



# **Willie International Holdings Limited**

(Incorporated in Hong Kong with limited liability)

*Listed Since 1972    Stock Code: 273*

ANNUAL REPORT  
2007

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## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Chuang Yueheng, Henry (*Chairman*)  
King Phillip (*Managing Director*)  
Lo Kan Sun (*Chief Operating Officer*)  
(resigned with effect from 23 April 2008)  
Wong Ying Seung, Asiong  
Wang Lin

#### Independent Non-Executive Directors

Nakajima Toshiharu  
(resigned with effect from 23 April 2008)  
Lin Wai Yi  
Liu Jian  
Shum Ming Choy  
Yau Yan Ming, Raymond

#### Alternate Director

Lee Kwan Ching  
(Alternate Director to Wong Ying Seung, Asiong)

### AUDIT COMMITTEE

Shum Ming Choy (*Chairman*)  
Nakajima Toshiharu  
(resigned with effect from 23 April 2008)  
Lin Wai Yi  
Yau Yan Ming, Raymond

### REMUNERATION COMMITTEE

Wong Ying Seung, Asiong (*Chairman*)  
Nakajima Toshiharu  
(resigned with effect from 23 April 2008)  
Yau Yan Ming, Raymond  
Shum Ming Choy

### QUALIFIED ACCOUNTANT

Lee Kwan Ching

### COMPANY SECRETARY

Chan Mee Sze

### AUDITORS

Mazars CPA Limited  
Certified Public Accountants  
34/F, The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

### REGISTERED OFFICE

32/F, China United Centre  
28 Marble Road  
North Point  
Hong Kong

### PRINCIPAL BANKERS

Chong Hing Bank Limited  
The Bank of East Asia Limited  
The Hongkong and Shanghai Banking  
Corporation Limited

### SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
*Transfer Office*  
Shops 1712-1716,  
17/F, Hopewell Centre  
183 Queen's Road East  
Hong Kong

*Investor Communication Centre*  
Rooms 1806-1807,  
18/F, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### INTERNET ADDRESS

<http://www.willie273.com>  
<http://www.irasia.com/listco/hk/willie/index.htm>

## FINANCIAL HIGHLIGHTS

**TURNOVER SUMMARY**

(In HK\$'000)

Year ended 31 December	<b>03</b>	138,937	
Year ended 31 December	<b>04</b>	92,744	
Year ended 31 December	<b>05</b>	124,477	
Year ended 31 December	<b>06</b>	295,508	
Year ended 31 December	<b>07</b>		1,448,876

**NET WORTH SUMMARY**

(In HK\$'000)

As at 31 December	<b>03</b>	303,782	
As at 31 December	<b>04</b>	91,451	
As at 31 December	<b>05</b>	311,567	
As at 31 December	<b>06</b>	329,614	
As at 31 December	<b>07</b>		1,486,465

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Willie International Holdings Limited (the "Company") will be held at 30/F, China United Centre, 28 Marble Road, North Point, Hong Kong on Friday, 30 May 2008 at 9:00 a.m. for the purpose of transacting the following business:

### ORDINARY RESOLUTIONS

1. To receive and consider the audited consolidated financial statements and the reports of the directors and auditors of the Company for the year ended 31 December 2007.
2. To re-elect Mr. King Phillip, Ms. Lin Wai Yi and Mr. Liu Jian as directors of the Company and to authorise the board of directors of the Company to fix their remuneration.
3. To re-appoint Mazars CPA Limited as auditors of the Company and to authorise the board of directors of the Company to fix their remuneration.

As special businesses, to consider and if thought fit, pass with or without modification the following resolutions as ordinary resolutions:

4. **"THAT:**
  - (A) subject to paragraph (C) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
  - (B) the Directors be and are authorised during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers during or after the end of the Relevant Period;
  - (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraphs (A) and (B), otherwise than (i) a Rights Issue (as hereafter defined) or (ii) the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes or other securities issued by the Company which carry rights to subscribe for or are convertible into shares of the Company or (iii) an issues of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Company and/or any of its subsidiaries or any other eligible person(s) of shares or right to acquire shares of the Company or (iv) an issue of shares as scrip dividend pursuant to the Articles of Association, from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution and the said approval shall be limited accordingly; and

## NOTICE OF ANNUAL GENERAL MEETING

(D) for the purposes of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of Hong Kong to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange).”

5. **“THAT:**

- (A) subject to paragraph (C) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase securities in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to purchase such securities are subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) shall be in addition to any other authorisation given to the Directors and shall authorise the Directors on behalf of the Company during the Relevant Period to procure the Company to purchase its securities at a price determined by the Directors;
- (C) the aggregate nominal amount of securities in the capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph (A) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution and the said approval shall be limited accordingly; and

## NOTICE OF ANNUAL GENERAL MEETING

(D) for the purposes of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum and articles of association of the Company or any applicable law of Hong Kong to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

6. “**THAT** conditional upon the passing of the ordinary resolution no. 4 and 5 above, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the said resolution no. 5 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the ordinary resolution no. 4 above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing of this resolution.”

7. “**THAT** the existing scheme mandate limit in respect of the granting of options to subscribe for shares in the Company under the share option scheme adopted by the Company on 20 November 2002 (the “Share Option Scheme”) be refreshed and renewed provided that the total number of shares of the Company which may be allotted and issued pursuant to the grant or exercise of the options under the Share Option Scheme (excluding options previously granted, outstanding, cancelled, lapsed or exercised under the Share Option Scheme), shall not exceed 10% of the shares of the Company in issue as at the date of passing this resolution (the “Refreshed Limit”) and that the Directors be and are hereby authorised, subject to compliance with the Rules Governing the Listing of Securities on the Stock Exchange, to grant options under the Share Option Scheme up to the Refreshed Limit and to exercise all the powers of the Company to allot, issue and deal with shares of the Company pursuant to the exercise of such options.”

## NOTICE OF ANNUAL GENERAL MEETING

8. **"THAT** the authorised share capital of the Company be increased from HK\$500,000,000 divided into 5,000,000,000 shares of HK\$0.10 each to HK\$5,000,000,000 divided into 50,000,000,000 shares of HK\$0.10 each by the creation of an additional 45,000,000,000 shares of HK\$0.10 each in the capital of the Company, such new shares shall rank *pari passu* in all respects with the existing shares in the capital of the Company."

By Order of the Board

**Willie International Holdings Limited**

**Chan Mee Sze**

*Company Secretary*

Hong Kong, 30 April 2008

*Registered Office and Head Office:*

32/F, China United Centre

28 Marble Road

North Point

Hong Kong

*As at the date of this notice, the Board comprises four executive Directors, namely, Mr. Chuang Yueheng, Henry, Mr. King Phillip, Mr. Wong Ying Seung, Asiong and Mr. Wang Lin and four independent non-executive Directors, namely, Ms. Lin Wai Yi, Mr. Liu Jian, Mr. Shum Ming Choy and Mr. Yau Yan Ming, Raymond.*

*Notes:*

1. A form of proxy to be used for the meeting is enclosed.
2. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to attend and vote instead of him. On a poll votes may be given either personally or by proxy. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion.
3. To be valid, the instrument appointing a proxy must be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
4. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18/F, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in such instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.
5. Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first on the register in respect of such share shall alone be entitled to vote in respect thereof.

# CHAIRMAN'S STATEMENT

## THE YEAR IN REVIEW

2007 was a mixed year. We saw tremendous growth in the financial markets around the world during the first half of the year but only to come to a halt as the result of the US subprime mortgage meltdown and credit crunch. We saw an Hang Seng Index that reached a high of close to 32,000 but only to drop to around 27,800 at year end and subsequently to around 24,000 as I am writing this statement. Our performance was strong in the first half of the year, result in the second half of the year was severely depressed by the impact of the unprecedented turbulence in the financial markets and especially the Hong Kong and China stock markets.

During the year, we continue to execute our growth strategies. We have evaluated many projects in the natural resources and energy sectors as well as real estate or investment properties in the Hong Kong market. Shareholders will see that we have acquired several properties in the local upper end housing market. Our property holdings have appreciated as a result of the strong local demand for luxury housing. We have proceeded with the forestry project in Simao District, Puer City in the Yunnan Province as stated in the annual report last year. Harvest of lumber has been scheduled to proceed in 2008. With the rising demand and cost of lumber in China, the project should begin to yield positive cash flow in 2008. Our investment portfolio which consists of mostly local stocks and investment instruments has suffered a write down as the result of the market correction. We continue to have positive outlook for the local economy and stock market and will continue to monitor the portfolio and take appropriate actions.

You may recall that last year I told shareholders that my mission as chairman is to grow the Company, its subsidiaries, and our business. It has been our experience that in a business cycle, attributes such as the size, scale, revenue diversity, and the ability to execute are directly related to the strength of our Company and hence our ability to negotiate and take advantage of potential business opportunities. During the year, we have taken several opportunities to strengthen our capital base through various placements, stock options, and other financial instruments, we have increased our capital base by HK\$1,389.2 million (before issue expenses). During the first few months of 2008, we have further increased our capital base by HK\$385.5 million (before issue expenses). We have concentrated much of our resources in cash and liquid asset and we are in a good position to take advantage of opportunities as they may arise.

## RESULTS

Turnover for the year ended 31 December 2007 (the "Year") amounted to HK\$1,448.9 million, an increase of 390.3% when compared with HK\$295.5 million for the last year. The increase in turnover was mainly attributable to the increase in the sale of listed investments during the Year. Loss attributable to equity holders for the Year was HK\$197.6 million compared with a loss of HK\$114.8 million for the last year. Loss attributable to equity holders for the Year was mainly resulted from the net unrealised holding loss recognised on listed investments and derivative financial instruments amounted to HK\$307.7 million (2006: net unrealised holding gain of HK\$10.0 million). Loss per share for the Year was HK\$0.176 compared with HK\$0.331 as restated for the last year. The Audit Committee has reviewed the audited financial statements of the Company and its subsidiaries (the "Group") for the Year, including the accounting principles and practices adopted by the Group.

## CHAIRMAN'S STATEMENT

### **DIVIDEND**

The Board does not recommend the payment of a dividend for the Year (2006: Nil).

### **CAPITAL REORGANISATION AND RIGHTS ISSUE**

The Company passed a special resolution to effect the capital reorganisation comprising the share consolidation (i.e. the consolidation of 10 shares of HK\$0.10 each into one consolidated share of HK\$1.00) and the capital reduction (i.e. the reduction of the par value of a consolidated share from HK\$1.00 to HK\$0.10) in 2007. The said capital reorganisation became effective on 31 December 2007. The Company acquired from the market 8 issued shares of the Company pursuant to the powers granted to the Directors under the repurchase mandate so as to facilitate the said capital reorganisation. The credit of approximately HK\$1,366,138,168 arising from the capital reduction was credited to the share premium account of the Company.

On 28 December 2007, conditional upon the aforesaid capital reorganisation, an ordinary resolution approving the rights issue to issue 1,517,931,298 rights shares on the basis of one rights share for every then existing issued and paid up share at a subscription price of HK\$0.22 per rights share was passed. On 29 January 2008, an aggregate of 1,517,931,298 rights shares of the Company were issued at the subscription price of HK\$0.22 per rights share.

### **LIQUIDITY AND CAPITAL RESOURCES**

During the Year, the Company has completed four share placements for 6,154,218,000 new shares and the issuance of 2,018,600,000 new shares arising from exercise of share options, raising a total additional equity of approximately HK\$717.3 million (before issue expenses) and HK\$246.9 million respectively.

During the Year, the Company has issued two series of two years non-interest bearing convertible notes at a conversion price of HK\$0.1 with an aggregate principal amount of HK\$350 million, the convertible notes were converted in full and resulted in the issuance of 3,500 million shares of the Company.

During the Year, the Company has issued 3,000,000,000 listed warrants at an issue price of HK\$0.025 per warrant in October 2007 and raising an additional equity of HK\$75 million (before issue expenses). Each warrant confers the right to subscribe for one share at the subscription price of HK\$0.10 each and exercisable during a period of 18 months commencing from the date of issue. As a result of the share consolidation completed and rights issue approved, the subscription rights of the warrants was adjusted to 300,000,000 shares and the subscription price of the warrants was adjusted to HK\$0.68 per share at the end of the Year, respectively. The subscription price of the warrants was subsequently adjusted to HK\$0.67 per share as a result of a share placement completed in February 2008.

## CHAIRMAN'S STATEMENT

As at 31 December 2007, the Group's total equity amounted to HK\$1,486.5 million as compared with HK\$329.6 million at 31 December 2006. As at 31 December 2007, the Group had net current assets of HK\$1,048.3 million including cash and cash equivalents of HK\$304.4 million as compared with HK\$217.1 million including cash and cash equivalents of HK\$8.9 million at 31 December 2006. The Group maintained a low gearing ratio of 2.5% (computed on the basis of net borrowings to total equity) and current ratio of 6.8 times at 31 December 2007 as compared to 4.4% and 14.8 times respectively at 31 December 2006.

