# Dynamic Global Holdings Limited

(incorporated in the Bermuda with limited liability)

(Stock code : 231)

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors:

Mr. Chen Jung Hsin *(Chief Executive Officer)*
Mr. Li Wing Sum, Steven

### Independent Non-executive Directors:

Dr. Dong Ansheng
Mr. Poon Chiu
Mr. Wu Fengchun

## AUDIT COMMITTEE

Mr. Poon Chiu *(Committee Chairman)*
Dr. Dong Ansheng
Mr. Wu Fengchun

## REMUNERATION COMMITTEE

Dr. Dong Ansheng *(Committee Chairman)*
Mr. Poon Chiu
Mr. Wu Fengchun
Mr. Chen Jung Hsin

## NOMINATION COMMITTEE

Dr. Dong Ansheng *(Committee Chairman)*
Mr. Poon Chiu
Mr. Wu Fengchun
Mr. Chen Jung Hsin

## AUTHORISED REPRESENTATIVES

Mr. Li Wing Sum, Steven
Mr. Chan Kwan Pak

## COMPANY SECRETARY

Mr. Chan Kwan Pak

## QUALIFIED ACCOUNTANT

Mr. Ong Kam Chit, Vincent

## AUDITORS

CCIF CPA Limited
20/F, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co. Ltd.
(Hong Kong) Branch

## PRINCIPAL REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

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

## REGISTERED OFFICE

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 2212 – 2217, 22/F
The Metropolis Tower
10 Metropolis Drive
Hunghom
Kowloon
Hong Kong

## WEBSITE

www.dgholdings.com.hk

## STOCK CODE

00231

# Message from the Chief Executive Officer

On behalf of the board of directors ("the Directors") of Dynamic Global Holdings Limited ("the Company") and its subsidiaries (together "the Group"), I am pleased to present to the shareholders of the Company the annual report for the year ended 31 December 2007.

## RESULTS

The Group recorded an audited consolidated turnover and net profit of HK$185,253,000 (2006: HK$20,210,000) and HK$87,097,000 (2006: net loss of HK$76,947,000), respectively, for the year ended 31 December 2007.

## BUSINESS REVIEW

The Group made a turnaround to profitability thanks mainly to the appreciation of our shopping mall in Harbin, the PRC. After its recent completion, this flagship project of the Group has been leased to a top electric appliance conglomerate in mainland China for a ten-year term, providing steady revenue for the Group in the future.

The Shanghai Fairyoung Building project has come to an end with its completion and handling over to the buyers in the year. Shuijinghu Resort Hotel, a relatively small project of the Group which is situated in Nanzhang, Hubei Province, the PRC had made no contribution to the Group in the year under review due to suspension of business pending for renovation and improvement works.

As regards the financial structure of the Group, every effort has been made to improve the financial position of the Group. In December 2007, the Company entered into subscription agreements with two independent third parties and as a result a total of 287,734,000 new shares of the Company were allotted and issued after the year end date, tapping an amount of approximately HK$38,904,514 as our working capital. Also in December 2007, the Company entered into a loan settlement agreement with Main Hero Investment Limited ("Main Hero"), a creditor of the Company, thereby a loan in the amount of HK$42,499,850 was capitalized and 314,348,000 new shares were allotted and issued to Main Hero after the year end date. These moves were attributable to the improvement in the Group's cash flow and reduction of our financial pressure, and thus beneficial to our future development.

## PROSPECTS AND OUTLOOK

The operations of the Group are primarily located in mainland China, and its performance is unavoidably correlated with the macro environment of the PRC. The volatility of the global financial market and the stepping up of the austerity measures in the PRC have cast uncertainties in the economic development, and thus the Directors remain cautious in the short term. However, the Directors consider that the austerity measures are mainly implemented to deter speculative activities and to curb the mounting inflation, which may lay down the foundation for a healthier development of the economy in the PRC in the long run. The Company is hence confident in the long term economic outlook.

While the Harbin shopping mall will bring us long term steady revenue, the Group is exploring some quality hotel projects in the PRC to capitalize on the growing tourist activities in mainland China for more sources of income.

The Directors will continue their efforts in further reorganize the Group in a bid to optimize its financial position. After a successful restructuring, the Group would not rule out the possibility of diversifying into some other projects outside the property sector, so as to reduce the risk of over concentration in a single sector and to capture a reasonable return to the shareholders of the Company.

# Message from the Chief Executive Officer

## LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING AND CAPITAL COMMITMENTS

As at 31 December 2007, the Group's current assets and current liabilities were HK$124,798,000 and HK$372,121,000 respectively. The interest-bearing borrowings amounted to HK$168,536,000.

As at 31 December 2007, main charges on assets of the Group include bank balance of HK$377,000.

As at 31 December 2007, there was no capital commitments outstanding.

The Group's gearing ratio as at 31 December 2007 was 95%, which is calculated on the Group's total liabilities divided by its total assets.

## EXCHANGE RISK

As the Group's operations are principally in mainland China and all assets and liabilities are denominated either in Renminbi or HK dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

## EMPLOYEES AND REMUNERATION POLICIES

The Group has a total of approximately 50 employees, who are remunerated according to nature of the job and market trend, as well as individual qualifications and performance. The Group has participated in the Mandatory Provident Fund Scheme. On the job training is provided to staff from time to time. The Group currently does not have any share option scheme for employees.

## APPRECIATION

On behalf of the Board, I would like to express our gratitude to the management and staff for their valuable contribution and dedication in the past year. We would also like to thank our shareholders, investors, customers and business partners for their continued support and confidence.

**Chen Jung Hsin**
*CEO & Executive Director*

Hong Kong, 21 April 2008

# Biographies of Directors

## EXECUTIVE DIRECTORS

**Mr. Chen Jung Hsin**, aged 42, has been an Executive Director and Chief Executive Officer ("CEO") of the Company since 6 January 2006. Mr. Chen has extensive experience in industrial management and trading in Hong Kong and Mainland China and is experienced in trading and financial investment in Mainland China. He was an Executive Director of the Company during the period from 4 February 2002 to 15 July 2005.

**Mr. Li Wing Sum, Steven**, aged 51, has been an Executive Director of the Company since 6 January 2006. Mr. Li is a fellow member respectively of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has over 25 years' experience in auditing, accounting, company secretarial services, taxation and financial management. Mr. Li has worked in an international accounting firm and has been employed as financial controller of various companies including a Hong Kong listed company as well as a multinational organization. He was an Independent Non-executive Director of the Company during the period from 9 September 2004 to 6 July 2005. Since July 2000, Mr. Li has been the Qualified Accountant and Company Secretary of Shanghai Fudan Microelectronics Company Limited, a company listed on the GEM of the Stock Exchange.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Dong Ansheng**, aged 56, has been an Independent Non-executive Director of the Company since 6 January 2006. Dr. Dong holds a Bachelor of Laws degree from the Political and Law Sciences School of Chinese Northwestern College (西北政法學院); and Master and Doctoral degrees in laws from the Law School of the Renmin University, China (中國人民大學). Dr. Dong is well versed in various areas of law and has been a lecturer in Mainland China, Hong Kong and Taiwan and a China law consultant to a number of companies in their listing exercise in Mainland China and Hong Kong.

Dr. Dong was an Independent Non-executive Director of Beijing North Star Co. Limited (北京北辰實業股份有限公司), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited, from 1997 to 2003. He has been an independent non-executive director respectively of Zhongji Gold Corporation Limited (中金黃金股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange, since 2001; and Beijing Wangfujing Department Store (Group) Company, Limited (北京王府井百貨股份有限公司), the shares of which are listed on the Shanghai Stock Exchange, since 2002.

**Mr. Poon Chiu**, aged 58, has been an Independent Non-executive Director of the Company since 8 February 2006. He is a practicing Certified Public Accountant in Hong Kong, and a Fellow member of the Association of Chartered and Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He holds a Master of Science degree in Finance from the University of Leicester, UK. Mr. Poon is a seasoned financial professional with extensive experience in high-tech, wine and spirits and operations, business acquisition and merger and system development.

Mr. Poon was an independent non-executive director of Auroma Global Investment Holdings Limited (formerly known as "Orient Industries Holdings Limited"), the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited, from June 2005 to April 2007. He was also an executive director of Luolan Holdings Limited, the shares of which were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, from February 2007 to March 2008.

**Mr. Wu Fengchun**, aged 56, has been an Independent Non-executive Director of the Company since 15 September 2006. Mr. Wu holds a legal professional qualification from Lanzhou University, Gansu Province, PRC, and a Master of Laws degree from the Asia International Open University (Macau) majoring in International Commercial Law. He had attended a training course on independent directorship jointly run by the China Securities Regulatory Commission and Shanghai Fudan University. Mr. Wu was once a prosecutor in the Gansu People's procuratorate and head of the Legal and Administration Departments of Dongda Holdings Limited (東大集團股份有限公司), Zhuhai SEZ. He is the managing partner of Unite Success Law Firm, Guangdong (廣東集大成律師事務所) and the legal advisor to Zhuhai National People's Congress Standing Committee.

# Corporate Governance Report

The board of directors ("Board") is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance with emphasis on transparency, independence and accountability. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly tightened regulatory requirements.

The Code on Corporate Governance Practices ("CGP Code") issued by The Stock Exchange of Hong Kong Limited ("Stock Exchange") in its Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") sets out two levels of corporate governance practices, ie. mandatory code provisions that a listed company must comply with or explain its non-compliance, and recommended best practices that listed companies are encouraged to comply with but need not disclose in the case of non-compliance. The Company is in compliance with the mandatory code provisions of the CGP Code, save for the deviations discussed below.

## THE BOARD

The Board is responsible for guiding and leading the Company. The directors, individually and collectively, must act in good faith in the best interests of the Company and its shareholders.

The Board currently comprises two Executive Directors and three Independent Non-executive Directors. The Board has established committees to oversee different areas of the Company's affairs. The composition of the Board and the committees are given below and their respective responsibilities are discussed in this report. The Board members have no financial, business, family or other material/ relevant relationships with each other.

The numbers of Board Meetings and meetings of various committees attended by each Director during the year under review are set out in the following table. Figure in brackets indicates maximum number of meetings in the year in which the individual could attend as a Board member and member of various committees, as the case may be.

| | | Meetings Attended/(Held) | | | |
|---|---|---|---|---|---|
| | Note | Board | Audit Committee | Nomination Committee | Remuneration Committee |
| **Executive Directors** | | | | | |
| Mr. Chen Jung Hsin | | 7/(7) | N/A | 1/(1) | 1/(1) |
| Mr. Li Wing Sum, Steven | | 7/(7) | N/A | N/A | N/A |
| Mr. Liang Wenjian | 1 | 3/(7) | N/A | N/A | N/A |
| Mr. Dai Xu | 2 | 5/(6) | N/A | N/A | N/A |
| **Independent Non-executive Directors** | | | | | |
| Dr. Dong Ansheng | | 5/(7) | 3/(3) | 1/(1) | 1/(1) |
| Mr. Poon Chiu | | 6/(7) | 3/(3) | 1/(1) | 1/(1) |
| Mr. Wu Fengchun | | 4/(7) | 1/(3) | 1/(1) | 1/(1) |

*Notes:*

1. Resigned as Executive Director on 4 March 2008.
2. Appointed as Executive Director on 26 February 2007 and resigned on 8 October 2007.

# Corporate Governance Report

Each of the Independent Non-executive Directors have confirmed in writing their independence from the Company in accordance with the guidelines on director independence of the Listing Rules. On this basis, the Company considers all such Directors to be independent.

Biographical details of the Directors of the Company as at the date of this report are set out on page 5 of this annual report. Given the composition of the Board and the skills, knowledge and expertise of the Directors, the Board believes that it is appropriately structured to provide sufficient checks and balances to protect the interests of the Group and the shareholders. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Company.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of emoluments of the Directors from the Group for the year are disclosed in Note 9 to the financial statements.

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Appointment of new Directors was considered upon recommendation by the Nomination Committee and approved by the Board by taking into account criteria such as expertise, experience, integrity and commitment.

In accordance with the Bye-laws of the Company ("Bye-laws"), all Directors (except the Chairman and/or Managing Director) are subject to retirement by rotation and re-election at annual general meetings of the Company. New Directors appointed by the Board during the year are required to retire and submit themselves for re-election at the first annual general meeting immediately following their appointments. Further, at each annual general meeting, one-third of the Directors (excluding the Chairman and/or Managing Director), or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third are required to retire from office.

