of the senior management.

NOMINATION OF DIRECTORS

The Board considers the determination of the appointment and removal of directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Code on Corporate Governance to set up a Nomination Committee. Instead, however, the Board will meet to discuss nomination of directors when circumstances required. Upon receipt of a nomination from the members of the Board, a board meeting will then be convened to consider and discuss the nominated candidates(s) for the directorship. Criteria adopted by the Board in considering the suitability of a candidate for directorship includes his/her qualifications, experience, expertise and knowledge as well as the requirements under the Listing Rules.

AUDITORS' REMUNERATION

For the year ended 31 December 2007, the total remuneration in respect of audit services paid and payable to the Company's auditors, Messrs. Deloitte Touche Tohmatsu, amounted to approximately HK$1,115,000.

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 19.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES

During the year under review, there were no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the sales attributable to the largest customer and the five largest customers of the Group accounted for 24% and 52% of the total revenue for the year respectively. The largest supplier and the five largest suppliers accounted for 45% and 75% of the Group's purchases respectively.

None of the directors, their associates, or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest suppliers or customers.

DIRECTORS' REPORT

DIRECTORS

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

EXECUTIVE DIRECTORS:

Ms. Ma Xiaoling *(Chairman)*
Mr. Chan Sze Hon
Ms. Chan Siu Mun (appointed on 12 March 2008)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Ching Men Ky, Carl
Mr. Lin Ruei Min
Mr. Shu Wa Tung, Laurence

In accordance with clauses 91, 99(A) and 99(B) of the Company's Bye-Laws, Ms. Chan Siu Mun and Mr. Lin Ruei Min will retire and, being eligible, offer himself for re-election.

Independent non-executive directors are not appointed for a specific term. All directors (including independent non-executive directors) are subject to retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2007, the interests of the directors and chief executive of the Company in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which the director is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were

DIRECTORS' REPORT

required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions

Name	Nature of interest	Number of shares held	Percentage to issued share capital
Ms. Ma Xiaoling	Corporate interests (Note)	120,212,256	40.09%

Note: Ms. Ma Xiaoling is the beneficial owner of the entire issued share capital of Keenlead Holdings Limited, which owned 120,212,256 shares in the Company as at 31 December 2007.

Save as disclosed above, as at 31 December 2007, none of the directors and chief executive of the Company had an interest or short position in the equity or debt securities and underlying shares of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which the director is taken or deemed to have under such provisions of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme as disclosed in note 27 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract 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.

DIRECTORS' REPORT

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 December 2007, the following shareholders had interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Company pursuant to Section 336 of the SFO, who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company:

Name	Note(s)	**No. of shares held**	**Percentage to issued share capital**
Keenlead Holdings Limited	1	120,212,256	40.09%
Ms. Ma Xiaoling	1	120,212,256	40.09%
China Main Investment (H.K.) Company Limited	2	32,000,000	10.67%
Centre Mark Development Limited	2	32,000,000	10.67%
Sino Elite International Limited	2	32,000,000	10.67%
China Main Group Company Limited	2	32,000,000	10.67%
Mr. Chen Dacheng	2	32,000,000	10.67%
Shenzhen Venture Capital (BVI) Company Limited	3	32,000,000	10.67%
Mr. Mei Jian	3	32,000,000	10.67%
Mr. Zhang Minlong	3	32,000,000	10.67%

Notes:

1. The entire issued share capital of Keenlead Holdings Limited is wholly and beneficially owned by Ms. Ma Xiaoling.

2. China Main Investment (H.K.) Company Limited ("China Main") is owned as to 60% by Centre Mark Development Limited and as to 40% by Sino Elite International Limited. Centre Mark Development Limited is owned as to 99.99% by Mr. Chen Dacheng and as to 0.01% by China Main Group Company Limited. Sino Elite International Limited is owned as to 99.99% by China Main Group Company Limited and as to 0.01% by Mr. Pai Chin Ming. China Main Group Company Limited is owned as to 99% by Mr. Chen Dacheng and as to 1% by Mr. Pai Chin Ming.

3. On 14 April, 2003, Shenzhen Venture Capital (BVI) Company Limited ("Shenzhen Venture Capital") reported that it has a security interest in 32,000,000 shares. Shenzhen Venture Capital is owned as to 50% by Mr. Mei Jian and 50% by Mr. Zhang Minlong.

Save as disclosed above, the Company has not been notified of any other shareholders who had any interest or short position in the shares and underlying shares of the company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company as at 31 December 2007.

DIRECTORS' REPORT

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the Remuneration Committee and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the directors and eligible employees, details of the scheme is set out in note 27 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2007.

AUDITORS

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

On behalf of the Board

Ma Xiaoling
Chairman
Hong Kong,

18 April 2008

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF GREATER CHINA HOLDINGS LIMITED
大中華實業控股有限公司
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Greater China Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 69, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of 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 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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 Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
18 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Continuing operations			
Revenue	5	**5,218**	3,298
Cost of sales		**(2,615)**	(2,366)
Gross profit		**2,603**	932
Other income	7	**5,945**	2,073
Selling and distribution costs		**(530)**	(1,020)
Administrative expenses		**(34,204)**	(16,214)
Impairment loss on goodwill	19	**(7,586)**	(7,783)
Impairment loss on prepayments	18	**—**	(8,054)
Provision on impairment loss on available-for-sale investments	17	**(3,000)**	—
Finance costs	8	**(409)**	(286)
Loss before taxation		**(37,181)**	(30,352)
Income tax credit	9	**14,265**	—
Loss for the year from continuing operations		**(22,916)**	(30,352)
Discontinued operations			
(Loss) profit for the year from discontinued operations	10	**(11,656)**	127,186
(Loss) profit for the year	11	**(34,572)**	96,834
Attributable to:			
Equity holders of the Company		**(32,200)**	98,422
Minority interests		**(2,372)**	(1,588)
		(34,572)	96,834
(Loss) earning per share	14		
From continuing and discontinued operations			
— Basic		**(11.14 cents)**	34.41 cents
From continuing operations			
— Basic		**(7.10 cents)**	(10.06 cents)

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	15	**9,538**	8,794
Land lease prepayment	16	**31,822**	30,460
Available-for-sale investments	17	**–**	3,000
Prepayments	18	**15,714**	10,164
Goodwill	19	**–**	–
		57,074	52,418
Current assets			
Inventories	20	**57**	69
Trade and other receivables	21	**26,826**	22,525
Land lease prepayment	16	**756**	707
Prepayments and deposits		**2,927**	1,743
Amount due from a minority shareholder of a subsidiary	36(a)	**103**	40,687
Bank balances and cash	22	**206,289**	57,361
		236,958	123,092
Assets classified as held for sale	23	**–**	440,000
		236,958	563,092
Current liabilities			
Other payables		**4,134**	11,200
Amount due to minority shareholders of subsidiaries	36(b)	**7,003**	65,475
Rental deposits		**–**	3,878
Tax payable		**–**	14,687
Bank loans	24	**2,139**	181,471
		13,276	276,711
Liability associated with assets classified as held for sale	23	**–**	22,000
		13,276	298,711
Net current assets		**223,682**	264,381
Total assets less current liabilities		**280,756**	316,799