As at 31 December 2007, the Group had bank and other borrowings amounted to HK\$341.6 million (31 December 2006: HK\$23.3 million). Of the Group's bank and other borrowings of HK\$341.6 million, 47.1%, 3.3%, 10.7%, 38.9% are repayable within 1 year, 1 to 2 years, 2 to 5 years and over 5 years respectively. The Group's bank and other borrowings carrying interest rates were calculated with reference to prime rate and denominated in Hong Kong dollars. The Group did not have any financial instruments used for hedging purpose.

As most of the Group's transactions and bank balances were denominated in Hong Kong dollars, the Group's exposure to foreign exchange risk was minimal.

### **PLEDGE OF ASSETS**

As at 31 December 2007, certain assets of the Group with an aggregate carrying value of HK\$343.9 million (31 December 2006: HK\$27.7 million) have been pledged to banks to secure general banking facilities granted to the Group.

### **CAPITAL COMMITMENTS**

As at 31 December 2007, the Group had capital commitments contracted but not provided net of deposit paid in respect of balance payment for acquisition of properties and other capital expenditure amounting to HK\$58.3 million (31 December 2006: Nil).

### **CONTINGENT LIABILITIES**

As at 31 December 2007, the Company had contingent liabilities not provided for in the financial statements in respect of corporate guarantees for banking facilities of HK\$216.9 million (31 December 2006: HK\$38 million) granted to its subsidiaries, which were utilised to the extent of HK\$191.6 million (31 December 2006: HK\$18.3 million).

### **EMPLOYEES**

As at 31 December 2007, the Group employed a total of 27 employees (2006: 25). The Group remunerates its employees based on their performance, working experience and prevailing market standards. Employee benefits include a medical insurance coverage, provident fund and a share option scheme.

# CHAIRMAN'S STATEMENT

## MATERIAL ACQUISITION AND DISPOSAL

In 2007, the Group acquired several investment properties. In April 2007, the Group acquired a property known as House No. 6, Somerset Path, The Royal Oaks, 8 Kam Tsin South Road, Sheung Shui, New Territories at a consideration of HK\$57.8 million. In June 2007, the Group also acquired a holding company for its principal asset, a property known as Unit 1, Sunshine Villa, No. 48 Mount Kellett Road, The Peak, Hong Kong at a consideration of HK\$88 million.

During the Year, the Group acquired 100% equity interest in Allied Loyal International Investments Limited for the principal asset of 50% of the forestry lands use rights (林地使用權) and forestry trees entitlement (林木所有權) of the forests granted by 雲南省普洱市翠雲區人民政府 in Simao District (思茅區), Puer City (普洱市), Yunnan Province, the People's Republic of China (the "PRC"). In October 2007, the Group completed the disposal of all of its 50% interest in Amerinvest Coal Industry Holding Company Limited, a company that invests in the West China Coking Project in Yunnan Province in the PRC.

## FUTURE PLAN

The global economy is facing great challenges as the result of the fallout of the US subprime mortgage crisis. There are great uncertainties and difficulties ahead. While the Company has not changed its growth plan in the natural resources and the real estate markets, we will be using extreme caution in implementing our strategies. After the capital exercises during the beginning of 2008, the Company is in a good position to capture any good opportunities as they may arise.

## APPRECIATION

Mr. Lo Kan Sun ("Mr. Marcus Lo") who joined the Company in 2002 has indicated that he will be resigning and relocating outside of Hong Kong. Mr. Marcus Lo and I have worked together for over 5 years and I am indeed saddened by his resignation. Mr. Marcus Lo has always shown care, insights, and remarkable patience in the evaluation of projects. Mr. Marcus Lo is analytical, highly reliable, and a team player. We sincerely thank him for his dedication, leadership, and wisdom. It has been a privilege and a pleasure to work with Mr. Marcus Lo and we wish him all the best in his future endeavors. Marcus, you will be sorely missed.

I would also like to extend my appreciation to Mr. Nakajima Toshiharu ("Mr. Nakajima") who has served as an independent non-executive director since 2005. Mr. Nakajima has submitted his resignation and plans to return to Japan to enjoy his retirement.

In closing, I would like to thank our shareholders for your ongoing support and confidence; our associates, for your commitment in bringing in and creating opportunities; our employees, for your dedications and hard work; and our directors, for your wisdom and guidance through a challenging year. I look forward to our long-term future with confidence and optimism and I welcome your thoughts and suggestions.

**Chuang Yueheng, Henry**

*Chairman*

Hong Kong, 18 April 2008

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Chuang Yueheng, Henry**, aged 52, was appointed as the Chairman of the Company in 2002. He holds Masters degrees in Petroleum Engineering and in Business Administration from the University of Southern California in the United States of America. In 2007, Dubna University of Russia awarded Mr. Chuang an Honorary Doctorate degree in Petroleum Engineering in recognition of his achievements in the field of petroleum engineering. He has over 15 years of experience in corporate finance and development.

**Mr. King Phillip**, aged 37, was appointed as the Managing Director of the Company in 2005. He holds a Master's degree in Business Administration from the University of San Francisco in the United States of America. He has over 18 years of experience in real estate investment, management and development.

**Mr. Wong Ying Seung, Asiong**, aged 57, was appointed as the Director of the Company in 2002. He holds a Bachelor's degree in Chemical Engineering from the University of London in the United Kingdom. He has over 28 years of experience in banking and investment.

**Mr. Wang Lin**, aged 53, was appointed as the Director of the Company in 2006. He studied Electronics from the Yunnan Radio and TV University. He is an Economist by profession with over 30 years of experience in accounting and finance.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Lin Wai Yi**, aged 44, was appointed as the Director of the Company in 2005. She holds Bachelor's, Master's and Doctorate degrees all in Chinese Laws from the Beijing University in the People's Republic of China. She has been a practising solicitor in Hong Kong since 1994 and has been registered as a solicitor in England and Wales since 1996. She is the founder of Messrs. Deca Lin & Partners.

**Mr. Liu Jian**, aged 39, was appointed as the Director of the Company in 2006. He holds a Bachelor's degree in Electrical Engineering from the Fudan University, Shanghai in the People's Republic of China as well as a Master's degree in Chinese Law from the Jilin University in the People's Republic of China. He is a Senior Economist by profession and has over 15 years of experience in corporate finance and investment banking. Mr. Liu is the Vice President of the Century Securities Company Limited in Beijing.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Shum Ming Choy**, aged 57, was appointed as the Director of the Company in 2006. He holds a Bachelor's degree in Laws (Hons.) from the University of Hong Kong. He is a solicitor of the High Court of Hong Kong SAR and Supreme Court of England & Wales. He was a non-executive director of Goldwiz Holdings Limited, a publicly listed company in Hong Kong, during the period from 18 May 2006 to 15 June 2006. He was re-designed as an independent non-executive director of Goldwiz Holdings Limited from 15 June 2006 to 14 February 2007.

**Mr. Yau Yan Ming, Raymond**, aged 39, was appointed as the Director of the Company in 2006. He holds a Master's degree in Science majoring in Japanese business studies and Bachelor's degree in Business Administration majoring in accounting in the United States of America. He is a Certified Public Accountant both in Hong Kong and in the United States of America. He is also an associate member of Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He has over 10 years of working experience in areas of auditing, accounting, taxation, company secretarial, corporate finance and financial management. He is an independent non-executive director of Grandtop International Holdings Limited, a publicly listed company in Hong Kong.

### SENIOR MANAGEMENT

**Ms. Lee Kwan Ching**, aged 48, is the financial controller and the qualified accountant of the Company. She holds a Bachelor's degree in Commerce (Accounting) from the University of Birmingham in the United Kingdom. She is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. She has over 20 years of experience in finance and accounting.

## DIRECTORS' REPORT

The Board of Directors submits their annual report together with the audited financial statements for the year ended 31 December 2007.

### **PRINCIPAL ACTIVITIES**

The Company and its subsidiaries (the "Group"), through various subsidiaries and associated companies, is principally engaged in the business of property investment, investment in securities trading, investing in energy related businesses and acquiring, exploring and developing natural resources. Details of the principal activities and other particulars of the Company's subsidiaries and associated companies are set out in notes 16 and 18 to the financial statements respectively.

### **RESULTS AND DIVIDENDS**

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 28.

The Board of Directors does not recommend the payment of a dividend.

### **DONATIONS**

During the year, the Group made charitable donations amounting to HK\$6,276.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

### **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on pages 85 and 86.

### **INVESTMENT PROPERTIES AND FIXED ASSETS**

Details of significant changes in the investment properties and fixed assets of the Group during the year are set out in notes 14 and 15 respectively to the financial statements.

Particulars of the major properties of the Group as at 31 December 2007 are set out on pages 87 and 88.

## DIRECTORS' REPORT

### BORROWINGS

Details of the bank and other borrowings of the Group and the Company are set out in note 23 to the financial statements.

### SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

### SHARE OPTIONS

Details of the share option scheme of the Company are set out in note 27 to the financial statements. During the year, 1,761,600,000 share options were granted. Including the share options granted in year 2006, a total of 2,018,600,000 share options were exercised under the share option scheme of the Company during the year. As at 31 December 2007, there was no outstanding share option.

### PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2007, the Company purchased 8 shares of HK\$0.10 each in the capital of the Company at HK\$0.03 (or HK\$0.26 adjusted) per share on The Stock Exchange of Hong Kong Limited.

Date	Number of shares repurchased	Price per share HK\$	Aggregate consideration paid (excluding expenses)
			HK\$
29 November 2007	8	0.03	0.24

The repurchased shares were cancelled and the issued share capital of the Company was diminished by the nominal value thereof.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

### OPTIONS OR SIMILAR RIGHTS

Movement in share option scheme during the year ended 31 December 2007 is set out in note 27 to the financial statements. The Company or any of its subsidiaries has no outstanding options or similar rights as at 31 December 2007.

## DIRECTORS' REPORT

### WARRANTS

The Company issued and placed 3,000,000,000 listed warrants during the year ended 31 December 2007, details and adjustments of which are set out in note 26 to the financial statements. During the year, no warrant was exercised by the warrant holders.

### DIRECTORS

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

#### Executive Directors

Chuang Yueheng, Henry

King Phillip

Lo Kan Sun

(resigned with effect from 23 April 2008)

Wong Ying Seung, Asiong

Wang Lin

#### Independent Non-executive Directors

Nakajima Toshiharu

(resigned with effect from 23 April 2008)

Lin Wai Yi

Liu Jian

Shum Ming Choy

Yau Yan Ming, Raymond

#### Alternate Director

Lee Kwan Ching

(Alternate Director to Lo Kan Sun)

(appointed as alternate director to Wong Ying Seung, Asiong and ceased

to be alternate director to Lo Kan Sun with effect from 23 April 2008)

In accordance with Article 120 of the Articles of Association of the Company, Mr. King Phillip, Ms. Lin Wai Yi and Mr. Liu Jian retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The term of office of each independent non-executive Director is for a period of three years but subject to retirement by rotation and re-election at the general meetings of the Company in accordance with the Articles of Association of the Company.

The Directors proposed for re-election at the forthcoming annual general meeting do not have service contracts which are not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' REPORT

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, the Directors of the Company who held office and their respective associates did not hold any interest or short position in the shares and underlying shares or debentures of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register of directors' interests and short positions required to be kept under section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities.

At no time during the year was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

### DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company, its holding company or 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.

### SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company has been notified of the following interests in the Company's issued shares as at 31 December 2007 amounting to 5% or more of the ordinary shares, warrants and convertible notes in issue:

#### Interests in the Company

	<b>Number of ordinary shares of HK\$0.1 each held</b>	<b>Approximate percentage of shareholding</b>
Unity Investments Holdings Limited	85,000,000	5.60%
Radford Capital Investment Limited	76,382,000	5.03%

Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

## DIRECTORS' REPORT

### **RETIREMENT SCHEME**

The Group provides a defined contribution retirement scheme under the Mandatory Provident Fund Scheme (the "Scheme") in Hong Kong to all staff. Under the Scheme, employer and employees are each required to make contributions to the scheme at 5% of the employees' relevant income.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2007, the aggregate amount of turnover and purchases attributable to the Group's five largest customers and suppliers respectively represented less than 30% of the Group's total turnover and purchases.

### **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.

### **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Articles of Association of the Company, or the laws of Hong Kong, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### **SUFFICIENCY OF PUBLIC FLOAT**

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

### **POST BALANCE SHEET EVENTS**

Details of significant events occurring after the balance sheet date are set out in note 34 to the financial statements.

## DIRECTORS' REPORT

### **AUDITORS**

During the year under review, Moores Rowland (previously known as Moores Rowland Mazars) resigned as auditors of the Company. Mazars CPA Limited was appointed as auditors of the Company to fill the casual vacancy. There have been no other changes of auditors in the past three years.

A resolution will be submitted at the annual general meeting to re-appoint Mazars CPA Limited, as auditors of the Company.

On behalf of the Board

**Willie International Holdings Limited**

**Chuang Yueheng, Henry**

*Chairman*

Hong Kong, 18 April 2008

# CORPORATE GOVERNANCE REPORT

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Board of Directors (the "Board") of the Company is committed to maintain high standards of corporate governance to the Company's development and has devoted considerable efforts to formulate appropriate corporate governance practices. The Company has complied with all Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the financial year ended 31 December 2007.