The existing Bye-laws governing the retirement of Directors deviate from the CGP Code provisions in the following aspects: (i) unlike the other Directors, the Chairman and/or Managing Director is not subject to retirement by rotation; (ii) new Directors appointed to fill casual vacancies are subject to election by shareholders at the first annual general meeting instead of the first general meeting after their appointments; and (iii) the Directors who are subject to retirement by rotation are not explicitly subject to retirement at least once every three years. The Board may review the above-mentioned practice from time to time and consider amending the Bye-laws when necessary.

## CHAIRMAN AND CHIEF EXECUTIVE

Since the resignation of the Chairman of the Company on 31 December 2005, the position of Chairman has not been filled. The position of CEO is served by Mr. Chen Jung Hsin, an Executive Director of the Company.

## TERM OF OFFICE OF NON-EXECUTIVE DIRECTORS

Code provision A.4.1 requires that non-executive directors should be appointed for a specific term and subject to re-election. Currently, all Independent Non-executive Directors have no specific term of office with the Company. All of them are subject to retirement by rotation in accordance with Company's Bye-laws. As such, the Company considers that sufficient measures have been taken to serve the purpose of this code provision.

# Corporate Governance Report

## AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors and is chaired by Mr. Poon Chiu, a practicing certified public accountant. The Committee is responsible for review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. The Committee is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. In performing its duties, it has unrestricted access to personnel, records and external auditors and senior management.

## REMUNERATION COMMITTEE

The Remuneration Committee, comprised all Independent Non-executive Directors and the CEO, is responsible for reviewing and determining the compensation and benefits of the Directors and senior management. The Remuneration Committee is chaired by an Independent Non-executive Director.

## NOMINATION COMMITTEE

The Nomination Committee, comprised all Independent Non-executive Directors and the CEO, is responsible for reviewing and making recommendation to the Board on matters relating to the Board structure and appointment and re-appointment of Directors. The Nomination Committee is chaired by an Independent Non-executive Director.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of accounts for each financial period with a view to ensuring such accounts give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgements and estimates made are prudent and reasonable.

## INTERNAL CONTROL

The Board has overall responsibilities for maintaining a sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority, safeguard its assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant laws and regulations. The system is designed to provide reasonable assurance against material misstatement or loss, and to oversee the Group's operational systems for the achievement of the Group's business objectives.

## AUDITORS' REMUNERATION

CCIF CPA Limited is the independent auditors of the Company. Total auditors' remuneration in relation to statutory audit work of the Group amounted to HK$570,000 (2006: HK$480,000). HK$72,000 (2006: Nil) was paid for other non-audit services provided by the Auditors for the Company and its subsidiaries during the year.

The responsibilities of the auditors with respect to financial reporting are set out in the section of "Independent Auditor's Report" on page 14.

# Corporate Governance Report

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the Period and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## COMMUNICATION WITH SHAREHOLDERS

The Company attaches great priority to establishing effective communications with its shareholders and investors. As a means of communications, the Company provides information relating to the Company and its business in its interim and annual reports.

The Company regards its annual general meeting as an opportunity for direct communications between the Board and its shareholders. All Directors, senior management and independent auditors make an effort to attend the annual general meetings to address shareholders' queries. The Company also responds to requests for information and queries from the shareholders and investors and welcomes the views of shareholders on matters concerning the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or management directly.

# Report of the Directors

The directors herein present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the principal subsidiaries and associates are set out in detail in notes 19 and 20, respectively, to the financial statements. There was no change in the nature of the Group's principal activities during the year.

## SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 December 2007 is set out in note 15 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 16 to 22.

The directors do not recommend the payment of any dividends in respect of the year ended 31 December 2007 (2006: Nil).

## SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years ended 31 December 2007, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 79. The summary is not part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

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

## INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group are set out in note 18 to the financial statements.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year and subsequent thereto, together with the reasons therefor, are set out in note 35 to the financial statements.

## RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 36 to the financial statements.

## DISTRIBUTABLE RESERVES

At 31 December 2007 the Company did not have any reserves available for distribution to equity shareholders of the Company. The Company's share premium account and capital redemption reserve in an aggregate amount of HK$63,580,000 may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year, and the purchases attributable of the five largest suppliers accounted for less than 30% of the Group's total purchases.

# Report of the Directors

## DIRECTORS

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

### Executive Directors

Mr. Chen Jung Hsin
Mr. Li Wing Sum, Steven
Mr. Dai Xu (appointed on 26 February 2007 and resigned on 8 October 2007)
Mr. Liang Wenjian (resigned on 4 March 2008)

### Independent Non-executive Directors

Dr. Dong Ansheng
Mr. Poon Chiu
Mr. Wu Fengchun

At the forthcoming annual general meeting ("AGM") of the Company, in accordance with Bye-law 109(A) of the Company's Bye-laws, Mr. Poon Chiu and Mr. Wu Fengchun shall retire from office at the AGM and, being eligible and offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Mr. Chen Jung Hsin and Mr. Li Wing Sum, Steven have each entered into a service agreement with the Company for an initial term of three years commencing on 6 January 2006 and shall continue thereafter unless terminated in accordance with the terms of the service agreement.

None of the Independent Non-executive Directors have entered into a service agreement with the Company. They have no specific term of office but shall be subject to retirement by rotation and be eligible for re-election at the AGM of the Company pursuant to the Bye-laws.

Save as disclosed above, no director proposed for re-election at the forthcoming AGM has a service agreement with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

None of the directors had any beneficial interest, either direct or indirect, in any significant contract to which the Company, any of its holding companies or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

## DIRECTORS' INTERESTS IN EQUITY SECURITIES

At 31 December 2007, none of the directors, chief executive nor their associates, had any interests or short position in any shares, underlying shares or rights to subscribe for the securities of the Company and its associated corporations, as recorded in the register maintained by the Company under Section 352 of the Securities and Futures Ordinance (the "SFO"), or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the following parties were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

| | | No. of ordinary shares of HK$0.10 each | | | |
|---|---|---|---|---|---|
| **Name of substantial shareholder** | Note | **Personal interests** | **Corporate interests** | **Total** | **Shareholding percentage** |
| Mr. Liang Wenguan ("Mr. Liang") | 1 | 125,412,000 | 723,970,000 | 849,382,000 | 28.21% |
| Gree International Holding Limited ("Gree") | 1 | – | 723,970,000 | 723,970,000 | 24.05% |
| Main Hero Investment Limited ("Main Hero") | 2 | – | 314,348,000 | – | 10.44% |

*Note 1:* Madex International Company Limited, a company which is 100% owned by Mr. Liang, has charged 723,970,000 Shares to Gree, which is thus deemed to be interested in the said shares. Mr. Wang Gang and Mr. Dong Taijin, each holding 50% of the issued share capital of Gree, are severally deemed to be interested in all 723,970,000 Shares, representing 24.05% of the issued share capital of the Company as at 31 December 2007.

*Note 2:* On 12 December 2007, the Company and Main Hero entered into a conditional loan settlement agreement, pursuant to which a loan amounted to HK$42,499,850 owing by the Company to Main Hero ("Loan") would be settled in full by capitalizing the Loan into the capital of the Company by means of allotting and issuing 314,348,000 Shares to Main Hero. The said Shares were allotted and issued on 28 January 2008. Mr. Leung Chin Fung, holding 95% of the issued share capital of Main Hero, is deemed to be interested in the 314,348,000 Shares, representing 10.44% of the issued share capital of the Company as at 31 December 2007.

As at 31 December 2007, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the year.

## POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 42 to the financial statements.

# Report of the Directors

## MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) were entered into by the Company during the year, which are or may be material:

1. On 12 December 2007, the Company entered into a loan settlement agreement with Main Hero Investment Limited ("Main Hero"), a creditor of the Company, thereby a loan in the amount of HK$42,499,850 was settled by allotment and issuance of 314,348,000 new shares to Main Hero.

2. On 12 and 14 December 2007, the Company entered into subscription agreements (with subsequent supplemental agreements) with two independent third parties respectively to place a total of 287,734,000 new shares of the Company at HK$0.13521 per share for approximately HK$38,904,514 as the working capital of the Company.

Save as disclosed, no other material contract (not being contract in the ordinary course of business) was entered into by any member of the Group during the year.

## LITIGATION

Details of litigation are provided in note 40 to the financial statements.

## CONTINGENT LIABILITIES

Details of contingent liabilities are provided in note 37 to the financial statements.

## 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.

## CONNECTED TRANSACTIONS AND MATERIAL RELATED PARTY TRANSACTIONS

Details of the connected transactions and material related party transactions are provided in note 41 to the financial statements.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date hereof, there is sufficient public float of not less than 25% of the Company's issued shares as required by the Listing Rules.

## AUDITORS

CCIF CPA Limited retires and a resolution for its reappointment as independent auditors of the Company will be proposed at the forthcoming AGM.

ON BEHALF OF THE BOARD

**Chen Jung Hsin**
*CEO & Executive Director*

Hong Kong, 21 April 2008

# Independent Auditor's Report

CCIF
**CCIF CPA LIMITED**
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DYNAMIC GLOBAL HOLDINGS LIMITED**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Dynamic Global Holdings Limited (the "Company") set out on pages 16 to 78, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

# Independent Auditor's 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 profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements which indicate that the Group had a consolidated net current liabilities of approximately HK$247,323,000 as at 31 December 2007. The consolidated financial statements have been prepared on a going concern basis in the light of existence of loan facilities of HK$60,000,000 provided by a subsidiary of the Company's substantial shareholder and the successful extension of the repayment terms of an amount of approximately HK$84,591,000 due to this subsidiary of the Company's substantial shareholder, an amount of approximately HK$3,707,000 due to a minority shareholder, interest-bearing borrowings of approximately HK$54,245,000 and non-interest bearing borrowings of approximately HK$39,607,000 for more than one year from the date of this report. Notwithstanding, the validity of the consolidated financial statements being prepared on a going concern basis depends upon the success of the measures to improve profitability and cash flows and the availability of financing from other resources. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group and the Company to continue as a going concern.

**CCIF CPA Limited**
*Certified Public Accountants*
Hong Kong, 21 April 2008

**Yau Hok Hung**
*Practising Certificate Number P04911*

# Consolidated Income Statement

For the year ended 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Turnover** | 6 | **185,253** | 20,210 |
| Cost of sales | | **(177,363)** | (29,087) |
| **Gross profit/(loss)** | | **7,890** | (8,877) |
| Valuation gain on investment properties | 18 | **147,679** | – |
| Other revenue | 6 | **3,242** | 141 |
| Distribution costs | | **(5,744)** | (7,094) |
| Administrative expenses | | **(31,730)** | (27,409) |
| Other operating income/(expenses), net | 7 | **13,859** | (25,950) |
| **PROFIT/(LOSS) FROM OPERATIONS** | | **135,196** | (69,189) |
| Finance costs | 8(a) | **(7,490)** | (7,887) |
| **PROFIT/(LOSS) BEFORE TAXATION** | 8 | **127,706** | (77,076) |
| Income tax | 11 | **(40,609)** | 129 |
| **PROFIT/(LOSS) FOR THE YEAR** | | **87,097** | (76,947) |
| **ATTRIBUTABLE TO:** | | | |
| Equity shareholders of the Company | | **54,387** | (76,654) |
| Minority interests | | **32,710** | (293) |
| **PROFIT/(LOSS) FOR THE YEAR** | | **87,097** | (76,947) |
| **EARNINGS/(LOSS) PER SHARE** | 14 | | |
| – Basic | | **1.81 cents** | (2.55) cents |
| – Diluted | | **N/A** | N/A |

The notes on pages 23 to 78 form part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Interests in leasehold land held for own use under operating leases | 16 | **5,864** | 5,652 |
| Property, plant and equipment | 17 | **13,228** | 125,300 |
| Investment properties | 18 | **286,174** | – |
| Interests in associates | 20 | **–** | – |
| Other financial assets | 21 | **–** | – |
| Pledged bank balances | 22 | **–** | 460 |
| | | **305,266** | 131,412 |
| **CURRENT ASSETS** | | | |
| Consumables | 23 | **683** | 173 |
| Inventories | 24 | **41,181** | 195,613 |
| Trade receivables | 25 | **7,423** | 273 |
| Due from a former director of the Company | 26 | **20,000** | – |
| Other receivables, deposits and prepayments | | **18,070** | 13,235 |
| Tax recoverable | 33 | **–** | 2,728 |
| Pledged and restricted bank balances | 22 | **2,698** | – |
| Cash and cash equivalents | 22 | **34,743** | 3,843 |
| | | **124,798** | 215,865 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 27 | **37,768** | 53,318 |
| Other payables and accruals | 28 | **49,988** | 17,168 |
| Deposits received on sale of properties | | **19,012** | 108,315 |
| Rental deposit received | | **2,680** | – |
| Rental received in advance | | **4,662** | – |
| Non-interest bearing borrowings | 29 | **52,407** | 76,219 |
| Interest-bearing borrowings | 30 | **83,945** | 81,804 |
| Due to a minority shareholder | 31 | **3,707** | 3,452 |
| Due to a subsidiary of the Company's substantial shareholder | 32 | **84,591** | 47,899 |
| Tax payable | 33 | **505** | – |
| Provisions | 34 | **32,856** | 34,535 |
| | | **372,121** | 422,710 |
| **NET CURRENT LIABILITIES** | | **(247,323)** | (206,845) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **57,943** | (75,433) |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 33 | **37,174** | – |
| **NET ASSETS/(LIABILITIES)** | | **20,769** | (75,433) |

# Consolidated Balance Sheet

As at 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 35 | **301,041** | 301,041 |
| Reserves | 36 | **(336,283)** | (398,124) |
| **TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY** | | **(35,242)** | (97,083) |
| **MINORITY INTERESTS** | | **56,011** | 21,650 |
| **TOTAL EQUITY/(CAPITAL DEFICIENCY)** | | **20,769** | (75,433) |

Approved and authorised for issue by the board of directors on 21 April 2008.