CONSOLIDATED BALANCE SHEET

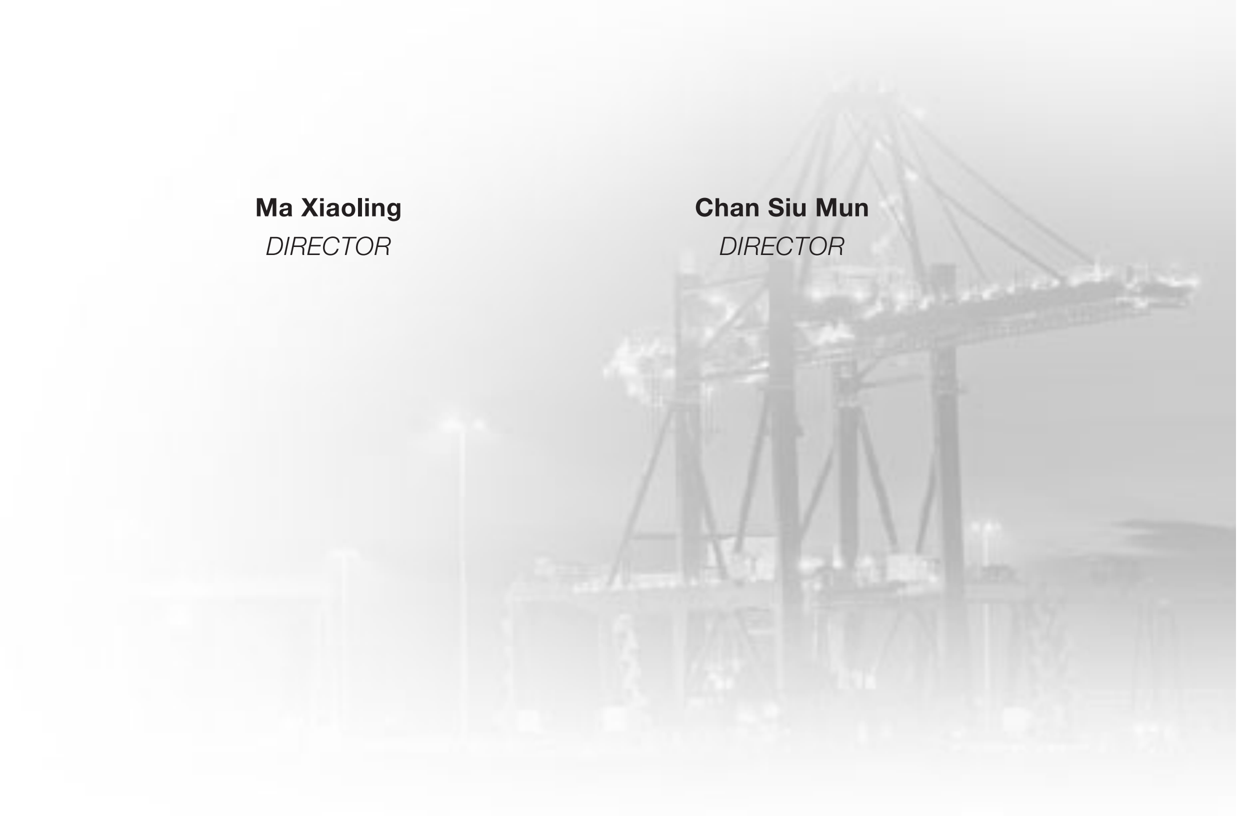
At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current liability			
Deferred taxation	25	**1,166**	696
Total assets and liabilities		**279,590**	316,103
Capital and reserves			
Share capital	26	**1,499**	1,430
Reserves		**278,091**	297,558
Equity attributable to equity holders of the Company		**279,590**	298,988
Minority interests		**–**	17,115
Total equity		**279,590**	316,103

The consolidated financial statements on pages 19 to 69 were approved and authorised for issue by the Board of Directors on 18 April 2008 and are signed on its behalf by:

Ma Xiaoling
DIRECTOR

Chan Siu Mun
DIRECTOR



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company						
	Share capital HK$'000	**Share premium** HK$'000	**Translation reserve** HK$'000	**Deficit** HK$'000	**Total** HK$'000	**Minority interests** HK$'000	**Total** HK$'000
At 1 January 2006	1,430	371,174	153	(172,433)	200,324	—	200,324
Exchange differences arising on translation of foreign operations	—	—	242	—	242	367	609
Profit (loss) for the year	—	—	—	98,422	98,422	(1,588)	96,834
Total recognised income and expense for the year	—	—	242	98,422	98,664	(1,221)	97,443
Arising on acquisition of subsidiaries (note 28)	—	—	—	—	—	18,336	18,336
At 31 December 2006 and 1 January 2007	1,430	371,174	395	(74,011)	298,988	17,115	316,103
Exchange differences arising on translation	—	—	4,626	—	4,626	1,323	5,949
Loss for the year	—	—	—	(32,200)	(32,200)	(2,372)	(34,572)
Total recognised income and expense for the year	—	—	4,626	(32,200)	(27,574)	(1,049)	(28,623)
Acquisition of additional interest in subsidiaries (note 29)	69	8,107	—	—	8,176	(16,066)	(7,890)
At 31 December 2007	1,499	379,281	5,021	(106,211)	279,590	—	279,590

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
(Loss) profit for the year		**(34,572)**	96,834
Adjustments for:			
Income tax credit		**(14,265)**	(6,040)
Amortisation and depreciation		**2,031**	866
Loss on disposal of property, plant and equipment		**19**	—
Net loss on disposal of subsidiaries		**10,099**	—
Impairment loss on goodwill		**7,586**	7,783
Impairment loss on prepayments		**—**	8,054
Impairment loss on available-for-sale investments	17	**3,000**	—
Gain on change in fair value of investment properties		**—**	(121,400)
Interest income		**(5,557)**	(390)
Finance costs		**3,843**	8,971
Operating cash flows before movements in working capital		**(27,816)**	(5,322)
Decrease in inventories		**16**	485
Decrease in held-for-trading investment		**—**	48
(Increase) decrease in trade and other receivables		**(22,578)**	510
Increase in prepayments and deposits		**(1,147)**	(501)
(Decrease) increase in other payables		**(1,705)**	3,030
Increase in rental deposits		**—**	771
Cash used in operations		**(53,230)**	(979)
Interest paid		**(3,843)**	(8,971)
NET CASH USED IN OPERATING ACTIVITIES		**(57,073)**	(9,950)
INVESTING ACTIVITIES			
Net cash inflow arising from disposal of subsidiaries	30	**416,892**	—
Repayment from a minority shareholder of a subsidiary		**42,650**	18,139
Interest received		**5,557**	390
Purchase of property, plant and equipment		**(1,450)**	(2,214)
Prepayments for a warehouse project		**(4,843)**	(164)
Net cash outflow arising from acquisition of subsidiaries	28	**—**	(25,468)
Net cash outflow arising from acquisition of additional interest in subsidiaries	29	**(77,371)**	—

