第一上海

FIRST SHANGHAI GROUP

First Shanghai Investments Limited

Annual Report 2007

(Stock Code : 227)

第一上海

Corporate Information

BOARD OF DIRECTORS

Chairman

Mr. Lao Yuan-Yi

Executive Directors

Mr. Xin Shulin, Steve
Mr. Yeung Wai Kin

Non-executive Director

Mr. Kwok Lam Kwong, Larry, J.P.

Independent Non-executive Directors

Prof. Woo Chia-Wei
Mr. Liu Ji
Mr. Yu Qi-Hao
Mr. Zhou Xiaohe

COMPANY SECRETARY

Mr. Yeung Wai Kin

REGISTERED OFFICE

Room 1903, Wing On House
71 Des Voeux Road Central
Hong Kong

Telephone: (852) 2522 2101
Fax: (852) 2810 6789
E-mail address: enquiry@firstshanghai.com.hk
Website: www.firstshanghai.com.hk

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

SOLICITORS

Richards Butler
T. H. Koo & Associates
Jennifer Cheung & Co

PRINCIPAL BANKERS

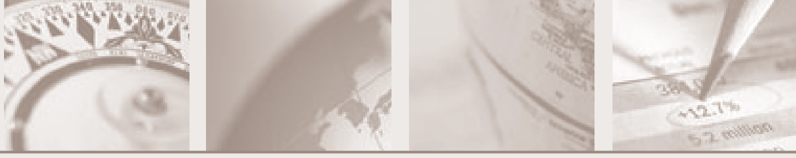
CITIC Ka Wah Bank Limited
Standard Chartered Bank

REGISTRARS & TRANSFER OFFICE

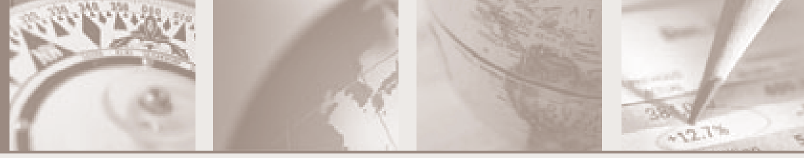
Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

Stock Code on The Stock Exchange of
Hong Kong Limited: 227



CONTENT



CHAIRMAN'S STATEMENT

I am pleased to present the Group's annual report and audited consolidated financial statements for the year ended 31st December 2007. The Group's consolidated revenue and net profit attributable to shareholders of the Company for the year ended 31st December 2007 amounted to approximately HK$765 million and approximately HK$382 million respectively.

BUSINESS OVERVIEW

2007 was a buoyant year for the economies and the financial market. Strong economic atmosphere and improved investment sentiment had provided us with a favourable business environment. Operating from its strength, the Group made breakthrough achievements with a net profit attributable to shareholders of approximately HK$382 million for the year ended 31st December 2007, representing a surge of over 62% from 2006. Apart from the robust growth from the Financial Services Sector, another highlight of the year was undoubtedly the disposal of the Group's hotel in Kunshan, which has realised a net profit of approximately HK$147 million. Total Group's revenue, as a result of the scale down of container transportation and freight forwarding business in Shanghai, decreased by 42% to approximately HK$765 million for the year ended 31st December 2007. Excluding the container transportation and freight forwarding business, total revenue reached HK$725 million in 2007, representing a corresponding increase of 69% over HK$428 million in 2006, as a result of strong performance of the Financial Services Sector.

In addition to the encouraging results in 2007, the fair value gain on the Group's investment in the holding company of a Hong Kong listed company, Shenyin Wanguo (H.K.) Limited, has contributed a significant increase to the Group's total net assets. The Group's total net assets has risen from approximately HK$1,696 million at 31st December 2006 to approximately HK$2,839 million at 31st December 2007, representing a 67% increase. As the Group is holding this investment for long-term strategic purpose, the impact on fair value change will not be realised in the income statement until disposal.

The Group adhered to its strategic plan and devoted its efforts and resources to accelerating its three major business sectors: Financial Services, Property and Hotels, and Direct Investments.

Financial Services

2007 witnessed the sustained rapid growth of the economies. Economic development in Chinese Mainland continued rapidly with GDP growth of approximately 11% while GDP growth in Hong Kong also demonstrated a brisk raise of approximately 6.3%. Dominant by the China concept, the Hong Kong stock market benefited from the good expectation of investors for the future prospect of China economy. Further spurred by the release of the news on deregulation of China QDII policy and the so-called "through train" pilot programme for Direct Foreign Portfolio Investments by Domestic Individuals announced in August 2007, the Hang Seng Index soared to an all-time closing high of 31,638 on 30th October 2007. Worries about the US sub-prime mortgage problem and the subsequent halt of the "through train" proposal had led to correction of the stock market and the Hang Seng Index closed at 27,813 at the year end. The total market capitalisation at the end of 2007 and the average daily market turnover in 2007 has surpassed approximately HK$20.7 trillion and HK$88.1 billion respectively, representing an annual growth of 55% and 161% respectively.

In 2007, we experienced an unprecedented robust financial market, in which both the securities investments and securities brokerage businesses enjoyed a huge surge and are continuously being our major profit contributors, brought by the dramatic growth on the fund size for assets management, the number of brokerage clients as well as the average amount of margin loan. The Group achieved an operating revenue of HK$628 million for the year ended 31st December 2007 from the Financial Services Sector, mainly from net gain of securities investments and securities and futures commission income, of an increase of 129% from last year. The overall operating result was HK$340 million for the year ended 31st December 2007, boosted by 157% as compared to HK$132 million in 2006. We have a strong market niche to attract new clients and sustain the patronage of our existing clients on the back of our quality services including support from our securities research team which is specialised in China-related enterprises listed in Hong Kong. Our online securities trading platform emerged as an effective tool for promoting our business overseas.

Our corporate finance division continued to be an active player in the financial advisory and the IPO market. During the year, we have completed over 40 corporate advisory assignments and acted as compliance advisers to four listed companies. Tapping the strong market demand on quality China stocks, we successfully sponsored the initial public offerings of two Chinese enterprises: NetDragon Websoft Inc., a leading Chinese online game developer and operator, raising approximately HK$1.4 billion, and China Automation Group Limited, the largest safety and critical control system provider in Chinese Mainland, raising approximately HK$352 million. Both IPOs were well received by the market and achieved good share performance. In line with our strategy to become a premier financial services solution provider, we will continue to actively pursue opportunities in both the financial advisory and the IPO market.

Property and Hotels

Fuelled by China's prosperous growth in economy, demand for real estate in China has seen a steady increase over the years. Total revenue from real property sales and aggregate gross floor sold in Chinese Mainland has surged over the past few years up to approximately RMB2,082 billion and 618 million square meters respectively in 2006. Our Property and Hotels Division is capitalising on the robust growth prospects offered by the vibrant urban markets of China. Our strategy is to develop properties in fast growing cities such as Kunshan, Wuxi and Zhongshan.

Specialising in developing and operating property projects ranging from commercial parks, hotels, service apartments and recreation resorts, the Group currently has accumulated land for development up to a total gross floor area of approximately 390,000 square meters, detailed as below:

Location	**Product nature**	**Total gross floor area**	**Expected completion date**	**Percentage of interest attributable to the Group**
		(meter square)	*(Year)*	
Kunshan, Shanghai	Residential	53,000	2009	70%
Kunshan, Shanghai	Office and apartment			
– Phase I		45,000	2010	100%
– Phase II		40,000	2011	100%
Wuxi, Jiangsu	Hotel, commercial and apartment	90,000	2011	100%
Wuxi, Jiangsu	Office and industrial	92,000	2012	100%
Zhongshan, Guangdong	Residential and recreation resorts	70,000	2012	80%
Total		**390,000**		

Besides the successful disposals of commercial properties in Zhangjiang, Shanghai in previous years, the Group has completed the disposal of its hotel in Kunshan to an international investment group, Kingdom Hotel Investments, in April 2007, recognising a net gain on disposal of approximately HK$147 million. Total operating results from the Property and Hotels Sector was approximately HK$153 million for the year ended 31st December 2007, representing a six-fold rise from 2006. Capital expenditures incurred were approximately HK$287 million and HK$45 million in 2007 and 2006 respectively.

Development of the second phase of commercial park in Zhangjiang by our jointly controlled entity, Shanghai Zhangjiang Information Technology Company Limited, has been completed in early 2007 and the properties are currently held for investment purpose. During the year, the Group has also engaged new development projects for a commercial complex and a five-star hotel in Kunshan and Wuxi respectively.

Direct Investments

The Group currently invests in certain direct investment projects, the major contributors include container transportation and freight forwarding business, and direct investments through its listed associate, China Assets (Holdings) Limited ("China Assets"). In view of the keen market competition, substantial working capital requirement and thin profit margin of container transportation and freight forwarding business, the Group has carried out certain restructure programs with an objective to scale down this business which resulted in a sharp reduction of its revenue from HK$891 million to HK$40 million. The slight decrease in operating loss of its segment results for the year of 2007 when compared with 2006 has proven the success of this plan.

In 2007, China Assets has realised investment gain from a property investment fund of which is largely set off by the impairment losses on a loan receivable and the investments in a civil aviation training company, leading the investment a breakeven result to the Group. With the increase in fair value of China Asset's long term investment, Shangdong Lukang Pharmaceutical Co., Ltd., the Group has captured significant increase in capital reserve for 2007.

The Company announced in November 2007 proposing to acquire through a 50% owned joint venture, 75% equity interest in Shenyang Heat Supply Group ("SHSG") at a consideration of approximately RMB325 million. SHSG is the major heat supply group in Shenyang and is the controlling shareholder of a Shenyang listed company, Shenyang Huitian Thermal Power Company Limited which is engaged in the provision of piped heat supplying in Shenyang. The investment is a valuable opportunity for the Group to involve in the public utility business in China and to benefit from the fast economic growth in Shenyang.

PROSPECTS

In 2008, the global economy is encountering significant challenges. The sub-prime crisis evolving since mid-2007, has brought uncertainty with a credit crunch and intensify stock market volatility. The Chinese Government is expected to continue its shift of monetary policy from prudent to tight. The Management believes that it will further stimulate market volatility, tighten funding and increase cost of funds. However, with the strong growing momentum in China and improved household financial position and consumption spending, the Management believes that the global economy will maintain a steady growth and the long term fundamentals will remain positive. Looking forward, the Group will continue to grow to surpass its earlier successes in this market situation.

Since both the Central Government and Hong Kong government have shown strong confidence and active support to further strengthen Hong Kong as one of the world-class financial centre, the Management believes the Hong Kong stock market will continue its growth with this tremendous opportunity. The Group will continue its expansion of the Financial Services Sector to capture this strong market demand. We will make full use of our professional brokerage team and business network in Chinese Mainland to further strengthen the customer base and market share.

Despite the challenges from the implementation of the National Public Housing policy and the macro-control measures, with the general urbanisation and modernisation in China, the Management believes the strong demand for properties is promising. The Group will continue to participate in the China property market and remains confident that the property and hotels investment business will become the Group's profit rocket in medium term. With our strong operational team, we will seek to expand gradually through the implementation of effective resources allocation and prudent financial management.

Meanwhile, with a strong financial position, the Group will also continue to expand its prime land bank through various channels and to explore new Direct Investments projects that fit with the Group's business strategy so as to optimise its returns to the Company and its shareholders.

DIVIDEND

An interim dividend of HK$0.02 (2006: HK$0.02) per ordinary share, totalling HK$27,321,000 (2006: HK$23,877,000), was paid to shareholders of the Company on 29th October 2007.

The Board of Directors recommends the payment of a final dividend of HK$0.01 (2006: HK$0.005) per ordinary share, totalling HK$13,915,000 (2006: HK$6,130,000), which together with the interim dividend payment amounting to a total of HK$41,236,000 (2006: HK$30,007,000).

APPRECIATION

I would like to take this opportunity to express thanks on behalf of the Board to all our customers for their invaluable support and to our fellow Directors and our employees for their dedication and commitment.

LAO YUAN-YI
Chairman

Hong Kong, 18th April 2008

REPORT OF THE DIRECTORS

The Board of Directors submit their report together with the audited consolidated financial statements for the year ended 31st December 2007.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in Notes 21, 22 and 23 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the consolidated financial statements.

RESULTS

The results for the year are set out in the consolidated income statement on page 22.

DIVIDEND

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RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 36 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$1,904,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 35 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2007, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK$260,548,000 (2006: HK$281,937,000).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2007.

SHARE OPTIONS

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the "Scheme") to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

The maximum number of shares subject to the Scheme and any other schemes of the Company (including without limitation to the 1994 Share Option Scheme) does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not exceed 122,595,064 shares, being 10 percent of shares in issue as at 25th May 2007, being the date of approval of the renewal of the general mandate limit of the Scheme. The total number of options available for issue under the Scheme as at 31st December 2007 was 122,595,064 shares representing approximately 10% of ordinary shares in issue of the Company as of that date.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of options is HK$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the Directors (which shall be less than 10 years from the date of the grant of the relevant option and commences not less than six months after the date of grant) at the price to be determined by the Board of Directors but not less than the highest of the nominal value of the shares, the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.

Details of share options remain outstanding as at 31st December 2007 are as follows:–

	Options held at 1st January 2007	Options granted during Year *(Note 1)*	Options exercised during Year *(Note 2)*	Options lapsed during year	Options held at 31st December 2007	Exercise price *HK$*	Date of grant	Exercise period	Vesting period
Directors:									
Mr. Lao Yuan-Yi	10,000,000	–	(10,000,000)	–	–	0.816	01/11/1997	01/05/1998-12/11/2007	01/11/1997-30/04/1998
	22,842,000	–	(22,842,000)	–	–	0.564	30/11/2005	30/05/2006-11/12/2015	30/11/2005-29/05/2006
	–	11,944,000	–	–	11,944,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. Xin Shulin, Steve	2,500,000	–	(2,500,000)	–	–	0.816	01/11/1997	01/05/1998-12/11/2007	01/11/1997-30/04/1998
	4,464,000	–	(4,464,000)	–	–	0.283	08/07/1998	08/01/1999-15/07/2008	08/07/1998-07/01/1999
	11,810,000	–	(11,810,000)	–	–	0.564	30/11/2005	30/05/2006-11/12/2015	30/11/2005-29/05/2006
	–	8,032,000	–	–	8,032,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. Yeung Wai Kin	2,500,000	–	(2,500,000)	–	–	0.816	01/11/1997	01/05/1998-12/11/2007	01/11/1997-30/04/1998
	6,980,000	–	(6,980,000)	–	–	0.283	08/07/1998	08/01/1999-15/07/2008	08/07/1998-07/01/1999
	11,810,000	–	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015	30/11/2005-29/05/2006
	–	8,032,000	–	–	8,032,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. Hu Yi Ming	1,000,000	–	(1,000,000)	–	–	0.816	01/11/1997	01/05/1998-12/11/2007	01/11/1997-30/04/1998
	1,300,000	–	(1,300,000)	–	–	0.283	08/07/1998	08/01/1999-15/07/2008	08/07/1998-07/01/1999
Mr. Kwok Lam Kwong, Larry, J.P.	–	1,000,000	–	–	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Prof. Woo Chia-Wei	–	1,000,000	–	–	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. Liu Ji	–	500,000	–	–	500,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Mr. Yu Qi-Hao	–	1,000,000	–	–	1,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
Employees	950,000	–	(950,000)	–	–	0.816	01/11/1997	01/05/1998-12/11/2007	01/11/1997-30/04/1998
	1,004,000	–	(1,004,000)	–	–	0.283	08/07/1998	08/01/1999-15/07/2008	08/07/1998-07/01/1999
	11,810,000	–	(11,810,000)	–	–	0.564	30/11/2005	30/05/2006-11/12/2015	30/11/2005-29/05/2006
	16,600,000	–	–	(1,250,000)	15,350,000	0.680	03/03/2006	03/03/2008-02/03/2016	03/03/2006-02/03/2008
	–	5,300,000	(1,300,000)	–	4,000,000	1.950	23/05/2007	23/11/2007-22/05/2017	23/05/2007-22/11/2007
	105,570,000	36,808,000	(78,460,000)	(1,250,000)	62,668,000				

Notes:

(1) During the year, 36,808,000 share options were granted under the Scheme with an exercise price of HK$1.95 per share. The related weighted average closing price immediately before the date on which the share options were granted was HK$1.95 per share. The fair value of share options granted is estimated using the Black-Scholes valuation model based on the following assumptions:

	As at 31st December 2007
Date of grant	23rd May 2007
Fair value per share option	HK$1.09
Share closing price	HK$1.95
Exercise price	HK$1.95
Expected volatility *	59.33%
Annual risk-free interest rate **	4.28%
Life of options	9.5 years
Dividend yield ***	2.08%
Fair value of total share options granted during the year	HK$40,166,000

* *Expressed as annualised volatility for 1 year immediately preceding the grant date*

** *Based on yield of 10-year Exchange Fund Notes*

*** *Expressed as annualised dividend of the most recent financial year and the closing price on grant date*

The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of a share option varies with difference variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of a share option.