The Board will continue to review and recommend such steps as appropriate in a timely manner in order to comply with the requirements of the Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has complied with the requirements for directors' securities transactions stated in the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") in Appendix 10 of the Listing Rules. All Directors of the Company have confirmed that they have complied with the requirements as set out in the Model Code for the year ended 31 December 2007.

## BOARD OF DIRECTORS AND BOARD MEETING

The Board comprises ten members and their positions, as at the date of this report, are as follows:

### Executive Directors

Chuang Yueheng, Henry	<i>(Chairman)</i>
King Phillip	<i>(Managing Director)</i>
Lo Kan Sun	<i>(Chief Operating Officer) (resigned with effect from 23 April 2008)</i>
Wong Ying Seung, Asiong	
Wang Lin	

### Independent Non-executive Directors

Nakajima Toshiharu	<i>(resigned with effect from 23 April 2008)</i>
Lin Wai Yi	
Liu Jian	
Shum Ming Choy	
Yau Yan Ming, Raymond	

### Alternate Director

Lee Kwan Ching	<i>(appointed as alternate director to Wong Ying Seung, Asiong and ceased to be alternate director to Lo Kan Sun with effect from 23 April 2008)</i>
<i>(Alternate Director to Lo Kan Sun)</i>	

## CORPORATE GOVERNANCE REPORT

All Directors of the Company have the fiduciary duties to act in good faith and in the best interests of the Company in addition to the statutory duties imposed on each of them. All Directors are conscious about their responsibilities to all the stakeholders of the Company and they have provided grave concern, sufficient time and attention to all the significant issues and affairs of the Company and its subsidiaries (the "Group"). Each Executive Director has accumulated sufficient and valuable experience to hold his position in order to ensure that they have been carried out their duties in an efficient and effective manner.

To improve the transparency and independency of the corporate governance of the Company, the fiduciary duties of the Chairman and the Managing Director of the Company are segregated and not executed by the same individual. The Chairman is responsible for the management of the Board and external corporate communication. The Managing Director is responsible for the day-to-day operation, among other matters, the implementation of the overall strategy of the Company.

Details of the backgrounds and qualifications of the Directors are set out in the section of "Biographies of Directors and Senior Management" on pages 12 and 13 of the annual report for year ended 31 December 2007 (the "Annual Report"). None of the members of the Board have, in any respect, related to each other in any circumstances.

The Board held eight full board meetings in 2007. Details of the attendance of the Board members are as follows:

<b>Executive Directors</b>	<b>Attendance</b>
Chuang Yueheng, Henry	6/8
King Phillip	7/8
Lo Kan Sun (resigned with effect from 23 April 2008)	8/8
Wong Ying Seung, Asiong	8/8
Wang Lin	6/8
<b>Independent Non-executive Directors</b>	
Nakajima Toshiharu (resigned with effect from 23 April 2008)	7/8
Lin Wai Yi	8/8
Liu Jian	6/8
Shum Ming Choy	8/8
Yau Yan Ming, Raymond	8/8

## CORPORATE GOVERNANCE REPORT

Save for the above regular board meetings held in 2007, meetings of the Directors were held to discuss and transact other special businesses. The Board members are provided with appropriate and sufficient information in a timely manner to keep abreast of the Group's latest developments. Notice of each board meeting and details of its agenda were delivered in advance to the Board. Minutes of each board meeting were sent to the Directors within 7 days after the meeting.

The independent non-executive Directors were appointed by reference to their respective qualifications and experience to ensure that they are competent to perform their duties and to protect the interest of the shareholders of the Company (the "Shareholders"). All the independent non-executive Directors are appointed with specific written terms by the Company.

The Company has received annual confirmation of independence from the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed and concluded that all the independent non-executive Directors are independent in view of the definition of the Listing Rules.

### TRAINING FOR DIRECTORS

Each newly appointed Director receives comprehensive, formal induction to ensure that he/she has appropriate understanding of the business and his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

### REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established in June 2005. The primary duties of the Remuneration Committee are (i) to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and (ii) to review the special remuneration packages of all executive Directors by reference to corporate goals and objectives resolved by the Board from time to time. As at the date of this report, the Remuneration Committee comprises two independent non-executive Directors and one executive Director, namely:

Wong Ying Seung, Asiong (*Chairman*)

Nakajima Toshiharu

(resigned with effect from 23 April 2008)

Yau Yan Ming, Raymond

The Company formulated written terms of reference for the Remuneration Committee and the adopted terms of reference is in compliance with the Code Provision B.1.3.

## CORPORATE GOVERNANCE REPORT

The Remuneration Committee held four meetings in 2007. Details of the attendance of the Remuneration Committee meetings are set out below:

<b>Committee members</b>	<b>Attendance</b>
Wong Ying Seung, Asiong	4/4
Nakajima Toshiharu (resigned with effect from 23 April 2008)	4/4
Yau Yan Ming, Raymond	4/4

During the year, the Remuneration Committee has reviewed and approved the remuneration package of all staff.

### **NOMINATION OF DIRECTORS**

The Company does not have a nomination committee. The Board is empowered under the Company's Articles of Association to appoint any person as a Director either to fill a casual vacancy on or as an additional member of the Board. Candidates to be selected and recommended are those who are experienced and competence and able to fulfill the fiduciary duties and duties of skill, care and diligence to a standard required of for listed companies' Directors. By convention, a proposal for the appointment of a new Director together with detailed information on his/her educational and professional qualifications and the relevant working experience is submitted to the Board for decision in the appointment process. At every annual general meeting, one-third of the Directors are subject to retirement by rotation, provided that every Director shall be subject to retirement at least once every three years.

During the year, a Board meeting was held to approve the resignation of Director.

### **AUDIT COMMITTEE**

The audit committee of the Company (the "Audit Committee") was established in January 2003 and written terms of reference were formulated. The primary duties of the Audit Committee are to communicate with the management of the Company from time to time, among other matters, to review (i) the accounting principles and practices adopted by the Company; (ii) the effectiveness of its internal control systems and (iii) the interim and annual results of the Company. The Audit Committee currently comprises four members and all of them are independent non-executive Directors, namely:

Shum Ming Choy ( <i>Chairman</i> )	
Nakajima Toshiharu (resigned with effect from 23 April 2008)	
Lin Wai Yi	
Yau Yan Ming, Raymond	

## CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2007, the Audit Committee met five times with the external auditors and representative of the management of the Company. The attendance records of each Audit Committee member in 2007 are set out below:–

<b>Committee members</b>	<b>Attendance</b>
Nakajima Toshiharu (resigned with effect from 23 April 2008)	5/5
Lin Wai Yi	4/5
Shum Ming Choy	5/5
Yau Yan Ming, Raymond	5/5

The Audit Committee reviewed the Company's unaudited interim results for the six months ended 30 June 2007 and audited annual results for the financial year ended 31 December 2007 and it concluded that the preparations of such results have been complied with the applicable accounting standards.

### EXTERNAL AUDITORS

The Audit Committee is responsible for considering the appointment of the external auditors and reviewing any non-audit services performed by the external auditors. Mazars CPA Limited were appointed as the external auditors of the Company during the year to fill the casual vacancy left by Moores Rowland (previously known as Moores Rowland Mazars). During the year, the remuneration of HK\$978,000 and HK\$394,000 were paid to Mazars CPA Limited for the provisions of audit services and the non-audit services including mainly review works of financial information respectively to the Group.

### INTERNAL CONTROLS

Proper internal controls facilitate the operations of the Company in an effective and efficient manner and to minimize its risk exposure. The Company is committed to identifying, monitoring and management of risks associated with its business activities and it has also implemented practical and effective control systems to comply with all relevant regulatory requirements. In 2007, the Company established and adopted its Compliance Manual and Accounting Procedures to enhance better internal control and such Compliance Manual and Accounting Procedures would be reviewed by the Company from time to time. The Board, through the Audit Committee, assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance control on annual basis.

### DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR ACCOUNTS

The Directors aim to present a fair and reasonable assessment of the Company's position and prospects to the Shareholders and the relevant information required under the Listing Rules. With the assistance of the Qualified Accountant of the Company, the Directors ensure timely publication of the financial statements of the Group.

## CORPORATE GOVERNANCE REPORT

The responsibilities of the Directors and Auditors are set out in page 26 of this Annual Report. The Directors acknowledge their responsibilities to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company, and also present the interim results, annual financial statements, and announcements to the Shareholders.

### **GOING CONCERN**

The directors confirm that, to the best of their knowledge, information and belief and having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cause significant doubt upon the Company's ability to continue as a going concern. The Board therefore continues to adopt the going concern approach in preparing the financial statements for the financial year of 2007.

### **COMMUNICATIONS WITH SHAREHOLDERS**

The Company has established its own website (<http://www.willie273.com>) to communicate with the shareholders.

Individual resolution has been proposed by the chairman in the general meetings in response to each substantial issue.

The chairman of the Company, the chairman of the Audit Committee and the chairman of the Remuneration Committee, in the absence of the chairman of such committees, another member of the committees attended were available to answer questions in the annual general meeting and extraordinary general meetings.

### **VOTING BY POLL**

In order to ensure compliance with the requirements on the poll voting procedures, the Company informs the Shareholders in respect of the procedures for voting by poll and the rights of the Shareholders to demand a poll in accordance with the Article 81 of the Articles of Association of the Company.

On behalf of the Board

**Willie International Holdings Limited**

**King Phillip**

*Managing Director*

Hong Kong, 18 April 2008

# INDEPENDENT AUDITORS' REPORT



## MAZARS CPA LIMITED

馬賽會計師事務所有限公司

34th Floor, The Lee Gardens,

33 Hysan Avenue, Causeway Bay, Hong Kong

香港銅鑼灣希慎道33號利園廣場34樓

To the members of

### **Willie International Holdings Limited**

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Willie International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 84, which comprise the consolidated and the Company's balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## **DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

## **AUDITORS' RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

# INDEPENDENT AUDITORS' REPORT

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

*Certified Public Accountants*  
Hong Kong, 18 April 2008

**Fung Shiu Hang**

Practising Certificate number: P04793

# CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000 (restated)
<b>Turnover</b>	5	<b>1,448,876</b>	295,508
Other income	6	<b>49,377</b>	2,677
Cost of investments held for trading sold		<b>(1,343,948)</b>	(293,316)
Depreciation and amortisation expense		<b>(4,373)</b>	(1,155)
Employee benefits expense		<b>(13,353)</b>	(13,304)
Other operating expenses		<b>(32,193)</b>	(11,084)
Loss on disposal of interest in a subsidiary		–	(143)
Loss on disposal of interests in associates	18(a)(i)&(ii)	<b>(20,853)</b>	–
Loss on disposal of convertible note issued by an associate		–	(31,000)
Net unrealised holding (loss) gain on investments held for trading		<b>(300,817)</b>	10,017
Fair value loss on derivative financial instruments		<b>(6,915)</b>	–
Profit on deemed disposal of interest in an associate	18(a)(i)	<b>21,087</b>	8,429
Share of profit (loss) of associates		<b>10,347</b>	(79,010)
Finance costs	8	<b>(4,817)</b>	(2,380)
<b>Loss before taxation</b>	9	<b>(197,582)</b>	(114,761)
Taxation	11	–	–
<b>Loss for the year</b>	12	<b>(197,582)</b>	(114,761)
<b>Loss attributable to equity holders</b>		<b>(197,582)</b>	(114,761)
<b>Loss per share – Basic</b>	13	<b>(17.6 cents)</b>	(33.1 cents)

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Opening balance – Total equity at 1 January	<b>329,614</b>	311,567
Issue of new shares, net of expenses	<b>699,315</b>	66,150
Issue of warrants, net of expenses	<b>72,278</b>	–
Issue of shares on conversion of convertible notes, net of expenses	<b>341,250</b>	–
Issue of shares under share option scheme	<b>246,888</b>	60,759
Equity-settled share-based payment	<b>5,656</b>	5,899
Capital reserve realised upon disposal of an associate	<b>(8,198)</b>	–
Capital reorganisation expenses	<b>(2,756)</b>	–
Loss for the year	<b>(197,582)</b>	(114,761)
<b>Closing balance – Total equity at 31 December</b>	<b>1,486,465</b>	329,614

# CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	14	326,500	7,200
Property, plant and equipment	15	35,049	22,977
Intangible assets	17	134,626	–
Interests in associates	18	–	98,118
Other investments	19	113,965	–
Prepayments for acquisition of investment properties		8,656	–
		<b>618,796</b>	128,295
<b>Current assets</b>			
Investments held for trading	20	537,370	118,818
Loans receivable	21	335,637	103,529
Other receivables		52,160	1,631
Cash and cash equivalents		304,355	8,878
		<b>1,229,522</b>	232,856
<b>Current liabilities</b>			
Other payables	22	13,290	8,242
Financial liabilities at fair value through profit or loss	20	6,915	–
Current portion of interest-bearing borrowings	23	160,992	7,507
		<b>181,197</b>	15,749
<b>Net current assets</b>		<b>1,048,325</b>	217,107
<b>Total assets less current liabilities</b>		<b>1,667,121</b>	345,402
<b>Non-current liabilities</b>			
Long-term interest-bearing borrowings	23	180,656	15,788
<b>NET ASSETS</b>		<b>1,486,465</b>	329,614
<b>CAPITAL AND RESERVES</b>			
Share capital	25	151,793	350,649
Reserves	26	1,334,672	(21,035)
<b>TOTAL EQUITY</b>		<b>1,486,465</b>	329,614