**Chen Jung Hsin**
*Director*

**Li Wing Sum, Steven**
*Director*

The notes on pages 23 to 78 form part of these financial statements.

# Balance Sheet

As at 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Interests in subsidiaries | 19 | **227,154** | 171,003 |
| Other financial assets | 21 | **–** | – |
| | | **227,154** | 171,003 |
| **CURRENT ASSETS** | | | |
| Other receivables, deposits and prepayments | | **533** | 367 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accruals | 28 | **37,044** | 3,849 |
| Non-interest bearing borrowings | 29 | **21,866** | 19,184 |
| Interest-bearing borrowings | 30 | **52,862** | 52,862 |
| Due to a subsidiary of the Company's substantial shareholder | 32 | **84,591** | 47,899 |
| | | **196,363** | 123,794 |
| **NET CURRENT LIABILITIES** | | **(195,830)** | (123,427) |
| **NET ASSETS** | | **31,324** | 47,576 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 35 | **301,041** | 301,041 |
| Reserves | 36 | **(269,717)** | (253,465) |
| **TOTAL EQUITY** | | **31,324** | 47,576 |

Approved and authorised for issue by the board of directors on 21 April 2008.

**Chen Jung Hsin**
*Director*

**Li Wing Sum, Steven**
*Director*

The notes on pages 23 to 78 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

| | Attributable to equity shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Minority interest HK$'000 | Total equity HK$'000 |
| At 1 January 2006 | 301,041 | 63,528 | 222,194 | 52 | 8,427 | (618,933) | (23,691) | 6,570 | (17,121) |
| Exchange differences on translation of the financial statements of overseas subsidiaries | – | – | – | – | 3,262 | – | 3,262 | 403 | 3,665 |
| Capital injection by a minority shareholder | – | – | – | – | – | – | – | 14,970 | 14,970 |
| Loss for the year | – | – | – | – | – | (76,654) | (76,654) | (293) | (76,947) |
| At 31 December 2006 | 301,041 | 63,528 | 222,194 | 52 | 11,689 | (695,587) | (97,083) | 21,650 | (75,433) |
| At 1 January 2007 | **301,041** | **63,528** | **222,194** | **52** | **11,689** | **(695,587)** | **(97,083)** | **21,650** | **(75,433)** |
| Exchange differences on translation of the financial statements of overseas subsidiaries | **–** | **–** | **–** | **–** | **7,454** | **–** | **7,454** | **1,651** | **9,105** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **54,387** | **54,387** | **32,710** | **87,097** |
| At 31 December 2007 | **301,041** | **63,528** | **222,194** | **52** | **19,143** | **(641,200)** | **(35,242)** | **56,011** | **20,769** |

The notes on pages 23 to 78 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit/(loss) before taxation | | **127,706** | (77,076) |
| Adjustments for: | | | |
| Depreciation | | **2,650** | 2,598 |
| Amortisation of interests in leasehold land held for own use under operating leases | | **206** | 192 |
| Impairment losses on property, plant and equipment | | **6,600** | – |
| Impairment losses on trade receivables | | **296** | – |
| Reversal of impairment losses on other receivables | | **(95)** | (63) |
| Reversal of impairment losses on investment deposits (note 40) | | **(30,000)** | – |
| Valuation gain on investment properties | | **(147,679)** | – |
| Compensation cost on pre-sale of properties under development by a court order | | **–** | 1,344 |
| Finance costs | | **7,490** | 7,887 |
| Interest income | | **(44)** | (53) |
| Loss on disposal of property, plant and equipment, net | | **57** | 34 |
| Write-off of property, plant and equipment | | **61** | – |
| **OPERATING LOSS BEFORE CHANGES IN WORKING CAPITAL** | | **(32,752)** | (65,137) |
| Increase in consumables | | **(510)** | (54) |
| Decrease/(increase) in inventories | | **168,899** | (19,682) |
| Increase in trade receivables | | **(7,446)** | (273) |
| Decrease/(increase) in other receivables, deposits and prepayments | | **6,959** | (5,998) |
| Decrease in trade payables | | **(15,550)** | (7,563) |
| Increase/(decrease) in other payables and accruals | | **35,500** | (10,728) |
| (Decrease)/increase in deposits received on sale of properties | | **(97,313)** | 93,031 |
| Increase in rental received in advance | | **4,662** | – |
| Decrease in provisions | | **(4,232)** | (10,477) |
| **CASH GENERATED FROM/(USED IN) OPERATIONS** | | **58,217** | (26,881) |
| Tax paid | | | |
| PRC Enterprise Income tax paid | | **–** | (3,245) |
| **NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES** | | **58,217** | (30,126) |

# Consolidated Cash Flow Statement

For the year ended 31 December 2007

| | Note | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Payment for construction cost on investment properties under development and purchase of property, plant and equipment | | **(24,884)** | (7,077) |
| Proceeds on disposal of property, plant and equipment | | **4** | 131 |
| Interest received | | **44** | 53 |
| Increase in pledged and restricted bank balances | | **(2,238)** | (20) |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(27,074)** | (6,913) |
| **FINANCING ACTIVITIES** | | | |
| Capital element of finance lease rentals paid | | **–** | (54) |
| Proceeds from new loans | | **–** | 400 |
| Interest element of finance lease rentals paid | | **–** | (2) |
| Interest paid | | **–** | (7,979) |
| Increase in amount due to a subsidiary of the Company's substantial shareholder | | **31,884** | 47,899 |
| Repayment of non-interest bearing borrowings | | **(32,417)** | – |
| **NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES** | | **(533)** | 40,264 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **30,610** | 3,225 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **3,843** | 599 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET** | | **290** | 19 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 22 | **34,743** | 3,843 |

The notes on pages 23 to 78 form part of these financial statements.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 1. ORGANISATION AND PRINCIPAL ACTIVITIES

Dynamic Global Holdings Limited (the "Company") was incorporated in Bermuda on 10 April 1989 as an exempted company with limited liabilities under the Companies Act 1981 of Bermuda. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the subsidiaries are set out in note 19 to the financial statements.

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have considered the future liquidity of the Group in view of its net current liabilities position as at 31 December 2007. As at 31 December 2007, the Group had an amount of approximately HK$84,591,000 due to a subsidiary of the Company's substantial shareholder, an amount of approximately HK$3,707,000 due to a minority shareholder, interest-bearing borrowings of approximately HK$83,945,000 and non-interest bearing borrowings of approximately HK$39,607,000, which are due for repayment in 2008.

During the year, the Group experienced liquidity difficulties and had difficulty in repaying short term loans and other borrowings on time. In addition, certain buyers of the Group's properties held for sale took legal actions against the Group demanding for repayment of amounts due to them, details of which are set out in note 34 (vii) to the financial statements. All the legal claims against the Group were properly accrued for and disclosed in note 34 to the financial statements as at 31 December 2007.

In order to strengthen the capital base of the Group, to improve the Group's financial position, liquidity and cash flows, and to sustain the Group as a going concern, the directors of the Company have adopted the following measures:

i) Subsequent to the balance sheet date on 17 April 2008, the Company entered into a loan agreement with a subsidiary of the Company's substantial shareholder. Under the terms of the loan agreement, new loan facilities will be made available up to a maximum of HK$60,000,000 to meet its future working capital and financial requirements. The loan facilities are repayable on 31 August 2009. On 21 April 2008, part of the loan facilities in the sum of HK$22,049,000 was drawn down.

ii) Subsequent to the balance sheet date on 3 January 2008, the Company entered into several loan extension agreements with loan lenders in respect of the following borrowings. Under the terms of these loan extension agreements, the Group succeeded to extend their repayment terms and the following borrowings will be due for repayments in July 2009.

   – an amount of approximately HK$84,591,000 due to the subsidiary of the Company's substantial shareholder as at 31 December 2007;

   – an amount of approximately HK$3,707,000 due to the minority shareholder as at 31 December 2007 (see note 31); and

   – amounts of approximately HK$54,245,000 and HK$39,607,000 due to an independent third party under interest-bearing borrowings (see note 30(b) and (c)) and non-interest bearing borrowings (see note 29) respectively as at 31 December 2007.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS *(continued)*

iii) The directors of the Company are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, a private placement, an open offer or a rights issue of new shares of the Company. On 12 December 2007 and 14 December 2007, the Company entered into two conditional subscription agreements with two independent third parties, details of which are disclosed in note 42(a) to the consolidated financial statements;

iv) The Group is in ongoing negotiations with certain prospective buyers to sell the Group's inventories so as to finance the operations of the Group; and

v) The directors of the Company continue to take action to tighten cost controls over various administrative and other operating expenses, and are actively seeking new investment and business opportunities with an aim to attain profitable and positive cash flow operations.

In the opinion of the directors of the Company, in light of the measures taken to date, together with the expected results of other measures, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, notwithstanding that the Group had a consolidated net current liabilities of approximately HK$247,323,000 as at 31 December 2007, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2007 on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3(b) provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods as reflected in these financial statements.

### b) Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### b) Changes in accounting policies *(continued)*

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 4.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 35.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

### c) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except investment properties (see note 3(i)) which are stated at fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 5.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### d) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An interest in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 3(p) or (q) depending on the nature of the liability.

In the Company's balance sheet, an interest in a subsidiary is stated at cost less impairment losses (see note 3(k)).

### e) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An interest 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, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the interest in associates recognised for the year (see note 3(f) and (k)).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### e) Associates *(continued)*

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net interest in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the income statement.

### f) Goodwill

Goodwill represents the excess of the cost of a business combination or an interest in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

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 a business combination or an interest in an associate is recognised immediately in the income statement.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are as follows:

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is remeasured, with a resultant gain or loss being recognised in profit or loss.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the balance sheet at fair value plus transaction costs. Subsequently, they are stated in the balance sheet at amortised cost less impairment losses (see note 3(k)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 3(k)).

Investments are recognised/derecognised when the rights to receive cash flows from the investments have been transferred and all the risks and rewards of ownership of the investments have transferred substantially or they expired.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### h) Property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(k)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease; and

– other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 17).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

| | | |
|---|---|---|
| – | Leasehold improvements | Over the lease terms |
| – | Plant and machinery | 10-15 years |
| – | Furniture and equipment | 5-15 years |
| – | Motor vehicles | 4-10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### i) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(j)(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment properties is accounted for as described in note 3(v)(v).

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### i) Investment property *(continued)*

When the group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 3(j).

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

### j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

*i) Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exception:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3(i)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### j) Leased assets *(continued)*

*ii) Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset, as set out in note 3(h). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(k). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

*iii) Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

### k) Impairment of assets

*i) Impairment of receivables*

Current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the followings loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payment;

– it becomes probable that the debtor will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### k) Impairment of assets *(continued)*

*i) Impairment of receivables (continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

*ii) Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired.