(2) During the year, 78,460,000 shares options were exercised under the Scheme with an exercise price ranging from HK$0.283 to HK$1.95 per share. The related weighted average closing price immediately before the dates on which the share options were exercised was HK$1.861 per share.

(3) No share options granted under the Scheme were cancelled during the year ended 31st December 2007.

(4) The accounting policy adopted for share options is consistent with that as described in the annual financial statements for the year ended 31st December 2007.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Mr. LAO Yuan-Yi
Mr. XIN Shulin, Steve
Mr. YEUNG Wai Kin
Mr. HU Yi Ming (resigned on 31st July 2007)
* Mr. KWOK Lam Kwong, Larry, J.P.
** Prof. WOO Chia-Wei
** Mr. LIU Ji
** Mr. YU Qi-Hao
** Mr. ZHOU Xiaohe (appointed on 7th October 2007)

* *Mr. Kwok Lam Kwong, Larry, J.P. is a non-executive director of the Company.*

** *Prof. Woo Chia-Wei, Mr. Liu Ji, Mr. Yu Qi-Hao and Mr. Zhou Xiaohe are independent non-executive directors and were appointed for a term of two years.*

Messrs YEUNG Wai Kin, YU Qi-Hao and ZHOU Xiaohe retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors of the Company and senior management of the Group are set out as follows (with age in brackets):–

Mr. Lao Yuan-Yi (62). Chairman & Managing Director. Joined the Company in 1993. Currently Chairman of China Assets (Holdings) Limited, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development, and worked at the PRC State Science & Technology Commission, Ministry of Communications of The Peoples Republic of China and the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

Mr. Xin Shulin, Steve (54). Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment and property development business. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992.

Mr. Yeung Wai Kin (46). Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr. Yeung joined the Company in 1993 and has over 20 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

Mr. Kwok Lam Kwong, Larry, J.P. (52). Appointed as Independent Non-executive Director in 1994 and has been re-designated to Non-executive Director of the Company with effect from 17th March 2005. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a CPA in Hong Kong, and Australia and a Chartered Accountant in England and Wales. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently the Chairman of the Traffic Accident Victims Assistant Advisory Committee, a member of the Hospital Governing Committee of Kwai Chung Hospital/Princess Margaret Hospital, the Insurance Claims Complaints Panel and the Telecommunications (Competition Provisions). Appeal Board in Hong Kong. He is also a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

Professor Woo Chia-Wei (70). Appointed as Independent Non-executive Director in 1993. Currently Senior Advisor to the Shui On Holdings Limited, and President Emeritus of the Hong Kong University of Science and Technology. Previously President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of several companies including Shanghai Industrial Holdings Limited and Lenovo Holdings Limited. He served on the Commission on Strategic Development of HKSAR, and the Chinese People's Political Consultative Conference in 2007.

Mr. Liu Ji (72). Appointed as Independent Non-executive Director in 2004. Mr. Liu is the Honorary President of China Europe International Business School in Shanghai. He holds the posts of Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social Sciences, and Executive President of China Europe International Business School since 1993. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing.

Mr. Yu Qi-Hao (61). Appointed as Independent Non-Executive Director in 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director of Shenyin Wanguo (H.K.) Limited from 1995 to 1997 and a non-executive director from 1997 to 1998. And during the period from 2001 to 2006, Mr. Yu was an advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai.

Mr. Zhou Xiaohe (55). Appointed as Independent Non-executive Director on 7th October 2007. Mr. Zhou has extensive experience in investment and financing industries. He was educated in China and graduated from the Beijing Industrial University major in Computer Automation. Mr. Zhou was a non-executive director of the Company from 18th May 1995 to 16th June 1998 and of China Assets (Holdings) Limited, from 27th March 1995 to 28th November 1997.

Mr. Mo Siu Lun, Henry (45). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 23 years of managerial and technical experience in the information technology, manufacturing and marketing communication sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his Postgraduate Diploma in Engineering Management from City University of Hong Kong, a Master's Degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom and a Master’s Degree in Electronic Business from City University of Hong Kong.

Mr. Li Kwok Hung, (46). Joined the Company in 1999 and is currently the Chairman of First Shanghai Financial Holding Limited. Mr. Li is responsible for the strategic business development and management for the financial services operation of the Group. He is also the Responsible Officer of First Shanghai Securities Limited and First Shanghai Futures Limited under the Securities and Futures Ordinance. Mr. Li possesses over 25 years experience in the securities industry with international and local securities companies. He has an extensive experience in marketing and strategic business development in Hong Kong and Chinese Mainland. Mr. Li graduated with a Diploma in Business Administration from Hong Kong Shue Yan University.

DIRECTORS’ INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group’s business to which the Company or 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' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31st December 2007, the interests of each director and chief executive in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company were as follows:–

(a) Interests in respect of the Company:

Directors		Number of shares and underlying shares held: Personal Interests	Corporate Interests	Total	% of issued share capital of the Company
Mr. Lao Yuan-Yi	Long position	104,573,636	72,952,000	177,525,636	12.76%
Mr. Xin Shulin, Steve	Long position	15,924,640	–	15,924,640	1.14%
Mr. Yeung Wai Kin	Long position	21,824,304	–	21,824,304	1.57%
Mr. Kwok Lam Kwong, Larry, J.P.	Long position	1,000,000	–	1,000,000	0.07%
Prof. Woo Chia-Wei	Long position	1,000,000	–	1,000,000	0.07%
Mr. Liu Ji	Long position	500,000	–	500,000	0.04%
Mr. Yu Qi-Hao	Long position	1,000,000	–	1,000,000	0.07%

(b) Interests in respect of an associated corporation:

Directors			Number of shares and underlying shares held: Personal Interests	Total	% of issued share capital of the associated corporation
Mr. Lao Yuan-Yi	China Assets	Long position	1,475,000	1,475,000	1.93%
Mr. Yeung Wai Kin	China Assets	Long position	1,350,000	1,350,000	1.76%

Saved as disclosed above, at no time during the year, the directors and chief executives had any interest in shares, underlying shares and debentures of the Company and its associated corporation required to be disclosed pursuant to the SFO.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2007, the Company had been notified of the following substantial shareholder's interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Ordinary shares of HK$0.2 each in the Company:

		Corporate Interests	Percentage
China Assets (Holdings) Limited ("China Assets")	Long position	247,674,500	17.80%

China Assets is a Hong Kong listed company, which is also an associated company of the Group. Apart from the above, so far as the Directors are aware, there are no parties which were, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital of the Company as at 31st December 2007.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are both less than 30% for 2007 and 2006.

CONNECTED TRANSACTION

On 11th May 2007, the Company entered into an agreement with Mr. Lao Yuan-Yi ("Mr. Lao", the chairman, executive director and substantial shareholder of the Company) and his daughter, Ms. Lao Yuan, Vivian ("Ms. Lao", collectively, the "Vendors"), for the acquisition of 10 shares of HK$1 each (representing the entire issued share capital) of, and the benefit of loans of approximately HK$20,627,610 advanced by the Vendors to, HK Sunshine Real Estate Limited ("HK Sunshine"), which were initially owned by Mr. Lao and Ms. Lao in the proportion of 10% and 90% respectively. The aggregate consideration is HK$53,960,000, of which HK$22,100,000 was paid in cash and the balance of HK$31,860,000 was satisfied by the issue of convertible bonds of the Company, convertible at a conversion price of HK$1.32 per ordinary share of the Company. The transaction has been completed on 27th June 2007. As at 31st December 2007, all issued convertible bonds of the Company has been fully converted into ordinary shares of the Company.

HK Sunshine is a company incorporated in Hong Kong with a wholly owned subsidiary, Wuxi Sunshine Real Estate Limited ("Wuxi Sunshine"), principally engaged in property investment. Before the acquisition date, HK Sunshine and Wuxi Sunshine have entered into agreements with Wuxi Municipal State Land Resources Bureau whereby Wuxi Sunshine is granted the use of a piece of land in Wuxi, Jiangsu Province. The purpose of the connected transaction is to enable the Company to expand its land bank in Chinese Mainland at a reasonable price. The Company has initial intention to develop the acquired land into commercial property, hotel and service apartments.

Saved as disclosed above, the Company did not have any connected transactions which need to be disclosed during the year ended 31st December 2007.

FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:–

	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**3,569,620**	2,092,105	1,924,210	1,609,247	1,730,671
Total liabilities	**730,653**	396,434	510,750	220,756	417,516
Total net assets	**2,838,967**	1,695,671	1,413,460	1,388,491	1,313,155
Turnover	**765,246**	1,319,289	1,148,462	498,190	153,408
Profit attributable to shareholders	**382,178**	236,573	76,320	80,955	93,787
Earnings per share					
– basic	**29.56 cents**	19.91 cents	6.49 cents	6.90 cents	7.99 cents
– fully diluted	**29.11 cents**	19.53 cents	6.40 cents	6.78 cents	7.88 cents

AUDIT COMMITTEE

The Company's Audit Committee was established on 27th December 1998. The Audit Committee comprises the non-executive Director, Mr. Kwok Lam Kwong, Larry, J.P. and the four independent non-executive Directors, Prof. Woo Chia-Wei, Mr. Liu Ji, Mr. Yu Qi-Hao and Mr. Zhou Xiaohe. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. Three meetings were held during the current financial year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LAO Yuan-Yi
Chairman

Hong Kong, 18th April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the year ended 31st December 2007, the Group recorded a net profit attributable to shareholders of approximately HK$382 million, representing an increase of 62% over 2006 which is approximately HK$237 million. Basic earnings per share attributable to the shareholders of the Company grew from HK$19.91 cents in 2006 to HK$29.56 cents in 2007. Revenue of the Group is approximately HK$765 million, represents a decrease of 42% from 2006.

MATERIAL ACQUISITION AND DISPOSAL OF GROUP COMPANIES

On 5th April 2007, the Company entered into an agreement for the sale of its 65% interest in Kunshan Traders Park Hotel Company Limited ("Kunshan Hotel") to an international investment group, Kingdom Hotel Investments, an independent third party, at a consideration of approximately RMB201.5 million. The transaction was completed on 30th April 2007, thereafter the Group has no interest in Kunshan Hotel and the net gain on disposal in 2007 was approximately HK$147 million.

On 27th June 2007, the Company acquired from its major shareholder and director, Mr. Lao Yuan-Yi and his daughter, Ms. Lao Yuan, Vivian, 100% of the share capital of and the benefit of loans of approximately HK$21 million advanced to HK Sunshine Real Estate Limited and its wholly owned subsidiary, Wuxi Sunshine Real Estate Limited (together, the "Sunshine Group") which owns a piece of land with gross floor area of 79,000 square meters in Wuxi, Jiangsu Province. The aggregate consideration is approximately HK$54 million, of which approximately HK$22 million was settled in cash and the balance of approximately HK$32 million was settled by the issue of convertible bonds of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

The Group relied principally on its internal resources to fund its operations and investment activities. Bank loans will be raised occasionally to meet the different demands of our various investment projects and our financial services business. As at 31st December 2007, the Group had raised bank loans of approximately HK$3 million (2006: HK$147 million) and held approximately HK$577 million (2006: HK$476 million) cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 0.1% (2006: 8.7%). Investment in "financial assets at fair value through income statement" as at 31st December 2007 amounted to approximately HK$425 million (2006: HK$158 million). The "financial liabilities at fair value through income statement" as at 31st December 2007 amounted to approximately HK$6 million (2006: Nil).

During the year, 95,000,000 (2006: Nil) new ordinary shares of HK$0.2 each were issued pursuant to a Placing Agreement and two Top-up Subscription Agreements dated 7th June 2007 at a placing price of HK$2.05 per ordinary share. Net proceeds of approximately HK$194,720,000 has been raised to finance the Group's general working capital. These shares rank pari passu with the existing shares of the Company.

On 27th June 2007, the Company issued two-year 1% convertible bonds with a face value of approximately HK$31,860,000 in relation to the acquisition of the Sunshine Group as stated above. In November 2007, 24,136,363 new ordinary shares of HK$0.2 each were issued on full conversion of such convertible bonds, at an exercise price of HK$1.32 per ordinary share. These shares rank pari passu with the existing shares of the Company.

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi. The Group expects that Renminbi will appreciate in a stable pattern in future. The Group has no significant exposure to other foreign exchange fluctuations.

PLEDGE OF GROUP ASSETS

The Group has pledged properties and leasehold land and land use rights with an aggregate net carrying value of approximately HK$59 million (2006: HK$76 million) and fixed deposits of approximately HK$33 million (2006: HK$32 million) against its bank loans and general banking facilities amounting to HK$18 million (2006: HK$161 million) utilised.

EMPLOYEES

As at 31st December 2007, the Group employed 515 staff, of which 416 are located in the Chinese Mainland. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined contribution provident fund schemes and employee share option scheme. Training courses are provided to staff where necessary. The staff costs of the Group for the year ended 31st December 2007 amounted to approximately HK$210 million (2006: HK$196 million).

CONTINGENT LIABILITIES

As at 31st December 2007, the Group had no material contingent liabilities.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code on Corporate Governance Practices (“CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the year ended 31st December 2007, except for the deviation from provision A.2.1 of the CG Code in respect of segregation of the roles of chairman and chief executive officer and the deviation from provision A.4.2 of the CG Code in respect of retirement by rotation of each director at least once every three years. Such deviations will be discussed in the relevant sections of this report in more details. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31st December 2007.

BOARD OF DIRECTORS

The principal focus of the Board is on the overall strategic development of the Group. The Board also monitors the financial performance and the internal controls of the Group’s business operations.

The Board of Directors of the Company comprises:

Executive Directors:	Mr. Lao Yuan-Yi, Chairman Mr. Xin Shulin, Steve Mr. Yeung Wai Kin
Non-executive Director:	Mr. Kwok Lam Kwong, Larry, J.P.
Independent Non-executive Directors:	Prof. Woo Chia-Wei Mr. Liu Ji Mr. Yu Qi-Hao Mr. Zhou Xiaohe

The Board comprises of three executive directors and five non-executive directors. Of the five non-executive directors, four of them are independent non-executive directors that represent more than one-third of the Board. In addition, two of the non-executive directors possess appropriate professional accounting qualifications and financial management expertise. There is no relationship between members of the Board.