Approved and authorised for issue by the Board of Directors on 18 April 2008

**Chuang Yueheng, Henry**  
Director

**King Phillip**  
Director

**BALANCE SHEET**

At 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Interests in subsidiaries	16	<b>1,255,428</b>	234,227
<b>Current assets</b>			
Loans receivable	21	–	19,330
Other receivables		<b>25</b>	579
Cash and cash equivalents		<b>286,355</b>	8,425
		<b>286,380</b>	28,334
<b>Current liabilities</b>			
Other payables		<b>2,626</b>	1,495
Due to subsidiaries	16	<b>9,518</b>	16,775
Interest-bearing borrowings	23	–	5,000
		<b>12,144</b>	23,270
<b>Net current assets</b>		<b>274,236</b>	5,064
<b>NET ASSETS</b>		<b>1,529,664</b>	239,291
<b>CAPITAL AND RESERVES</b>			
Share capital	25	<b>151,793</b>	350,649
Reserves	26	<b>1,377,871</b>	(111,358)
<b>TOTAL EQUITY</b>		<b>1,529,664</b>	239,291

Approved and authorised for issue by the Board of Directors on 18 April 2008

**Chuang Yueheng, Henry**  
Director

**King Phillip**  
Director

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	2007 HK\$'000	2006 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	(197,582)	(114,761)
Depreciation and amortisation expense	4,373	1,155
Increase in fair value of investment properties	(40,695)	(570)
Interest expenses on bank and other borrowings	4,817	2,380
Interest income on convertible note issued by an associate	–	(4,680)
Interest income on bank and other balances	(7,452)	(27)
Gain on disposal of property, plant and equipment	–	(291)
Loss on disposal of investment properties	–	490
Profit on deemed disposal of interest in an associate	(21,087)	(8,429)
Loss on disposal of interests in subsidiaries	–	143
Loss on disposal of interests in associates	20,853	–
Loss on disposal of convertible note issued by an associate	–	31,000
Fair value loss on derivative financial instruments	6,915	–
Equity-settled share-based payment	5,656	5,899
Share of (profit) loss of associates	(10,347)	79,010
Discount on acquisition of subsidiaries	(74)	–
Allowance for doubtful debts	14,000	–
Changes in working capital:		
Loans receivable	(246,108)	(63,249)
Other receivables	(38,328)	(493)
Investments held for trading	(418,552)	(105,192)
Other payables	5,111	(6,163)
Cash used in operations	(918,500)	(183,778)
Interest income received on convertible note issued by an associate	–	4,680
Interest income received from bank and other institutions	7,452	27
<b>Net cash used in operating activities</b>	<b>(911,048)</b>	<b>(179,071)</b>

# CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
<b>INVESTING ACTIVITIES</b>			
Purchase of interest in an associate		–	(69,900)
Purchase of property, plant and equipment		<b>(13,586)</b>	(2,025)
Purchase of investment properties		<b>(143,705)</b>	–
Prepayment for acquisition of investment properties		<b>(8,656)</b>	–
Purchase of other investments		<b>(113,965)</b>	–
Acquisition of subsidiaries, net of cash acquired	28	<b>(266,009)</b>	–
Proceeds from disposal of property, plant and equipment		–	575
Proceeds from disposal of investment properties		<b>2,700</b>	2,530
Proceeds from disposal of subsidiaries		–	7,000
Proceeds from disposal of convertible note issued by an associate		–	100,000
Proceeds from disposal of interests in associates		<b>100,501</b>	75,000
<b>Net cash (used in) generated from investing activities</b>		<b>(442,720)</b>	113,180
<b>FINANCING ACTIVITIES</b>			
Issue cost of shares for acquisition of interest in an associate		–	(100)
Issue of shares, net of expenses		<b>699,315</b>	–
Issue of shares under share option scheme		<b>246,888</b>	60,759
Issue of shares on conversion of convertible notes, net of expenses		<b>341,250</b>	–
New bank loans raised		<b>173,048</b>	5,600
New other loans raised		<b>150,000</b>	45,000
Repayment of bank loans		<b>(20,870)</b>	(5,704)
Repayment of other loans		<b>(5,000)</b>	(40,000)
Interest paid on bank and other borrowings		<b>(4,908)</b>	(2,206)
Capital reorganisation expenses		<b>(2,756)</b>	–
Issue of warrants, net of expenses		<b>72,278</b>	–
<b>Net cash generated from financing activities</b>		<b>1,649,245</b>	63,349
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>295,477</b>	(2,542)
<b>Cash and cash equivalents at beginning of year</b>		<b>8,878</b>	11,420
<b>Cash and cash equivalents at end of year</b>		<b>304,355</b>	8,878

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 1. GENERAL INFORMATION

Willie International Holdings Limited (the "Company") is a public company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies adopted in the preparation of the financial statements of the current year are consistent with those of the previous year except for the adoption of Hong Kong Accounting Standard ("HKAS") 1 (Amendment): Capital disclosures and Hong Kong Financial Reporting Standard ("HKFRS") 7: Financial instruments: Disclosures, which have become effective for the current year and management considers being most relevant to the Group's current operations:

### HKAS 1 (Amendment): Capital disclosures

The amendment requires financial statements to provide additional disclosures in relation to the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 33 to the financial statements.

### HKFRS 7: Financial instruments: Disclosures

HKFRS 7 superseded HKAS 30: Disclosures in the financial statements of banks and similar financial institutions and incorporated all the disclosure requirements previously in HKAS 32, while the presentation requirements in HKAS 32 remain unchanged. HKFRS 7 requires financial statements to disclose information for the purpose of evaluating the significance of the Group's financial instruments, the nature and risks arising from those financial instruments to which the Group is exposed to and how the Group manages them. The new disclosures are included throughout the financial statements.

Both HKAS 1 (Amendment) and HKFRS 7 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

At the date of authorisation of these financial statements, the Group has not early adopted the new/revised standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are not yet effective for the current year. The Group has already commenced an assessment of impact of these new/revised standards and interpretations but is not yet in a position to state whether they would significantly impact on its results of operations and financial position.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES

### **Basis of preparation**

These consolidated financial statements have been prepared in accordance with HKFRS, which collective term includes all applicable individual HKFRS, HKAS and Interpretations issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

### **Basis of measurement**

The measurement basis used in the preparation of these financial statements is historical cost, except for investment properties, investments held for trading and financial liabilities at fair value through profit or loss, which are measured at fair value as explained in the principal accounting policies set out below.

### **Business combination**

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The cost of acquisition is measured as the aggregate of the fair values of the assets given, liabilities incurred or assumed, equity instruments issued by the acquirer at the acquisition date, and all the costs incurred directly attributable to the acquisition, in exchange for control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

### **Basis of consolidation**

These consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries as at 31 December each year. The financial statements of its subsidiaries are prepared for the same reporting year and using consistent accounting policies as the Company.

All intra-group balances, transactions, incomes and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Basis of consolidation** *(Continued)*

For subsidiaries acquired through a business combination not involving entities under common control, the operating result and cash flow of the acquiree will be recognised in the consolidated financial statements from the date the Group effectively obtains the control until the date that control is terminated. When the consolidated financial statements are prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating result and cash flow of the acquiree will be recognised in the consolidated financial statements from the beginning of the period during which the combination occurs.

### **Subsidiaries**

A subsidiary is an entity in which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's balance sheet, investments in subsidiaries are stated at cost less accumulated impairment losses. The carrying amount of the investments is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

### **Associates**

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, less any impairment in the value of individual investments. When the Group's share of losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or guaranteed obligations in respect of the associate.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Goodwill**

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill on acquisitions of subsidiaries is recognised as a separate asset. Goodwill on acquisitions of associates or jointly controlled entities is included in interests in associates or jointly controlled entities. Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing and determination of gain or loss on disposal. An impairment loss on goodwill is not reversed.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in the consolidated income statement.

### **Intangible assets**

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses.

Amortisation of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over the assets' estimated useful lives which are determined by the period over which it is expected to bring economic benefits to the Group. The intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives of 49.5 years.

The Group reviews the estimated useful lives and amortisation method for these intangible assets annually and makes adjustment when necessary.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Investment properties**

Investment properties are land and/or building which are held by owner or lessee under finance lease to earn rental income and/or for capital appreciation and are stated at their fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in the income statement for the period in which they arise.

A property interest held under operating lease is classified and accounted for as investment property when the Group holds it to earn rental income and/or capital appreciation and applies the fair value model.

The fair value of investment properties is based on a valuation by an independent valuer who holds a recognised professional qualification and has recent experience in the location and category of property being valued, or based on market value, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties have each acted knowledgeably, prudently and without compulsion.

### **Other investments**

Other investments are stated at cost less accumulated impairment losses.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, 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 are charged to the income statement during the year in which they are incurred.

The gain or loss arising from the retirement or disposal of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is recognised as income or expense in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Property, plant and equipment** *(Continued)*

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment over their estimated useful lives from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land	Over the unexpired term of lease
Buildings	4%
Leasehold improvements	10% – 20%
Furniture and fixtures	10% – 20%
Office equipment	33 $\frac{1}{3}$ %
Motor vehicles	25%

### **Financial instruments**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognised when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognised only when the liability is extinguished.

#### *Financial assets or financial liabilities at fair value through profit or loss*

Financial assets or financial liabilities at fair value through profit or loss include financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at fair value through profit or loss. They are carried at fair value, with any resultant gain and loss recognised in profit or loss.

Financial assets and financial liabilities are classified as held for trading if they are (i) acquired principally for the purpose of selling in the near future; (ii) part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or (iii) derivatives that are not designated and effective hedging instruments.

Financial assets and financial liabilities are designated at initial recognition as at fair value through profit or loss if (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or (ii) they are part of a group of financial assets and/or financial liabilities that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) they contain embedded derivatives that would need to be separately recorded.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading. They are measured at amortised cost using the effective interest method, except where receivables are interest-free loans and without any fixed repayment term or the effect of discounting would be insignificant. In such case, the receivables are stated at cost less impairment loss. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. Gains and losses arising from derecognition, impairment or through the amortisation process are recognised in the income statement.

#### *Impairment of financial assets*

At each balance sheet date, the Company assesses whether there is objective evidence that financial assets, other than those at fair value through profit or loss, are impaired. The impairment loss of financial assets carried at amortised cost is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. Such impairment loss is reversed in subsequent periods through the income statement when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities*

The Group's financial liabilities include other payables, derivatives, bank loans and other borrowings. All financial liabilities except for derivatives are recognised initially at their fair value and subsequently measured at amortised cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

#### *Equity instruments*

Equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definition of an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issuing costs, upon their issuance.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Financial instruments** *(Continued)*

#### *Convertible notes*

On the issue of convertible notes, the proceeds are split into liability and equity components. The fair value of the liability component is determined using a market rate for an equivalent non-convertible notes; and this amount, net of transaction costs, is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option and is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

#### *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee contract is initially recognised as deferred income within trade and other payable at fair value, where such information is available, otherwise, it is recognised at consideration received and receivable. Subsequently, it is measured at the higher of the amount initially recognised, less accumulated amortisation, and the amount of the provision, if any, that is required to settle the commitment at the balance sheet date.

### **Revenue recognition**

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

Proceeds from sale of investments held for trading are recognised on the transaction date when the relevant sale and purchase contract is entered into.

Interest income from financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Rental income under operating leases is recognised when the properties are let out and on the straight-line basis over the lease terms.

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

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Borrowing costs**

Borrowing costs are recognised as expenses when incurred.

### **Leasing**

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

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

### **Impairment of non-financial assets**

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment, intangible assets, other investments and investments in subsidiaries have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment loss is recognised as income immediately.

### **Employee benefits**

#### *Defined contribution plans*

The obligations for contributions to defined contribution retirement scheme are recognised as an expense in the income statement as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### **Taxation**

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

No deferred tax is provided for temporary differences arising from goodwill, the initial recognition of assets or liabilities in a transaction other than a business combination and that affecting neither accounting nor taxable profits, and investment in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

### **Foreign currencies**

Transactions involving foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates of exchange ruling at that date. Translation differences are included in the income statement.

### **Share-based payment**

The Company issues equity-settled share-based payments to eligible employees including directors of the Company and its subsidiaries, any other persons including consultants, advisors, agents, customers, suppliers etc. to subscribe for shares in the Company. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effort of non market-based vesting conditions.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### Related parties

A party is related to the Group if

- (a) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (b) the party is an associate of the Group;
- (c) the party is a joint venture in which the Group is a venturer;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, net of bank overdrafts. For the balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## **3. PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

### **Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### Fair value estimation

The Group uses the discounted cash flows valuation method to determine the carrying amount of loans receivable at the balance sheet date. This valuation requires the Group to make estimates about expected cash flows and discount rates, and hence they are subject to uncertainty.