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**381,435**	(9,317)
FINANCING ACTIVITIES			
Repayment of bank loans		**(181,471)**	(23,841)
Advance from minority shareholders of subsidiaries		**1,227**	163
Bank loans raised		**2,139**	75,600
NET CASH (USED IN) FROM FINANCING ACTIVITIES		**(178,105)**	51,922
NET INCREASE IN CASH AND CASH EQUIVALENTS		**146,257**	32,655
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**57,361**	24,192
Effect of foreign exchange rate changes		**2,671**	514
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		**206,289**	57,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

During the year, the Company has determined that its functional currency has changed from Hong Kong dollars to Renminbi ("RMB") as the Company has, through its subsidiaries, substantially reduced its activity in property investment in Hong Kong and as a consequence mainly holds investments in subsidiaries whose operations are primarily in the PRC.

The consolidated financial statements are presented in Hong Kong dollars for the convenience of the readers.

The Company acts as an investment holding company. Particulars of the Company's principal subsidiaries at 31 December 2007, are as follows:

Name	Place of incorporation and operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Delight Link Enterprises Limited	Hong Kong	Ordinary HK$2	100%	–	Provision of administrative services to group companies
珠海經濟特區瑞農植保技術有限公司 Zhuhai S.E.Z. Rui Nong Plant Protection Technology Co. Ltd.	PRC	Registered capital RMB10,011,239	–	51%	Production and sale of fertilizers and chemicals
Keycharm Investments Limited ("Keycharm")	British Virgin Islands ("BVI")	Ordinary US$100	–	100%	Investment holding
太倉中化國際興業石化開發建設有限公司 Taicang Sinochem International Xingye Petrochemical Development Company Limited ("Taicang")	PRC	Registered capital RMB240,000,000	–	100%	Industrial property development with focus on port infrastructure

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. GENERAL (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or 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.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods 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 has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standard, amendment 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 Combinations[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]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain 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 and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF CONSOLIDATION (Continued)

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.

BUSINESS COMBINATIONS

The acquisition of business 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, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

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 consolidated income statement.

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.

ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

Goodwill arising on acquisition of additional interest in subsidiaries represents the excess of the cost of the acquisition over the carrying amount of the net assets attributable to the additional interest in the subsidiaries.

GOODWILL

Goodwill arising on an acquisition of a business for 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 as an intangible asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOODWILL (Continued)

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.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

REVENUE RECOGNITION

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

Rental income from operating lease is recognised on a straight-line basis over the relevant lease term.

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

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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including building held for use in the production, other than factory building under construction, are stated at cost less subsequent accumulated depreciation and amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than factory building under construction, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

Factory buildings under construction are carried at cost less any recognised impairment losses, and are not depreciated. They are reclassified 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.

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.

LEASEHOLD LAND HELD FOR OWNER-OCCUPIED PURPOSE

The leasehold land component is classified as a land lease prepayment and is amortised over a straight-line basis over the lease term.

NON-CURRENT ASSETS HELD FOR SALE

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

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

IMPAIRMENT LOSSES ON TANGIBLE ASSETS OTHER THAN GOODWILL (SEE THE ACCOUNTING POLICIES IN RESPECT OF GOODWILL ABOVE)

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated income statement.

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 immediately in consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

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

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. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

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.

FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of 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.

Exchange differences arising on the settlement of monetary items, and on the transaction of monetary items, are recognised in the consolidated income statement in the period in which they arise.

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 income statement in the period in which the foreign operation is disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially 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 base 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.

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 consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

RETIREMENT BENEFIT COSTS

Payments to the Mandatory Provident Fund Scheme (the "MPF Scheme") and state-managed retirement benefit scheme which are defined contribution scheme are charged as an expense when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT GRANTS

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

BORROWING COSTS

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

RESEARCH AND DEVELOPMENT EXPENDITURE

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

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 instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

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.

Financial assets

The Group's financial assets are mainly classified into financial assets as loans and receivables and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (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 other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

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 unlisted available-for-sale equity investments whose fair value cannot be measured reliably, such equity investments are measured at cost less impairment. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods through consolidated income statement (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 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.

For certain categories of financial asset, such as trade and other 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 average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

NOTES TO THE CONSOLIDATED 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 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.

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 carried at cost, the amount of the impairment loss is measured as the difference between the assets 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 reverse in subsequent periods.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial liabilities and equity (continued)

Financial liabilities

Financial liabilities include other payables, amounts due to minority shareholders of subsidiaries and bank loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

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

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 or payable is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

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.

IMPAIRMENT LOSS ON LAND LEASE PREPAYMENT AND NON-CURRENT PREPAYMENTS

Determining whether land lease prepayment and non-current prepayments are impaired requires an estimation of the value in use of the cash-generating units to which the asset has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amounts of land lease prepayment and non-current prepayments are HK$32,578,000 (2006: HK$31,167,000) and HK$15,714,000 (2006: HK$10,164,000) respectively.

5. REVENUE

Revenue represents revenue arising on sales of fertilizers and chemicals and rental income. An analysis of the Group's revenue for the current and prior year for both continuing and discontinued operations, is as follows:

	2007 **HK$'000**	2006 HK$'000
Continuing operations		
Sales of goods	**5,218**	3,298
Discontinued operations		
Rental income	**2,654**	10,278
Consolidated	**7,872**	13,576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

BUSINESS SEGMENTS

For management purposes, the Group is currently organised into fertilizers and chemicals, investment holding and industrial property development with focus on port infrastructure divisions. The Group also operated property investment segment, which was discontinued in 2007. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

INCOME STATEMENT

For the year ended 31 December 2007

	Continuing operations				Discontinued operations	
	Fertilizers and chemicals HK$'000	Investment holding HK$'000	Industrial property development HK$'000	Total HK$'000	Property investment HK$'000	Consolidated HK$'000
SEGMENT REVENUE	5,218	–	–	5,218	2,654	7,872
RESULTS						
Segment result	900	(3,046)	(16,759)	(18,905)	(8,222)	(27,127)
Unallocated corporate income				5,640	–	5,640
Unallocated corporate expenses				(23,507)	–	(23,507)
Unallocated finance costs				(409)	(3,434)	(3,843)
Loss before taxation				(37,181)	(11,656)	(48,837)
Income tax credit				14,265	–	14,265
Loss for the year				(22,916)	(11,656)	(34,572)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

BUSINESS SEGMENTS (Continued)

INCOME STATEMENT (continued)