– interest in leasehold land held for own use under operating leases;
– property, plant and equipment;
– intangible assets;
– interest in subsidiaries;
– interest in associates; and
– other financial assets.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### k) Impairment of assets *(continued)*

*ii) Impairment of other assets (continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised the income statement whenever the carrying amount of an asset or the cash-generating unit to which it belongs, exceeds its recoverable amount.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

### l) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting. In respect of the first six months of the financial year. As the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 3(k)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss , or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### m) Inventories

Inventories in respect of property development activities are carried at the lower of cost and net realized value. Cost and net realisable values are determined as follows:

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### m) Inventories *(continued)*

*i) Properties under development for sale*

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 3(x)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

*ii) Completed properties held for sale*

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project attributable to the unsold properties. Net realisable value represents the proceeds of properties sold in the ordinary course of business less estimated selling expenses incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

### n) Consumables

Consumables are stated at cost less any provision for obsolescence.

### o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 3(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 3(k)).

### p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### q) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 3(u)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

### s) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Payments to a state-managed retirement benefit scheme are charged as an expense as they fall due. Payments made to state-managed retirement benefit scheme are dealt with as payments to defined contribution benefit where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit scheme.

### t) Taxation

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### t) Taxation *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### u) Financial guarantees issued, provisions and contingent liabilities

*i) Financial guarantees issued*

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") 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.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### u) Financial guarantees issued, provisions and contingent liabilities *(continued)*

*i) Financial guarantees issued (continued)*

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(u)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (2) the amount of that claims on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

*ii) Other provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### v) Revenue recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

i) Proceeds from the sale of properties held for sale are recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under deposits received;

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### v) Revenue recognition *(continued)*

ii) Proceeds from pre-sale of properties under development for sale are recognised by reference to the degree of completion of the development and the terms of payment for properties pre-sold, with due allowance for contingencies when appropriate in respect of agreements entered into before 1 January 2005, while the completion method is adopted for agreements entered into on or after 1 January 2005 pursuant to Hong Kong Interpretation 3 'Revenue-Pre-completion Contracts for the Sale of Development Properties' issued by the HKICPA;

iii) Proceeds from resort operation are recognised upon provision of services;

iv) Proceeds from sale of consumables are recognised when consumables are delivered at the customers' premises which are taken to be the point in time when the customer has accepted the consumables and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts;

v) Rental income receivable under operating leases is recognized in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the lease asset. Lease incentives granted are recognized in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned; and

vi) Interest on bank deposits is recognised as it accrues using the effective interest method.

### w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operations acquired before 1 January 2006 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### w) Translation of foreign currencies *(continued)*

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

### x) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### y) Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### z) 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 system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes 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. For example, segment assets may include consumables, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidated process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

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.

The Group's operating businesses are structured and managed separately, based on the nature of their operations and the products and services provided. Each of the Group's business segment represents a strategic business unit that offers different products and services which are subject to risks and returns that are different from those of the other business segments. Summarised details of the major business segments are as follows:

i) The property development segment is engaged in the development and sale of residential and office units, shopping mall and car parks;

ii) The property leasing segment is engaged in leasing of the Group's properties to generate rental income and to gain from the appreciation in the properties' values in the long term;

iii) The investment holding segment invests in high technology projects in mainland China;

iv) The resort operation segment is engaged in the resort operation in mainland China; and

v) Other segment is engaged in sales of consumables.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 4. FINANCIAL RISK MANAGEMENT

### Financial risk factors

The Group's major financial instruments include bank deposits, trade and other receivables, borrowings (including non-interest bearing borrowings, interest-bearing borrowings, amounts due to a subsidiary of the Company's substantial shareholder and a minority shareholder) and trade and other payables. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*a) Foreign exchange risk*

The majority of the subsidiaries of the Group operate in mainland China with most of the transactions denominated in Renminbi ("RMB"). The Group is exposed to foreign exchange risk arising from the exposure of RMB against the Hong Kong dollars. Foreign exchange risk arose from recognised assets and liabilities and net investments in foreign operations.

The Group had certain investments in foreign operations in RMB, whose net assets were exposed to foreign currency translation risk. Fluctuation in such currency would be reflected in the movement of the exchange reserve.

The Group had no material foreign currency exposure on the net monetary position of each group entity against its respective functional currency.

In addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the mainland China government.

*b) Credit risk*

The Group's credit risk is primarily attributable to trade receivables (see note 25), amount due from a former director of the Company (see note 26), other receivable and bank deposits. Management has credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of the sales of properties as developed by the Group, buyers of the properties have to pay their considerations in accordance with the terms of payments as stipulated in the sales and purchase agreements signed by both parties. The Group chases the customers to settle outstanding balances and monitors the settlement progress on an ongoing basis. If there is default in payments by the buyers, the Group can claim the defaulted amounts (including defaulted interest) from the buyers and title of properties will only be passed to the buyers when full considerations have been received by the Group.

Moreover, the management will only rent out the investment properties to those tenants with good reputation and the tenants have to pay tenancy deposits to the Group upon signing of tenancy agreements. Tenants are also required to pay their rentals at the beginning of each month/quarter to minimise the risk of uncollected rental income.

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

The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 4. FINANCIAL RISK MANAGEMENT *(continued)*

### Financial risk factors *(continued)*

*b) Credit risks (continued)*

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 25.

*c) Interest rate risk*

The Group's interest rate risk arises primarily from interest-bearing borrowings and amount due to a subsidiary of the Company's substantial shareholder. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. Details of these Group's borrowings have been disclosed in notes 30 and 32 to the consolidated financial statements. The Group's bank balances have exposure to cash flow interest rate risk due to fluctuation of the prevailing market interest rate and bank balances. The directors of the Company consider the Group's exposure of the short term bank deposits to interest rate risk is not significant as interest bearing bank balances are within short maturity periods.

The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider to change the floating rate to fixed interest rate by negotiating with the lenders when significant interest rate exposure is anticipated.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 4. FINANCIAL RISK MANAGEMENT *(continued)*

**Financial risk factors *(continued)***

*c) Interest rate risk (continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's borrowings at the balance sheet date.

| | The Group | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | **Effective interest rate** | **HK$'000** | Effective interest rate | HK$'000 |
| Fixed rate borrowings: | | | | |
| Other loans | **6.58%** | **31,083** | 6.58% | 28,942 |
| Variable rate borrowings: | | | | |
| Other loans | **6.75%** | **52,862** | 7.75% | 52,862 |
| Amount due to a subsidiary of the Company's substantial shareholder | **6.75%** | **84,591** | 7.75% | 47,899 |
| | | **137,453** | | 100,761 |
| Total borrowings | | **168,536** | | 129,703 |

| | The Company | | | |
|---|---|---|---|---|
| | **2007** | | 2006 | |
| | **Effective interest rate** | **HK$'000** | Effective interest rate | HK$'000 |
| Variable rate borrowings | | | | |
| Other loans | **6.75%** | **52,862** | 7.75% | 52,862 |
| Amount due to a subsidiary of the Company's substantial shareholder | **6.75%** | **84,591** | 7.75% | 47,899 |
| Total borrowings | | **137,453** | | 100,761 |

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase or decrease of interest rate by 25 basis points in respect of the Group's variable rate borrowings, with all other variables held constant, would decrease or increase the Group's profit before tax by approximately HK$362,000 (2006: HK$291,000).

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 the non-derivative financial liabilities in existence at that date. The 25 basis points 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.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 4. FINANCIAL RISK MANAGEMENT *(continued)*

**Financial risk factors *(continued)***

*d) Liquidity risk*

As mentioned in note 2 to the financial statements, the Group experienced severe cash flow and liquidity risk on repaying debts and fulfilling its contractual obligations on construction works. In addition, the Group was encountering various claims and as at year end, the judgement was anticipated to be unfavourable. Therefore provisions for legal claims and compensations have been made and disclosed in note 34 to the financial statements.

The Group is implementing various measures as mentioned in note 2 so as to improve the future working capital and mitigate various risk exposures. The Group reviews regularly its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The total contractual undiscounted cash flows of the Group's and the Company's non-derivative financial liabilities are not materially different from their carrying amounts as their remaining maturities are within one year.

*e) Fair values*

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006.

## 5. ACCOUNTING ESTIMATES AND JUDGEMENTS

**a) Key sources of estimation uncertainty**

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

*i) Carrying value of property, plant and equipment and estimation on depreciation charge*

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors' actions in response to severe industry cycle. Management will revise the depreciation charge where useful lives are different from previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

*ii) Estimated impairment of inventories*

The Group assesses the carrying amount of completed properties held for sale according to their estimated net realisable value based on an assessment of the realisability of these completed properties held for sale, taking into account costs to completion based on past experience and estimated net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgments and estimates.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 5. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

### a) Key sources of estimation uncertainty *(continued)*

*iii) Estimated provision for current and deferred taxation*

The Group is subject to taxation in mainland China. Significant judgement is required in determining the provision for taxation and the timing of payment of the related taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

*iv) Estimated provision for land appreciation tax*

Mainland China land appreciation tax is levied at progressive rate ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditure including sales charges, borrowing costs and all property development expenditure.

The Group is subject to land appreciation tax in mainland China. However, the implementation of this tax varies amongst various mainland China cities and the Group has not finalised its land appreciation tax returns with various tax authorities. Accordingly, significant judgements are required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain. The Group recognises these liabilities in these financial statements based on management's best estimates in accordance with the applicable tax law in mainland China. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the cost of sales and related income tax provisions in the period in which such determination is made.

*v) Estimated provision for legal claims and compensations*

As explained in note 34, the Group makes provisions for legal claims and compensations on breaches of pre-sale contracts. The properties held for sale were assigned to the buyers on 23 May 2007, while the Group has not reached final agreement with certain buyers on amount of legal claims and compensation, it is possible that recent claim experience is not indicative of future claims that it will receive in respect of past pre-sales. Any increase or decrease in the provision would affect profit or loss in future years.

### b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

*Going concern basis*

As mentioned in note 2 to the financial statements, the directors of the Company are confident that the Group will be able to meet its financial obligations in full as and when they fall due in the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

If the going concern basis is not appropriate, adjustments would have to be made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the profit for the year and net assets of the Group.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 6. TURNOVER AND OTHER REVENUE

The principal activities of the Group are property development, property leasing, resort operation and investment holding.

Turnover represents the aggregate of net proceeds from the sale of properties under development, (in the case of pre-sale of properties under development of which the pre-sale contracts were entered into prior to 1 January 2005, such proceeds are adjusted to reflect the progress of development, while the completion method is adopted for agreements entered into on or after 1 January 2005), rental income from investment properties and service income from resort operations after elimination of all significant intra-group transactions.

During the year, the Group had turnover and revenue arising from the following activities:

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Sales of properties held for sale | **181,602** | – |
| Pre-sale of properties under development for sale | **–** | 18,745 |
| Sale of consumables | **1,882** | 1,465 |
| Rentals from investment properties | **1,769** | – |
| Turnover | **185,253** | 20,210 |
| Refund of business tax | **2,831** | – |
| Interest income from banks | **44** | 53 |
| Sundry income | **367** | 88 |
| Other revenue | **3,242** | 141 |
| Total | **188,495** | 20,351 |

## 7. OTHER OPERATING INCOME/(EXPENSES), NET

| | **2007 HK$'000** | 2006 HK$'000 |
|---|---|---|
| Loss on disposal of property, plant and equipment, net | **(57)** | (34) |
| Impairment losses on property, plant and equipment *(note 17)* | **(6,600)** | – |
| Impairment losses on trade receivables *(note 25)* | **(296)** | – |
| Reversal of impairment losses on other receivables | **95** | 63 |
| Reversal of impairment losses on investment deposits *(note 40)* | **30,000** | – |
| Provision for legal claims, net *(note 34)* | **(8,003)** | (17,280) |
| Provision for compensations, net *(note 34)* | **(1,164)** | (5,088) |
| Legal claims | **(101)** | (2,267) |
| Compensation cost on pre-sale of properties under development by a court order | **–** | (1,344) |
| Foreign exchange loss, net | **(15)** | – |
| | **13,859** | (25,950) |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 8. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

### a) Finance costs

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest on other borrowings wholly repayable within five years | **9,194** | 9,886 |
| Finance charges on obligations under finance leases | **–** | 2 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **9,194** | 9,888 |
| Less: Interest expense capitalised into properties under development for sale | **–** | (94) |
| Less: Interest expense capitalised into property, plant and equipment *(note 17)* | **(1,704)** | (1,907) |
| | **7,490** | 7,887 |

The borrowing costs have been capitalised at a rate of 6.58% per annum (2006: 6.58%).