### Impairment of investments

The Company assesses annually if interests in subsidiaries have suffered any impairment in accordance with HKAS 36 and follow the guidance of HKAS 39 in determining whether amounts due from those entities are impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

### Allowance for bad and doubtful debts

The provision policy for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the loans receivable. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each borrower. If the financial conditions of these borrowers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance will be required.

## 5. TURNOVER

Turnover recognised from the principal activities of the Group during the year including investment holding, trading of investments, property investment and provision of financial services are as follows:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Proceeds from sale of investments held for trading	<b>1,426,764</b>	283,735
Interest income	<b>18,188</b>	10,950
Dividend income from listed investments	<b>3,399</b>	801
Rental income	<b>525</b>	22
	<b>1,448,876</b>	295,508

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 6. OTHER INCOME

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000 (restated)
Write back of other payables	–	1,900
Increase in fair value of investment properties	<b>40,695</b>	570
Bank interest income	<b>6,920</b>	27
Other interest income	<b>532</b>	–
Others	<b>1,230</b>	180
	<hr/> <b>49,377</b> <hr/>	<hr/> 2,677 <hr/>

## 7. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segment is its primary reporting format and no geographical segment has been presented as the Group's operations and assets are principally located in Hong Kong for the years ended 31 December 2007 and 2006.

### Business segments

Business segments of the Group comprise the following:

Trading of investments:	Purchase and sale of securities
Provision of financial services:	Provision of securities brokerage, financial advisory and loan financing services
Property investment:	Holding properties for rental and capital appreciation
Investment holding:	Holding investments for dividend and investment income and capital appreciation

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 7. SEGMENT INFORMATION (Continued)

The following tables show segment information for the years ended 31 December 2007 and 2006.

### Year ended 31 December 2007

Segment income	Provision of					Total HK\$'000
	Trading of investments HK\$'000	financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Unallocated HK\$'000	
Turnover and revenue	1,430,314	17,867	525	170	–	1,448,876
Other income	532	840	40,699	7,296	10	49,377
Total income	<u>1,430,846</u>	<u>18,707</u>	<u>41,224</u>	<u>7,466</u>	<u>10</u>	<u>1,498,253</u>
<b>Segment results</b>	<b>(221,307)</b>	<b>1,764</b>	<b>37,267</b>	<b>(6,848)</b>	<b>(14,222)</b>	<b>(203,346)</b>
Loss on disposal of interests in associates	–	–	–	(20,853)	–	(20,853)
Profit on deemed disposal of interest in an associate	–	–	–	21,087	–	21,087
Share of profit of associates	9,165	1,110	–	72	–	10,347
Finance costs	–	–	–	–	(4,817)	(4,817)
<b>Loss for the year</b>						<u><b>(197,582)</b></u>

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 7. SEGMENT INFORMATION (Continued)

Year ended 31 December 2006

	Trading of investments	Provision of financial services	Property investment	Investment holding	Unallocated	Total
<b>Segment income</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover and revenue	284,665	10,821	22	–	–	295,508
Other income	–	–	570	–	2,107	2,677
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total income	<u>284,665</u>	<u>10,821</u>	<u>592</u>	<u>–</u>	<u>2,107</u>	<u>298,185</u>
<b>Segment results</b>	1,359	10,655	(840)	(23,653)	1,822	(10,657)
Loss on disposal of interest in a subsidiary	–	–	–	(143)	–	(143)
Loss on disposal of convertible note issued by an associate	–	–	–	(31,000)	–	(31,000)
Profit on deemed disposal of interest in an associate	–	–	–	8,429	–	8,429
Share of loss of associates	656	(34,253)	–	(45,271)	(142)	(79,010)
Finance costs	–	–	–	–	(2,380)	(2,380)
						<hr/>
<b>Loss for the year</b>						<u>(114,761)</u>

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 7. SEGMENT INFORMATION (Continued)

### Assets and liabilities as at 31 December 2007

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Total HK\$'000
<b>Assets</b>					
Segment assets	581,115	335,756	352,411	553,856	1,823,138
Unallocated assets	–	–	–	–	25,180
Total assets					<u>1,848,318</u>
<b>Liabilities</b>					
Segment liabilities	14,308	–	165,383	164,998	344,689
Unallocated liabilities	–	–	–	–	17,164
Total liabilities					<u>361,853</u>

### Assets and liabilities as at 31 December 2006

	Trading of investments HK\$'000	Provision of financial services HK\$'000	Property investment HK\$'000	Investment holding HK\$'000	Total HK\$'000
<b>Assets</b>					
Segment assets	118,940	103,724	7,517	10,792	240,973
Interests in associates	–	–	–	98,118	98,118
Unallocated assets	–	–	–	–	22,060
Total assets					<u>361,151</u>
<b>Liabilities</b>					
Segment liabilities	6,071	–	270	11,062	17,403
Unallocated liabilities	–	–	–	–	14,134
Total liabilities					<u>31,537</u>

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 7. SEGMENT INFORMATION (Continued)

### Other segment information for the year ended 31 December 2007

	Provision of					Total HK\$'000
	Trading of	financial	Property	Investment	Unallocated	
	investments	services	investment	holding		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Capital expenditure	–	–	293,516	249,965	2,860	546,341
Amortisation expense	–	–	–	1,374	–	1,374
Depreciation expense	–	–	2,586	–	413	2,999
Increase in fair value of investment properties	–	–	(40,695)	–	–	(40,695)
Allowance for doubtful debts	–	14,000	–	–	–	14,000
	<u>–</u>	<u>14,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>14,000</u>

### Other segment information for the year ended 31 December 2006

	Provision of					Total HK\$'000
	Trading of	financial	Property	Investment	Unallocated	
	investments	services	investment	holding		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Capital expenditure	–	–	124	512	1,389	2,025
Depreciation expense	–	–	26	356	773	1,155
Impairment loss on goodwill arising from acquisition of interest in an associate (included in share of loss of associates)	–	–	–	34,742	–	34,742
Increase in fair value of investment properties	–	–	(570)	–	–	(570)
	<u>–</u>	<u>–</u>	<u>(570)</u>	<u>–</u>	<u>–</u>	<u>(570)</u>

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 8. FINANCE COSTS

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	<b>279</b>	975
Bank and other borrowings wholly repayable over five years	<b>4,538</b>	1,405
	<b>4,817</b>	2,380

## 9. LOSS BEFORE TAXATION

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
This is stated after charging:		
Auditors' remuneration	<b>1,372</b>	1,135
Contributions to MPF Scheme	<b>236</b>	214
Depreciation of property, plant and equipment	<b>2,999</b>	1,155
Amortisation of intangible assets	<b>1,374</b>	–
Operating lease charges:		
Equipment	<b>93</b>	72
Office premises	<b>1,362</b>	1,042
Equity-settled share-based payment	<b>5,656</b>	5,899
Allowance for doubtful debts	<b>14,000</b>	–

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS****Directors' emoluments**

The aggregate amount of emoluments received or receivable by the Company's directors are as follows:

**2007**

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
<b>Executive directors</b>				
Chuang Yueheng, Henry	–	2,400	12	2,412
Lo Kan Sun	–	855	12	867
King Phillip	–	600	12	612
Wong Ying Seung, Asiong	–	618	12	630
Wang Lin	–	240	12	252
<b>Independent non-executive directors</b>				
Lin Wai Yi	120	–	–	120
Liu Jian	120	–	–	120
Miu Frank H. (resigned on 27 March 2007)	30	–	–	30
Nakajima, Toshiharu	24	–	–	24
Shum Ming Choy	120	–	–	120
Yau Yan Ming, Raymond	120	–	–	120
	<u>534</u>	<u>4,713</u>	<u>60</u>	<u>5,307</u>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS** (Continued)**Directors' emoluments** (Continued)

2006

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Total HK\$'000
<b>Executive directors</b>				
Chuang Yueheng, Henry	–	2,400	12	2,412
Lo Kan Sun	–	810	12	822
King Phillip	–	900	12	912
Wong Ying Seung, Asiong	–	336	12	348
Wang Lin	–	160	8	168
<b>Non-executive director</b>				
Lau Da Yip (resigned on 25 January 2006)	2	–	–	2
<b>Independent non-executive directors</b>				
Lam Ping Cheung (resigned on 26 June 2006)	60	–	–	60
Lin Wai Yi	120	–	–	120
Liu Jian	110	–	–	110
Miu Frank H.	120	–	–	120
Nakajima, Toshiharu	24	–	–	24
Shum Ming Choy	50	–	–	50
Yau Yan Ming, Raymond	25	–	–	25
	<u>511</u>	<u>4,606</u>	<u>56</u>	<u>5,173</u>

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

### Employees' emoluments

The five highest paid employees of the Group during the year included four (2006: three) directors, details of whose emoluments are set out above. The emoluments of the remaining one (2006: two) highest paid employee is as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries, allowances and benefits in kind	568	1,071
Retirement scheme contributions	12	21
	<u>580</u>	<u>1,092</u>
	2007	2006
Nil to HK\$1,000,000	<u>1</u>	<u>2</u>

## 11. TAXATION

Hong Kong Profits Tax has not been provided as the companies in the Group either incurred a loss for taxation purposes or their estimated assessable profits for the year ended 31 December 2007 were wholly absorbed by unutilised tax losses brought forward from previous years (2006: Nil).

	2007 HK\$'000	2006 HK\$'000
<b>Reconciliation of tax expense</b>		
Loss before taxation	<u>(197,582)</u>	<u>(114,761)</u>
Income tax at applicable tax rate of 17.5% (2006: 17.5%)	(34,577)	(20,083)
Non-deductible expenses	276	7,022
Tax exempt revenue	(9,027)	(2,557)
Unrecognised tax losses	47,280	2,017
Unrecognised temporary differences	(1,997)	(226)
Utilisation of previously unrecognised tax losses	(39)	–
Effect on share of (profit) loss of associates	(1,852)	13,827
Others	(64)	–
Tax expense for the year	<u>–</u>	<u>–</u>

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5% (2006: 17.5%).

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 12. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$197,582,000 (2006: HK\$114,761,000), a loss of HK\$72,258,000 (2006: HK\$243,345,000) has been dealt with in the financial statements of the Company.

## 13. LOSS PER SHARE

The calculation of the basic loss per share for the year of 2007 is based on the loss for the year of HK\$197,582,000 (2006: HK\$114,761,000) and the weighted average number of 1,123,396,624 shares (2006 (restated): 345,873,000 shares) in issue during the year.

No diluted loss per share is presented for the year of 2007 as the potential ordinary shares under the convertible notes, warrants and share option scheme have anti-dilutive effect. No diluted loss per share was presented for the year of 2006 as the potential ordinary shares under the share option scheme had anti-dilutive effect.

The weighted average number of ordinary shares adopted in the calculation of the basic loss per share for the years of 2007 and 2006 has been adjusted to reflect the impact of the share consolidation effected during the year and the rights issue effected subsequent to the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**14. INVESTMENT PROPERTIES**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<b>Fair value</b>		
At beginning of year	<b>7,200</b>	9,650
Addition – acquisition	<b>143,705</b>	–
Addition – acquisition of subsidiaries ( <i>note 28</i> )	<b>137,600</b>	–
Disposals	<b>(2,700)</b>	(3,020)
Increase in fair value during the year	<b>40,695</b>	570
	<hr/> <b>326,500</b> <hr/>	<hr/> 7,200 <hr/>
<b>At balance sheet date</b>		

The carrying value of investment properties held by the Group at the balance sheet date comprised:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Land in Hong Kong:		
Long lease	<b>140,500</b>	4,500
Medium-term lease	<b>186,000</b>	2,700
	<hr/> <b>326,500</b> <hr/>	<hr/> 7,200 <hr/>

The Group's investment properties as at the balance sheet date have been revaluated by an independent qualified professional valuer, Asset Appraisal Limited, on the market value basis.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Reconciliation of carrying amount – year ended 31 December 2006						
At beginning of year	21,190	755	226	220	–	22,391
Additions	–	1,005	831	189	–	2,025
Disposals	–	(247)	–	(37)	–	(284)
Depreciation	(659)	(199)	(163)	(134)	–	(1,155)
<b>At balance sheet date</b>	<b>20,531</b>	<b>1,314</b>	<b>894</b>	<b>238</b>	<b>–</b>	<b>22,977</b>
Reconciliation of carrying amount – year ended 31 December 2007						
At beginning of year	20,531	1,314	894	238	–	22,977
Addition – acquisition	–	3,455	1,730	220	8,181	13,586
Addition – acquisition of subsidiaries (note 28)	–	–	1,485	–	–	1,485
Depreciation	(659)	(412)	(718)	(189)	(1,021)	(2,999)
<b>At balance sheet date</b>	<b>19,872</b>	<b>4,357</b>	<b>3,391</b>	<b>269</b>	<b>7,160</b>	<b>35,049</b>
At 1 January 2007						
Cost	25,758	6,577	1,733	2,084	–	36,152
Accumulated depreciation and impairment losses	(5,227)	(5,263)	(839)	(1,846)	–	(13,175)
	<b>20,531</b>	<b>1,314</b>	<b>894</b>	<b>238</b>	<b>–</b>	<b>22,977</b>
<b>At 31 December 2007</b>						
Cost	25,758	10,032	4,948	2,304	8,181	51,223
Accumulated depreciation and impairment losses	(5,886)	(5,675)	(1,557)	(2,035)	(1,021)	(16,174)
	<b>19,872</b>	<b>4,357</b>	<b>3,391</b>	<b>269</b>	<b>7,160</b>	<b>35,049</b>

The leasehold land and buildings with a net book value of HK\$19,872,000 at the balance sheet date (2006: HK\$20,531,000) are held by the Group under medium-term lease in Hong Kong.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 16. INTERESTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000 (restated)
Unlisted shares, at cost	<b>776,612</b>	51,055
Due from subsidiaries	<b>760,819</b>	438,929
	<b>1,537,431</b>	489,984
Impairment loss	<b>(282,003)</b>	(255,757)
	<b>1,255,428</b>	234,227

The amounts due from (to) subsidiaries are unsecured and have no fixed repayment term. At the balance sheet date, the amount due from a subsidiary of HK\$315,207,000 (2006: Nil) bears interest at effective interest rate of 1.5% per annum and the amounts due from (to) other subsidiaries are interest-free. The carrying amount of the amounts due approximates their fair value.