The Company does not establish a nomination committee in consideration of the size of the Group. The Board is empowered under the Company’s Articles to appoint any person as a director either to fill a causal vacancy on or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group’s business.

The non-executive directors serve an important function of ensuring and monitoring the basis for an effective corporate governance framework. With a wide range of expertise and a balance of skills, the non-executive directors bring independent judgement on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive director an annual confirmation or confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

The Board meets regularly throughout the year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Notice of at least 14 days have been given to all directors for all regular board meetings and the directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular board meetings are sent out to all directors within reasonable time before the meeting.

Draft minutes of board meeting are circulated to directors for comment within a reasonable time prior to confirmation. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and all directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

During the year, five board meetings were held and the individual attendance of each director is set out below:

Name of director	**Number of meetings attended**	**Attendance rate**
Mr. Lao Yuan-Yi	5/5	100%
Mr. Xin Shulin, Steve	5/5	100%
Mr. Yeung Wai Kin	5/5	100%
Mr. Hu Yi Ming (resigned on 31st July 2007)	2/3	67%
Mr. Kwok Lam Kwong, Larry, J.P.	5/5	100%
Prof. Woo Chia-Wei	5/5	100%
Mr. Liu Ji	1/5	20%
Mr. Yu Qi-Hao	5/5	100%
Mr. Zhou Xiaohe (appointed on 7th October 2007)	1/1	100%

The provision A.4.2 of the CG Code provides that every director should be subject to retirement by rotation at least once every three years. However, according to the Articles of Association of the Company, at each annual general meeting one-third of the directors for the time being shall retire from office. The Articles of Association constitutes a deviation from the CG Code. The management will propose to amend the Articles of Association to comply with the code provision A.4.2 in the Annual General Meeting to be held on 23rd May 2008..

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and chief executive officer of the Company is Mr. Lao Yuan-Yi. This deviates from provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board believes that vesting the role of both positions in Mr. Lao provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

NON-EXECUTIVE DIRECTOR

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of two years. Such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Articles of Association of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Board of Directors was established on 30th June 2005. The majority of the Remuneration Committee members are independent non-executive directors and its current members include:

Executive Director:	Mr. Lao Yuan-Yi
Independent Non-executive Directors:	Prof. Woo Chia-Wei Mr. Yu Qi-Hao Mr. Zhou Xiaohe

The terms of reference of the Remuneration Committee were adopted when the Committee was established. The Remuneration Committee was set up to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long term incentive schemes.

During the year, three meetings were held to discuss the remuneration policies and approve the remuneration packages of the directors of the Company. The individual attendance of each director is set out below:

Name of Committee member	Number of meetings attended	Attendance rate
Mr. Lao Yuan-Yi	3/3	100%
Prof. Woo Chia-Wei	3/3	100%
Mr. Yu Qi-Hao	3/3	100%
Mr. Zhou Xiaohe (appointed on 7th October 2007)	1/1	100%

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998 and its current members include:

Independent Non-executive Directors:	Mr. Yu Qi-Hao, Committee Chairman
	Prof. Woo Chia-Wei
	Mr. Liu Ji
	Mr. Zhou Xiaohe
Non-executive Director:	Mr. Kwok Lam Kwong, Larry, J.P.

Each member of the Audit Committee has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process.

During the year ended 31st December 2007, the Audit Committee has reviewed the annual and interim consolidated financial statements, including the Group's accounting principles and practices adopted by the Group, which was of the opinion that such reports were prepared in accordance with the applicable accounting standard and requirements. The Audit Committee has also discussed with the Group's independent advisor and considers the system of internal control of the Group to be effective and that the Group has adopted the necessary control mechanisms to its financial, operational, statutory compliance and risk management functions.

During the year, three meetings were held and the individual attendance of each director is set out below:

Name of Committee member	**Number of meetings attended**	**Attendance rate**
Mr. Yu Qi-Hao	3/3	100%
Prof. Woo Chia-Wei	3/3	100%
Mr. Liu Ji	2/3	67%
Mr. Zhou Xiaohe (appointed on 7th October 2007)	1/1	100%
Mr. Kwok Lam Kwong, Larry, J.P.	3/3	100%

AUDITOR'S REMUNERATION

For the year ended 31st December 2007, PricewaterhouseCoopers, the Company's auditor, has charged approximately HK$2,041,000 for audit and related services and HK$127,000 for other non-audit services – taxation services.

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST SHANGHAI INVESTMENTS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of First Shanghai Investments Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 22 to 92, which comprise the consolidated and company balance sheets as at 31st December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18th April 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER 2007

	Note	2007 HK$'000	2006 HK$'000
Continuing operations:			
Revenue	5	**765,246**	1,319,289
Cost of sales		**(242,372)**	(1,004,840)
Gross profit		**522,874**	314,449
Other gains – net	6	**143,344**	38,454
Selling and distribution costs		**(11,374)**	(13,323)
Administrative expenses		**(272,857)**	(235,921)
Operating profit	7	**381,987**	103,659
Finance costs	8	**(27,537)**	(20,585)
Share of profits less losses of			
Associated companies	22	**5,579**	(2,404)
Jointly controlled entities	23	**62,360**	4,418
Profit before taxation		**422,389**	85,088
Taxation	9(a)	**(43,056)**	(16,618)
Profit for the year from continuing operations		**379,333**	68,470
Discontinued operations:			
Profit for the year from discontinued operations		**–**	161,317
Profit for the year		**379,333**	229,787
Attributable to:			
Shareholders of the Company	10	**382,178**	236,573
Minority interests		**(2,845)**	(6,786)
		379,333	229,787
Basic earnings per share for profit attributable to shareholders of the Company during the year			
Continuing operations		**HK$29.56 cents**	HK$6.33 cents
Discontinued operations		**–**	HK$13.58 cents
	11	**HK$29.56 cents**	HK$19.91 cents
Diluted earnings per share for profit attributable to shareholders of the Company during the year			
Continuing operations		**HK$29.11 cents**	HK$ 6.21 cents
Discontinued operations		**–**	HK$13.32 cents
	11	**HK$29.11 cents**	HK$19.53 cents
Dividends	12	**41,236**	30,007

The notes on pages 29 to 92 are an integral part of these consolidated financial statements.

BALANCE SHEETS

As at 31st December 2007

		Group		Company	
		2007	2006	**2007**	2006
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets					
Intangible assets	*16*	**3,393**	3,393	**–**	–
Property, plant and equipment	*17*	**63,567**	268,340	**419**	67
Investment properties	*18*	**43,766**	39,828	**–**	–
Leasehold land and land use rights	*19*	**309,498**	67,478	**–**	–
Properties under development	*20*	**15,843**	–	**–**	–
Investments in subsidiaries	*21*	**–**	–	**97,686**	91,488
Investments in associated companies	*22*	**412,881**	297,570	**–**	–
Investments in jointly controlled entities	*23*	**140,208**	72,336	**11,793**	11,793
Deferred tax assets	*37*	**2,531**	1,231	**–**	–
Available-for-sale financial assets	*24*	**393,934**	115,033	**390,617**	62,918
Loans and advances	*25*	**11,747**	28,266	**11,747**	11,305
		1,397,368	893,475	**512,262**	177,571
Current assets					
Inventories	*26*	**13,510**	18,892	**–**	–
Loans and advances	*25*	**584,070**	206,961	**–**	–
Trade receivables	*27*	**418,622**	157,563	**–**	–
Other receivables, prepayments and deposits	*28*	**153,536**	180,794	**3,675**	2,967
Amounts due from subsidiaries	*29(a)*	**–**	–	**1,325,753**	1,093,983
Amounts due from associated companies		**–**	–	**–**	252
Tax recoverable	*9(b)*	**167**	374	**–**	–
Financial assets at fair value through income statement	*30*	**425,366**	157,904	**–**	–
Cash and cash equivalents	*31*	**576,981**	476,142	**133,376**	116,258
		2,172,252	1,198,630	**1,462,804**	1,213,460
Current liabilities					
Trade and other payables	*32*	**668,126**	224,258	**33,710**	32,035
Amounts due to subsidiaries	*29(b)*	**–**	–	**106,236**	145,354
Tax payable	*9(b)*	**52,978**	24,242	**–**	–
Financial liabilities at fair value through income statement	*30*	**5,632**	–	**–**	–
Borrowings	*33*	**3,217**	2,989	**–**	–
		729,953	251,489	**139,946**	177,389
Net current assets		**1,442,299**	947,141	**1,322,858**	1,036,071

BALANCE SHEETS (Continued)

As at 31st December 2007

		Group		Company	
		2007	2006	**2007**	2006
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Total assets less current liabilities		**2,839,667**	1,840,616	**1,835,120**	1,213,642
Non-current liabilities					
Deferred tax liabilities	*37*	**700**	496	**–**	–
Borrowings	*33*	**–**	144,449	**–**	–
		700	144,945	**–**	–
Net assets		**2,838,967**	1,695,671	**1,835,120**	1,213,642
Equity					
Share capital	*35*	**278,293**	238,773	**278,293**	238,773
Reserves	*36*	**2,505,598**	1,383,640	**1,556,827**	974,869
Capital and reserves attributable to the Company's shareholders		**2,783,891**	1,622,413	**1,835,120**	1,213,642
Minority interests		**55,076**	73,258	**–**	–
Total equity		**2,838,967**	1,695,671	**1,835,120**	1,213,642

On behalf of the Board

Lao Yuan-Yi
Director

Yeung Wai Kin
Director

The notes on pages 29 to 92 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Net cash outflow from operating activities	38(a)	**(248,532)**	(167,021)
Hong Kong profits tax paid		**(3,589)**	(380)
Overseas taxation paid		**(12,088)**	(1,097)
Net cash used in operating activities		**(264,209)**	(168,498)
Cash flows from investing activities			
Interest received		**18,777**	15,598
Dividends received from jointly controlled entities and associated companies		**6,530**	7,770
Dividends received from listed investments		**–**	2,965
Purchase of property, plant and equipment		**(12,095)**	(51,275)
Proceeds from disposal of property, plant and equipment		**299**	16,884
Purchase of investment properties		**–**	(8,328)
Purchase of leasehold land and land use rights		**(66,029)**	(1,447)
Purchase of properties under development		**(12,720)**	–
Acquisition of subsidiaries		**(22,100)**	–
Net cash inflow in respect of the disposal of subsidiaries	38(b)	**195,950**	23,514
Increase in investment in an associated company		**(965)**	–
Proceeds from disposal of interest in an associated company		**300**	–
Purchase of available-for-sale financial assets		**(2,346)**	(17,788)
Proceeds from disposal of available-for-sale financial assets		**50,571**	–
Purchase of non-current assets classified as held for sale and discontinued operations		**–**	(30,999)
Proceeds from disposal of discontinued operations		**–**	629,068
Loans and advances made to a third party		**–**	(5,376)
Net cash generated from investing activities		**156,172**	580,586

CONSOLIDATED CASH FLOW STATEMENT (Continued)

For the year ended 31st December 2007

	2007 *HK$'000*	2006 *HK$'000*
Cash flows from financing activities		
Interest paid	**(27,979)**	(20,018)
Capital contribution to a subsidiary by its minority shareholder	**12,477**	–
Dividend paid	**(33,451)**	(41,635)
Issue of ordinary shares on placement	**194,720**	–
Issue of ordinary shares on exercise of share options	**46,419**	3,753
New short-term bank loans	**–**	6,475
New long-term bank loans	**–**	144,449
Repayment of short-term loans from third parties	**–**	(31,171)
Repayment of short-term bank loans	**–**	(50,668)
Repayment of short-term bank loans directly associated with discontinued operations	**–**	(11,989)
Repayment of long-term bank loans	**–**	(87,278)
Net cash generated from/(used in) financing activities	**192,186**	(88,082)
Net increase in cash and cash equivalents	**84,149**	324,006
Cash and cash equivalents at 1st January	**476,142**	149,990
Exchange gain on cash and cash equivalents	**16,690**	2,146
Cash and cash equivalents at 31st December	**576,981**	476,142
Analysis of balances of cash and cash equivalents		
Cash at bank and in hand	**211,221**	197,269
Short-term bank deposits		
– secured	**15,042**	15,000
– unsecured	**350,718**	263,873
Cash and cash equivalents as above	**576,981**	476,142

The notes on pages 29 to 92 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2007

	Attributable to shareholders of the Company										Minority interests	Total
	Share capital	Share premium	Employee share-based compensation reserve	Capital reserve	Capital redemption reserve	Assets revaluation reserve	Investment revaluation reserve	Convertible bonds equity reserve	Exchange fluctuation reserve	Retained earnings		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2007	**238,773**	**597,406**	**16,498**	**164,364**	**14,006**	**12,262**	**41,272**	**–**	**22,020**	**515,812**	**73,258**	**1,695,671**
Recognition of equity components of convertible bonds	–	–	–	–	–		–	2,382	–	–	–	2,382
Issue of new shares on placement	19,000	175,720	–	–	–	–	–	–	–	–	–	194,720
Issue of new shares on conversion of convertible bonds	4,828	27,030	–	–	–	–	–	(2,382)	–	–	–	29,476
Issue of new shares on exercise of share options	15,692	43,755	(13,028)	–	–	–	–	–	–	–	–	46,419
Employee share option benefits	–	–	42,171	–	–	–	–	–	–	–	–	42,171
Disposal of subsidiaries	–	–	–	205	–	–	–	–	(3,047)	–	(29,952)	(32,794)
Capital contribution to a subsidiary by its minority shareholder	–	–	–	–	–	–	–	–	–	–	12,477	12,477
Share of post acquisition reserves of associated companies	–	–	–	116,101	–	–	–	–	–	–	–	116,101
Fair value gain of available-for-sale financial assets	–	–	–	–	–	–	327,699	–	–	–	–	327,699
Reserve realised upon disposal of available-for-sale financial assets	–	–	–	–	–	–	21,646	–	–	–	–	21,646
Currency translation differences	–	–	–	–	–	–	–	–	34,979	–	2,138	37,117
Transfer to retained earnings	–	–	–	(136)	–	–	–	–	–	136	–	–
Profit for the year	–	–	–	–	–	–	–	–	–	382,178	(2,845)	379,333
2006 final dividend paid	–	–	–	–	–	–	–	–	–	(6,130)	–	(6,130)
2007 interim dividend paid	–	–	–	–	–	–	–	–	–	(27,321)	–	(27,321)
At 31st December 2007	**278,293**	**843,911**	**45,641**	**280,534**	**14,006**	**12,262**	**390,617**	**–**	**53,952**	**864,675**	**55,076**	**2,838,967**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the year ended 31st December 2007

	Attributable to shareholders of the Company									Minority interests	Total
	Share capital	Share premium	Employee share-based compensation reserve	Capital reserve	Capital redemption reserve	Assets revaluation reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2006	236,406	596,020	2,508	95,779	14,006	12,262	5,119	17,037	362,036	72,287	1,413,460
Issue of new shares on exercise of share options	2,367	1,386	–	–	–	–	–	–	–	–	3,753
Employee share option benefits	–	–	13,990	–	–	–	–	–	–	–	13,990
Exchange reserve realised upon disposal of a subsidiary	–	–	–	–	–	–	–	1,022	–	–	1,022
Capital reserve realised upon disposal of jointly controlled entities	–	–	–	35,279	–	–	–	(7,699)	(35,308)	–	(7,728)
Share of post acquisition reserves of associated companies	–	–	–	28,212	–	–	–	–	–	–	28,212
Fair value gain of available-for-sale financial assets	–	–	–	–	–	–	36,153	–	–	–	36,153
Currency translation differences	–	–	–	(760)	–	–	–	11,660	–	7,781	18,681
Transfer from retained earnings	–	–	–	5,854	–	–	–	–	(5,854)	–	–
Profit for the year	–	–	–	–	–	–	–	–	236,573	(6,786)	229,787
2005 dividend paid to a minority shareholder by a subsidiary	–	–	–	–	–	–	–	–	–	(24)	(24)
2005 final dividend paid	–	–	–	–	–	–	–	–	(17,758)	–	(17,758)
2006 interim dividend paid	–	–	–	–	–	–	–	–	(23,877)	–	(23,877)
At 31st December 2006	238,773	597,406	16,498	164,364	14,006	12,262	41,272	22,020	515,812	73,258	1,695,671

The notes on pages 29 to 92 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

First Shanghai Investments Limited (the "Company") and its subsidiaries, associated companies and jointly controlled entities (together, the "Group") are principally engaged in securities trading and investment, corporate finance and stockbroking, property development and investment, hotel operation, container transportation and freight forwarding services, and investment holding and management.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of First Shanghai Investments Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, buildings, available-for-sale financial assets, financial assets and financial liabilities at fair value through income statement.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) *Standards and interpretations to existing Standards effective in 2007*

- HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to HKAS 1, "Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation;

- HK(IFRIC) – Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This Standard does not have any impact on the Group's financial statements;

- HK(IFRIC) – Int 9, "Re-assessment of embedded derivatives", requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. This Standard does not have any impact on the Group's financial statements; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(a) Standards and interpretations to existing Standards effective in 2007 (continued)

- HK(IFRIC) – Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This Standard does not have any impact on the Group's financial statements.