### b) Staff costs (include directors' remuneration)

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Salaries, wages and other benefits | **8,070** | 13,107 |
| Retirement benefits scheme contributions | **88** | 193 |
| | **8,158** | 13,300 |

### c) Other items

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Cost of inventories sold | **176,743** | 28,696 |
| Cost of consumables sold | **620** | 391 |
| Depreciation | **2,650** | 2,598 |
| Amortisation of interests in leasehold land held for own use under operating leases | **206** | 192 |
| Operating lease charges: minimum lease payments in respect of land and buildings | **1,868** | 1,838 |
| Auditor's remuneration | **570** | 480 |
| Rental receivable from investment properties less direct outgoings of HK$Nil (2006: Nil) | **(1,769)** | – |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 9. DIRECTORS' REMUNERATION

The aggregate amounts of the directors' emoluments, disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance, are as follows:

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries and other benefits HK$'000 | Compensation for loss of office HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| **Executive directors** | | | | | |
| Chen Jung Hsin | – | 1,144 | – | 12 | 1,156 |
| Li Wing Sum, Steven | – | 780 | – | 12 | 792 |
| Liang Wenjian (resigned on 4 March 2008) | – | 780 | – | – | 780 |
| Dai Xu (appointed on 26 February 2007 and resigned on 8 October 2007) | – | 516 | – | – | 516 |
| | – | 3,220 | – | 24 | 3,244 |
| **Independent non-executive directors** | | | | | |
| Dong Ansheng | 120 | – | – | – | 120 |
| Poon Chiu | 120 | – | – | – | 120 |
| Wu Fengchun | 120 | – | – | – | 120 |
| | 360 | – | – | – | 360 |
| Total | 360 | 3,220 | – | 24 | 3,604 |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 9. DIRECTORS' REMUNERATION *(continued)*

| | 2006 | | | | |
|---|---|---|---|---|---|
| | Fees HK$'000 | Salaries and other benefits HK$'000 | Compensation for loss of office HK$'000 | Retirement scheme contributions HK$'000 | Total HK$'000 |
| **Executive directors** | | | | | |
| Chan Lap Tat, Dickman (resigned on 26 January 2006) | – | 40 | 240 | 1 | 281 |
| Chen Jung Hsin (re-appointed on 6 January 2006) | – | 1,130 | – | 12 | 1,142 |
| He Zhe (re-designated as executive director on 8 February 2006 and resigned on 23 October 2006) | – | 617 | – | – | 617 |
| Li Wing Sum, Steven (appointed on 6 January 2006) | – | 770 | – | 12 | 782 |
| Liang Wenjian (appointed on 6 January 2006) | – | 770 | – | – | 770 |
| Long Changqing (resigned on 7 January 2006) | – | – | – | – | – |
| Su Xixiong (resigned on 15 August 2006) | – | 328 | – | – | 328 |
| Wong Lin Chooi (ceased appointment on 6 March 2006) | – | – | – | – | – |
| Zhang Fan (resigned on 14 August 2006) | – | – | – | – | – |
| | – | 3,655 | 240 | 25 | 3,920 |
| **Non-executive director** | | | | | |
| He Zhe (appointed on 6 January 2006 and re-designated as executive director on 8 February 2006) | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Dong Ansheng (appointed on 6 January 2006) | 118 | – | – | – | 118 |
| Poon Chiu (appointed on 8 February 2006) | 108 | – | – | – | 108 |
| Wu Fengchun (appointed on 15 September 2006) | 35 | – | – | – | 35 |
| Lu Jianhua (ceased appointment on 8 February 2006) | – | – | – | – | – |
| Ng Fuk Leung (resigned on 8 February 2006) | 66 | – | – | – | 66 |
| Xu Weidong (resigned on 5 January 2006) | – | – | – | – | – |
| | 327 | – | – | – | 327 |
| Total | 327 | 3,655 | 240 | 25 | 4,247 |

## Notes to the Financial Statements

For the year ended 31 December 2007

### 10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2006: four) are directors whose remuneration are disclosed in note 9. The aggregate of the emoluments in respect of the other one (2006: one) individual is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other emoluments | **520** | 517 |
| Retirement scheme contributions | **12** | 12 |
| | **532** | 529 |

The remuneration of the one (2006: one) individual with highest paid is within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2007** | 2006 |
| HK$Nil – HK$1,000,000 | **1** | 1 |

### 11. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

No provision for Hong Kong profits tax has been made for the year as the Group did not generate any estimated assessable profits arising in Hong Kong during the year (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective jurisdictions in which the overseas subsidiaries operates, based on existing legislation, interpretations and practices in respect thereof.

The Company's subsidiaries established in mainland China, including the foreign investment enterprise and the local investment enterprise, are subject to the PRC enterprise income tax rate of 15%, 25% and 33% respectively for the years ended 31 December 2007 and 2006.

On 16 March 2007, the People's Republic of China (the "PRC") promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% from 1 January 2008. For the subsidiary which was subject to the PRC enterprise income tax at a rate of 15% on its assessable profits arising in the PRC, effective on 1 January 2008, such tax rate will gradually transit to applicable tax rate of 25%.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 11. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Current tax | | |
| PRC Enterprise Income tax | **3,435** | 210 |
| Over-provision of PRC Enterprise Income tax in prior years | **–** | (339) |
| | **3,435** | (129) |
| Deferred taxation | | |
| Origination and reversal of temporary differences | **37,174** | – |
| Tax expense/(credit) | **40,609** | (129) |

Reconciliation between tax expense/(credit) and accounting profit/(loss) at applicable tax rate:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Profit/(loss) before taxation | **127,706** | (77,076) |
| Notional tax on profit/(loss) before taxation, calculated at the rates applicable to the tax jurisdictions concerned | **32,508** | (12,340) |
| Over-provision of taxation in prior years | **–** | (339) |
| Tax effect of unused tax losses not recognised | **8,101** | 12,550 |
| Tax expense/(credit) | **40,609** | (129) |

## 12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit/(loss) attributable to equity shareholders of the Company includes loss of approximately HK$16,252,000 (2006: HK$16,908,000) which has been dealt with in the financial statements of the Company.

## 13. DIVIDENDS

The Board does not recommend the payment of any dividend for the year ended 31 December 2007 (2006: Nil).

## 14. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately HK$54,387,000 (2006: loss of approximately HK$76,654,000) and the weighted average number of ordinary shares of 3,010,410,504 (2006: 3,010,410,504).

No diluted earnings/(loss) per share has been presented for the year ended 31 December 2007 and 2006 as there were no diluted potential ordinary shares during either year.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 15. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

### a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments.

| | Property development | | Property leasing | | Investment holding* | | Resort operation | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 | 2007 HK$'000 | 2006 HK$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 181,602 | 18,745 | 1,769 | – | – | – | – | – | 1,882 | 1,465 | 185,253 | 20,210 |
| Other revenue | 3,125 | 64 | – | – | 31 | 14 | – | – | 42 | 10 | 3,198 | 88 |
| Total | 184,727 | 18,809 | 1,769 | – | 31 | 14 | – | – | 1,924 | 1,475 | 188,451 | 20,298 |
| Segment results | (20,746) | (53,291) | 149,360 | – | 14,965 | (14,652) | (8,802) | (2,063) | 375 | 764 | 135,152 | (69,242) |
| Interest income | | | | | | | | | | | 44 | 53 |
| Profit/(loss) from operations | | | | | | | | | | | 135,196 | (69,189) |
| Finance costs | | | | | | | | | | | (7,490) | (7,887) |
| Profit/(loss) before taxation | | | | | | | | | | | 127,706 | (77,076) |
| Taxation | | | | | | | | | | | (40,609) | 129 |
| Profit/(loss) for the year | | | | | | | | | | | 87,097 | (76,947) |

* Investment holding is one of the Group's segments and, accordingly, the Group's non-current financial assets, and the corresponding income/expenses were included in segment assets and segment results respectively.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 15. SEGMENT REPORTING *(continued)*

### a) Business segments *(continued)*

| | Property development | | Property leasing | | Investment holding* | | Resort operation | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **86,716** | 317,514 | **289,747** | – | **31,800** | 1,717 | **11,553** | 18,853 | **10,248** | 9,193 | **430,064** | 347,277 |
| Segment liabilities | **(91,678)** | (259,486) | **(81,691)** | – | **(67,341)** | (33,476) | **(43)** | (40) | **(6)** | (5) | **(240,759)** | (293,007) |
| Unallocated corporate liabilities | | | | | | | | | | | **(168,536)** | (129,703) |
| Total liabilities | | | | | | | | | | | **(409,295)** | (422,710) |
| Other segment information: | | | | | | | | | | | | |
| Capital expenditure | **26,349** | 8,642 | **–** | – | **45** | 17 | **–** | – | **194** | 325 | **26,588** | 8,984 |
| Depreciation and amortisation | **318** | 264 | **–** | – | **132** | 307 | **2,118** | 2,005 | **288** | 214 | **2,856** | 2,790 |
| Impairment losses (reversed)/recognised on other receivables | **(95)** | – | **–** | – | **–** | 59 | **–** | – | **–** | (122) | **(95)** | (63) |
| Reversal of impairment losses on investment deposits (note 40) | **–** | – | **–** | – | **(30,000)** | – | **–** | – | **–** | – | **(30,000)** | – |
| Impairment losses on property, plant and equipment (note 17) | **–** | – | **–** | – | **–** | – | **6,600** | – | **–** | – | **6,600** | – |
| Impairment losses on trade receivables (note 25) | **–** | – | **–** | – | **–** | – | **–** | – | **296** | – | **296** | – |
| Valuation gain on investment properties (note 18) | **–** | – | **(147,679)** | – | **–** | – | **–** | – | **–** | – | **(147,679)** | – |
| Loss on disposal of property, plant and equipment, net | **–** | 32 | **–** | – | **–** | – | **–** | 2 | **57** | – | **57** | 34 |
| Write-off of property, plant and equipment | **–** | – | **–** | – | **–** | – | **–** | – | **61** | – | **61** | – |
| Compensation cost on pre-sale of properties under development by a court order | **–** | 1,344 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 1,344 |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 15. SEGMENT REPORTING *(continued)*

### a) Business segments *(continued)*

* Investment holding is one of the Group's segments and, accordingly, the Group's non-current financial assets, and the corresponding income/expenses were included in segment assets and segment results respectively.