In the opinion of the directors, a complete list of the particulars of all subsidiaries will be of excessive length and therefore the table below lists the principal subsidiaries at the balance sheet date which materially affect the result or assets of the Group.

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held		Principal activities
			by the Company	Directly Indirectly	
Allied Loyal International Investments Limited	British Virgin Islands	50,000 shares of no par value	–	100	Investment holding
Apex Novel Limited	British Virgin Islands	1 share of US\$1 each	–	100	Property investment
Bestford Properties Limited	Hong Kong	100 shares of HK\$1 each	–	100	Property investment

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**16. INTERESTS IN SUBSIDIARIES** (Continued)

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Clear Point Limited	British Virgin Islands	1 share of US\$1 each	–	100	Property investment
Cordoba Homes Limited	British Virgin Islands	10,001 shares of US\$1 each	100	–	Investment holding
China United International Administrative Services Limited	Hong Kong	53,000 shares of HK\$100 each	100	–	Provision of administrative services
Earn Best Investments Limited	British Virgin Islands	1 share of US\$1 each	–	100	Property investment
International Stamps & Coins Exchange Gallery Limited	Hong Kong	20,200 shares of HK\$1 each	–	100	Property investment
Longtop Enterprises Limited	Hong Kong	1 share of HK\$1 each	–	100	Property investment
Million Regal Investment Limited	Hong Kong	1,000 shares of HK\$1 each	–	100	Property investment
Pearl Decade Limited	British Virgin Islands	9,615,386 shares of US\$1 each	–	100	Trading of investments
Portstar Investments Limited	British Virgin Islands	1 share of US\$1 each	–	100	Property investment

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**16. INTERESTS IN SUBSIDIARIES** (Continued)

Name of subsidiary	Place of incorporation and operations	Particulars of issued ordinary and paid up capital (Note)	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Radford Portfolio Management Limited	Hong Kong	10,000 shares of HK\$1 each	–	100	Property holding
Startech Business Limited	British Virgin Islands	1 share of US\$1 each	–	100	Property investment
Trade Well Investments Limited	British Virgin Islands	1 share of US\$1 each	–	100	Property investment
United Goal Investments Limited	British Virgin Islands	1 share of US\$1 each	–	100	Investment holding
Wealth Elegant Investments Limited	British Virgin Islands	1 share of US\$1 each	–	100	Property investment
Willie Financing Limited	Hong Kong	1 share of HK\$1 each	100	–	Money lending
Willie Resources Incorporated	Cayman Islands	4,951,408,325 shares of HK\$0.10 each	100	–	Investment holding
Winsy Investments Limited	British Virgin Islands	1 share of US\$1 each	–	100	Property investment

All of the above subsidiaries operate principally in Hong Kong.

Note: No loan capital has been issued by any of the subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**17. INTANGIBLE ASSETS**

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
<b>At cost</b>		
Addition – acquisition of a subsidiary ( <i>note 28</i> )	<b>136,000</b>	–
Amortisation	<b>(1,374)</b>	–
<b>At balance sheet date</b>	<b>134,626</b>	–

During the year, the Group acquired the entire issued share capital of a company which owns the rights to (i) obtain 50% of forestry land use rights and forestry trees entitlement of three forestry sites in Simao District, Puer City, Yunnan Province, the People's Republic of China (the "PRC") and (ii) share 50% of distributable profits of these forests.

The carrying amount of these rights before the acquisition was HK\$33.9 million. At the date of acquisition, the fair value of these rights was assessed at HK\$136 million with reference to the valuation on the forestry land use rights and forestry trees entitlement of these forests conducted by an independent qualified professional valuer, LCH (Asia-Pacific) Surveyors Limited, on the market approach which considers prices recently paid for similar assets.

The forestry land use rights and forestry trees entitlement of these three forestry sites are 50 years from 24 January 2007 to 23 January 2057.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 18. INTERESTS IN ASSOCIATES

	Note	2007 HK\$'000	2006 HK\$'000
Share of net assets	(a)	–	14,904
Goodwill	(b)	–	83,214
		–	98,118
		–	98,118

*Notes:*

(a) During the year, the Group disposed of all its interests in associates:

- (i) The Group's interest in Hennabun Management International Limited ("HMIL") (currently known as Hennabun Capital Group Limited) was firstly reduced from 35.55% to 29.74% as a result of HMIL's issue of new shares to third parties and then further reduced from 29.74% to 16.17% after a shareholder of HMIL had the convertible note converted into 873,333,333 ordinary shares of HMIL.

As a result of the above changes in the Group's shareholding in HMIL, a profit on deemed disposal of HK\$21 million was recognised in the income statement.

In April 2007, the Group entered into agreements with third parties to dispose of the Group's remaining 16.17% interest in HMIL, leading to a loss on disposal of HK\$12.5 million recognised in the income statement.

- (ii) Pursuant to the sale and purchase agreement dated 3 September 2007, the Group disposed of its 50% interest in Amerinvest Coal Industry Holding Company Limited ("Amerinvest") to a third party with a loss on disposal of HK\$8.3 million recognised in the income statement.

(b) Goodwill on acquisition was attributable to Amerinvest's investment in coking and chemical projects in the PRC, which has been included in the determination of the loss on disposal of Amerinvest of HK\$8.3 million as mentioned above.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 19. OTHER INVESTMENTS

	2007 HK\$'000	2006 HK\$'000
<b>At cost</b>		
Additions and <b>at balance sheet date</b>	<b>113,965</b>	–

Other investments represent rare precious stone and artwork acquired by the Group for long-term investment purposes.

## 20. INVESTMENTS HELD FOR TRADING/FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Note	2007 HK\$'000	2006 HK\$'000
<b>Analysis of investments held for trading</b>			
Equity securities			
Listed in Hong Kong		520,530	110,118
Listed overseas		16,840	–
	(a)	<b>537,370</b>	110,118
Convertible note		–	8,700
		<b>537,370</b>	118,818

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**20. INVESTMENTS HELD FOR TRADING/FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS** *(Continued)*

	Note	2007 HK\$'000	2006 HK\$'000
<b>Analysis of financial liabilities at fair value through profit or loss:</b>			
Derivative financial instruments	(b)	<b>6,915</b>	–

Notes:

- (a) The fair value of listed equity securities is based on quoted market prices in active markets at the balance sheet date.
- (b) The fair value of derivative financial instruments is measured by reference to open market value at the balance sheet date provided by a securities broker.

**21. LOANS RECEIVABLE**

Loans granted to borrowers are repayable according to repayment schedules. The balance comprises loans receivable from:

	Note	The Group		The Company	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Third parties		<b>349,637</b>	89,470	–	19,330
A related company		–	14,059	–	–
	(a)	<b>349,637</b>	103,529	–	19,330
Allowance for doubtful debts	(b)	<b>(14,000)</b>	–	–	–
Balances due within one year included in current assets		<b>335,637</b>	103,529	–	19,330

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 21. LOANS RECEIVABLE (Continued)

	The Group		The Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Short term loans, net of provision	335,637	19,330	–	19,330
Instalment loans	–	84,199	–	–
	<b>335,637</b>	<b>103,529</b>	<b>–</b>	<b>19,330</b>

### Notes:

- (a) At the balance sheet date, loans receivable (1) carry effective interest rates ranging from prime rate to prime rate plus 5% (2006: from prime rate to prime rate plus 2%); (2) are within the respective maturity dates (2006: within maturity dates); and (3) are not secured by any collaterals (2006: None).
- (b) The directors assessed the collectability of loans receivable at the balance sheet date individually with reference to borrowers' past collection history and current creditworthiness. An amount of HK\$14,000,000 (2006: Nil) in respect of two loans was determined to be impaired as a result of the assessment. In the directors' opinion, there was no indication of deterioration in the collectability of the remaining amount of HK\$335,637,000 and thus no additional allowance was considered necessary.

## 22. OTHER PAYABLES

Included in other payables is an amount of HK\$7,393,000 (2006: HK\$6,072,000) payable to a securities broker of which the settlement term is two days after trade date.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 23. INTEREST-BEARING BORROWINGS

	The Group		The Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Secured bank loans (Note a)	191,648	18,295	–	–
Unsecured other loan (Note a & b)	150,000	5,000	–	5,000
	<b>341,648</b>	<b>23,295</b>	<b>–</b>	<b>5,000</b>

Maturity of the above borrowings is as follows:

	The Group		The Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Within one year	160,992	7,507	–	5,000
In the second year	11,356	2,727	–	–
In the third year	11,735	2,966	–	–
In the fourth year	12,131	3,226	–	–
In the fifth year	12,545	1,374	–	–
Over five years	132,889	5,495	–	–
	<b>180,656</b>	<b>15,788</b>	<b>–</b>	<b>–</b>
	<b>341,648</b>	<b>23,295</b>	<b>–</b>	<b>5,000</b>

Notes:

- (a) Bank loans are variable rate borrowings which carry interest rates ranging from prime rate minus 3.15% to prime rate minus 0.5% for the year of 2007 (2006: *prime rate plus 0.5% to prime rate plus 1%*). Other loan has one-month loan period and interest rate at 5% for the year of 2007 (2006: *repayable on demand and interest rates ranging from prime rate to prime rate plus 1%*).

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 23. INTEREST-BEARING BORROWINGS (Continued)

Notes: (Continued)

(b) Movements in other loan are as follows:

	The Group		The Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
At beginning of year	5,000	–	5,000	–
Addition	150,000	45,000	–	45,000
Repayment	(5,000)	(40,000)	(5,000)	(40,000)
At balance sheet date	<u>150,000</u>	<u>5,000</u>	<u>–</u>	<u>5,000</u>

## 24. DEFERRED TAXATION

### Unrecognised deferred tax assets

	2007 HK\$'000	2006 HK\$'000
Deductible temporary differences	1,568	8,438
Tax losses	467,804	194,730
<b>At balance sheet date</b>	<u><b>469,372</b></u>	<u>203,168</u>

Both the tax losses and the deductible temporary differences have no expiry date under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**25. SHARE CAPITAL**

	Note	2007		2006	
		Number of ordinary shares	Nominal value HK\$'000	Number of ordinary shares	Nominal value HK\$'000
<b>Authorised ordinary shares of HK\$0.1 each:</b>					
At beginning of year		20,000,000,000	2,000,000	20,000,000,000	2,000,000
Increase during the year	(a)	30,000,000,000	3,000,000	–	–
Capital Reorganisation	(e)	(45,000,000,000)	(4,500,000)	–	–
<b>At balance sheet date</b>		<b>5,000,000,000</b>	<b>500,000</b>	<b>20,000,000,000</b>	<b>2,000,000</b>
<b>Issued and fully paid ordinary shares of HK\$0.1 each:</b>					
At beginning of year		3,506,494,988	350,649	3,032,086,353	303,209
Issue of shares	(b)	6,154,218,000	615,422	250,000,000	25,000
Issue of shares under share option scheme	(c)	2,018,600,000	201,860	224,408,635	22,440
Issue of shares on conversion of convertible notes	(d)	3,500,000,000	350,000	–	–
Repurchase of share	(e)	(8)	–	–	–
Capital Reorganisation	(e)	(13,661,381,682)	(1,366,138)	–	–
<b>At balance sheet date</b>		<b>1,517,931,298</b>	<b>151,793</b>	<b>3,506,494,988</b>	<b>350,649</b>

*Notes:*

- (a) Pursuant to the ordinary resolution passed on 12 July 2007, the authorised share capital of the Company was increased to HK\$5,000,000,000 by the creation of an additional 30,000,000,000 ordinary shares of HK\$0.1 each.
- (b) Pursuant to the placing agreements signed during the year, an aggregate of 6,154,218,000 new shares of HK\$0.1 each of the Company were issued to certain individuals at the placing prices ranging from HK\$0.11 to HK\$0.126 each.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 25. SHARE CAPITAL (Continued)