(b) Interpretation to existing Standard effective in 2007 but not relevant to the Group's operation

The following interpretation to existing Standard is mandatory for accounting periods beginning on or after 1st January 2007 but it is not relevant to the Group's operations:

- HK(IFRIC) – Int 7, "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies".

(c) Standards, amendments and interpretations to existing Standards that are not yet effective and have not been early adopted by the Group

The following Standards, amendments and interpretations to existing Standards have been published and are mandatory for the Group's accounting periods beginning on or after 1st January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1st January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statements of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1st January 2009;

- HKAS 23 (Revised), "Borrowing costs" (effective from 1st January 2009). HKAS 23 (Revised) requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1st January 2009;

- HKAS 27 (Revised), "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1st July 2009). HKAS 27 (Revised) requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1st January 2010;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations to existing Standards that are not yet effective and have not been early adopted by the Group (continued)

- HKFRS 2 Amendment, "Share-based Payment Vesting Conditions and Cancellations" (effective from 1st January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1st January 2009, but it is not expected to have any impact on the Group's financial statements;

- HKFRS 3 (Revised), "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1st July 2009). HKFRS 3 (Revised) may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRS. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controllng interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1st January 2010;

- HKFRS 8, "Operating segments" (effective from 1st January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1st January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to Groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance; and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

(c) *Standards, amendments and interpretations to existing Standards that are not yet effective and have not been early adopted by the Group (continued)*

- HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions", (effective from 1st March 2007). HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. Management does not anticipate that it will result in significant impact on the Group's financial statements.

(d) *Interpretations to existing Standards that are not yet effective and not relevant to the Group's operations*

The following interpretations to existing Standards have been published and are mandatory for the Group's accounting periods beginning on or after 1st January 2008 or later periods but are not relevant to the Group's operations:

- HK(IFRIC) – Int 12, "Service concession arrangements" (effective from 1st January 2008). HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide public sector services;

- HK(IFRIC) – Int 13, "Customer loyalty programmes" (effective from 1st July 2008). HK(IRFIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes; and

- HK(IFRIC) – Int 14, "HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1st January 2008). HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC) – Int 14 is not relevant to the Group's operations because none of the Group's companies operate defined benefit retirement scheme.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(a) *Subsidiaries*

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.5). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

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

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of new assets of the subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associated companies include goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.5).

The Group's share of its associated companies, post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associated companies are recognised in the consolidated income statement.

(d) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2.9). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through income statement are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(c) *Group companies (continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

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

2.5 Intangible assets

(a) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries/associated companies/jointly controlled entities at the date of acquisition. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisitions of associated companies and jointly controlled entities is included in "investments in associated companies" and "investments in jointly controlled entities" respectively. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) *Trading rights*

The trading rights at the Hong Kong Futures Exchange Limited ("trading rights") are recognised as intangible assets in the balance sheet. They have indefinite useful lives and are tested annually for impairment and stated at cost less impairment.

(c) *Patent*

Expenditure on acquired patent is capitalised and amortised using the straight-line method over its estimated useful life of 5 years. Patent is not revalued as there is no active market for this asset.

2.6 Property, plant and equipment

(a) *Buildings in Hong Kong*

In previous years the Group carried its buildings in Hong Kong at cost or at revalued amounts and revaluation surpluses or deficits are dealt with as movements in the assets revaluation reserve. Effective from 30th September 1995, no further revaluations have been carried out. The Group places reliance on paragraph 80A of HKAS 16, "Property, plant and equipment", issued by the HKICPA which provides exemption from the need to make regular revaluations for such assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.6 Property, plant and equipment *(continued)*

(b) *Construction-in-progress*

Construction-in-progress comprises hotel and properties under construction, and other property, plant and equipment under installation, and is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any impairment losses. No depreciation is provided on construction-in-progress until such time as the relevant assets are completed and put into use.

(c) *Other property, plant and equipment*

Other property, plant and equipment comprises mainly buildings outside Hong Kong, furniture, fixtures and equipment, plant and machinery, motor vehicles and trucks are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carring amount of the replaced part is derecognised. All other repairs and maintenance costs are charged in the income statements during the financial year in which they are incurred.

(d) *Depreciation and amortisation*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	Over the shorter of the term of the leases or 20 to 40 years
Furniture, fixtures and equipment	3 to 7 years
Plant and machinery	10 years
Motor vehicles	5 years
Trucks	8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

(e) *Gains and losses on disposals*

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged in the consolidated income statement during the financial year in which they are incurred.

Changes in fair values are recognised in the income statement as part of "other gains – net".

2.8 Properties under development

Properties under development are included as non-current assets and are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to estimated sales proceeds of the properties sold in the ordinary course of business less costs to costs to complete development and estimated selling expenses.

Properties under development comprise prepayment for leasehold land and land use rights, construction costs, borrowing costs capitalised and professional fee incurred during the development period. In the course of property development, the amortisation charge of leasehold land and land use rights is included as part of the costs of the property under development.

On completion, the properties, together with related leasehold land and land use rights, are transferred to completed properties held for sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets

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

2.10 Financial assets

The Group classifies its financial assets into the following categories: at fair value through income statement, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through income statement*

Financial assets at fair value through income statement are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "loans and advances" and "trade and other receivables" (Note 2.13) in the balance sheet.

(c) *Available-for-sale financial assets*

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Financial assets *(continued)*

Gains and losses arising from changes in the fair value of the "financial assets at fair value through income statement" category, including net gains/(losses) on disposal and remeasurement at fair value, are recognised in the income statement within "revenue". Interest and dividend income are presented in the income statement within "other gains – net" in the year in which they arise.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "gains and losses from available-for-sale financial assets". Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends income on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.13.

2.11 Derivative financial instruments

Investments in financial derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair values. Changes in fair values of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis method. The cost of finished goods and work in progress comprises raw materials, direct labour, shipping costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within "selling and distribution costs". When a trade receivable is uncollectible as evidenced by the bankruptcy of the debtor and the collectability of this balance is remote, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "selling and distribution costs" in the consolidated income statement.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheets.

2.15 Share capital

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

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

2.16 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. The amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The reminder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Current and deferred taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, associated companies and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) *Discretionary bonus*

Discretionary bonus is accrued in the year in which the associated services are rendered by employees of the Group.

Liabilities for discretionary bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(c) *Pension obligations*

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.19 Employee benefits *(continued)*

(c) Pension obligations (continued)

As stipulated by rules and regulations in Chinese Mainland, the Group contributes to state-sponsored retirement plans for its employees in Chinese Mainland. The Group contributes to the retirement plans certain percentage of the basic salaries of its employees, and has no further obligations for the actual payment of post-retirement benefits.

(d) Employee share-based compensation

The Group operates an equity-settled, employee share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Revenue from brokerage and commission, management and consultancy and advisory services rendered and container transportation and freight forwarding services is recognised once the duties under the service contracts are performed and outcome of the transactions can be foreseen with reasonable certainty.

(b) Revenue from securities trading represents the net gains/(losses) on disposal and remeasurement of financial assets at fair value through income statement. All transactions related to securities trading are recorded in the financial statements based on trade dates. Accordingly, only those trade dates falling within the accounting year have been taken into account.

(c) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(d) Revenue from sales of properties is recognised when the risks and rewards of the properties are passed to the purchasers.

(e) Hotel room income is recognised when services are rendered.

(f) Operating lease rental income is recognised on a straight-line basis over the lease periods.

(g) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(h) Dividend income is recognised when the rights to receive payment is established.

2.23 Finance costs

Finance costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other finance costs are expensed as incurred.

2.24 Operating leases

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

Assets leased out under operating leases are included in property, plant and equipment and investment properties in the consolidated balance sheet. Lease income is recognised over the term of the lease on straight-line basis.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group has in place controls to manage these risks to an acceptable level without affecting its business. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management polices and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group's overall risk management function focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management of the Group is carried out by the credit committee and finance departments of the Group. The top management and the credit committee approve the Group's financial risk management policies. Credit committee and finance departments undertake both regular and ad hoc reviews of risk management controls and procedures which are reported to the top management. Detailed analysis of risk management are set out in Note 42 to the consolidated financial statements.

3.2 Capital risk management

The Group's objectives when managing capital are to maintain a strong capital base to support the development of its business and to meet regulatory capital requirement at all times. The Group recognises the impact on shareholders' returns of the level of equity capital employed within the Group and seeks to maintain a balance between the returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Capital of the Group for regulatory and capital management purpose includes share capital, share premium, retained earnings, other reserves and subordinated liabilities. Capital is allocated to various business activities of the Group depending on the risk taken by each business unit and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame.

The Group monitors capital on the basis of the gearing ratio, which is calculated as total debts divided by total shareholders' fund. The Group also monitors capital base of its subsidiaries to ensure compliance with relevant regulatory capital requirements of Securities and Futures Ordinance. Management strives to maintain an optimal capital structure so as to achieve the Group's capital risk management objective as stated above. To achieve this, the Group may adjust the amount of dividend payout and other relevant factors.

During the year of 2007, the Group complied with all of the relevant externally imposed regulatory capital requirements. The gearing ratios at 31st December 2007 and 2006 were as follows:

	2007	2006
	HK$'000	*HK$'000*
Total borrowings (Note 33)	**3,217**	147,438
Total equity	**2,838,967**	1,695,671
Gearing ratio	**0.1%**	8.7%

3. FINANCIAL RISK MANAGEMENT *(continued)*

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for equity securities traded on inactive markets or private issuers.

The carrying value less impairment provision of trade and other receivables, and loans and advances are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(b) Incomes taxes

The Group is subject to income taxes in various jurisdictions, mainly in Hong Kong and Chinese Mainland. Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(d) Estimated fair value of investment properties

The fair value of each investment property individually is determined at each balance sheet date by independent professional valuers by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income/net income, after allowing for outgoings and in appropriate cases provisions for reversionary income potential. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

(e) Fair value of derivatives and other financial instruments

The fair value of derivatives and other financial instruments traded in active markets (such as trading and available-for-sale financial assets securities) is based on quoted market prices at the balance sheet date.

The fair value of derivatives and other financial instruments that are not traded in active market is mainly based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date. Quoted market price or dealer quotes for similar instruments are used for equity securities traded on inactive markets or private issuers.

(f) Allowance for write-down of inventories to net realisable value

The Group makes allowance for write-down of inventories based on assessment of the net realisable value of existing inventories. Allowance is made if there is an indication that the net realisable value of inventories is lower than the cost. Calculation of net realisable value requires the use of judgements and estimates.

(g) Allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of loans receivable, loans and advances and trade and other receivables. Allowance is made when there are events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgements and estimates. Where the expectation on the recoverability of loans receivable, loan and advances and trade and other receivables is different from the original estimate, such difference will impact the carrying value of loans receivable, loans and advances and trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(h) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial assets is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its costs, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, change in technology and operational and financing cash flow.

5. SEGMENT INFORMATION

The principle activity of the Company is investment holding. The principal activities of its subsidiaries, associated companies and jointly controlled entities are set out in Notes 21, 22 and 23 to the consolidated financial statements.

The Group has determined the business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment assets consist primarily of intangible assets, property, plant and equipment, investment properties, leasehold land and land use rights, properties under development, inventories, financial assets and operating cash. Segment liabilities comprise operating liabilities and borrowings but exclude taxation and deferred taxation. Capital expenditure comprises additions to property, plant and equipment, investment properties, leasehold land and land use rights, and properties under development.

In respect of geographical segment reporting, sales are based on the country in which the customers are located.

(a) Primary reporting format – business segments

The Group is organised into six main business segments:

- Securities trading and investment
- Corporate finance and stockbroking
- Property development and investment
- Hotel operation
- Container transportation and freight forwarding services
- Investment holding and management

5. SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments *(continued)*

	Securities trading and investment 2007 *HK$'000*	Corporate finance and stockbroking 2007 *HK$'000*	Property development and investment 2007 *HK$'000*	Hotel operation 2007 *HK$'000*	Container transportation and freight forwarding services 2007 *HK$'000*	Investment holding and management 2007 *HK$'000*	Group 2007 *HK$'000*
Income statement							
Revenue	164,392	463,149	3,283	26,723	40,048	67,651	765,246
Segment results	141,736	198,051	4,562	148,490	(5,028)	(105,824)	381,987
Finance costs	–	(23,968)	–	(2,932)	(244)	(393)	(27,537)
Share of profits less losses of							
– Associated companies	3,249	–	–	–	–	2,330	5,579
– Jointly controlled entities	–	–	63,326	–	–	(966)	62,360
Profit before taxation							422,389
Taxation							(43,056)
Profit for the year							379,333
Balance sheet							
Segment assets	438,071	1,078,544	431,684	113,650	102,120	849,764	3,013,833
Investments in associated companies	214	–	–	–	–	412,667	412,881
Investments in jointly controlled entities	–	–	118,148	–	–	22,060	140,208
Tax recoverable							167
Deferred tax assets							2,531
Total assets							3,569,620
Segment liabilities	124,212	302,656	27,532	1,808	12,210	208,557	676,975
Tax payable							52,978
Deferred tax liabilities							700
Total liabilities							730,653
Other information							
Capital expenditure	–	2,955	186,946	99,920	595	784	291,200
Depreciation	100	1,778	970	5,060	4,411	2,308	14,627
Amortisation of leasehold land and land use rights	–	–	1,322	1,941	676	2	3,941

Note: There are no sales among the business segments.

5. SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments *(continued)*

	Securities trading and investment 2006 HK$'000	Corporate finance and stockbroking 2006 HK$'000	Property development and investment *(Note (c))* 2006 HK$'000	Hotel operation 2006 HK$'000	Container transportation and freight forwarding services 2006 HK$'000	Investment holding and management *(Note (c))* 2006 HK$'000	Group 2006 HK$'000
Income statement							
Revenue	128,421	145,085	1,397	80,925	891,057	72,404	1,319,289
Segment results	101,488	30,866	13,635	6,491	(14,514)	(34,307)	103,659
Finance costs	–	(10,885)	–	(8,090)	(1,403)	(207)	(20,585)
Share of profits less losses of							
– Associated companies	4,601	–	–	–	–	(7,005)	(2,404)
– Jointly controlled entities	–	–	5,081	–	–	(663)	4,418
Profit before taxation							85,088
Taxation							(16,618)
Profit for the year from continuing operations							68,470
Profit for the year from non-current assets classified as held for sale and discontinued operations *(Note (b))*							161,317
Profit for the year							229,787
Balance sheet							
Segment assets	152,723	379,737	199,450	239,302	118,449	630,933	1,720,594
Investments in associated companies	4,601	–	–	–	–	292,969	297,570
Investments in jointly controlled entities	–	–	50,943	–	–	21,393	72,336
Tax recoverable							374
Deferred tax assets							1,231
Total assets							2,092,105
Segment liabilities	865	7,028	3,177	161,280	12,793	186,553	371,696
Tax payable							24,242
Deferred tax liabilities							496
Total liabilities							396,434
Other information							
Capital expenditure	333	1,263	12,108	33,173	5,028	9,146	61,051
Depreciation	319	1,534	950	12,550	10,915	10,593	36,861
Amortisation of leasehold land and land use rights	–	–	166	479	628	2	1,275

5. SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments *(continued)*

Note:

(a) There are no sales among the business segments.

(b) Profit for the year from non-current assets classified as held for sale and discontinued operations includes gain on disposal of properties held by Fuhai Digital Science & Technology (Shanghai) Company Limited and operation related to Geoby International Holdings Limited and its subsidiaries amounting to HK$55,489,000 and HK$105,828,000 respectively for the year ended 31st December 2006.

(c) To conform with the business segment presentation in current year, the Group's property development and investment businesses, previously included in investment holding and management segment, have been reclassified to be disclosed under property development and investment segment. The Group's motor vehicle meters and components manufacturing businesses, previously presented as a separate segment, have been reclassified to be disclosed under investment holding and management segment.

(b) Secondary reporting format – geographical segments

	Revenue 2007 *HK$'000*	**Segment results 2007 *HK$'000***	**Total assets 2007 *HK$'000***	**Capital expenditure 2007 *HK$'000***
Hong Kong	**622,552**	**254,217**	**2,103,501**	**2,378**
Chinese Mainland	**134,375**	**123,139**	**891,879**	**288,822**
Others	**8,319**	**4,631**	**18,453**	**–**
	765,246	**381,987**	**3,013,833**	**291,200**
Investments in associated companies			**412,881**	
Investments in jointly controlled entities			**140,208**	
Tax recoverable			**167**	
Deferred tax assets			**2,531**	
Total assets			**3,569,620**	

	Revenue 2006 *HK$'000*	Segment results 2006 *HK$'000*	Total assets 2006 *HK$'000*	Capital expenditure 2006 *HK$'000*
Hong Kong	265,052	99,838	784,341	1,105
Chinese Mainland	1,053,743	10,456	909,743	59,624
Others	494	(6,635)	26,510	322
	1,319,289	103,659	1,720,594	61,051
Investments in associated companies			297,570	
Investments in jointly controlled entities			72,336	
Tax recoverable			374	
Deferred tax assets			1,231	
Total assets			2,092,105	

Note: There are no sales among the geographical segments.

6. OTHER GAINS – NET

	Group	
	2007	2006
	HK$'000	*HK$'000*
Gain on disposal of interest in subsidiaries	**145,703**	13,897
Loss on disposal of an associated company	**(1,022)**	–
Loss on deemed disposal of partial interest in an associated company	**(1,833)**	(3,904)
Loss on disposal of available-for-sale financial assets	**(4,431)**	–
Impairment of available-for-sale financial assets *(Note 24)*	**(17,788)**	(2,341)
Interest income	**18,777**	15,598
Dividend income	**–**	2,965
Investment income, net	**139,406**	26,215
Fair value gains on investment properties	**3,938**	12,239
	143,344	38,454

7. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Crediting		
Net gain on disposal of property, plant and equipment	**86**	–
Net foreign exchange gain	**13,521**	963
Charging		
Depreciation	**14,627**	36,861
Amortisation of leasehold land and land use rights	**3,941**	1,275
Impairment losses on trading rights and patent	**–**	500
Direct expense in respect of container transportation and freight forwarding services	**29,864**	888,286
Cost of inventories	**35,029**	37,348
Stockbroking commission expense	**75,792**	13,515
Stamp duty and other transaction costs	**81,705**	23,886
Staff costs *(Note 13)*	**209,524**	195,919
Operating lease rental in respect of land and buildings	**7,170**	8,514
Auditors' remuneration		
Audit and audit related work		
– the Company's auditor	**2,041**	1,990
– other auditors	**539**	1,097
Non-audit services – the Company's auditor	**127**	107
Provision for doubtful debts	**1,471**	5,768
Provision for obsolete stock	**4,449**	1,663
Net loss on disposal of property, plant and equipment	**–**	373

8. FINANCE COSTS

	Group 2007 HK$'000	Group 2006 HK$'000
Interest on bank loans and overdrafts	**27,537**	19,175
Interest on other loans	**–**	1,410
	27,537	20,585

9. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(a) The amount of taxation charged to the consolidated income statement represents:

	Group 2007 HK$'000	Group 2006 HK$'000
Hong Kong profits tax		
Current	**29,612**	5,175
(Over)/under-provision in previous years, net	**(259)**	88
Overseas taxation		
Current	**14,799**	11,389
Under-provision in previous years	**–**	614
Deferred taxation *(Note 37)*	**(1,096)**	(648)
Taxation charge	**43,056**	16,618

9. TAXATION *(continued)*

(a) The amount of taxation charged to the consolidated income statement represents: *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Profit before taxation (net of share of profits less losses of associated companies, jointly controlled entities and discontinued operations)	**354,450**	83,074
Tax calculated at a taxation rate of 17.5% (2006: 17.5%)	**62,029**	14,538
Effect of different taxation rates in other countries	**402**	(3,441)
Income not subject to taxation	**(43,821)**	(18,537)
Expenses not deductible for taxation purposes	**7,235**	1,654
(Over)/under-provision in previous years, net	**(259)**	88
Utilisation of previously unrecognised tax losses	**–**	(262)
Unrecognised deferred tax assets	**17,392**	21,795
Others	**78**	783
Taxation charge	**43,056**	16,618

(b) The amount of taxation in the Group's consolidated balance sheet represents:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Recoverable		
Hong Kong	**–**	162
Overseas	**167**	212
	167	374
Payable		
Hong Kong	**27,204**	1,998
Overseas	**25,774**	22,244
	52,978	24,242

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$12,062,000 (2006: HK$276,358,000).

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of HK$382,178,000 (2006: HK$236,573,000). The basic earnings per share is based on the weighted average number of 1,292,967,048 (2006: 1,188,096,023) shares in issue during the year. The diluted earnings per share is based on 1,312,969,167 (2006: 1,211,050,276) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 20,002,119 (2006: 22,954,253) shares deemed to be issued at no consideration if all outstanding options had been exercised.

12. DIVIDENDS

The dividends paid in 2007 and 2006 were HK$33,451,000 (HK$0.025 per ordinary share) and HK$41,635,000 (HK$0.035 per ordinary share) respectively. The directors recommend the payment of a final dividend of HK$0.01 (2006: HK$0.005) per ordinary share, totalling HK$13,915,000 (2006: HK$6,130,000). Such dividend is to be approved by the shareholders at the Annual General Meeting of the Company on 23rd May 2008. These financial statements do not reflect this final dividend payable.

	2007	2006
	HK$'000	*HK$'000*
Interim dividend paid of HK$0.02 (2006: HK$0.02) per ordinary share	**27,321**	23,877
Proposed final dividend of HK$0.01 (2006: HK$0.005) per ordinary share	**13,915**	6,130
	41,236	30,007

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Group	
	2007	2006
	HK$'000	*HK$'000*
Wages, salaries and allowance	**157,250**	162,131
Retirement benefit costs *(Note 15)*	**4,330**	9,823
Other employee benefits	**5,773**	9,975
Employees share option benefits *(Note 35)*	**42,171**	13,990
	209,524	195,919

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remuneration of every Director for the year ended 31st December 2007 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Retirement benefit costs HK$'000	Employees share option benefits HK$'000	2007 Total HK$'000
Executive directors:						
Mr. Lao Yuan-Yi	**–**	**2,598**	**8,686**	**223**	**13,034**	**24,541**
Mr. Xin Shulin, Steve	**–**	**2,120**	**6,151**	**177**	**8,765**	**17,213**
Mr. Yeung Wai Kin	**–**	**2,264**	**5,161**	**194**	**8,765**	**16,384**
Mr. Hu Yi Ming *(a)*	**–**	**330**	**–**	**1**	**–**	**331**
Non-executive director:						
Mr. Kwok Lam Kwong, Larry, J.P.	**270**	**–**	**–**	**–**	**1,091**	**1,361**
Independent non-executive directors:						
Prof. Woo Chia-Wei	**270**	**–**	**–**	**–**	**1,091**	**1,361**
Mr. Liu Ji	**270**	**–**	**–**	**–**	**545**	**815**
Mr. Yu Qi-Hao	**270**	**–**	**–**	**–**	**1,091**	**1,361**
Mr. Zhou Xiaohe *(b)*	**56**	**–**	**–**	**–**	**–**	**56**

The remuneration of every Director for the year ended 31st December 2006 is set out below:

Name of Director	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Retirement benefit costs HK$'000	Employees share option benefits HK$'000	2006 Total HK$'000
Executive directors:						
Mr. Lao Yuan-Yi	–	2,475	13,978	212	4,724	21,389
Mr. Xin Shulin, Steve	–	1,934	8,173	122	2,442	12,671
Mr. Yeung Wai Kin	–	2,156	9,173	185	2,442	13,956
Mr. Hu Yi Ming *(a)*	–	608	–	1	–	609
Non-executive director:						
Mr. Kwok Lam Kwong, Larry, J.P.	270	–	–	–	–	270
Independent non-executive directors:						
Prof. Woo Chia-Wei	270	–	–	–	–	270
Mr. Liu Ji	270	–	–	–	–	270
Mr. Yu Qi-Hao	270	–	–	–	–	270

(a) *Resigned on 31st July 2007*

(b) *Appointed on 7th October 2007*

Certain Directors of the Company have been granted options to acquire shares of the Company. Details of share options granted, exercised and lapsed during the year are disclosed in the Report of the Directors.

No Directors have waived emoluments in respect of the years ended 31st December 2007 and 2006.

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2006: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are as follows:

	2007	2006
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits-in-kind	**3,111**	7,742
Discretionary bonuses	**22,960**	16,857
Retirement benefit costs	**170**	95
Employees share option benefits	**2,463**	2,442
	28,704	27,136

The emoluments fell within the following bands:

Emolument bands	**Number of individuals**	
HK$	**2007**	2006
5,000,001 – 5,500,000	**–**	1
12,000,001 – 12,500,000	**1**	–
16,000,001 – 16,500,000	**1**	–
21,500,001 – 22,000,000	**–**	1
	2	2

15. RETIREMENT BENEFIT COSTS

The Group operates defined contribution retirement schemes which are available to Hong Kong employees. The rates of contributions are 5% of basic salary from the employees and 5% to 10% from the employer depending on the length of service of the individuals. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

HK$60,000 (2006: HK$227,000) of defined contribution retirement schemes in Hong Kong was forfeited during the year. There were no outstanding balance as at the balance sheet dates of 2007 and 2006 available to reduce the contributions payable in the future years.

Contributions totalling HK$173,000 (2006: HK$105,000) were payable to the retirement scheme at the year-end and are included in trade and other payables.

The Group also contributes to retirement plans for its employees in the Chinese Mainland and overseas. The rates of contributions are approximately ranging from 17% to 28% of basic salary from the Group for its employees in the Chinese Mainland and approximately 12% of basic salary from the Group for its overseas employees.

16. INTANGIBLE ASSETS

Group

	Goodwill HK$'000	Trading rights and patent HK$'000	Total HK$'000
Cost			
At 1st January and 31st December 2007	**2,993**	**1,638**	**4,631**
Accumulated amortisation			
At 1st January and 31st December 2007	**–**	**1,238**	**1,238**
Net book value			
At 31st December 2007	**2,993**	**400**	**3,393**

	Goodwill HK$'000	Trading rights and patent HK$'000	Total HK$'000
Cost			
At 1st January 2006	2,993	2,958	5,951
Disposals	–	(1,320)	(1,320)
At 31st December 2006	2,993	1,638	4,631
Accumulated amortisation			
At 1st January 2006	–	2,058	2,058
Disposals	–	(1,320)	(1,320)
Impairment losses	–	500	500
At 31st December 2006	–	1,238	1,238
Net book value			
At 31st December 2006	2,993	400	3,393

Impairment test for goodwill

Goodwill acquired through business combination has been allocated to the property development and investment businesses, which is a separate segment, for impairment testing.

The recoverable amount of the lowest level of cash-generating unit has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a period of five to ten years. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures, growth rates and selection of discount rates. Management determined budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. The discount rate applied to cash flow projection is 10%.

17. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings						
	Long-term leases in Hong Kong	Medium-term leases outside Hong Kong	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles and trucks	Construction -in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1st January 2007	22,664	192,104	63,158	36,139	61,832	6,910	382,807
Additions	–	–	3,492	268	2,205	6,130	12,095
Disposals	–	–	(992)	(589)	(1,761)	–	(3,342)
Disposals of subsidiaries *(Note 38(b))*	–	(172,525)	(26,556)	(25,549)	(2,714)	(7,002)	(234,346)
Reclassification	–	–	(277)	–	289	(12)	–
Exchange differences	–	7,871	2,386	1,773	3,847	428	16,305
At 31st December 2007	22,664	27,450	41,211	12,042	63,698	6,454	173,519
Accumulated depreciation							
At 1st January 2007	6,489	20,144	35,130	10,427	42,277	–	114,467
Charge for the year	567	4,299	4,668	1,611	3,482	–	14,627
Disposals	–	–	(918)	(589)	(1,622)	–	(3,129)
Disposals of subsidiaries *(Note 38(b))*	–	(11,008)	(6,785)	(3,329)	(1,167)	–	(22,289)
Reclassification	–	–	(149)	–	149	–	–
Exchange differences	–	1,233	1,367	700	2,976	–	6,276
At 31st December 2007	7,056	14,668	33,313	8,820	46,095	–	109,952
Net book value							
At 31st December 2007	15,608	12,782	7,898	3,222	17,603	6,454	63,567

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) Group *(continued)*

	Buildings						
	Long-term leases in Hong Kong	Medium-term leases outside Hong Kong	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles and trucks	Construction -in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation							
At 1st January 2006	22,664	150,102	63,983	39,193	69,367	9,014	354,323
Additions	–	2,347	15,546	9	2,194	31,179	51,275
Disposals	–	(29)	(10,339)	(3,951)	(11,855)	(126)	(26,300)
Disposals of subsidiaries *(Note 38(b))*	–	–	(8,689)	–	–	–	(8,689)
Reclassification	–	33,628	947	(644)	(290)	(33,641)	–
Exchange differences	–	6,056	1,710	1,532	2,416	484	12,198
At 31st December 2006	22,664	192,104	63,158	36,139	61,832	6,910	382,807
Accumulated depreciation							
At 1st January 2006	5,923	11,050	25,758	8,926	40,463	–	92,120
Charge for the year	566	8,644	19,843	2,440	5,368	–	36,861
Disposals	–	(5)	(2,796)	(1,298)	(4,933)	–	(9,032)
Disposals of subsidiaries *(Note 38(b))*	–	–	(8,245)	–	–	–	(8,245)
Reclassification	–	–	87	–	(87)	–	–
Exchange differences	–	455	483	359	1,466	–	2,763
At 31st December 2006	6,489	20,144	35,130	10,427	42,277	–	114,467
Net book value							
At 31st December 2006	16,175	171,960	28,028	25,712	19,555	6,910	268,340

The analysis of the cost or valuation at 31st December 2007 of the above assets is as follows:

	Buildings						
	Long-term leases in Hong Kong	**Medium-term leases outside Hong Kong**	**Furniture, fixtures and equipment**	**Plant and machinery**	**Motor vehicles and trucks**	**Construction –in-progress**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At cost	**11,539**	**27,450**	**41,211**	**12,042**	**63,698**	**6,454**	**162,394**
At professional valuation–1994	**11,125**	**–**	**–**	**–**	**–**	**–**	**11,125**
	22,664	**27,450**	**41,211**	**12,042**	**63,698**	**6,454**	**173,519**

17. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(a) Group *(continued)*

The analysis of the cost or valuation at 31st December 2006 of the above assets is as follows:

	Buildings						
	Long-term leases in Hong Kong	Medium-term leases outside Hong Kong	Furniture, fixtures and equipment	Plant and machinery	Motor vehicles and trucks	Construction –in-progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	11,539	192,104	63,158	36,139	61,832	6,910	371,682
At professional valuation–1994	11,125	–	–	–	–	–	11,125
	22,664	192,104	63,158	36,139	61,832	6,910	382,807

The carrying amount of the land and buildings in Hong Kong under long-term leases would have been HK$9,557,000 (2006: HK$9,890,000) had they been stated at cost less accumulated depreciation.