For the year ended 31 December 2006

	Continuing operations				Discontinued operations	
	Fertilizers and chemicals HK$'000	Investment holding HK$'000	Industrial property development HK$'000	Total HK$'000	Property investment HK$'000	Consolidated HK$'000
SEGMENT REVENUE	3,298	–	–	3,298	10,278	13,576
RESULTS						
Segment result	(1,186)	1,578	(11,281)	(10,889)	129,831	118,942
Unallocated corporate income				3	–	3
Unallocated corporate expenses				(19,245)	–	(19,245)
Unallocated finance costs				(221)	(8,685)	(8,906)
(Loss) profit before taxation				(30,352)	121,146	90,794
Income tax credit				–	6,040	6,040
(Loss) profit for the year				(30,352)	127,186	96,834

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

BUSINESS SEGMENTS (Continued)

BALANCE SHEET

At 31 December 2007

	Fertilizers and chemicals HK$'000	**Investment holding HK$'000**	**Industrial property development HK$'000**	**Property investment HK$'000**	**Consolidated HK$'000**
ASSETS					
Segment assets	**12,302**	**5,329**	**67,681**	**–**	**85,312**
Unallocated corporate assets					**208,720**
Consolidated total assets					**294,032**
LIABILITIES					
Segment liabilities	**8,487**	**338**	**835**	**–**	**9,660**
Unallocated corporate liabilities					**4,782**
Consolidated total liabilities					**14,442**

At 31 December 2006

	Fertilizers and chemicals HK$'000	Investment holding HK$'000	Industrial property development HK$'000	Property investment HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	12,176	4,026	120,136	477,591	613,929
Unallocated corporate assets					1,581
Consolidated total assets					615,510
LIABILITIES					
Segment liabilities	10,108	–	59,295	30,701	100,104
Unallocated corporate liabilities					199,303
Consolidated total liabilities					299,407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

BUSINESS SEGMENTS (Continued)

OTHER INFORMATION

For the year ended 31 December 2007

	Continuing operations					Discontinued operations	
	Fertilizers and chemicals HK$'000	Investment holding HK$'000	Industrial property development HK$'000	Unallocated HK$'000	Total HK$'000	Property investment HK$'000	Consolidated HK$'000
Capital additions	**530**	**–**	**55**	**865**	**1,450**	**–**	**1,450**
Amortisation and depreciation	**765**	**–**	**1,094**	**172**	**2,031**	**–**	**2,031**
Impairment loss on goodwill	**–**	**–**	**7,586**	**–**	**7,586**	**–**	**7,586**
Provision on impairment loss on available-for-sale investments	**–**	**3,000**	**–**	**–**	**3,000**	**–**	**3,000**
(Gain) loss on disposal of subsidiaries	**–**	**–**	**–**	**(111)**	**(111)**	**10,210**	**(10,099)**

For the year ended 31 December 2006

	Continuing operations					Discontinued operations	
	Fertilizers and chemicals HK$'000	Investment holding HK$'000	Industrial property development HK$'000	Unallocated HK$'000	Total HK$'000	Property investment HK$'000	Consolidated HK$'000
Capital additions							
Acquisition of subsidiaries	–	–	28,949	–	28,949	–	28,949
Other additions	2,187	–	–	27	2,214	–	2,214
Amortisation and depreciation	518	–	255	93	866	–	866
Impairment loss on goodwill	–	–	7,783	–	7,783	–	7,783
Impairment loss on prepayments	–	–	8,054	–	8,054	–	8,054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

GEOGRAPHICAL SEGMENTS

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

	Sales revenue by geographical market	
	2007	2006
	HK$'000	HK$'000
Hong Kong	**2,654**	10,278
Other regions in the People's Republic of China (the "PRC")	**5,218**	3,298
	7,872	13,576

Revenue from the Group's discontinued operations was derived principally from Hong Kong.

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

	Carrying amount of segment assets		**Additions to property, plant and equipment and land lease prepayment**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**6,351**	481,617	**865**	27
Other regions in the PRC	**235,568**	132,312	**585**	31,136
	241,919	613,929	**1,450**	31,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

7. OTHER INCOME

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Exchange gain	**—**	1,556	**—**	—	**—**	1,556
Bank interest income	**5,529**	69	**28**	321	**5,557**	390
Sundry income	**235**	66	**—**	216	**235**	282
Government grant	**70**	235	**—**	—	**70**	235
Gain on disposal of subsidiaries (note 30)	**111**	—	**—**	—	**111**	—
Scrap sales	**—**	147	**—**	—	**—**	147
	5,945	2,073	**28**	537	**5,973**	2,610

8. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on borrowings wholly repayable within five years:						
Bank borrowings	**107**	—	**3,434**	8,685	**3,541**	8,685
Other borrowings	**302**	286	**—**	—	**302**	286
	409	286	**3,434**	8,685	**3,843**	8,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

9. INCOME TAX CREDIT

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Current tax:						
Reversal of income tax payable arising from disposal of dormant subsidiaries (note 30)	**14,687**	—	**–**	—	**14,687**	—
Deferred tax (note 25):						
Current year	**–**	—	**–**	6,040	**–**	6,040
Attributable to a change in tax rate	**(422)**	—	**–**	—	**(422)**	—
	14,265	—	**–**	6,040	**14,265**	6,040

No provision for taxation has been made in the consolidated financial statements as the subsidiaries operating in Hong Kong incurred tax loss for the both years.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation, followed by a 50% deduction for the next three years. A subsidiary established in Zhuhai Special Administrative Region in the PRC is entitled to preferential rate of 15%. No provision for PRC income tax has been made as all of the PRC subsidiaries are either not making profit in the year or profit exempted from PRC enterprise income tax.

The income tax credit for the year 2006 was represented by changes in deferred tax (note 25) arising from discontinued operation (note 10).

The income tax credit for the year 2007 arises from the reversal of income tax payable as a consequence of the disposal of the dormant companies which carried the tax payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

9. INCOME TAX CREDIT (Continued)

During the year, the National People's Congress of the PRC approved the new PRC enterprise income tax law. With effect from 1 January 2008, the tax rate will be unified for both domestic and foreign investment enterprises at the rate of 25%. In addition, on 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate of the subsidiary established in Zhuhai Special Administrative Region from 15% to 18%, 20%, 22%, 24% and 25% for the year ending 31 December 2008, 2009, 2010, 2011, 2012 respectively for the subsidiary of the Company. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply. As a result of the change in tax rate, a deferred tax expense of HK$422,000 has been recognised in the consolidated income statement for the year.