Notes: (Continued)

- (c) Pursuant to the ordinary resolutions passed during the year, an aggregate of 2,018,600,000 new shares of HK\$0.1 each of the Company were issued to certain individuals under the share option scheme at the exercise prices ranging from HK\$0.103 to HK\$0.134 each.
- (d) Pursuant to the ordinary resolutions passed during the year, the Company issued two 2-year new convertible notes ("CNs") with an aggregate principal amount of HK\$350,000,000 to third parties. The CNs are non-interest bearing and could be converted into ordinary shares of the Company at HK\$0.1 per share in whole or any part. During the year, the CNs were fully converted into 3,500,000,000 shares of the Company of HK\$0.1 each.
- (e) At the extraordinary general meeting of the Company held on 28 December 2007, the resolution in respect of the share consolidation and the capital reduction of the Company (the "Capital Reorganisation") were approved by the shareholders. The effects of the Capital Reorganisation were as follows:
- (i) Prior to the effective date of the Capital Reorganisation, the Company acquired 8 issued shares of HK\$0.1 each from the market pursuant to the powers granted to the directors under the repurchase mandate for the purpose of rounding down the then 15,179,312,988 issued shares to 15,179,312,980 issued shares so as to facilitate the Capital Reorganisation.
- (ii) Under the share consolidation, every 10 issued and unissued shares of HK\$0.1 each was consolidated into one issued and unissued consolidated share of HK\$1 each. As a result, the number of authorised and issued shares of the Company was reduced from 50,000,000,000 shares of HK\$0.1 each and 15,179,312,980 shares of HK\$0.1 each to 5,000,000,000 shares of HK\$1 each and 1,517,931,298 shares of HK\$1 each respectively.
- (iii) Immediately after the share consolidation, the capital reduction was effected by cancelling HK\$0.9 of the paid up capital on each issued share and by reducing the nominal value of each authorised and issued share from HK\$1 to HK\$0.1. As a result of the capital reduction, the authorised capital of the Company was reduced from HK\$5,000,000,000 divided into 5,000,000,000 shares of HK\$1 each to HK\$500,000,000 divided into 5,000,000,000 shares of HK\$0.1 each while the issued and paid up capital of the Company was reduced from HK\$1,517,931,298 divided into 1,517,931,298 shares of HK\$1 each to HK\$151,793,129.80 divided into 1,517,931,298 shares of HK\$0.1 each.
- (iv) The amount of HK\$1,366,138,000 arising from the capital reduction, after the deduction of expenses related to the Capital Reorganisation amounting to HK\$2,756,000, was credited to the share premium account of the Company.

All these shares issued during the year rank pari passu in all respects with the then existing shares.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**26. RESERVES****Group**

	<b>Share premium</b>	<b>Capital reserve</b>	<b>Share option reserve</b>	<b>Warrant reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)			(Note b)		
At 1 January 2006	210,046	18,273	–	–	(219,961)	8,358
Equity-settled share-based payment	–	–	5,899	–	–	5,899
Shares issued under share option scheme	40,071	–	(1,752)	–	–	38,319
Shares issued at premium, net of issuing expenses	41,150	–	–	–	–	41,150
Surrender of share option	–	–	(832)	–	832	–
Loss for the year	–	–	–	–	(114,761)	(114,761)
	<u>291,267</u>	<u>18,273</u>	<u>3,315</u>	<u>–</u>	<u>(333,890)</u>	<u>(21,035)</u>
At 31 December 2006	<b>291,267</b>	<b>18,273</b>	<b>3,315</b>	<b>–</b>	<b>(333,890)</b>	<b>(21,035)</b>
At 1 January 2007	<b>291,267</b>	<b>18,273</b>	<b>3,315</b>	<b>–</b>	<b>(333,890)</b>	<b>(21,035)</b>
Equity-settled share-based payment	–	–	5,656	–	–	5,656
Shares issued under share option scheme	53,999	–	(8,971)	–	–	45,028
Shares issued at premium, net of issuing expenses	83,893	–	–	–	–	83,893
Issue of warrant, net of expenses	–	–	–	72,278	–	72,278
Capital Reorganisation, net of expenses	1,363,382	–	–	–	–	1,363,382
Realised on disposal of an associate	–	(8,198)	–	–	–	(8,198)
Expenses relating to issue and conversion of convertible notes	(8,750)	–	–	–	–	(8,750)
Loss for the year	–	–	–	–	(197,582)	(197,582)
	<u>1,783,791</u>	<u>10,075</u>	<u>–</u>	<u>72,278</u>	<u>(531,472)</u>	<u>1,334,672</u>
<b>At 31 December 2007</b>	<b>1,783,791</b>	<b>10,075</b>	<b>–</b>	<b>72,278</b>	<b>(531,472)</b>	<b>1,334,672</b>

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**26. RESERVES** (Continued)**Company**

	<b>Share premium</b>	<b>Share option reserve</b>	<b>Warrant reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note a)		(Note b)		
At 1 January 2006	210,046	–	–	(163,427)	46,619
Equity-settled share-based payment	–	5,899	–	–	5,899
Shares issued under share option scheme	40,071	(1,752)	–	–	38,319
Shares issued at premium, net of issuing expenses	41,150	–	–	–	41,150
Surrender of share option	–	(832)	–	832	–
Loss for the year	–	–	–	(243,345)	(243,345)
	<u>291,267</u>	<u>3,315</u>	<u>–</u>	<u>(405,940)</u>	<u>(111,358)</u>
At 31 December 2006	<u>291,267</u>	<u>3,315</u>	<u>–</u>	<u>(405,940)</u>	<u>(111,358)</u>
At 1 January 2007	<b>291,267</b>	<b>3,315</b>	–	<b>(405,940)</b>	<b>(111,358)</b>
Equity-settled share-based payment	–	<b>5,656</b>	–	–	<b>5,656</b>
Shares issued under share option scheme	<b>53,999</b>	<b>(8,971)</b>	–	–	<b>45,028</b>
Shares issued at premium, net of issuing expenses	<b>83,893</b>	–	–	–	<b>83,893</b>
Issue of warrants, net of expenses	–	–	<b>72,278</b>	–	<b>72,278</b>
Expenses relating to issue and conversion of convertible notes	<b>(8,750)</b>	–	–	–	<b>(8,750)</b>
Capital Reorganisation, net of expenses	<b>1,363,382</b>	–	–	–	<b>1,363,382</b>
Loss for the year	–	–	–	<b>(72,258)</b>	<b>(72,258)</b>
	<u>1,783,791</u>	<u>–</u>	<u>72,278</u>	<u>(478,198)</u>	<u>1,377,871</u>
At 31 December 2007	<u>1,783,791</u>	<u>–</u>	<u>72,278</u>	<u>(478,198)</u>	<u>1,377,871</u>

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 26. RESERVES (Continued)

Notes:

- (a) The application of the Company's share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.
- (b) Pursuant to the warrants instrument executed by the Company on 11 October 2007, the Company issued 3,000,000,000 listed warrants conferring rights to subscribe in aggregate for 3,000,000,000 shares of the Company at the subscription price of HK\$0.1 each, which was subsequently adjusted to 300,000,000 shares of the Company at the subscription price of HK0.67 each after the Capital Reorganisation and the placing of shares on 21 February 2008. The warrants are exercisable for a 18-month period commencing from 11 October 2007.

The Company has received a net proceed of HK\$72,278,000 after deducting related expenses of HK\$2,722,000 as consideration for the issue of warrants and has been permitted by the Stock Exchange to have the listing of such warrants and to deal in the shares to be allotted and issued upon the exercise of the subscription rights attached to the warrants.

During the year, no warrant was exercised by the warrant holders.

- (c) At the balance sheet date, the Company has no reserves available for distribution to the shareholders.

## 27. SHARE OPTION SCHEME

Pursuant to the Group Reorganisation during 2002, a share option scheme ("New Scheme") of the Company was approved on 20 November 2002 by the shareholders of the Company and became effective on 3 January 2003. The New Scheme is valid and effective for a period of ten years. The board of directors of the Company may grant options to eligible employees including directors of the Company and its subsidiaries and any other persons including consultants, advisors, agents, customers, suppliers, etc. to subscribe for shares in the Company. The purpose of the New Scheme is to provide incentives to award the participants who have made contributions to the Group.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any 12 months period is not permitted to exceed 1% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. Options granted to any director, chief executive or substantial shareholder of the Company or any of their respective associates in excess of 0.1% of the Company's share capital in issue and having an aggregate value in excess of HK\$5 million must be subject to prior approval by the Company's shareholders.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 27. SHARE OPTION SCHEME (Continued)

An amount of HK\$1 is payable on the grant of an option. Options may be exercised no later than ten years from the date of grant of the share option or the expiry date of the New Scheme, if earlier. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the shares for the five business days immediately preceding the date of grant and the nominal value of the shares on the date of grant.

### (a) Movement in share option scheme during the year ended 31 December 2007:

Name of category of participant	Date of grant	As at 1 January 2007	Granted during the year	Exercised during the year	As at 31 December 2007	Exercise price HK\$	Share price at the date of grant (note i) HK\$	Share price at the date of exercise (note ii) HK\$
Employees in aggregate	29 November 2006	169,000,000	-	(169,000,000)	-	0.1030	0.1000	0.1210
	3 May 2007	-	278,600,000	(278,600,000)	-	0.1340	0.1310	0.1320-0.1340
	12 July 2007	-	825,000,000	(825,000,000)	-	0.1206	0.1170	0.1230
Other in aggregate	29 November 2006	88,000,000	-	(88,000,000)	-	0.1030	0.1000	0.1210
	3 May 2007	-	316,000,000	(316,000,000)	-	0.1340	0.1310	0.1320-0.1340
	12 July 2007	-	342,000,000	(342,000,000)	-	0.1206	0.1170	0.1230
		<u>257,000,000</u>	<u>1,761,600,000</u>	<u>(2,018,600,000)</u>	<u>-</u>			

Notes:

- (i) The share price at the date of grant is the closing price on the trading day immediately prior to the date of the grant of the options.
- (ii) The share price at the date of exercise is the weighted average closing price of the shares immediately before the dates on which the options were exercised.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 27. SHARE OPTION SCHEME (Continued)

### (b) Fair value of share options and assumptions

The fair value of share options granted under the share option scheme at the grant dates was ranged from HK\$0.0011 to HK\$0.0038 per share option, which was calculated using the Black-Scholes option pricing model with the following inputs:

Average share price	HK\$0.1206 – HK\$0.1340
Weighted average exercise price	HK\$0.1206 – HK\$0.1340
Expected volatility	35.47% – 47.80%
Expected life	1 – 15 days
Risk free rate	2.5%

The expected volatility is based on the historic volatility of share prices of the Company. Changes in the subjective input assumptions could materially affect the fair value of the share options granted.

## 28. ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired the entire equity interests in the following companies.

Acquisition date	Name of acquired companies	Place of incorporation	Principal activities	Cash consideration HK\$'000
4 May 2007	Clear Point Limited	British Virgin Islands	Property investment	999
4 May 2007	Million Regal Investment Limited	Hong Kong	Property investment	Note
14 May 2007	Top Trinity Assets Limited (with its subsidiary, Bestford Properties Limited incorporated in Hong Kong)	British Virgin Islands	Investment holding and property investment	20,828
6 June 2007	Longtop Enterprises Limited	Hong Kong	Property investment	Note
18 June 2007	Apex Novel Limited	British Virgin Islands	Property investment	14,900
11 July 2007	Allied Loyal International Investments Limited	British Virgin Islands	Investment holding	102,469
21 September 2007	Startech Business Limited	British Virgin Islands	Property investment	399
16 October 2007	Earn Best Investments Limited	British Virgin Islands	Property investment	Note

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 28. ACQUISITION OF SUBSIDIARIES (Continued)

Note:

The Group acquired these companies at cash consideration of HK\$1 respectively.

The aggregate fair value of the identifiable assets and liabilities of the acquired subsidiaries as at the dates of acquisition and their carrying value determined in accordance with HKFRS immediately before the acquisition are as follows:

	<b>Carrying value</b>	<b>Fair value</b>
	HK\$'000	HK\$'000
Investment properties	120,500	137,600
Property, plant and equipment	13,414	1,485
Intangible assets	33,900	136,000
Cash and cash equivalents	16	16
Other receivables	12,201	12,201
Other payables	(194,989)	(28)
Interest-bearing borrowings	(26,150)	(21,175)
Deferred tax liabilities	(416)	–
	<u>(41,524)</u>	<u>266,099</u>
Discount on acquisition		<u>(74)</u>
Total consideration, satisfied by cash		<u><u>266,025</u></u>
Net cash acquired from the subsidiary		16
Cash paid for share costs		(139,595)
Loan consideration		<u>(126,430)</u>
Net cash outflow		<u><u>(266,009)</u></u>

Since the acquisition, the acquired subsidiaries made no significant contribution to the revenue and results of the Group.