### b) Geographical segments

The following tables present revenue, segment assets and capital expenditure information for the Group's geographical segments.

| | Hong Kong | | Mainland China | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Sales to external customers | **–** | – | **185,253** | 20,210 | **185,253** | 20,210 |
| Segment assets | **31,800** | 1,717 | **398,264** | 345,560 | **430,064** | 347,277 |
| Capital expenditure | **45** | 17 | **26,543** | 8,967 | **26,588** | 8,984 |

## 16. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

| | The Group |
|---|---|
| | HK$'000 |
| **Cost** | |
| At 1 January 2006 | 6,853 |
| Exchange adjustments | 260 |
| At 31 December 2006 and 1 January 2007 | 7,113 |
| Exchange adjustments | 526 |
| At 31 December 2007 | 7,639 |
| **Accumulated amortisation** | |
| At 1 January 2006 | 1,222 |
| Exchange adjustments | 47 |
| Charge for the year | 192 |
| At 31 December 2006 and 1 January 2007 | 1,461 |
| Exchange adjustments | 108 |
| Charge for the year | 206 |
| At 31 December 2007 | 1,775 |
| **Net book value** | |
| At 31 December 2007 | 5,864 |
| At 31 December 2006 | 5,652 |

The interests in leasehold land for own use under operating leases were amortised over the lease term periods of 20 to 50 years on a straight-line basis.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 17. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings held for own use HK$'000 | Leasehold improve-ments HK$'000 | Plant and machinery HK$'000 | Furniture and equipment HK$'000 | Motor vehicles HK$'000 | Investment properties under development HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2006 | 23,058 | 1,478 | 713 | 6,285 | 946 | 92,899 | 125,379 |
| Exchange adjustments | 851 | – | – | 204 | 39 | 3,523 | 4,617 |
| Additions | 218 | – | – | 282 | 152 | 6,425 | 7,077 |
| Capitalisation of finance cost *(note 8(a))* | – | – | – | – | – | 1,907 | 1,907 |
| Disposals | (192) | – | – | (103) | (27) | – | (322) |
| At 31 December 2006 | 23,935 | 1,478 | 713 | 6,668 | 1,110 | 104,754 | 138,658 |
| At 1 January 2007 | 23,935 | 1,478 | 713 | 6,668 | 1,110 | 104,754 | 138,658 |
| Exchange adjustments | 1,723 | – | – | 425 | 89 | 7,747 | 9,984 |
| Additions | 99 | – | – | 495 | – | 24,290 | 24,884 |
| Capitalisation of finance cost *(note 8(a))* | – | – | – | – | – | 1,704 | 1,704 |
| Write-off | – | – | – | (330) | – | – | (330) |
| Disposals | – | – | – | (156) | – | – | (156) |
| Transfer to investment properties *(note 18)* | – | – | – | – | – | (138,495) | (138,495) |
| At 31 December 2007 | 25,757 | 1,478 | 713 | 7,102 | 1,199 | – | 36,249 |
| **Accumulated depreciation and impairment** | | | | | | | |
| At 1 January 2006 | 5,398 | 1,314 | 713 | 2,878 | 307 | – | 10,610 |
| Exchange adjustments | 185 | – | – | 107 | 15 | – | 307 |
| Charge for the year | 1,118 | 164 | – | 1,104 | 212 | – | 2,598 |
| Written back on disposals | (77) | – | – | (80) | – | – | (157) |
| At 31 December 2006 | 6,624 | 1,478 | 713 | 4,009 | 534 | – | 13,358 |
| At 1 January 2007 | 6,624 | 1,478 | 713 | 4,009 | 534 | – | 13,358 |
| Exchange adjustments | 449 | – | – | 283 | 45 | – | 777 |
| Charge for the year | 1,211 | – | – | 1,200 | 239 | – | 2,650 |
| Write-off | – | – | – | (269) | – | – | (269) |
| Written back on disposals | – | – | – | (95) | – | – | (95) |
| Impairment loss | 6,600 | – | – | – | – | – | 6,600 |
| At 31 December 2007 | 14,884 | 1,478 | 713 | 5,128 | 818 | – | 23,021 |
| **Net book value** | | | | | | | |
| At 31 December 2007 | 10,873 | – | – | 1,974 | 381 | – | 13,228 |
| At 31 December 2006 | 17,311 | – | – | 2,659 | 576 | 104,754 | 125,300 |

# Notes to the Financial Statements

For the year ended 31 December 2007

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

### Impairment loss

One of the Company's subsidiary established in mainland China has reported continuing losses from its resort operation and its future profitability remains uncertain, giving rise to an indication that the carrying amount of the relevant buildings held for own use may be impaired. As a result, the Group assessed the recoverable amount of these buildings.

As at 31 December 2007, such buildings having carrying amount of approximately RMB15,534,000 (approximately HK$16,649,000) was valued at approximately RMB9,376,000 (approximately HK$10,049,000). The valuation was carried out by Mr. Wong Yung-shing who is a Chartered Valuation Surveyor of Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, an independent professionally qualified valuer, on the depreciated replacement cost valuation approach. Accordingly, the carrying amount of the buildings held for own use was written down by approximately HK$6,600,000.

Buildings held for own use are situated in mainland China and are held under medium-term leases.

## 18. INVESTMENT PROPERTIES

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Transfer from property, plant and equipment *(note 17)* | **138,495** | – |
| Revaluation gain | **147,679** | – |
| At 31 December | **286,174** | – |

All investment properties of the Group were revalued as at 31 December 2007 on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The valuation was carried out by Mr. Wong Yung-shing who is a Chartered Valuation Surveyor of Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, an independent professionally qualified valuer.

Investment properties are situated in mainland China and are held under medium-term leases.

The Group leases out its investment properties under operating leases. The leases run for a period of ten years with a single tenant. Lease payments are usually increased once every one to four years to reflect market rentals. None of the leases includes contingent rentals.

All properties held under operating leases to earn rentals or for capital appreciation are measured using the fair value model and are classified as investment property.

The Group's total future minimum lease payments under non-cancelable operating leases are receivable as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Within 1 year | **8,039** | – |
| After 1 year but within 5 years | **67,524** | – |
| After 5 years | **94,855** | – |
| | **170,418** | – |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 19. INTERESTS IN SUBSIDIARIES

| | The Company 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **633,132** | 633,132 |
| Due from subsidiaries | **433,929** | 429,115 |
| Due to subsidiaries | **(140,466)** | (191,795) |
| | **926,595** | 870,452 |
| Less: Impairment losses | **(699,441)** | (699,449) |
| | **227,154** | 171,003 |

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

In prior years, the carrying amount had been written down by approximately HK$699,441,000 (2006: HK$699,449,000) through the recognition of impairment losses. After considering the poor operating performance of the relevant subsidiaries, the directors are of the opinion that an amount of approximately HK$8,000 due from a subsidiary would not have any value to the group and such amount is fully written off, and impairment losses of approximately HK$699,441,000 should not be reversed.

The following list contains only the particulars of unlisted subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name | Place of incorporation/ registration and operations | Particulars of issued and fully paid capital/ registered capital | Percentage of interest attributable to the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Dynamic Global Development Limited | Hong Kong | HK$4 *(note (iv))* | – | 100 | Investment holding |
| Fairyoung Port Investments (Holdings) Limited | British Virgin Islands/ Hong Kong | US$299 | – | 100 | Investment holding |
| Fairyoung (Shanghai) Properties Limited *(note (i))* | Mainland China | US$12,000,000 | – | 100 | Property development |
| Binzhou Huifeng Sanwei Co., Ltd. *(note (ii))* | Mainland China | US$1,250,000 | – | 51 | Trading of consumables |
| Harbin Dynamic Global Property Co., Ltd. *(note (iii))* | Mainland China | RMB65,000,000 | – | 70 | Property development |
| 南漳水鏡湖度假村酒店有限責任公司 *(note (i))* | Mainland China | HK$4,000,000 | – | 100 | Resort operation |
| Liberal Supply Limited | British Virgin Islands | US$1 | 100 | – | Investment holding |
| Softech Limited | British Virgin Islands | US$1 | 100 | – | Investment holding |
| Fortune Target Limited | British Virgin Islands | US$100 | 100 | – | Investment holding |
| Fortune House Worldwide Holdings Limited | British Virgin Islands | US$1 | 100 | – | Investment holding |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 19. INTERESTS IN SUBSIDIARIES *(continued)*

*Note:*

i) Wholly foreign-owned enterprise registered in mainland China

ii) Sino-foreign equity joint venture registered in mainland China

iii) Limited liability company established in mainland China

iv) The issued share capital of Dynamic Global Development Limited comprises two voting ordinary shares of HK$1 each and two non-voting deferred shares of HK$1 each.

v) 哈爾濱環球動力科技實業有限公司, a wholly owned subsidiary, was newly formed on 19 December 2007 with registered capital of RMB50,000,000. Capital injection of RMB25,035,630 was made subsequent to the balance sheet date on 29 January 2008, 30 January 2008 and 1 February 2008. According to the Sino-foreign investment contract, the remaining balance of RMB24,964,370 should be made on or before 18 December 2008.

## 20. INTERESTS IN ASSOCIATES

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Share of net assets | **–** | – |
| Due from associates | **3,254** | 3,254 |
| | **3,254** | 3,254 |
| Less: Impairment losses on amounts due from associates | **(3,254)** | (3,254) |
| | **–** | – |

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

In prior years, the carrying amount had been written down to nil through the share of their losses and the recognition of impairment losses. After considering their poor operating performance, the directors are of the opinion that no impairment should be reversed.

Details of associates at the balance sheet date were as follows:

| Name | Form of business structure | Place of incorporation/ registration and operations | Percentage of interest attributable to the Group Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Beijing Zotn Digital Technologies, Inc. ("Beijing Zotn") # | Sino-foreign owned enterprise | Mainland China | – | 27.3% | Application service provider |
| Golden Yield Enterprises Limited ("Golden Yield") | Incorporated | British Virgin Islands | – | 39% | Investment holding |

# Beijing Zotn is a 70%-owned subsidiary of Golden Yield.

As financial results of the associates are immaterial to the Group, accordingly, no disclosure is considered necessary.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 21. OTHER FINANCIAL ASSETS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Investments in unlisted equity securities, at cost | | | | |
| – in Hong Kong | **10,000** | 10,000 | **5,000** | 5,000 |
| – outside Hong Kong | **24,500** | 24,500 | **24,500** | 24,500 |
| | **34,500** | 34,500 | **29,500** | 29,500 |
| Less: Impairment losses | **(34,500)** | (34,500) | **(29,500)** | (29,500) |
| | **–** | – | **–** | – |

In prior years, the carrying amounts of investments in unlisted equity securities had been written down to nil through the recognition of impairment losses. After considering the poor operating performance of these investee companies, the directors are of the view that no impairment should be reversed.

## 22. CASH AND CASH EQUIVALENTS AND PLEDGED AND RESTRICTED BANK BALANCES

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Pledged bank balances | **377** | 460 |
| Restricted bank balances | **2,321** | – |
| Cash at bank and on hand | **34,743** | 3,843 |
| Total cash and bank balances | **37,441** | 4,303 |
| Less: Pledged and restricted bank balances | | |
| – under current assets | **(2,698)** | – |
| – under non-current assets | **–** | (460) |
| Cash and Cash equivalents in the consolidated balance sheet and cash flow statement | **34,743** | 3,843 |

The bank balances and cash of the Group are mainly denominated in RMB and Hong Kong dollars. Included in the bank balances and cash were amounts in RMB of approximately HK$4,128,000 (2006: approximately HK$3,924,000) which are not freely convertible into other currencies.

The pledged bank balances were for securing mortgage loans of certain purchasers of the Group's properties under development for sale. The properties were completed during the year and assigned to purchasers on 23 May 2007. Approximately HK$83,000 pledged bank balances were released during the year. Subsequent to the balance sheet date, approximately HK$364,000 pledged bank balances were released in January 2008. The remaining approximately HK$13,000 pledged bank balance can only be released when the purchaser obtained the property title certificate.

The restricted bank balances represented bank balances frozen by the court due to the legal case with 225 buyers as disclosed in note 34(vii).

# Notes to the Financial Statements

For the year ended 31 December 2007

## 23. CONSUMABLES

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Consumables | **683** | 173 |

## 24. INVENTORIES

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Completed properties held for sale | **41,181** | – |
| Properties under development for sale | **–** | 195,613 |
| | **41,181** | 195,613 |

The completed properties held for sale are situated in mainland China and are held under medium-term leases.

None of the properties held for sale held by the Group were pledged to secure banking facilities granted to the Group as at 31 December 2007 and 2006.

As explained further in note 34(iv), two residential units with a gross area of 315.08 square metres were seized by a court order as a result of a claim of overdue interest amounted to approximately RMB1,758,000 on late payments received by a subsidiary of the Group on 21 September 2006. The two residential units were used as property management office and housing committee and were not included in the inventories of the Group as at 31 December 2007.

The properties under development for sale were completed and completion certificate (房屋土地權屬調查報告書) was obtained on 16 April 2007. A subsidiary of the Group issued notices of handover to buyers of office and residential units on 23 May 2007. As at 31 December 2007, the shopping mall, office units and residential units, except for 6 office and residential units, had been handed over to buyers. The pre-sale contracts for these 6 office and residential units were entered into before 1 January 2005, therefore the revenue was fully recognised before 31 December 2007.

As at 31 December 2007, the inventories only comprised 266 car parks. All 266 car parks had not been handed over to buyers and of which 243 car parks had been sold under pre-sale contracts (2006: it comprised residential units, office units, shopping mall and car parks).

The directors of the Company are of the opinion that all 266 car parks are expected to be recovered within one year.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 25. TRADE RECEIVABLES

### a) Ageing analysis

Trading terms with customers are largely on credit, except for new customers where payment in advance is normally required. Trade receivables are due within 30 days from the date of billing, except for certain well-established customers, where the terms are extended to two to three months. Credit limits were set for customers. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are regularly reviewed by senior management.