The income tax credit for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
(Loss) profit before taxation:		
Continuing operations	**(37,181)**	(30,352)
Discontinued operations	**(11,656)**	121,146
	(48,837)	90,794
Tax credit at Hong Kong profits tax rate of 17.5%	**(8,546)**	15,889
Tax effect of expenses not deductible for tax purpose	**7,467**	3,608
Tax effect of income not taxable for tax purpose	**(976)**	(21,590)
Reversal of income tax payable arising from disposal of dormant subsidiaries	**(14,687)**	—
Overprovision of deferred taxation in prior years	**–**	(6,132)
Tax effect of tax losses not recognised as deferred tax asset	**2,191**	2,188
Tax effect of tax exemption granted to PRC subsidiaries	**(136)**	—
Increase in deferred tax liabilities resulting from increase in applicable tax rate	**422**	—
Others	**–**	(3)
Income tax credit for the year	**(14,265)**	(6,040)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

10. DISCONTINUED OPERATIONS

On 2 March 2007, the Group entered into a share agreement as amended by a supplementary share agreement (note 23) with an independent third party to dispose of a subsidiary, China Faith Limited, which is engaged in property investment. The disposal was effected in order to generate cash flows for the expansion of the Group's other businesses. The disposal was completed on 20 March 2007, on which date control of China Faith Limited passed to the acquirer.

The loss for the year from the discontinued operation is analysed as followings:

	2007 **HK$'000**	2006 HK$'000
(Loss) profit of property investment operation for the year	**(1,446)**	127,186
Loss on disposal of property investment operation	**(10,210)**	—
	(11,656)	127,186

The results and cash flows of this discontinued operation included in the consolidated income statement and the consolidated cash flow statement are set out below:

	2007 **HK$'000**	2006 HK$'000
(Loss) profit for the year from discontinued operation		
Revenue	**2,654**	10,278
Rental outgoings	**(489)**	(2,055)
Other income	**28**	537
Gain on change in fair value of investment properties	**—**	121,400
Administrative expenses	**(205)**	(329)
Finance costs	**(3,434)**	(8,685)
(Loss) profit before tax	**(1,446)**	121,146
Income tax credit	**—**	6,040
(Loss) profit for the year	**(1,446)**	127,186
Cash flows from discontinued operation		
Net cash flows from operating activities	**680**	100
Net cash flows from investing activity	**28**	321
Net cash flows used in financing activities	**(15,014)**	(5,827)
	(14,306)	(5,406)

The carrying amounts of the assets and liabilities of China Faith Limited at the date of disposal are disclosed in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

11. (LOSS) PROFIT FOR THE YEAR

	Continuing operations		Discontinued operations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
(Loss) profit for the year has been arrived at after charging (crediting):						
Amortisation of land lease payments	**756**	233	**–**	–	**756**	233
Depreciation of property, plant and equipment	**1,275**	633	**–**	–	**1,275**	633
	2,031	866	**–**	–	**2,031**	866
Auditors' remuneration	**1,115**	720	**–**	–	**1,115**	720
Loss on disposal of property, plant and equipment	**19**	–	**–**	–	**19**	–
Research and development costs included in administrative expenses	**8,901**	–	**–**	–	**8,901**	–
Rental income less outgoings of HK$489,033 (2006: HK$2,055,000)	**–**	–	**(2,165)**	(8,223)	**(2,165)**	(8,223)
Staff costs including directors' emoluments	**13,160**	6,015	**–**	–	**13,160**	6,015
Net exchange loss (gain)	**82**	(1,293)	**–**	–	**82**	(1,293)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 5 (2006: 5) directors were as follows:

	Ma Xiaoling HK$'000	**Chan Sze Hon HK$'000**	**Carl, Ching Men Ky HK$'000**	**Lin Ruei Min HK$'000**	**Laurence Shu Wa Tung HK$'000**	**2007 HK$'000**
Fees	**—**	**—**	**240**	**240**	**240**	**720**
Other emoluments						
Salaries and other benefits	**2,303**	**930**	**—**	**—**	**—**	**3,233**
Discretionary bonus	**1,640**	**1,140**	**—**	**—**	**—**	**2,780**
Contribution to retirement benefits schemes	**—**	**12**	**—**	**—**	**—**	**12**
Total emoluments	**3,943**	**2,082**	**240**	**240**	**240**	**6,745**

	Ma Xiaoling HK$'000	Chan Sze Hon HK$'000	Carl, Ching Men Ky HK$'000	Lin Ruei Min HK$'000	Laurence Shu Wa Tung HK$'000	2006 HK$'000
Fees	—	—	240	240	240	720
Other emoluments						
Salaries and other benefits	1,826	770	—	—	—	2,596
Contribution to retirement benefits schemes	—	12	—	—	—	12
Total emoluments	1,826	782	240	240	240	3,328

No director waived any emoluments in the years ended 31 December 2007 and 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

13. EMPLOYEES' EMOLUMENTS

Two (2006: four) of the five individuals with the highest emoluments in the Group are directors of the Company whose emoluments are included in disclosures in note 12 above. The aggregate emoluments of the remaining three (2006: one) are as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	**2,509**	403
Contributions to retirement benefit scheme	**15**	5
	2,524	408

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
HK$ nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

14. (LOSS) EARNING PER SHARE

FROM CONTINUING AND DISCONTINUED OPERATIONS

The calculation of the basic (loss) earning per share is based on the (loss) profit attributable to equity holders of the Company of HK$(32,200,000) (2006: profit of HK$98,422,000) and the weighted average of 289,178,000 shares (2006: 285,989,000 shares) in issue during the year.

FROM CONTINUING OPERATIONS

The calculation of the basic loss per share from continuing operations is based on the loss attributable to equity holders of the Company of HK$20,544,000 (2006: loss of HK$28,764,000) and the weighted average of 289,178,000 shares (2006: 285,989,000 shares) in issue during the year.

FROM DISCONTINUED OPERATION

Basic (loss) earning per share for the discontinued operation is (4.03 cents) per share (2006: 44.47 cents per share), based on the loss for the year from the discontinued operations attributable to equity holders of the Company of HK$11,656,000 (2006: profit of HK$127,186,000) and the weighted average of 289,178,000 shares (2006: 285,989,000 shares) in issue during the year.

No diluted earnings per share has been presented because the Company has no potential ordinary shares issued in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Factory building under construction	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2006	5,114	1,187	566	127	165	7,159
Exchange difference	205	47	8	32	6	298
Acquisition of subsidiaries	—	—	187	1,346	—	1,533
Additions	—	—	91	—	2,123	2,214
At 31 December 2006 and 1 January 2007	5,319	1,234	852	1,505	2,294	11,204
Exchange difference	370	86	26	105	159	746
Transfer from factory building under construction	2,482	—	—	—	(2,482)	—
Additions	—	189	952	280	29	1,450
Disposal	—	—	(124)	—	—	(124)
At 31 December 2007	8,171	1,509	1,706	1,890	—	13,276
DEPRECIATION AND IMPAIRMENT						
At 1 January 2006	1,355	216	89	52	—	1,712
Exchange difference	54	9	1	1	—	65
Provided for the year	266	123	135	109	—	633
At 31 December 2006 and 1 January 2007	1,675	348	225	162	—	2,410
Exchange difference	116	24	7	11	—	158
Provided for the year	388	212	269	406	—	1,275
Eliminated on disposal	—	—	(105)	—	—	(105)
At 31 December 2007	2,179	584	396	579	—	3,738
CARRYING VALUES						
At 31 December 2007	5,992	925	1,310	1,311	—	9,538
At 31 December 2006	3,644	886	627	1,343	2,294	8,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment other than factory building under construction are depreciated on a straight-line basis at the following rates per annum:

Buildings	5%
Plant and machinery	10% – 20%
Furnitures, fixtures and equipment	10% – 33%
Motor vehicles	20%

The buildings are situated on a piece of land in the PRC held under a medium-term land use right.