If the acquisition of subsidiaries effected during the year had been taken place at the beginning of the year, the revenue and loss for the Group would have been HK\$1,449,026,000 and HK\$200,846,000 respectively.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 29. COMMITMENTS

### Capital expenditure commitments

	2007 HK\$'000	2006 HK\$'000
Contracted but not provided net of deposit paid in the financial statements	<u>58,306</u>	<u>–</u>

### Commitments under operating leases – the Group as lessee

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of office premises and equipment, which are payable as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	466	1,434
In the second to fifth years inclusive	<u>178</u>	<u>476</u>
	<u>644</u>	<u>1,910</u>

### Commitments under operating leases – the Group as lessor

At the balance sheet date, the future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	<u>285</u>	<u>–</u>

## 30. CONTINGENT LIABILITIES

At the balance sheet date, the Company had provided corporate guarantees for banking facilities amounting to HK\$216,920,000 (2006: HK\$38,000,000) granted to its subsidiaries, which were utilised to the extent of HK\$191,648,000 (2006: HK\$18,300,000). The directors assessed the overall exposure of the corporate guarantees granted by the Company and considered that the fair value of such corporate guarantees is immaterial in the financial statements of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 31. PLEDGE OF ASSETS

At the balance sheet date, certain assets of the Group with the following carrying values have been pledged to secure general banking facilities granted to the Group:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Leasehold land and buildings	<b>19,872</b>	20,531
Investment properties	<b>324,000</b>	7,200
	<b>343,872</b>	27,731

## 32. RELATED PARTY TRANSACTIONS

Other than disclosed elsewhere in the financial statements, the following related party transactions were entered into by the Group during the year:–

- (a) A property of the Group with net book value of HK\$19,872,000 (2006: HK\$20,531,000) is occupied by a brother of a director of the Company for free.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

**32. RELATED PARTY TRANSACTIONS** (Continued)

- (b) Details of the securities margin loans granted by HMIL Group to the executive directors of the Company up to the last disposal date of HMIL are as follows:

Name of director	Granted by	Balance at 24 April 2007 HK\$'000	Balance at 1 January 2007 HK\$'000	Maximum amount outstanding during the period HK\$'000	Maturity	Interest rate per annum
Chuang Yueheng, Henry – margin loan	HMIL Group	–	–	2,802	N/A	5%
King, Phillip – margin loan	HMIL Group	1,236	2,365	17,365	N/A	5%
Wong Ying Seung, Asiong – margin loan	HMIL Group	–	8,127	17,650	N/A	5%
		<u>1,236</u>	<u>10,492</u>			

- (c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2007 HK\$'000	2006 HK\$'000 (restated)
Salaries, allowances and benefits in kind	4,713	4,606
Contributions to MPF Scheme	60	56
	<u>4,773</u>	<u>4,662</u>

The remuneration of directors and key executives is reviewed by the Remuneration Committee having regard to the performance of individuals and market trends.

- (d) During the year, the Group granted an unsecured short term loan of HK\$19 million (2006: HK\$15 million) to a subsidiary of HMIL, which was fully settled before the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise of bank and other interest-bearing loans, cash and short-term deposits. The main purpose of these financial instruments is to raise and maintain finance for the Group's operations. The Group has various other financial instruments such as loans receivable, other receivables and payables, investments held for trading and financial liabilities at fair value through profit or loss, which arise directly from its business activities.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, equity price risk, credit risk and liquidity risk. The Group does not have any written risk management policies and guidelines except for lending and investment policies. However, the board of directors generally adopts conservative strategies on its risk management and limit the Group's exposure to these risks to a minimum. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

### Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's cash and short-term deposits, interest-bearing bank and other borrowings and loans receivable. The Group does not use derivative financial instruments to hedge its interest rate risk.

At the balance sheet date, if interest rates had been 150 basis point higher or lower while all other variables were held constant, the Group's net loss would increase or decrease by HK\$2,664,000 respectively (2006: HK\$1,370,000 respectively).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for all financial instruments in existence at that date. The 150 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

### Foreign currency risk

The Group is exposed to foreign currency risk because of securities investments listed outside Hong Kong, derivatives financial instruments and other receivables from securities brokers, which are denominated in foreign currencies, principally the US dollar. Management considers that the Group has limited exposure to foreign currency risk since such financial instruments are not significant at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

### Equity price risk

The Group is exposed to equity price risk arising from trading of listed securities classified as investments held for trading in the balance sheet. The sensitivity analysis has been determined based on the exposure to equity price risk.

At the balance sheet date, if the quoted market prices had been 5% higher or lower while all other variables were held constant, the Group's net loss would decrease or increase by HK\$26,867,000 (2006: HK\$5,506,000) as a result of changes in fair value of investments. The Group's sensitivity to equity price has changed significantly from the prior year.

The sensitivity analysis has been determined assuming that the reasonably possible changes in the stock market index or other relevant risk variables had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's securities investments would be considered impaired as a result of a reasonably possible decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The stated changes represent management's assessment of reasonably possible changes in the relevant stock market index or the relevant risk variables over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

### Credit risk

The Group's credit risk is primarily attributable to loans receivable. The carrying amount of these balances substantially represent the Group's maximum exposure to credit risk at the balance sheet date.

Management has lending policies in place and the exposure to the credit risk is monitored on an ongoing basis. The Group provides financial services only with recognised, creditworthy third parties. It is the Group's policy that all borrowers who wish to borrow money are subject to credit verification procedures.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each borrower. The default risk of the industry and country in which borrowers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group had a concentration of credit risk as 57% (2006: 70%) of the total loans receivable was due from the Group's five largest borrowers.

The Group has limited credit risk with its money deposited in financial institutions and securities brokers, which are leading and reputable and are assessed as having low credit risk. The Group has not had any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. The Group closely monitors its exposure to liquidity risk by reviewing the cash position report daily. It analyses efficiency of fund management. The maturity profile of the Group's financial liabilities at the balance sheet date based on contractual undiscounted payments are summarised below:

	On demand HK\$'000	Less than 3 months HK\$'000	3-12 months HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
<b>Year ended</b>						
<b>31 December 2007</b>						
Interest-bearing borrowings	–	153,212	15,588	73,972	160,644	403,416
Derivative financial instruments						
– Securities derivatives	–	15,313	61,818	–	–	77,131
– Forward foreign exchange contracts						
– Cash outflow	–	2,281	2,787	–	–	5,068
– Cash inflow	–	(2,370)	(2,896)	–	–	(5,266)
Other payables	3,638	9,652	–	–	–	13,290
	<b>3,638</b>	<b>178,088</b>	<b>77,297</b>	<b>73,972</b>	<b>160,644</b>	<b>493,639</b>
		Less than	3-12	2-5	Over	
	On demand	3 months	months	years	5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended</b>						
<b>31 December 2006</b>						
Interest-bearing borrowings	–	5,831	3,288	13,714	6,604	29,437
Other payables	8,242	–	–	–	–	8,242
	<b>8,242</b>	<b>5,831</b>	<b>3,288</b>	<b>13,714</b>	<b>6,604</b>	<b>37,679</b>

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

### Capital management

The objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern and to provide returns for shareholders. The Group manages its capital structure and makes adjustments, including payment of dividend to shareholders, return capital to shareholders or issue new shares or sell assets to reduce debts. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital on the basis of gearing ratio, which is net debt divided by total equity. The Group's policy is to maintain a stable gearing ratio. The gearing ratios at the balance sheet date were as follows:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Interest-bearing borrowings	<b>341,648</b>	23,295
Less: Cash and cash equivalents	<b>(304,355)</b>	(8,878)
	<hr/>	<hr/>
Net debt	<b>37,293</b>	14,417
	<hr/>	<hr/>
Total equity	<b>1,486,465</b>	329,614
	<hr/>	<hr/>
<b>Gearing ratio</b>	<b>2.5%</b>	4.4%
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2007

## 34. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in the financial statements, the following post balance sheet events were conducted:

- (a) Pursuant to the Placing Agreement dated 15 February 2008, the Company agreed to conditionally place 303,580,000 ordinary shares of HK\$0.10 each of the Company on a fully underwritten basis to independent investors at the placing price of HK\$0.17 per share.

On 21 February 2008, an aggregate of 303,580,000 new ordinary shares of HK\$0.10 each of the Company were issued to third parties at the placing price of HK\$0.17 per share by cash.

- (b) Pursuant to the ordinary resolution passed on 28 December 2007, the Company agreed to issue 1,517,931,298 rights shares on the basis of one rights share for every then existing issued and paid up share at a subscription price of HK\$0.22 per Rights Share.

On 29 January 2008, an aggregate of 1,517,931,298 rights shares of the Company were issued at the subscription price of HK\$0.22 per rights share.

- (c) On 14 April 2008, the Group entered into an agreement with a third party to conditionally agree the acquisition of a company which owns properties in Hong Kong at a consideration of HK\$20,160,000, which shall be satisfied by the issue and allotment of 160,000,000 shares of the Company at HK\$0.126 per share to the vendor.

## 35. COMPARATIVE FIGURES

Other than comparative information restated or reproduced following the adoption of new or revised HKFRS as set out in note 2, certain comparative figures regarding dividend and interest income in the consolidated cash flow statement, other income, employee benefits expense and other operating expenses in the consolidated income statement, interests in subsidiaries in note 16 and compensation of key management personnel in note 32(c) have been reclassified to conform with the current year's presentation.

# SUMMARY OF FINANCIAL INFORMATION

Year ended 31 December 2007

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below.

## RESULTS

	<b>2007</b>	<b>Year ended 31 December</b>			
		2006	2005	2004	2003
	<b>HK\$'000</b>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Turnover</b>	<b>1,448,876</b>	295,508	124,477	92,744	138,937
Loss before taxation	<b>(197,582)</b>	(114,761)	(131,715)	(336,868)	(116,844)
Taxation	–	–	–	–	5,800
<b>Loss after taxation</b>	<b>(197,582)</b>	(114,761)	(131,715)	(336,868)	(111,044)
Minority interests	–	–	–	–	77,305
<b>Loss for the year</b>	<b>(197,582)</b>	(114,761)	(131,715)	(336,868)	(33,739)

## SUMMARY OF FINANCIAL INFORMATION

Year ended 31 December 2007

## ASSETS AND LIABILITIES

	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000
Investment properties	326,500	7,200	9,650	11,930	20,530
Property, plant and equipment	35,049	22,977	22,391	39,177	30,716
Intangible assets	134,626	–	–	–	–
Interests in associates	–	98,118	238,549	181,113	320,624
Other financial asset	–	–	7,143	–	–
Other investments	113,965	–	–	–	–
Prepayments for acquisition of investment properties	8,656	–	–	–	–
Current assets	1,229,522	232,856	66,464	53,715	133,304
Current liabilities	(181,197)	(15,749)	(18,860)	(171,033)	(171,220)
Long term interest-bearing borrowings	(180,656)	(15,788)	(13,770)	(23,451)	(30,172)
Equity holders' funds	<u>1,486,465</u>	<u>329,614</u>	<u>311,567</u>	<u>91,451</u>	<u>303,782</u>

# PARTICULARS OF PROPERTIES HELD BY THE GROUP

Year ended 31 December 2007

## (A) INVESTMENT PROPERTIES

Description	Use	Lease term
Flat C8, 26th floor, Block C, Elizabeth House, Nos. 250-254 Gloucester Road, Causeway Bay, Hong Kong	Residential	Long term
All car parking spaces on 2nd floor, 3rd floor and 5th floor (except for car parking space No.3 on 5th floor), China United Centre, No. 28 Marble Road, North Point, Hong Kong	Car parking	Long term
Flat A on 15th and 16th floors and car parking space No. 1 on ground floor, Formwell Garden, Nos. 46-48 Blue Pool Road, Hong Kong	Residential	Long term
Unit A on 2nd Floor and car parking space No. 31 on lower ground floor, Hatton Place, No. 1A Po Shan Road, Hong Kong	Residential	Long term
Unit 1 (also known as House No. A), Sunshine Villa, No. 48 Mount Kellett Road, The Peak, Hong Kong	Residential	Medium term
Flat B on 22nd floor together with a portion of roof thereabove and car parking space No. 22, Royalton, No. 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong	Residential	Medium term

## PARTICULARS OF PROPERTIES HELD BY THE GROUP

Year ended 31 December 2007

**(A) INVESTMENT PROPERTIES** *(Continued)*

<b>Description</b>	<b>Use</b>	<b>Lease term</b>
House No. 6 Somerset Path, 8 Kam Tsin South Road, The Royal Oaks, Sheung Shui New Territories	Residential	Medium term
26th floor, China United Centre, No. 28 Marble Road, North Point, Hong Kong	Commercial	Long term

**(B) LEASEHOLD LAND AND BUILDINGS**

<b>Description</b>	<b>Use</b>	<b>Lease term</b>
Duplex flat A on 21st and 22nd floor together with a portion of roof thereabove and car parking space No. 33, Royalton, No. 118 Pok Fu Lam Road, Pok Fu Lam, Hong Kong	Residential	Medium term