An ageing analysis of trade receivables (net of allowance for doubtful debts) is as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Aged: | | |
| Within 3 months | **6,658** | 273 |
| More than 3 months but less than 6 months | **120** | – |
| More than 6 months but less than 1 year | **645** | – |
| | **7,423** | 273 |

As at 31 December 2007 and 31 December 2006, all the trade receivables were denominated in RMB.

### b) Impairment of trade receivables

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 3(k)).

*Movements in the allowance for doubtful debts*

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| At 1 January | **–** | – |
| Impairment loss recognised *(note i)* | **296** | – |
| At 31 December | **296** | – |

*Note:*

i) These individually impaired receivables were either outstanding for more than 1 year as at the balance sheet date or were due from companies with financial difficulties.

Trade receivables are due within 30 days from the date of billing. Further details on the Group's credit policy are set out in note 4(b).

# Notes to the Financial Statements

For the year ended 31 December 2007

## 25. TRADE RECEIVABLES *(continued)*

### c) Trade receivables that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired is as follows:

| | The Group 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Neither past due nor impaired | **–** | – |
| Less than 1 month past due | **6,658** | 273 |
| 3 to 12 months past due | **120** | – |
| More than 1 year past due | **645** | – |
| | **7,423** | 273 |

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 26. DUE FROM A FORMER DIRECTOR OF THE COMPANY

The amount is unsecured, interest free and due in January 2008. The Group recovered the amount on 23 January 2008.

## 27. TRADE PAYABLES

An ageing analysis of trade payables is as follows:

| | The Group 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Aged: | | |
| Within 3 months | **2,958** | 20,589 |
| More than 3 months but less than 6 months | **688** | 4,264 |
| More than 6 months but less than 1 year | **973** | 9,597 |
| More than 1 year but less than 2 years | **22,707** | 4,052 |
| More than 2 years | **10,442** | 14,816 |
| | **37,768** | 53,318 |

As at 31 December 2007 and 31 December 2006, all the trade payables were denominated in RMB.

The Group is in the process of finalising the final accounts with the contractors or negotiating the settlement methods with the relevant vendors. In the opinion of the directors, trade payables are expected to be settled within one year.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 28. OTHER PAYABLES AND ACCRUALS

### The Group and The Company

As at 31 December 2007, included in the other payables and accruals were subscription monies received in advance of HK$33,281,500 in respect of subscription agreements signed with 2 subscribers. The shares in connection with these subscription agreements were allotted on 28 January 2008 and 29 February 2008 as disclosed in note 42(a).

## 29. NON-INTEREST BEARING BORROWINGS

### The Group and the Company

As at 31 December 2007, the non-interest bearing borrowings were unsecured and are due in July 2008. According to the loan settlement agreement signed on 12 December 2007, an amount of approximately HK$12,800,000 was settled by means of share allotment on 28 January 2008 as disclosed in note 42(b).

Refer to note 42(f) for the further extension of the repayment date of the remaining non-interest bearings borrowings.

## 30. INTEREST-BEARING BORROWINGS

The analysis of interest-bearing borrowings is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| **Other loans, unsecured:** | | | | |
| At 1 January | **81,804** | 80,747 | **52,862** | 52,862 |
| Exchange adjustment | **2,141** | 1,057 | **–** | – |
| At 31 December | **83,945** | 81,804 | **52,862** | 52,862 |

a) As at 31 December 2007, the loans granted to the Company by an independent loan lender of HK$29,700,000 (2006: HK$29,700,000) bore interest at prime rate per annum, and the prime rate as at 31 December 2007 was 6.75% (2006: 7.75%). According to the loan extension agreement on 30 March 2007, the repayment was extended for twelve months from July 2007 to July 2008.

According to the loan settlement agreement signed on 12 December 2007, the loan was fully settled by means of share allotment on 28 January 2008 as disclosed in note 42(b).

b) As at 31 December 2007, the loans granted to a subsidiary by an independent loan lender of RMB29,000,000 (approximately HK$31,083,000) (2006: RMB29,000,000 (approximately HK$28,942,000)) bore interest at 6.58% (2006: 6.58%) per annum. According to loan extension agreement dated 8 February 2007, the repayment was extended for six months to January 2008. The repayment was further extended for six months to July 2008 in according to loan extension agreement dated 30 March 2007.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 30. INTEREST-BEARING BORROWINGS *(continued)*

c) As at 31 December 2007, the loans granted to the Company by an independent loan lender of approximately HK$23,162,000 (2006: HK$23,162,000) bore interest at prime rate per annum, and the prime rate as at 31 December 2007 was 6.75% (2006: 7.75%). According to loan extension agreement dated 8 February 2007, the repayment was extended for six months to January 2008. The repayment was further extended for six months to July 2008 in according to loan extension agreement dated 30 March 2007.

d) Refer to note 42(f) for the further extension of the repayment date of the interest-bearing borrowings as mentioned in note 30(b) and (c) above.

## 31. DUE TO A MINORITY SHAREHOLDER

### The Group

On 20 August 2006 and on 19 December 2006, there was a change of minority shareholder and the balance due thereto was assigned to the new minority shareholder with all the repayment terms remaining the same.

As at 31 December 2007 and 2006, the amount due to a minority shareholder was unsecured, interest-free and repayable within one year.

Refer to note 42(e) for its further extension of the repayment date.

## 32. DUE TO A SUBSIDIARY OF THE COMPANY'S SUBSTANTIAL SHAREHOLDER

### The Group and The Company

The amount due to a subsidiary of the Company's substantial shareholder is unsecured, bears interest at prime rate and is repayable within one year from the balance sheet date. As at 31 December 2007, the prime rate was 6.75% (2006: 7.75%).

Refer to note 42(d) for its further extension of the repayment date.

## 33. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

a) Current taxation payable/(recoverable) in the consolidated balance sheet represents:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| At 1 January | **(2,728)** | 622 |
| Exchange adjustments | **(202)** | 24 |
| Provision for the year | | |
| – PRC Enterprise income tax | **3,435** | 210 |
| Over-provision in prior years | **–** | (339) |
| PRC Enterprise income tax paid | **–** | (3,245) |
| At 31 December | **505** | (2,728) |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 33. INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(continued)*

b) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

| | **The Group Revaluation of investment properties** HK$'000 |
|---|---|
| At 1 January 2007 | – |
| Charged to income statement | 37,174 |
| At 31 December 2007 | 37,174 |

c) Deferred tax assets not recognised:

The Group has tax losses arising in Hong Kong and mainland China of approximately HK$109,405,000 (2006: HK$102,608,000) and HK$18,626,000 (2006: HK$7,168,000) respectively. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The tax losses arising in mainland China are available for offsetting against future five years taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as these companies have been incurring losses for some years.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 34. PROVISIONS

The movements of the provisions are as follows:

| | | The Group | | |
|---|---|---|---|---|
| | Note | Provision for legal claims HK$'000 | Provision for compensations HK$'000 | Total HK$'000 |
| At 1 January 2006 | | 34,409 | 13,714 | 48,123 |
| Exchange adjustments | | 14 | 179 | 193 |
| Additional provision for the year | | | | |
| – compensation for breach of pre-sale contracts | (vii) | 17,280 | 5,088 | 22,368 |
| Transfer | (vii) | 7,002 | (7,002) | – |
| Settlements made to | | | | |
| – a loan lender | (i) | (6,250) | – | (6,250) |
| – a property buyer | (ii) | (9,434) | – | (9,434) |
| – buyer of 4 subsidiaries | (iii) | (3,654) | – | (3,654) |
| – buyer in respect of properties under development for sale | (iv) | (3,304) | – | (3,304) |
| – a supplier | (v) | (349) | – | (349) |
| – consultancy service fee | (vi) | (1,050) | – | (1,050) |
| – property buyers | (vii) | (10,116) | (1,992) | (12,108) |
| At 31 December 2006 | (vii) | 24,548 | 9,987 | 34,535 |
| At 1 January 2007 | | 24,548 | 9,987 | 34,535 |
| Exchange adjustments | | 1,815 | 738 | 2,553 |
| Additional provision for the year | | | | |
| – compensation for breach of pre-sale contracts | (vii) | 7,617 | 2,650 | 10,267 |
| – compensation for late payment | (iv) | 1,884 | – | 1,884 |
| Waiver of certain claims and compensations | (vii) | (1,498) | (1,486) | (2,984) |
| Settlements made | (vii) | (6,141) | (7,258) | (13,399) |
| At 31 December 2007 | (iv) (vii) | 28,225 | 4,631 | 32,856 |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 34. PROVISIONS *(continued)*

i) In January 2003, the Company received a writ from a court in mainland China alleging that based on a guarantee granted by the Company to a company incorporated in mainland China (the "Plaintiff") in respect of a loan made by the Plaintiff to a wholly owned subsidiary (incorporated in mainland China) (the "Borrower") of the Company in 1998, the Company was obliged to repay the Plaintiff the loan principal and all unpaid interests amounting to RMB12,842,000 (approximately HK$12,125,000) as the Borrower was deregistered in November 1999. The Company filed a defence against the claim in January 2003 and a judgment in favour of the Company was granted by the court in mainland China in March 2004. However, the Plaintiff appealed to the Beijing People's Supreme Court (北京市高級人民法院) thereafter and the defence was rejected by the Supreme Court and a judgement in favour of the Plaintiff was made in June 2004. Therefore, a full provision of RMB12,842,000 (approximately HK$12,125,000) was made in 2004. On 13 March 2006, the plaintiff agreed with the Group to reduce the claim to RMB8,100,000 (approximately HK$7,760,000) and the Group had repaid RMB1,600,000 (approximately HK$1,510,000) to the plaintiff during 2005. Therefore, a reversal of RMB4,742,000 (approximately HK$4,365,000) was made as at 31 December 2005. In 2006, the Group settled the balance of the claim by payment of RMB6,500,000 (approximately HK$6,250,000).

ii) A wholly owned subsidiary of the Company incorporated in mainland China ("Subsidiary") entered into an agreement for pre-sale of its properties under development for sale ("Pre-sale Agreement") with an independent third party ("Buyer") in mainland China on 12 July 2002 for a consideration of RMB20,000,000 (approximately HK$18,868,000). The Subsidiary later entered into a buy-back agreement ("Buy-back Agreement") with the Buyer on 22 July 2002 whereby the Subsidiary had an option to buy-back the above mentioned properties under development at a premium of 5.841% within 12 months from the date of the Pre-sale Agreement. Before the expiry of the option, the Subsidiary exercised the option and paid a total sum of RMB21,168,200 (approximately HK$19,970,000) to the Buyer. However, the Buyer breached the Buy-back Agreement and refused to revert the properties under development for sale. Therefore, the Subsidiary lodged a claim against the Buyer in mainland China. A judgement was delivered on 25 August 2004, the court ordered that both the Pre-sale Agreement and the Buy-back Agreement were void and the Subsidiary had to make a compensation of RMB10,000,000 (approximately HK$9,434,000) to the Buyer. Therefore, a full provision for the compensation was made in 2004. The directors, after consulting with a lawyer, believe that the Subsidiary has valid grounds to appeal against the decision, therefore, the Group filed an appeal on 14 September 2004. The appeal was rejected in 2005. In 2006, the Group settled the claim by payment of RMB10,000,000 (approximately HK$9,434,000).