(b) Company

	Motor vehicles	
	2007	2006
	HK$'000	*HK$'000*
Cost		
At 1st January	**442**	442
Additions	**457**	–
Disposals	**(442)**	–
At 31st December	**457**	442
Accumulated depreciation		
At 1st January	**375**	287
Charge for the year	**38**	88
Disposals	**(375)**	–
At 31st December	**38**	375
Net book value		
At 31st December	**419**	67

18. INVESTMENT PROPERTIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Valuation at 1st January	**39,828**	19,260
Additions	**–**	8,329
Fair value gains	**3,938**	12,239
Valuation at 31st December	**43,766**	39,828

The investment properties were revalued at 31st December 2007, on an open market value basis by an independent, professionally qualified valuer, Chung, Chan & Associates.

The Group's interests in investment properties at valuation are analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
In Hong Kong, held on		
– leases over 50 years	**7,500**	6,000
Outside Hong Kong, held on		
– leases between 10 to 50 years	**36,266**	33,828
	43,766	39,828

19. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and the movement in the net book value thereof is analysed as follows:

	Land for property development	**Land for hotel operation**	**Land for own used**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Net book value at 1st January 2007	**–**	**17,915**	**49,563**	**67,478**
Additions	**171,608**	**92,910**	**–**	**264,518**
Amortisation				
– charge for the year	**(1,124)**	**(1,941)**	**(876)**	**(3,941)**
– capitalised in properties under development	**(1,256)**	**–**	**–**	**(1,256)**
Disposal of subsidiaries *(Note 38(b))*	**–**	**(18,372)**	**–**	**(18,372)**
Exchange differences	**–**	**622**	**449**	**1,071**
Net book value at 31st December 2007	**169,228**	**91,134**	**49,136**	**309,498**

19. LEASEHOLD LAND AND LAND USE RIGHTS *(continued)*

	Land for hotel operation HK$'000	Land for own used HK$'000	Total HK$'000
Net book value at 1st January 2006	17,709	48,668	66,377
Additions	–	1,447	1,447
Amortisation charge for the year	(479)	(796)	(1,275)
Exchange differences	685	244	929
Net book value at 31st December 2006	17,915	49,563	67,478

The Group's interests in leasehold land and land use rights at their net book values are analysed as follows:

	2007 **HK$'000**	2006 HK$'000
In Hong Kong, held on		
– leases over 50 years	**36,367**	36,408
Outside Hong Kong, held on		
– leases between 10 to 50 years	**273,131**	31,070
	309,498	67,478

20. PROPERTIES UNDER DEVELOPMENT

	2007 **HK$'000**	2006 HK$'000
Amortisation of leasehold land and land use rights	**1,256**	–
Construction costs	**14,587**	–
	15,843	–

The properties under development are located in Chinese Mainland.

21. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted investments, at cost	**44,739**	38,374
Loan to a subsidiary	**70,000**	70,000
Less: accumulated impairment losses	**(17,053)**	(16,886)
	97,686	91,488

The loan to a subsidiary is unsecured, interest bearing at prime rate plus 1% (2006: prime rate plus 1%) and not repayable with the next twelve months as at the balance sheet date. The effective interest rate at 31st December 2007 was prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited plus 1% (2006: prime rate plus 1%). The carrying value of the loan to a subsidiary approximates its fair value as at 31st December 2007.

The following is a list of the principal subsidiaries at 31st December (see note (a) below):

Name	Place of incorporation/ establishment *(see note (b) below)*	Particulars of issued share capital/ registered capital	Effective interest held **2007**	Effective interest held 2006	Principal activities
Shares held directly:					
First Shanghai Direct Investments Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Investment holding
First Shanghai Finance Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Money lending
First Shanghai Management Services Limited	Hong Kong	1,200,000 ordinary shares of HK$1 each	**100%**	100%	Agency, management and secretarial services
First Shanghai Nominees Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Nominee services
First Shanghai Properties Limited	Hong Kong	16,500,002 ordinary shares of HK$1 each	**100%**	100%	Property investment
P.I. Investments Australia Pty. Limited	Australia	2,000,000 ordinary shares of A$1 each	**100%**	100%	Securities investment
UAT Holdings Limited	British Virgin Islands	100 ordinary shares of US$1 each	**100%**	100%	Investment holding
Shares held indirectly:					
Addsmart Investments Limited	British Virgin Islands	1 ordinary share of US$1 each	**100%**	100%	Securities investment
Atlas Securities Pty. Limited	Australia	2 ordinary shares of A$1 each	**100%**	100%	Securities investment
Billion Bright Investments Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Securities investment

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment *(see note (b) below)*	Particulars of issued share capital/ registered capital	Effective interest held 2007	Effective interest held 2006	Principal activities
Shares held indirectly: *(continued)*					
Bonvision Consulting (Shenzhen) Company Limited	Chinese Mainland (c)	HK$1,000,000	**100%**	100%	Financial consultancy
Bonvision Consultancy (Beijing) Company Limited	Chinese Mainland (c)	HK$500,000	**100%**	100%	Financial consultancy
Bonvision Technology (Shanghai) Limited	Chinese Mainland (c)	US$200,000	**100%**	100%	Financial consultancy
Bright Shining Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Property investment
Changchun FAW Sihuan Betung Instrument Company Limited	Chinese Mainland (d)	RMB7,700,000	**55%**	55%	Manufacture of autoparts
Clear Profit Investments Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Property investment
Crimson Pharmaceutical (Shanghai) Company Limited	Chinese Mainland (c)	US$1,400,000	**51%**	51%	Pharmaceutical services
Draco Equity Investment Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Securities investment
Ever Achieve Investments Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Investment holding
First eFinance Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Internet financial service system services
First Shanghai Assets (Kunshan) Company Limited	Chinese Mainland (c)	US$10,000,000	**100%**	100%	Property development
First Shanghai Properties (Kunshan) Company Limited	Chinese Mainland (d)	US$5,000,000	**100%**	–	Property development
First Shanghai Capital Limited	Hong Kong	17,000,000 ordinary shares of HK$1 each	**100%**	100%	Corporate finance

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment *(see note (b) below)*	Particulars of issued share capital/ registered capital	Effective interest held 2007	2006	Principal activities
Shares held indirectly: *(continued)*					
First Shanghai Financial Holding Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Investment holding
First Shanghai Futures Limited	Hong Kong	8,000,000 ordinary shares of HK$1 each	**100%**	100%	Futures broking
First Shanghai Securities Limited	Hong Kong	85,000,000 ordinary shares of HK$1 each	**100%**	100%	Stockbroking
First Shanghai Venture Capital Management Limited	Chinese Mainland (c)	HK$1,000,000	**100%**	100%	Venture capital & management
Golad Resources Limited	British Virgin Islands	100 ordinary shares of US$1 each	**100%**	100%	Investment holding
GTI Financial Information Limited	Hong Kong	429,999,999 ordinary shares of HK$0.01 each	**–**	78.2%	Investment holding
Kunshan Traders Park Hotel Company Limited	Chinese Mainland (d)	US$12,000,000	**–**	65%	Hotel operation
Leading Business Limited	British Virgin Islands	1,450,000 ordinary shares of US$1 each	**100%**	100%	Property investment
Leung Investments Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Property investment
Perfect Honour Investments Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Property investment
P.H.A. Investments Pty. Limited	Australia	60,000 ordinary shares of A$2 each	**78.6%**	78.6%	Investment holding
P.H.A. Trading Pty. Limited	Australia	2 ordinary shares of A$0.5 each	**78.6%**	78.6%	Investment holding
Shanghai Fu Heng Properties Management Limited	Chinese Mainland (e)	RMB500,000	**55%**	55%	Property management
Shanghai Huan Ya Insurance Agency Company Limited	Chinese Mainland (e)	RMB20,000,000	**62%**	62%	Insurance broker
Shanghai Transvision Network Application Service Company Limited	Chinese Mainland (c)	US$1,800,000	**100%**	100%	Investment holding
Shanghai Yi Hang Logistic Network Management Limited	Chinese Mainland (e)	RMB2,000,000	**75.5%**	75.5%	Logistics services

21. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment *(see note (b) below)*	Particulars of issued share capital/ registered capital	Effective interest held 2007	2006	Principal activities
Shares held indirectly: *(continued)*					
Shanghai Zhong Chuang International Container Storage & Transportation Company Limited	Chinese Mainland (d)	US$11,025,000	**62%**	62%	Container transportation and freight forwarding
Staying Power International Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Investment holding
Talent Creation Investments Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Property investment
Wuxi Sunshine Real Estate Limited	Chinese Mainland (c)	US$13,000,000	**100%**	–	Hotel operation
Yearson Properties Limited	British Virgin Islands	10 ordinary shares of US$1 each	**100%**	100%	Property investment
Yin Zin Company Limited	Hong Kong	2 ordinary shares of HK$1 each	**100%**	100%	Investment holding
Yongzhou Chang Yi Car Electronics Limited Company	Chinese Mainland (d)	RMB1,999,300	**–**	51%	Manufacture of autoparts
Zhongshan Sunshine Resort Limited	Chinese Mainland (c)	RMB80,000,000	**80%**	80%	Property development

Notes:

(a) The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

(b) The subsidiaries operate principally in their places of incorporation.

(c) Subsidiaries incorporated in the Chinese Mainland registered as wholly-owned foreign enterprises.

(d) Subsidiaries incorporated in the Chinese Mainland registered as sino-foreign equity joint ventures.

(e) Subsidiaries incorporated in the Chinese Mainland registered as limited companies.

22. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying value at 1st January	**297,570**	276,260
Share of associated companies' results		
– profit/(loss) before taxation	**7,890**	(891)
– taxation	**(2,311)**	(1,513)
Share of associated companies' reserves	**116,101**	28,212
Dividend received	**(6,530)**	–
Increase in investment in an associated company	**965**	–
Disposal of an associated company	**(1,107)**	–
Deemed disposal of partial interest of an associated company	**(1,833)**	(3,904)
Exchange differences	**2,136**	(594)
Carrying value at 31st December	**412,881**	297,570

The following is a list of the associated companies as at 31st December:

Name	Place of incorporation/ establishment	Particulars of issued share capital/ registered capital	Effective interest held 2007	Effective interest held 2006	Principal activities
China Assets (Holdings) Limited ("China Assets") (see note (a) below)	Hong Kong	76,588,160 ordinary shares of US$0.1 each	**33.02%**	33.23%	Investment holding
China Assets Investment Management Limited	Hong Kong	2,000 ordinary shares of HK$1 each	**28%**	28%	Management and investment advisory services
Yanfeng Visteon Betung Automotive Instrumentation Company Limited	Chinese Mainland	RMB61,950,000	**30%**	30%	Sales of motor vehicle meters and components
Zhejiang Shaohong Instrument Company Limited	Chinese Mainland	US$430,000	**30%**	30%	Sales of motor vehicle meter and components
First Shanghai Fund Management Limited	British Virgin Islands	100 ordinary shares of US$1 each	**20%**	20%	Fund management

Note:

(a) China Assets operates principally in Hong Kong and is listed on The Stock Exchange of Hong Kong Limited. The market value of the listed security as at 31 December 2007 was approximately HK$204,844,000 (2006: HK$127,827,000).

Additional information in respect of the Group's interest in its associated companies is given as follows:

	2007	2006
	HK$'000	*HK$'000*
Revenue	**123,196**	92,181
Profit/(loss) for the year	**5,579**	(2,404)
Assets	**484,218**	349,284
Liabilities	**(71,337)**	(51,714)
Net assets	**412,881**	297,570

23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Carrying value at 1st January	**72,336**	72,209	**11,793**	11,793
Share of jointly controlled entities' results				
– profit before taxation	**82,934**	13,052	**–**	–
– taxation	**(20,574)**	(8,634)	**–**	–
Dividend received	**–**	(7,770)	**–**	–
Exchange differences	**5,512**	3,479	**–**	–
Carrying value at 31st December	**140,208**	72,336	**11,793**	11,793

The following is a list of the jointly controlled entities as at 31st December:

Name	**Place of incorporation/ establishment and operation**	**Effective interest in ownership/voting power/profit sharing**		**Principal activities**
		2007	2006	
First Shanghai Public Utility Investments Limited ("FSPUL") *(see note (a) below)*	Hong Kong	**50%**	100%	Investment holding
Goodbaby Bairuikang Hygienic Products Company Limited ("Goodbaby Bairuikang") *(see note (b) below)*	Chinese Mainland	**50%**	50%	Production of diapers and related hygienic products
Shanghai Zhangjiang Property Development Company Limited ("Zhangjaing") *(see note (c) below)*	Chinese Mainland	**50%**	50%	Property development

Notes:

(a) FSPUL was established in Hong Kong as investment holding company of public utility business in the Chinese Mainland. In October 2007, FSPUL issued and allotted subscription shares to an independent third party, and accordingly FSPUL became a jointly controlled entity of the Group.

(b) Goodbaby Bairuikang was established as an equity joint venture in the Chinese Mainland in December 1997 for a term of 50 years.

(c) Zhangjiang was established as an equity joint venture in the Chinese Mainland in October 2002 for a term of 50 years. The investment properties of Zhangjiang were revalued at 31 December 2007, on an open market value basis by an independent, professionally qualified valuer, Chung, Chan & Associates. The fair value gain of the investment properties of Zhangjiang amounted to approximately HK$163,122,000 for the year ended 31st December 2007.

23. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

Additional information in respect of the Group's interest in its jointly controlled entities is given as follows:

	2007	2006
	HK$'000	*HK$'000*
Income	**108,315**	50,472
Expenses	**(45,955)**	(46,054)
Profit for the year	**62,360**	4,418
Assets		
Non-current assets	**163,836**	65,427
Current assets	**120,783**	16,582
	284,619	82,009
Liabilities		
Non-current liabilities	**25,752**	–
Current liabilities	**118,659**	9,673
	144,411	9,673
Net assets	**140,208**	72,336

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Carrying value at 1st January	**115,033**	63,433	**62,918**	17,523
Additions	**2,346**	17,788	**–**	–
Disposals	**(33,356)**	–	**–**	(24)
Fair value change transfer to equity	**327,699**	36,153	**327,699**	45,419
Impairment *(Note 6)*	**(17,788)**	(2,341)	**–**	–
Carrying value at 31st December	**393,934**	115,033	**390,617**	62,918

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(continued)*

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed securities				
– Equity securities, Hong Kong	**971**	34,327	**–**	–
Unlisted securities				
– Equity securities traded on private issuers	**392,963**	80,706	**390,617**	62,918
	393,934	115,033	**390,617**	62,918
Market value of listed securities	**971**	34,327	**–**	–

The fair value of unlisted securities is determined by reference to published price quotations in an active market.

25. LOANS AND ADVANCES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Loans and advances *(note (a))*	**113,237**	131,697	**64,337**	63,895
Provision for impairment	**(77,777)**	(79,836)	**(52,590)**	(52,590)
	35,460	51,861	**11,747**	11,305
Less: non-current portion	**(11,747)**	(28,266)	**(11,747)**	(11,305)
Current portion	**23,713**	23,595	**–**	–
Margin loans *(note (b))*	**560,469**	183,904	**–**	–
Provision for impairment	**(112)**	(538)	**–**	–
	560,357	183,366	**–**	–
	584,070	206,961	**–**	–

Notes:

(a) The loans and advances include HK$1,332,000 (2006: HK$1,242,000) which bears interest at prime rate plus 1% (2006: prime rate plus 1%) per annum, HK$20,572,000 (2006: HK$18,817,000) which bears interest at 5% (2006: 5%) per annum, and the remaining of HK$13,556,000 (2006: HK$31,802,000) which is non-interest bearing.

The weighted average effective interest rate at 31st December 2007 was 8.25% (2006: 6.3%) per annum.

The carrying value of loans and advances approximates their fair value.

25. LOANS AND ADVANCES *(continued)*

Notes: (Continued)

The movements in the provision for impairment of loans and advances are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Provision for impairment at 1st January	**79,836**	76,411
Provision for impairment during the year	**–**	3,425
Receivables written off	**(2,059)**	–
Provision for impairment at 31st December	**77,777**	79,836

There were no additional impairment provided on the Company's loans and advances for the years ended 31st December 2007 and 2006.

(b) Margin loans to third parties are secured by the underlying pledged securities, bear interest at prime rate plus 1% to 3% per annum in 2007 and 2006, and are repayable on demand. The carrying value of margin loans approximates to their fair value. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not meaningful in view of the nature of the business of securities margin financing.

The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group. At 31st December 2007, the total value of securities pledged as collateral in respect of the margin loans was approximately HK$3,090,456,000 (2006: HK$632,697,000). The balances represent the market value of securities as at 31st December 2007 and 2006.

The movements in the provision for impairment of margin loans are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Provision for impairment at 1st January	**538**	622
Provision for impairment during the year	**44**	538
Receivables written off	**(470)**	(622)
Provision for impairment at 31st December	**112**	538

26. INVENTORIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**9,219**	1,747
Work-in-progress	**2,194**	2,378
Finished goods	**2,097**	14,767
	13,510	18,892

27. TRADE RECEIVABLES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Due from stockbrokers and Hong Kong Securities Clearing Company Limited	**280,589**	34,309
Due from stockbroking clients	**68,683**	58,805
Trade receivables	**73,439**	68,856
Bills receivable	**557**	747
	423,268	162,717
Provision for impairment	**(4,646)**	(5,154)
	418,622	157,563

All trade receivables are either repayable within one year or on demand. The fair value of the Group's trade receivables is approximately the same as the carrying value.

The settlement terms of trade receivable attributable to the securities trading and stockbroking business are two days after the trade date, and those of trade receivable attributable to the futures broking business are one day after the trade date. For the remaining business of the Group, trade receivables are on credit terms of 30 to 90 days.

The ageing analysis of the trade receivables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**396,209**	125,300
31 – 60 days	**6,704**	8,084
61 – 90 days	**4,021**	6,024
Over 90 days	**11,688**	18,155
	418,622	157,563

27. TRADE RECEIVABLES *(continued)*

The movements in the provision for impairment of trade receivables are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Provision for impairment at 1st January	**5,154**	6,636
Provision for impairment during the year	**1,936**	941
Receivables written back	**(69)**	(1,989)
Receivables written off	**(2,649)**	(357)
Disposal of subsidiaries	**–**	(100)
Exchange differences	**274**	23
Provision for impairment at 31st December	**4,646**	5,154

28. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other receivables	**132,766**	27,276	**3,039**	2,318
Prepayments and deposits	**20,770**	153,518	**636**	649
	153,536	180,794	**3,675**	2,967

Other receivables, prepayments and deposits are either repayable within one year or on demand. Accordingly, the fair value of the Group's and the Company's other receivables, prepayments and deposits are approximately the same as the carrying value.

Included in other receivables is amount due from a jointly controlled entity of the Group amounted to HK$101,895,000 (2006: nil). The balance is unsecured, interest free and repayable on demand.

29. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

(a) Amounts due from subsidiaries

	Company	
	2007	2006
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**1,659,280**	1,381,630
Provision for impairment	**(333,527)**	(287,647)
	1,325,753	1,093,983

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

The movements in the provision for impairment on amounts due from subsidiaries are as follows:

	Company	
	2007	2006
	HK$'000	*HK$'000*
Provision for impairment at 1st January	**287,647**	239,498
Provision for impairment during the year	**45,880**	48,149
Provision for impairment at 31st December	**333,527**	287,647

(b) Amounts due to subsidiaries

The amounts due to subsidiaries are unsecured, interest free and repayable on demand.

30. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT

	Group	
	2007	2006
	HK$'000	*HK$'000*
Financial assets at fair value through income statement		
Equity securities		
– Listed, Hong Kong	**41,018**	19,117
– Listed, Overseas	**231,034**	60,007
– Unlisted, quoted, Hong Kong	**153,314**	49,243
Derivative financial instruments – Equity options	**–**	29,537
Market value of financial assets	**425,366**	157,904
Financial liabilites at fair value through income statement		
Derivative financial instruments – Equity options	**5,632**	–
Market value of financial liabilities	**5,632**	–

Financial assets/liabilities at fair value through income statement are presented within the section of operating activities as part of changes in working capital in the consolidated cash flow statement (Note 38(a)).

The fair value of all unlisted, quoted securities is determined by reference to current bid prices in an active market.

31. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**211,221**	197,269	**4,827**	27,434
Short term bank deposits				
– secured	**15,042**	15,000	**10,042**	–
– unsecured	**350,718**	263,873	**118,507**	88,824
	576,981	476,142	**133,376**	116,258

Bank balances of HK$268,914,000 (2006: HK$286,486,000) are placed with banks in the Chinese Mainland. The remittance of these funds out of the Chinese Mainland is subject to exchange control restrictions imposed by the PRC government.

The effective interest rate on short term deposits ranged from 1.50% to 4.45% (2006: 3.45% to 5.05%) per annum and these deposits have an average maturity of 90 days.

32. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Due to stockbrokers and dealers	**3,738**	1,918	**–**	–
Due to stockbroking clients	**356,385**	75,260	**–**	–
Trade payables	**30,442**	39,735	**–**	–
Total trade payables	**390,565**	116,913	**–**	–
Accruals and other payables	**277,561**	107,345	**33,710**	32,035
	668,126	224,258	**33,710**	32,035

All trade and other payables are either repayable within one year or on demand. The fair values of the Group's trade and others payables is approximately the same as the carrying values.

The ageing analysis of the trade payables is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**362,532**	93,087
31 – 60 days	**1,730**	4,557
61 – 90 days	**1,965**	2,878
Over 90 days	**24,338**	16,391
	390,565	116,913

33. BORROWINGS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Non-current bank loans – secured	**–**	144,449
Current other loans – unsecured	**3,217**	2,989
Total borrowings	**3,217**	147,438

The Group has pledged properties and leasehold land and land use rights with an aggregate net carrying value of approximately HK$59 million (2006: HK$76 million) and fixed deposits of approximately HK$33 million (2006: HK$32 million) against its bank loans and general banking facilities amounting to HK$18 million (2006: HK$161 million) utilised.

The effective interest rate at 31st December 2007 was 4.32% (2006: ranged from 4.3% to 6.1%) per annum. The carrying amount of borrowings approximates its fair value and is denominated in Hong Kong dollar and Renminbi.

The secured non-current bank loans amounting to HK$144,449,000 were settled by disposal of a subsidiary in 2007 (Note 38(b)).

34. CONVERTIBLE BONDS

On 27th June 2007, the Company issued two-year 1% convertible bonds with a face value of approximately HK$31,860,000. The convertible bonds can be converted into ordinary shares of the Company at a price of HK$1.32 per ordinary share and bear an interest rate of 1% per annum payable yearly in arrear. The values of the liability component and the equity conversion component were determined at the issue of the convertible bonds. The fair value of the liability component included in the non-current liabilities was arrived at using discounted cash flow method at market interest rate of 5% per annum for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity under the convertible bonds equity reserve.

At 31st December 2007, all convertible bonds have been converted into ordinary shares. The changes of fair value for the year are as follows:

	Group
	2007
	HK$'000
Fair value of convertible bonds issued on 27th June 2007	**31,860**
Transferred to equity portion	**(2,382)**
Liability portion at date of issue	**29,478**
Conversion to ordinary shares during the year	**(29,478)**
Carrying amount at 31st December 2007	**–**

35. SHARE CAPITAL

	Ordinary shares of HK$0.2 each			
	2007		2006	
	Number of shares (thousands)	***HK$'000***	*Number of shares (thousands)*	*HK$'000*
Authorised:				
At 1st January and 31st December	**2,000,000**	**400,000**	2,000,000	400,000
Issued and fully paid:				
At 1st January	**1,193,867**	**238,773**	1,182,030	236,406
New issue on placement *(Note (a))*	**95,000**	**19,000**	–	–
New issue on conversion of convertible bonds *(Note (b))*	**24,136**	**4,828**	–	–
Exercise of share options *(Note (c))*	**78,460**	**15,692**	11,837	2,367
At 31st December	**1,391,463**	**278,293**	1,193,867	238,773

(a) During the year, 95,000,000 (2006: Nil) new ordinary shares of HK$0.2 each were issued pursuant to a Placing Agreement and two Top-up Subscription Agreements dated 7th June 2007 at a placing price of HK$2.05 per ordinary share to finance the Group's general working capital. These shares rank pari passu with the existing shares of the Company.

(b) On 27th June 2007, the Company acquired from its major shareholder and director, Mr. Lao Yuan Yi and his daughter, Ms. Lao Yuan, Vivian, a land use right (note 19) through acquiring 100% of the share capital of and the benefit of loans of approximately HK$21 million advanced to HK Sunshine Real Estate Limited and its wholly owned subsidiary, Wuxi Sunshine Real Estate Limited (together, the "Sunshine Group") that are principally engaged in property development and investment. The aggregate consideration is approximately HK$53,960,000, represents the fair value of net assets of Sunshine Group acquired determined by an independent professional valuer, of which approximately HK$22,100,000 was settled in cash and the balance was settled by the issue of two-year 1% convertible bonds of the Company, with a face value of approximately HK$31,860,000 (Note 34).

In November 2007, 24,136,363 (2006: Nil) new ordinary shares of HK$0.2 each were issued on full conversion of such convertible bonds, at an exercise price of HK$1.32 per ordinary share. These shares rank pari passu with the existing shares of the Company.

35. SHARE CAPITAL *(continued)*

(c) On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the 'Scheme') to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares of the Company.

The maximum number of shares subject to the Scheme and any other schemes of the Company (including without limitation to the 1994 Share Option Scheme) does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares may be issued upon exercise of all options to be granted under the Scheme must not exceed 122,595,064 shares, being 10 percent of shares in issue as at 25th May 2007, being the date of approval of the resolution to approve the renewal of generate mandate limit of the Scheme.

During the year, 78,460,000 (2006: 11,836,844) new shares of HK$0.2 each were issued upon exercise of options under the Scheme approved by the shareholders of the Company at exercise price ranging from HK$0.283 to HK$1.95 (2006: HK$0.318) per share. These shares rank pari passu with the existing shares of the Company. The related weighted average share price at the time of exercise was HK$1.783 (2006: HK$0.710) per share.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	Average exercise price per share *HK$*	**Number of Options** *(thousands)*	Average exercise price per share *HK$*	Number of Options *(thousands)*
At 1st January	**0.586**	**105,570**	0.537	101,609
Granted	**1.950**	**36,808**	0.680	17,850
Exercised	**0.592**	**(78,460)**	0.318	(11,837)
Lapsed	**0.680**	**(1,250)**	0.525	(2,052)
At 31st December	**1.378**	**62,668**	0.586	105,570
Options exercisable at 31st December		**47,318**		88,970

35. SHARE CAPITAL *(continued)*

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price	Number of options	
	HK$	**2007** **(thousands)**	2006 *(thousands)*
12th November 2007	0.816	**–**	16,950
15th July 2008	0.283	**–**	13,748
11th December 2015	0.564	**11,810**	58,272
2nd March 2016	0.680	**15,350**	16,600
22nd May 2017	1.950	**35,508**	–
		62,668	105,570

Employee share option benefits charged to the income statement are determined using the Black-Scholes valuation model based on the following assumptions:

	2007	2006
Grant date	**23rd May 2007**	3rd March 2006
Option value	**HK$1.09**	HK$0.28
Share price at date of grant	**HK$1.95**	HK$0.67
Exercise price	**HK$1.95**	HK$0.68
Expected volatility	**59.33%**	42.39%
Annual risk-free interest rate	**4.28%**	4.30%
Life of options	**9.5 years**	8 years
Dividend yield	**2.08%**	2.52%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the past one year.