16. LAND LEASE PREPAYMENT

The Group's land lease prepayment represents payment for medium-term land use rights in the PRC and is charged to the consolidated income statement on a straight-line basis for the usage of land.

	2007 **HK$'000**	2006 HK$'000
Analysed for reporting purposes as:		
Current assets	**756**	707
Non-current assets	**31,822**	30,460
	32,578	31,167

17. AVAILABLE-FOR-SALE INVESTMENTS

	2007 **HK$'000**	2006 HK$'000
At cost	**3,000**	3,000
Impairment	**(3,000)**	—
	–	3,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

17. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

At 31 December 2007 and 2006, the Group had unlisted equity interest in the following company:

Name of company	Country of incorporation/ operation	Class of capital held	Proportion of registered capital held in directly by the Company	Nature of business
Hunan Zhongrong Real Estate Development Company Limited 湖南中榮房地產開發有限公司	PRC	Registered capital	18%	Property development

The above unlisted investment is measured at cost less impairment at each balance sheet date because it does not have a quoted market price in active market and the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably. The directors of the Company have performed impairment review on these unlisted equity securities and the investment is fully impaired during the year since the Group has lost contact with the investee.

18. PREPAYMENTS

The amount represents prepayments paid to various developers in connection with potential port infrastructure and warehouse projects. At 31 December 2007, the management of Company reassessed the status of the port infrastructure and warehouse projects. No impairment loss is recognised for the year ended 31 December 2007 since the recoverable amounts of the cash generating units involved approximate to their tangible net assets. For the year ended 31 December 2006, an impairment loss of HK$8,054,000 in respect to the prepayment for port infrastructure was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. GOODWILL

	2007 **HK$'000**	2006 HK$'000
COST		
At 1 January	**7,783**	—
Arising on acquisition of additional interest in subsidiaries (note 29)	**7,586**	—
Arising on acquisition of a subsidiary (note 28)	**—**	7,783
At 31 December	**15,369**	7,783
IMPAIRMENT		
At 1 January	**7,783**	—
Impairment loss recognised in the year	**7,586**	7,783
At 31 December	**15,369**	7,783
CARRYING AMOUNTS		
At 31 December	**—**	—

Upon entering agreements to acquire the additional interest in subsidiaries in 2007, the management of Company anticipated that the underlying projects would be profitable and agreed to acquire the additional interest in subsidiaries at mutually agreed considerations. Goodwill of HK$7,586,000 arising from such acquisitions was attributable to a potential port infrastructure project. At 31 December 2007, the management of Company took into consideration the status of the relevant project when determining the recoverable amount of the cash generating unit involved. The recoverable amount of the cash generating unit approximates to the carrying value of its tangible net assets. Accordingly, an impairment loss of HK$7,568,000 has been recognised in the consolidated income statement.

In 2006, the Group entered into a conditional agreement to acquire subsidiaries (note 28) at a consideration of approximately HK$60,000,000. Goodwill of HK$7,783,000 arising from such acquisition was attributable to a potential port infrastructure project. At 31 December 2006, the management of Company reassessed the status of the relevant projects and was uncertain whether future cash inflows would arise from the potential port infrastructure projects. An impairment loss of HK$7,783,000 was recognised in the consolidated income statement accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

20. INVENTORIES

	2007 HK$'000	2006 HK$'000
Raw materials	–	69
Finished goods	57	–
	57	69

21. TRADE AND OTHER RECEIVABLES

	2007 HK$'000	2006 HK$'000
Trade receivables	129	424
Consideration receivable (note 30)	5,000	–
Other receivables	21,697	101
Deposit receivable on disposal of investment properties	–	22,000
	26,826	22,525

The Group allows an average credit period of 30 days. The following is an aged analysis of trade receivables of the Group at the balance sheet date:

	2007 HK$'000	2006 HK$'000
0 – 60 days	129	343
61 – 90 days	–	81
	129	424

Before accepting any new customer, the Group has assessed the credit quality of each potential customer and defined credit rating and limit for each customer. In addition, the Group has reviewed repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable.

There are no trade receivable balance which are past due at the reporting date for which the Group has not provided for impairment loss. The trade receivables have been subsequently settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. BANK BALANCES AND CASH

All bank saving deposit balances are interest bearing at commercial interest rates, and the effective interest rates of the Group's bank balances ranged from 0.80% to 3.63% (2006: 0.72% to 2.75%) for both years.

23. ASSETS CLASSIFIED AS HELD FOR SALE/(LIABILITY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE)

The assets and liabilities below were disposed in 2007 and included in note 30.

For the year ended 31 December 2006

	HK$'000
Investment properties	440,000
Deposit on disposal of investment properties	(22,000)
	418,000

Pursuant to an agreement dated 15 December 2006 (the "Provisional Agreement") and a supplemental agreement dated 22 January 2007 (the "Supplementary Agreement") entered into between China Faith Limited (the "Vendor") and GC Acquisitions III Limited (the "Purchaser"), a company incorporated in BVI with limited liability, the Vendor would dispose of the investment properties to the Purchaser. In addition, Sharp Star Investment Corporation, the immediate holding company of the Vendor, granted an option to the Purchaser to purchase the entire issued share capital of the Vendor. Details of these are set out in the Company's circular dated 31 January 2007. At 31 December 2006, it was uncertain whether the Purchaser would exercise the option as certain conditions precedent to the Provisional Agreement had not been satisfied. The Purchaser has paid an initial deposit of HK$22,000,000 at 31 December 2006.

The Provisional Agreement and Supplementary Agreement were approved by the shareholders of the Company on 22 February 2007 and the Purchaser exercised the option on 26 February 2007 to acquire the entire issued share capital of the Vendor. Details of these are set out in the Company's announcement dated 26 February 2007.

On 2 March 2007, Sharp Star Investment Corporation entered into a share agreement as amended by a supplementary share agreement with the Purchaser to purchase the entire share capital of China Faith Limited. Details of this are set out in the Company's announcement dated 6 March 2007.

The carrying amounts of the assets and liabilities of China Faith Limited at the date of disposal are disclosed in note 30.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

24. BANK LOANS

	2007 **HK$'000**	2006 HK$'000
The maturity of the bank loans is as follows:		
Repayable		
— on demand or within one year	**2,139**	29,167
— between one and two years	**–**	8,761
— between two and five years	**–**	123,929
— over five years	**–**	19,614
	2,139	181,471
Less: Amount due within one year shown under current liabilities	**(2,139)**	(181,471)
	–	–

The range of effective interest rates on the Group's variable-rate bank loans are 7.29% (2006: 4.74% to 6.73%) per annum.

The bank loans are secured by:

(a) Building and plant and land lease prepayment with an aggregate carrying amount of HK$7,127,000 (2006: HK$7,005,000),

(b) Personal guarantee from a minority shareholder of a subsidiary in respect of an amount of HK$2,139,000 (2006: HK$1,600,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

25. DEFERRED TAXATION

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

	Property, plant and equipment HK$'000	**Investment properties** HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2006	685	6,132	(108)	6,709
Exchange differences	27	—	—	27
(Credit) charge to consolidated income statement	(8)	(6,132)	100	(6,040)
At 31 December 2006 and 1 January 2007	704	—	(8)	696
Exchange differences	48	—	—	48
Effect of change in tax rate	422	—	—	422
(Credit) charge to consolidated income statement	80	—	(80)	—
At 31 December 2007	1,254	—	(88)	1,166

At the balance sheet date, the Group has unused tax losses of HK$52,844,000 (2006: HK$101,858,000), available for offset against future profits. A deferred tax asset has been recognised in respect of HK$503,000 (2006: HK$46,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of HK$52,341,000 (2006: HK$101,812,000) due to the unpredictability of future profit streams. Unrecognised tax loss of HK$62,018,000 was reduced as a result of disposal of subsidiaries during the year. The tax losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

26. SHARE CAPITAL

	Number of shares '000	Nominal amount HK$'000
Authorised:		
Ordinary shares of HK$0.005 each at 1 January 2006, 31 December 2006 and 2007	421,978,000	2,109,890
Preference shares of HK$0.005 each at 1 January 2006, 31 December 2006 and 2007	22,000	110
Issued and fully paid:		
Ordinary shares of HK$0.005 each		
At 1 January 2006, 31 December 2006 and 1 January 2007	285,989	1,430
Issue of shares (note 29)	13,858	69
At 31 December 2007	299,847	1,499

27. SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed at a special general meeting of shareholders held on 22 April 2002, the Company adopted a share option scheme (the "Scheme") which enables the directors of the Company to grant options to employees (including directors) of the Group in recognition of their contribution to the Group. The Scheme will expire on 21 April 2012.

No option has been granted under the Scheme since its adoption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

28. ACQUISITION OF SUBSIDIARIES

FOR THE YEAR ENDED 31 DECEMBER 2006

In September 2006, the Group acquired a 51% interest in Keycharm, which holds a 85.71% interest in the registered capital of Taicang (collectively the "Keycharm Group"), for a total consideration of RMB61,200,001 (approximately HK$60,000,000). The consideration of RMB61,200,001 represents the acquisition of 51% interest in Keycharm for RMB1 and the settlement of shareholders loans advanced to the Keycharm Group of RMB61,200,000. This transaction has been accounted for using the purchase method of accounting.

	Carrying amount and fair value HK$'000
Net assets acquired	
Property, plant and equipment	1,533
Land lease prepayment	27,416
Prepayments	17,700
Prepayments and deposits	100
Amount due from a minority shareholder	58,826
Bank balances and cash	22,942
Other payables	(190)
Amounts due to shareholders	(57,774)
	70,553
Minority interests	(18,336)
Goodwill arising on acquisition	7,783
Consideration, satisfied by settlement of the shareholders' loans of HK$60,000,000	60,000
Net cash outflow arising on acquisition	
Cash consideration paid for shares	—
Settlement of shareholders' loan to the Keycharm Group, amount paid in 2006 (HK$11,590,000 was paid in 2005)	(48,410)
Bank balances and cash acquired	22,942
	(25,468)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

28. ACQUISITION OF SUBSIDIARIES (Continued)

The subsidiaries acquired in September 2006 contributed nil revenue and a loss of HK$9,535,000 to the Group in the year ended 31 December 2006.

If the acquisition had been completed on 1 January 2006, total Group's revenue for the year would have been HK$13,576,000, and profit for the year would have been HK$64,993,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations 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.

29. ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

On 27 July 2007, the Group entered into a sale and purchase agreement with the minority shareholders of Keycharm to acquire their 49% equity interest in Keycharm and the settlement of shareholders loans advanced to Keycharm of RMB58,800,000 at an aggregate consideration of RMB63,300,000, of which RMB53,300,000 was paid in cash and the balance of RMB10,000,000 to be satisfied by the issue and allotment of shares of the Company. Prior to the acquisition, the Group had 51% interest in Keycharm and Keycharm then became a wholly-owned subsidiary of the Group with effect from 9 October 2007 upon acquisition of the additional interest. The cash consideration of approximately HK$55,992,000 was paid and 13,857,981 shares with market price of HK$0.59 were issued on the completion date. The acquisition in Keycharm gave rise to a goodwill of approximately HK$2,273,000, which represents the difference between the consideration and the carrying amount of the net assets attributed to the additional interest in the subsidiary being acquired from the minority shareholders.

On 9 November 2007, the Group entered into a shareholding transfer agreement with a minority shareholder of Taicang to acquire 14.29% equity interest in Taicang at an cash consideration of RMB20,000,000. Prior to the acquisition, the Group had 85.71% interest in Taicang and Taicang then became a wholly-owned subsidiary of the Group with effect from 26 December 2007 upon acquisition of the additional interest. The cash consideration of approximately HK$21,379,000 was paid at completion date. The acquisition in Taicang gave rise to a goodwill of approximately HK$5,313,000, which represents the difference between the consideration and the carrying amount of the net assets attributed to the additional interest in the subsidiary being acquired from the minority shareholder.

30. DISPOSAL OF SUBSIDIARIES

On 20 March 2007, the Group disposed of a subsidiary, China Faith Limited, which was engaged in property investment, for a consideration of approximately HK$440 million. Details of disposal are set out in the Company's circular dated 31 January 2007.

On 8 June 2007, the Group also disposed of Bornwise Technology Limited and its subsidiaries, which were dormant companies, for a consideration of HK$1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

30. DISPOSAL OF SUBSIDIARIES (Continued)

The aggregate net assets of subsidiaries at the date of disposal were as follows:

	2007 HK$'000
Net assets disposal of:	
Investment properties	440,000
Trade and other receivables	426
Prepayments and deposits	857
Other payables	(5,361)
Rental deposits	(3,931)
Taxation	(14,687)
	417,304
Directly attributable costs	18,109
Net gain arising on disposals	4,588
Total consideration	440,001
Cash consideration	440,001
Directly attributable costs	(18,109)
Net cash consideration	421,892
Net cash inflow arising on disposals:	
Net cash consideration	421,892
Consideration receivable	(5,000)
	416,892
The net gain arising on disposal comprises:	
Loss on disposal of discontinued operation (note 10)	(10,210)
Reversal of income tax payable arising from disposal of dormant subsidiaries (note 9)	14,687
Gain on disposal of dormant subsidiaries (note 7)	111
	4,588

The impact of China Faith Limited on the Group's results and cash flows in the current and prior years is disclosed in note 10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

31. 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's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank balance and cash (note 22), bank loans (note 24) and equity attributable to equity holders of the Company, comprising issued share capital, share premium, translation reserve and deficit.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Company and the Group will balance its overall capital structure through the payment of dividends, new share issues as well as raise of new debt or the repayment of existing debt.

32. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

	2007 **HK$'000**	2006 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**233,218**	120,573
Available-for-sale financial assets	**–**	3,000
Financial liabilities		
Amortised cost	**13,276**	258,146

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, other payables, amount(s) due from/to minority shareholder(s) of subsidiaries, bank balances and cash, and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. FINANCIAL INSTRUMENTS (Continued)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk

(i) *Currency risk*

There are no significant amounts of the Group's foreign currency denominated monetary assets and monetary liabilities other than functional currency of the relevant group entity. Management of the Group are of the opinion that the Group's exposure to foreign currency risk is minimal. Accordingly, no foreign currency risk sensitivity analysis is presented.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 36(b) for details of the borrowing).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 22 and 24 for details of the bank balances and the borrowing respectively). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank balances and bank loans at the balance sheet date. The analysis is prepared assuming the amount of assets and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and 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 loss for the year ended 31 December 2007 would decrease/increase by approximately HK$1,021,000 and (2006: profit for the year decrease/increase by HK$621,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances and bank loans.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. FINANCIAL INSTRUMENTS (Continued)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, 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 and other receivables 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 Group's concentration of credit risk by geographical locations is mainly in Hong Kong and the PRC. The Group's significant concentration of credit risk is mainly on the bank balances which are deposited in several banks. The Group consider the credit risk of the bank balances is minimal as they are deposited with banks with high credit ratings.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank loans. The Group relies on bank loans and amounts due to minority interest of subsidiaries as a significant source of liquidity. Details of which are set out in notes 24 and 36(b), respectively.

The following table details the Group'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 can be required to pay. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. FINANCIAL INSTRUMENTS (Continued)

(B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (continued)

Liquidity table

	Weighted average effective interest rate	**Less than 1 month HK$'000**	**1-3 months HK$'000**	**3 months to 1 year HK$'000**	**Total undiscounted cash flows HK$'000**	**Carrying amount at 31.12.2007 HK$'000**
2007						
Non-derivative financial liabilities						
Other payables	**–**	**4,134**	**–**	**–**	**4,134**	**4,134**
Bank loans						
— variable rate	**7.29%**	**–**	**–**	**2,266**	**2,266**	**2,139**
Amount due to minority shareholders of subsidiaries						
— fixed rate	**6%**	**7,037**	**–**	**–**	**7,037**	**7,003**
		11,171	**–**	**2,266**	**13,437**	**13,276**

	Weighted average effective interest rate	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2006 HK$'000
2006						
Non-derivative financial liabilities						
Other payables	–	11,200	–	–	11,200	11,200
Rental deposits	–	–	3,878	–	3,878	3,878
Bank loans						
— variable rates	6.65%	–	183,304	1,670	184,974	181,471
Amount due to minority shareholders of subsidiaries						
— fixed rate	6%	5,064	–	–	5,064	5,039
— non-interest bearing	–	60,436	–	–	60,436	60,436
		76,700	187,182	1,670	265,552	262,204

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. FINANCIAL INSTRUMENTS (Continued)

(C) 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.

33. OPERATING LEASES

THE GROUP AS LESSOR

Property rental income earned during the year was HK$2,654,000 (2006: HK$10,278,000). All of the Group's properties held for rental purposes have been disposed in 2007.

As at 31 December 2006, investment properties were leased out for periods ranging from 1 to 3 years and some of the leases have renewal options given to the lessees. The future minimum lease payments receivable by the Group under non-cancellable operating leases were as follows:

	2006 HK$'000
Within one year	10,428
In second to fifth year inclusive	4,591
Total	15,019

THE GROUP AS LESSEE

	2007 **HK$'000**	2006 HK$'000
Minimum lease payments under operating leases in respect of office properties and motor vehicles	**865**	403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. OPERATING LEASES (Continued)

THE GROUP AS LESSEE (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	**407**	155
In second to fifth year inclusive	**59**	24
	466	179

Operating lease payments represent rentals payable by the Group for certain of its office properties and motor vehicles. Leases are negotiated for an average term of two years.

34. CAPITAL COMMITMENTS

	2007 **HK$'000**	2006 HK$'000
Commitments in respect of the acquisition of property, plant and equipment contracted for but not provided	**24,790**	8,553

35. RETIREMENT BENEFITS SCHEMES

The Group is required to participate in a defined contribution scheme, the MPF Scheme, in respect of its employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Both the Group and its employees contribute 5% of the relevant payroll costs to the MPF Scheme. The maximum contribution for each employee is limited to HK$12,000 per annum.

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

Contributions to the retirement benefit schemes for the year amounted to HK$167,000 (2006: HK$76,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2007

36. RELATED PARTY TRANSACTIONS AND BALANCES

(a) The amount due from a minority shareholder of a subsidiary is unsecured, non-interest bearing. The balance at year ended 31 December 2006 has been fully repaid in 2007.

(b) The amount due to minority shareholders of subsidiaries includes a balance of HK$7,003,000 (2006: HK$5,039,000) which is unsecured, interest-bearing at 6% per annum and repayable on demand. The amount of interest paid during the year is approximately HK$302,000 (2006: HK$286,000).

(c) At the balance sheet date, a minority shareholder of a subsidiary provided a guarantee, at no charge to the Group, to a bank for a bank loan of HK$2,139,000 (2006: HK$1,600,000) granted to a subsidiary.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is HK$9,269,000 (2006: HK$3,736,000) disclosed in notes 12 and 13.

FINANCIAL SUMMARY

	Year ended 31.12.2007 HK$'000	Year ended 31.12.2006 HK$'000	Year ended 31.12.2005 HK$'000	Year ended 31.12.2004 HK$'000	Year ended 31.12.2003 HK$'000
RESULTS					
Revenue	**7,872**	13,576	38,679	15,207	25,287
(Loss) profit for the year	**(34,572)**	96,834	43,157	12,061	(107,791)
Attributable to:					
Equity holders of the Company	**(32,200)**	98,422	43,341	12,709	(107,791)
Minority interests	**(2,372)**	(1,588)	(184)	(648)	—
	(34,572)	96,834	43,157	12,061	(107,791)

	31.12.2007 HK$'000	31.12.2006 HK$'000	31.12.2005 HK$'000	31.12.2004 HK$'000	31.12.2003 HK$'000
ASSETS AND LIABILITIES					
Total assets	**294,032**	615,510	368,809	303,558	271,938
Total liabilities	**(14,442)**	(299,407)	(168,485)	(169,865)	(170,290)
Minority interests	**–**	(17,115)	—	(184)	—
Equity attributable to equity holders of the Company	**279,590**	298,988	200,324	133,509	101,648