36. RESERVES

	Attributable to shareholders of the Company									
Group	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Assets revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Convertible bonds equity reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2007	597,406	16,498	164,364	14,006	12,262	41,272	–	22,020	515,812	1,383,640
Issue of new shares on placement	175,720	–	–	–	–	–	–	–	–	175,720
Issue of new shares on conversion of convertible bonds	27,030	–	–	–	–	–	(2,382)	–	–	24,648
Issue of new shares on exercise of share options	43,755	(13,028)	–	–	–	–	–	–	–	30,727
Employee share option benefits	–	42,171	–	–	–	–	–	–	–	42,171
Recognition of equity components of convertible bonds	–	–	–	–	–	–	2,382	–	–	2,382
Disposals of subsidiaries	–	–	205	–	–	–	–	(3,047)	–	(2,842)
Share of post acquisition reserves of associated companies	–	–	116,101	–	–	–	–	–	–	116,101
Fair value gain of available-for-sale financial assets	–	–	–	–	–	327,699	–	–	–	327,699
Reserve realised upon disposal of available-for-sale financial assets	–	–	–	–	–	21,646	–	–	–	21,646
Currency translation differences	–	–	–	–	–	–	–	34,979	–	34,979
Transfer to retained earnings	–	–	(136)	–	–	–	–	–	136	–
Profit for the year	–	–	–	–	–	–	–	–	382,178	382,178
2006 final dividend paid	–	–	–	–	–	–	–	–	(6,130)	(6,130)
2007 interim dividend paid	–	–	–	–	–	–	–	–	(27,321)	(27,321)
At 31st December 2007	843,911	45,641	280,534	14,006	12,262	390,617	–	53,952	864,675	2,505,598

36. RESERVES *(continued)*

	Attributable to shareholders of the Company								
Group	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Assets revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2006	596,020	2,508	95,779	14,006	12,262	5,119	17,037	362,036	1,104,767
Issue of new shares on exercise of share options	1,386	–	–	–	–	–	–	–	1,386
Employee share option benefits	–	13,990	–	–	–	–	–	–	13,990
Exchange reserve realised upon disposal of a subsidiary	–	–	–	–	–	–	1,022	–	1,022
Capital reserve realised upon disposal of jointly controlled entities	–	–	35,279	–	–	–	(7,699)	(35,308)	(7,728)
Share of post acquisition reserves of an associated company	–	–	28,212	–	–	–	–	–	28,212
Fair value gain of available-for-sale financial assets	–	–	–	–	–	36,153	–	–	36,153
Currency translation differences	–	–	(760)	–	–	–	11,660	–	10,900
Transfer from retained earnings	–	–	5,854	–	–	–	–	(5,854)	–
Profit for the year	–	–	–	–	–	–	–	236,573	236,573
2005 final dividend paid	–	–	–	–	–	–	–	(17,758)	(17,758)
2006 interim dividend paid	–	–	–	–	–	–	–	(23,877)	(23,877)
At 31st December 2006	597,406	16,498	164,364	14,006	12,262	41,272	22,020	515,812	1,383,640

Note: Capital reserve mainly includes goodwill arising on acquisition of subsidiaries, associated companies and jointly controlled entities by the Company and its subsidiaries, and share of available-for-sale financial assets reserve and statutory reserve of associated companies and jointly controlled entities. As stipulated by regulations in the Chinese Mainland, the Company's subsidiaries established and operated in Chinese Mainland are required to appropriate a portion of their after-tax profit (after offsetting prior year losses) for a general reserve fund and an enterprise expansion fund, at rates as determined by their respective Boards of Directors. The general reserve fund can be utilised to offset prior year losses or be utilised for the issuance of bonus shares, whilst the enterprise expansion fund can be utilised for the development of business operations. For the year ended 31st December 2007, a total amount of HK$136,000 (2006: HK$5,854,000) was transferred to/from retained earnings to/from statutory reserve.

36. RESERVES *(continued)*

Company	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2007	**597,406**	**16,498**	**2,104**	**14,006**	**62,918**	**281,937**	**974,869**
Issue of new shares on placement	**175,720**	**–**	**–**	**–**	**–**	**–**	**175,720**
Issue of new shares on conversion of convertible bonds	**27,030**	**–**	**–**	**–**	**–**	**–**	**27,030**
Issue of new shares on exercise of share options	**43,755**	**(13,028)**	**–**	**–**	**–**	**–**	**30,727**
Employee share option benefits	**–**	**42,171**	**–**	**–**	**–**	**–**	**42,171**
Fair value gain of available-for-sale financial assets	**–**	**–**	**–**	**–**	**327,699**	**–**	**327,699**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**12,062**	**12,062**
2006 final dividend paid	**–**	**–**	**–**	**–**	**–**	**(6,130)**	**(6,130)**
2007 interim dividend paid	**–**	**–**	**–**	**–**	**–**	**(27,321)**	**(27,321)**
At 31st December 2007	**843,911**	**45,641**	**2,104**	**14,006**	**390,617**	**260,548**	**1,556,827**

Company	Share premium HK$'000	Employee share-based compensation reserve HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January 2006	596,020	2,508	2,104	14,006	17,499	47,214	679,351
Issue of new shares on exercise of share options	1,386	–	–	–	–	–	1,386
Employee share option benefits	–	13,990	–	–	–	–	13,990
Fair value gain of available-for-sale financial assets	–	–	–	–	45,419	–	45,419
Profit for the year	–	–	–	–	–	276,358	276,358
2005 final dividend paid	–	–	–	–	–	(17,758)	(17,758)
2006 interim dividend paid	–	–	–	–	–	(23,877)	(23,877)
At 31st December 2006	597,406	16,498	2,104	14,006	62,918	281,937	974,869

37. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts, not to be recovered within twelve months, are as follows:

	Group	
	2007 **HK$'000**	2006 HK$'000
Deferred tax assets	**(2,531)**	(1,231)
Deferred tax liabilities	**700**	496
	(1,831)	(735)

37. DEFERRED TAXATION *(continued)*

The gross movement in the deferred taxation is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1st January	**(735)**	(87)
Recognised in the income statement *(Note 9(a))*	**(1,096)**	(648)
At 31st December	**(1,831)**	(735)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities represented accelerated tax depreciation:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1st January	**496**	516
Recognised in the income statement	**204**	(20)
At 31st December	**700**	496

Deferred tax assets represented tax losses recognised:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1st January	**1,231**	603
Recognised in the income statement	**1,300**	628
At 31st December	**2,531**	1,231

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of approximately HK$49,203,000 (2006: HK$44,924,000) in respect of tax losses amounting to approximately HK$281,159,000 (2006: HK$256,712,000) that can be carried forward indefinitely against future taxable income.

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation from continuing operations to net cash outflow from operating activities

	2007 HK$'000	2006 HK$'000
Profit before taxation from continuing operations	**422,389**	85,088
Share of net (profit)/loss of associated companies	**(5,579)**	2,404
Share of net profit of jointly controlled entities	**(62,360)**	(4,418)
Interest income	**(18,777)**	(15,598)
Dividend income from listed investments	**–**	(2,965)
Finance costs	**27,537**	20,585
(Gain)/loss on disposal of property, plant and equipment	**(86)**	373
Fair value gains on investment properties	**(3,938)**	(12,239)
Gain on disposal of interest in subsidiaries	**(145,703)**	(13,897)
Loss on disposal of an associated company	**1,022**	–
Loss on deemed disposal of partial interest in an associated company	**1,833**	3,904
Loss on disposal of available-for-sale financial assets	**4,431**	–
Impairment of available-for-sale financial assets	**17,788**	2,341
Depreciation	**14,627**	36,861
Amortisation of leasehold land and land use rights	**3,941**	1,275
Impairment losses on trading rights and patent	**–**	500
Employees share option benefits	**42,171**	13,990
Operating profit before working capital changes	**299,296**	118,204
Decrease/(increase) in inventories	**1,539**	(451)
(Increase)/decrease in trade receivables	**(271,158)**	160,121
Increase in other receivables, prepayments and deposits	**(82,322)**	(137,569)
Increase in loans and advances	**(360,148)**	(109,666)
Increase in financial assets at fair value through income statement	**(267,462)**	(77,842)
Increase/(decrease) in trade and other payables	**426,091**	(119,818)
Increase in financial liabilities at fair value through income statement	**5,632**	–
Net cash outflow from operating activities	**(248,532)**	(167,021)

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of subsidiaries

	2007	2006
	HK$'000	*HK$'000*
Net assets disposed of:		
Property, plant and equipment	**212,057**	444
Leasehold land and land use rights	**18,372**	–
Inventories	**3,843**	90
Trade receivables	**10,099**	26
Other receivables, prepayments and deposits	**1,218**	13,762
Cash and cash equivalents	**8,195**	364
Trade and other payables	**(20,293)**	(3,683)
Tax payable	**(432)**	–
Borrowings	**(144,449)**	–
Minority interests	**(29,952)**	–
	58,658	11,003
Realisation of exchange reserve	**–**	(1,022)
Investment in an associated company	**(216)**	–
Gain on disposal of interest in subsidiaries	**145,703**	13,897
	204,145	23,878
Satisfied by:		
Cash consideration received	**204,145**	23,878

Analysis of the net cash inflow in respect of the disposal of subsidiaries:

	2007	2006
	HK$'000	*HK$'000*
Bank balances and cash disposed	**(8,195)**	(364)
Cash consideration	**204,145**	23,878
Net cash inflow in respect of the disposal of subsidiaries	**195,950**	23,514

39. FINANCIAL GUARANTEE

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantee for undrawn bank facilities of a subsidiary	**–**	–	**60,000**	50,000

40. COMMITMENTS

(a) Capital commitments for leasehold land and land use rights and property, plant and equipment:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Contracted but not provided for	**96,787**	41,803
Authorised but not contracted	**798,933**	320,348
The Group's share of capital commitments of a jointly controlled entity and an associated company not included in the above is as follows:		
Authorised but not contracted	**257,270**	5,059

The Company did not have any other material capital commitments.

(b) Commitments under operating leases

The Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of property, plant and equipment and investment properties as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**5,181**	1,735
Later than one year but not later than five years	**3,530**	717
More than five years	**1,126**	–
	9,837	2,452

40. COMMITMENTS *(continued)*

(b) Commitments under operating leases *(continued)*

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of property, plant and equipment and leasehold land and land use rights as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Not later than one year	**5,609**	7,251
Later than one year but not later than five years	**2,037**	7,858
	7,646	15,109

The Company did not have any material commitments under operating leases.

41. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties, which were carried out in normal course of business at terms determined and agreed by both parties.

(a) Transactions with related parties

	2007	2006
	HK$'000	*HK$'000*
Purchase of raw materials from associated companies	**1,425**	9,236
Purchase of investment properties from a jointly controlled entities	**–**	12,108
Acquisition of assets from related parties *(Note 35(b))*	**53,960**	–

(b) Key management compensations

Key management compensation has been disclosed in Note 14.

42. ANALYSIS OF FINANCIAL RISK MANAGEMENT

(a) Credit risk analysis

Credit risk is managed on a group basis. The Group's credit risk mainly arises from loans and receivables and cash and cash equivalents.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at the reporting date is carrying value of each class and category of financial assets mentioned above. The Group has put in place policies to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers. The directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

The Group's cash at bank and bank deposits are placed with reputable banks and financial institutions with good credit ratings. Given the stringent criteria, management does not expect any of these instiutions to fail to meets its obligations.

The following analysis shows the credit quality of the Group's loans and receivables that are exposed to credit risk:

	Loans and advances - long term 2007 *HK$'000*	**Loans and advances - short term 2007** *HK$'000*	**Trade receivables 2007** *HK$'000*	**Other receivables 2007** *HK$'000*
Gross amount				
– neither past due nor impaired	**–**	**578,613**	**376,528**	**132,766**
– past due but not impaired				
– less than three months	**–**	**–**	**32,091**	**–**
– between three to six months	**–**	**–**	**6,955**	**–**
– over six months	**–**	**1,332**	**2,891**	**–**
– impaired	**64,337**	**29,424**	**4,803**	**–**
	64,337	**609,369**	**423,268**	**132,766**

	Loans and advances - long term 2006 *HK$'000*	Loans and advances - short term 2006 *HK$'000*	Trade receivables 2006 *HK$'000*	Other receivables 2006 *HK$'000*
Gross amount				
– neither past due nor impaired	16,961	202,294	110,652	27,276
– past due but not impaired				
– less than three months	–	–	32,384	–
– between three to six months	–	–	10,557	–
– over six months	–	1,242	3,970	–
– impaired	63,895	31,209	5,154	–
	80,856	234,745	162,717	27,276

42. ANALYSIS OF FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk analysis *(continued)*

The following analysis shows the credit quality of the Company's loans and receivables that are exposed to credit risk:

	Other receivables 2007 HK$'000	**Loans and advances 2007 HK$'000**	**Loan to a subsidiary 2007 HK$'000**	**Amounts due from subsidiaries 2007 HK$'000**	**Amounts due from associated companies 2007 HK$'000**
Gross amount					
– neither past due nor impaired	**3,039**	**–**	**70,000**	**981,612**	**–**
– impaired	**–**	**64,337**	**–**	**677,668**	**–**
	3,039	**64,337**	**70,000**	**1,659,280**	**–**

	Other receivables 2006 *HK$'000*	Loans and advances 2006 *HK$'000*	Loan to a subsidiary 2006 *HK$'000*	Amounts due from subsidiaries 2006 *HK$'000*	Amounts due from associated companies 2006 *HK$'000*
Gross amount					
– neither past due nor impaired	2,318	–	70,000	779,150	252
– impaired	–	63,895	–	602,480	–
	2,318	63,895	70,000	1,381,630	252

The loan and receivables that are within the credit period granted are not considered as impaired. These relate to a number of independent customers with no recent history of default.

The individually impaired trade receivables mainly relate to a number independent customers, which are in unexpected different economic situations.

None of the financial assets that are fully performing have been renegotiated in 2007 and 2006.

Save as disclosed above, no financial assets were past due but not impaired at the balance sheet dates of 2007 and 2006. None of the financial assets that are fully performing has been renegotiated in 2007 and 2006.

42. ANALYSIS OF FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk analysis

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of underlying businesses, senior management of the Group aims to maintain flexibility in funding by keeping committed credit lines available.

The following analysis shows the Group's contractual maturity of financial liabilities:

	Less than one year 2007 *HK$'000*
Borrowings	
Current other loans – unsecured	**3,217**
Trade and other payables	**586,721**
Financial liabilities at fair value through income statement	**5,632**
	595,570

	Less than one year 2006 *HK$'000*	One to five years 2006 *HK$'000*	Total 2006 *HK$'000*
Borrowings			
Non-current bank loans – secured	–	144,449	144,449
Current other loans – unsecured	2,989	–	2,989
Trade and other payables	185,798	–	185,798
	188,787	144,449	333,236

The Company's contractual trade and other payables amounting to HK$7,516,000 (2006: HK$18,836,000) will mature within one year.

The amounts disclosed above are the contractual undiscounted cash flows.

(c) Market risk analysis – foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar and Renminbi. Revenue and majority of its operating costs and cost of sales are in Hong Kong dollar and Renminbi basis. No significant foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations is expected in the foreseeable future. The Group does not use any derivative financial instruments to hedge its foreign exchange risk.

42. ANALYSIS OF FINANCIAL RISK MANAGEMENT *(continued)*

(c) Market risk analysis – foreign exchange risk *(continued)*

At 31st December 2007, if Renminbi had strengthened/weakended by 10% against the Hong Kong dollar, with all other variables held constant, post-tax profit for the year would have been HK$422,000 (2006: HK$342,000) higher/lower, mainly as a result of foreign exchange gains on translation of Renminbi-denominated loans and receivables and cash at bank. In determining the percentage of the currency fluctuation, the Group has considered the economic environments in which it operates.

(d) Market risk analysis – interest rate risk

The Group's income and operation cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets, other than margin loans, cash at bank and short term bank deposits. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Company is not exposed to interest rate risk as its loans to subsidiaries were issued at fixed rates or interest free.

At 31st December 2007, if interest rates on cash at bank and short term bank deposit had been 100 basic points higher/lower with all other variables held constant, post-tax profit for the year would have been HK$5,770,000 (2006: HK$4,761,000) higher/lower. There is no impact on equity.

(e) Market risk analysis – price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the balance sheet either as available-for-sale financial assets or as financial assets at fair value through income statement. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's equity investments in equity for trading purpose are preliminary publicly traded or quoted in Hong Kong, the Chinese Mainland and America.

The Group's equity exposures are mainly in long-term equity investments, which are reported as "available-for-sale financial assets" set out in Note 24 to the consolidated financial statements. Equities held for trading purpose are included under "financial assets at fair value through income statement" set out in Note 30 to the consolidated financial statements.

At 31st December 2007, if the listed or quoted price of each equity investment classified as financial assets at fair value through income statement and available-for-sale financial assets had appreciated/depreciated by 10%, with all other variables held constant, post-tax profit for the year would have been HK$43,216,000 (2006: HK$15,790,000) higher/lower, mainly as a result of unrealised losses on equity securities classified as financial assets at fair value through income statement. Equity would have been HK$39,062,000 (2006: HK$6,292,000) higher/lower, arising from gain/loss on equity securities classified as available-for-sale financial assets.

43. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board of Directors on 18th April 2008.