# Notes to the Financial Statements

For the year ended 31 December 2007

## 34. PROVISIONS *(continued)*

iii) On 6 March 2003, the Group completed the disposal of 4 subsidiaries ("the Subsidiaries"). In December 2003, the buyer (the "Buyer") of the Subsidiaries made a claim against the Company and alleged that based on a guarantee issued by a former director of the Company at the time the Subsidiaries were disposed of, the Company would be liable to compensate the buyer at 50% of the net liabilities of the Subsidiaries exceeding RMB20,000,000, up to a maximum of RMB5,000,000. The claim as made by the Buyer was rejected by the court on 22 May 2004. However, the Company was served with a writ by a former director of the Company ("Plaintiff") on 1 September 2004, alleging that based on an undertaking made by the Company in favour of the Plaintiff on 12 December 2002, the Company would be liable to indemnify the Plaintiff for any loss incurred by him upon the granting of his personal guarantee to the Buyer. As a result of his personal guarantee, a judgement was made by a court in mainland China against the Plaintiff to the effect that he had to compensate the Buyer a total sum of RMB5,000,000 in August 2004. He in turn claimed the same amount against the Company. On 5 November 2004, a judgement was made by the court whereby the Company had to pay a compensation of RMB5,000,000 (approximately HK$4,717,000) to the Plaintiff, therefore, a provision of RMB5,000,000 (approximately HK$4,717,000) was made in 2004. On 21 December 2004, the Company filed an appeal against the judgement in a supreme court in mainland China. On 17 March 2006, the Group agreed with the Plaintiff to reduce the compensation to RMB3,800,000 (approximately HK$3,654,000). Therefore, a reversal of RMB1,200,000 (approximately of HK$1,063,000) was made in 2005. In 2006, the Group settled the claim by payment of RMB3,800,000 (approximately HK$3,654,000).

iv) In January 2004, a subsidiary of the Group (the "Subsidiary") signed a pre-sale agreement (the "Pre-Sale Agreement") with a buyer (the "Buyer") to sell 25 units of properties under development for sale in Shanghai for a total sum of approximately RMB50,000,000 (approximately HK$48,077,000). A deposit of approximately RMB20,000,000 (approximately HK$19,231,000) was received by the Subsidiary. The amount was recorded in the consolidated balance sheet. However, the Buyer was unable to arrange bank financing to pay the balance of consideration of approximately RMB30,000,000 (approximately HK$28,846,000). As such, the Buyer informed the Subsidiary to terminate the Pre-Sale Agreement and requested the Subsidiary to refund the said deposit. The Subsidiary had not refunded the deposits but demanded the Buyer to pay the balance of consideration. As a result, the Buyer commenced legal action against the Subsidiary.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 34. PROVISIONS *(continued)*

iv) *(continued)*

On 11 November 2004, a judgement in favour of the Buyer was made by a court in mainland China. According to the judgement, the Subsidiary was required to refund the deposits and make a compensation of approximately RMB3,502,000 (approximately HK$3,304,000) to the Buyer. The Subsidiary filed an appeal with the Shanghai People's Supreme Court (上海市高級人民法院). However, on 24 February 2005, the Supreme Court affirmed the judgement made by the lower court. Therefore, a provision of RMB3,502,000 (approximately HK$3,304,000) was made in 2004. On 23 December 2005, properties under development for sale with a gross area of 1,433.17 square metres were seized by the court for force-sale at a consideration of RMB7,000,000 (approximately HK$6,986,000) by a court order. Upon completion of the transaction in 2006, provision for legal claims and other payables and accruals amounted to RMB3,502,000 (approximately HK$3,304,000) and RMB3,010,000 (approximately HK$2,895,000) respectively were deducted directly from this consideration.

On 28 August 2006, the Subsidiary received a claim of overdue interest amounted to approximately RMB1,758,000 on late payments made by the Subsidiary to the Buyer. A judgement in favour of the Buyer was made by Shanghai Pudong District People's Supreme Court (上海市浦東新區人民法院). The court ordered to seize the bank balance or equivalent assets of the Subsidiary amounted to approximately RMB1,758,000. On 21 September 2006, two residential units with a gross area of 315.08 square metres were seized by the Buyer. As at 31 December 2007, provision for legal claims of approximately RMB1,758,000 (approximately HK$1,884,000) was made.

v) In 2004, a subsidiary of the Group in mainland China received a claim in respect of overdue interest on late payments to a supplier. On 6 December 2004, a judgement in favour of the supplier was made by a court in Shanghai. Therefore, a provision of approximately RMB370,000 (approximately HK$349,000) was made in 2005. In 2006, the Group settled the claim by payment of RMB370,000 (approximately HK$349,000).

vi) In May 2004, the Company was served a writ by a company claiming an amount of HK$2,300,000, allegedly consultancy service fee owed by the Company. The Company filed a defence on 19 June 2004. Taking into account the potential costs in litigation and further legal advice, the Group settled the claim with the plaintiff by agreeing to pay a sum of HK$1,500,000, therefore, a provision of the same amount was made in 2005. The Group had to pay the sum in 10 equal instalments of HK$150,000 per instalment from October 2005. During 2005, 3 instalments of HK$450,000 were paid. In 2006, the Group settled the remaining balance in full.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 34. PROVISIONS *(continued)*

vii) A subsidiary of the Company in mainland China (the "Subsidiary") entered into contracts ("Pre-sale Contracts") with buyers since 2003 for pre-sale of its properties under development for sale (the "Properties"). According to the terms of the Pre-sale Contracts, if the Properties were not assigned to the buyers on or before 31 December 2004, the buyers were eligible for compensations at the rate of 0.02% per day on deposits paid as from 1 January 2005 until the Properties are assigned to the buyers.

During 2005, 130 buyers took legal actions against the Subsidiary for compensations. Accordingly, provision for legal claims of the 130 buyers and provision for compensations for the rest of all other buyers in accordance with the terms of the Pre-sale Contracts amounted respectively to approximately RMB10,521,000 (approximately HK$10,116,000) and RMB14,264,000 (approximately HK$13,714,000) were made in 2005.

During 2006, the Group settled the claims for the 130 buyers as mentioned above by payment of RMB10,521,000 (approximately HK$10,116,000). During 2006, 225 buyers took legal actions to claim against the Subsidiary for the compensations. Accordingly, RMB7,282,000 (approximately HK$7,002,000) was reclassified from provision for compensations to provision for legal claims. Since the Properties have not been assigned to these 225 buyers as at year end, additional provision for legal claims amounting to RMB17,315,000 (approximately HK$17,280,000) was made.

On the other hand, RMB2,073,000 (approximately HK$1,992,000) have been paid for the provision for compensations in 2006. Since the Properties have not assigned to the buyers as at 31 December 2006, additional provision for compensations amounting to RMB5,098,000 (approximately HK$5,088,000) was accounted for.

During 2007, the Group settled the claims for the 225 buyers as mentioned above by payment of RMB5,729,000 (approximately HK$6,141,000). The Properties were completed and assigned to buyers on 23 May 2007. Additional provision for legal claims up to 23 May 2007 amounting to RMB7,106,000 (approximately HK$7,617,000) was made. During 2007, the Group signed resolution agreements with some buyers and part of legal claim in aggregate amount of approximately RMB1,398,000 (approximately HK$1,498,000) was waived according to the resolution agreements.

On the other hand, RMB6,772,000 (approximately HK$7,258,000) have been paid for the provision for compensations in 2007. The Properties were completed in 2007 and assigned to buyers on 23 May 2007. Additional provision for compensation up to 23 May 2007 amounting to RMB2,472,000 (approximately HK$2,650,000) was made. During 2007, the Group signed resolution agreements with some buyers and part of the compensation in aggregate amount of approximately RMB1,387,000 (approximately HK$1,486,000) was waived according to the resolution agreements.

viii) All legal and professional fees in relation to the legal claims as mentioned above in note 34(i) to 34(vii) have been properly accounted for in the financial statements of current year.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 35. SHARE CAPITAL

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **No. of shares** | **Amount HK$'000** | No. of shares | Amount HK$'000 |
| Authorised: | | | | |
| Ordinary shares of HK$0.1each | **4,000,000,000** | **400,000** | 4,000,000,000 | 400,000 |
| Ordinary shares, issued and fully paid: | | | | |
| At 1 January and 31 December | **3,010,410,504** | **301,041** | 3,010,410,504 | 301,041 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The capital structure of the Group consists of debts (which mainly include non-interest bearing borrowings, interest-bearing borrowings and amounts due to a subsidiary of the Company's substantial shareholder and a minority shareholder as disclosed in notes 29, 30, 32 and 31 respectively), cash and cash equivalents and equity attributable to equity holders of the Company (which comprises issued share capital and reserves).

The directors of the Company review the capital structure on a regular basis and consider the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through new share issues as well as raising new debts or the redemption of existing debts. The Group's overall strategy remains unchanged from prior year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 36. RESERVES

### The Group

| | Share premium HK$'000 | Capital reserve HK$'000 | Capital redemption reserve HK$'000 | Exchange reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2006 | 63,528 | 222,194 | 52 | 8,427 | (618,933) | (324,732) |
| Exchange adjustments | – | – | – | 3,262 | – | 3,262 |
| Loss for the year | – | – | – | – | (76,654) | (76,654) |
| At 31 December 2006 | 63,528 | 222,194 | 52 | 11,689 | (695,587) | (398,124) |
| At 1 January 2007 | 63,528 | 222,194 | 52 | 11,689 | (695,587) | (398,124) |
| Exchange adjustments | – | – | – | 7,454 | – | 7,454 |
| Profit for the year | – | – | – | – | 54,387 | 54,387 |
| At 31 December 2007 | 63,528 | 222,194 | 52 | 19,143 | (641,200) | (336,283) |

### The Company

| | Share premium HK$'000 | Contributed surplus reserve HK$'000 | Capital redemption reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2006 | 63,528 | 337,613 | 52 | (637,750) | (236,557) |
| Loss for the year | – | – | – | (16,908) | (16,908) |
| At 31 December 2006 | 63,528 | 337,613 | 52 | (654,658) | (253,465) |
| At 1 January 2007 | 63,528 | 337,613 | 52 | (654,658) | (253,465) |
| Loss for the year | – | – | – | (16,252) | (16,252) |
| At 31 December 2007 | 63,528 | 337,613 | 52 | (670,910) | (269,717) |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 36. RESERVES *(continued)*

**Nature and purpose of reserves**

a) *Share premium*

The application of the share premium account reserve is governed by section 40 of the Companies Act 1981 of Bermuda.

b) *Capital reserve*

The capital reserve mainly arose from the Group Reorganisation in 1989 (HK$71,064,000) and transfer from share premium account as a result of Group Reorganisation in 1989 (HK$158,741,000).

c) *Capital redemption reserve*

The capital redemption reserve of HK$52,000 arose in the year ended 31 December 1997 as a result of repurchases of 524,000 shares at a total consideration of HK$1,079,000 and the transfer of approximately HK$52,000 from retained earnings to the said reserve.

d) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(w).

e) *Contributed surplus reserve*

The contributed surplus arose in 1989 as a result of the Group's reorganisation and represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiaries. According to the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances. The company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or

ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 37. CONTINGENT LIABILITIES

### Financial Guarantees issued

The Group undertook guarantees in respect of mortgage loans granted by certain banks of approximately RMB3,737,000 (approximately HK$4,005,000) (2006: RMB7,437,000 (approximately HK$7,422,000)) relating to the mortgage loans arranged for certain purchasers of the Group's properties under development for sale since 2003. Pursuant to the terms of the guarantees, in the event of any default in mortgage payments by any of these purchasers, the Group is responsible to repay the outstanding mortgage principal balances together with accrued interest and penalties owed by the defaulted purchasers and the Group is entitled to take over the legal title and possession of the related properties under development for sale. The Group's guarantee period commences from the dates of the drawdown of the relevant mortgage loans and ends when the Group obtains the "property title certificate" for the mortgagees. Approximately RMB3,700,000 (approximately HK$3,966,000) guarantees was released in 2007 upon obtaining the "property title certificate" for the mortgagees. RMB3,327,000 (approximately HK$3,566,000) guarantee was released subsequently in January 2008. The remaining balance of RMB410,000 (approximately HK$439,000) can only be released when the mortgagee obtained the property title certificate.

No provision has been made in the financial statements as at 31 December 2007 and 2006 for the financial guarantees as the directors considered the fair value of the financial guarantee contracts is insignificant. The relevant accounting policy is set out in note 3(u)(i).

## 38. COMMITMENTS

a) As at 31 December 2007, the Group's total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **669** | 1,397 |
| In the second to fifth years, inclusive | **–** | 270 |
| | **669** | 1,667 |

b) Capital commitments outstanding at balance sheet date not provided for in the financial statements were as follows:

| | **The Group** | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Contracted for | **–** | 11,637 |
| Authorised but not contracted for | **–** | – |
| | **–** | 11,637 |

# Notes to the Financial Statements

For the year ended 31 December 2007

## 39. DISTRIBUTABLE RESERVES

At 31 December 2007, the Company did not have any reserves available for distribution to equity shareholders of the Company. The Company's share premium account and capital redemption reserve in an aggregate amount of HK$63,580,000 (2006: HK$63,580,000) may be distributed in the form of fully paid bonus shares.

## 40. LITIGATION

Apart from the legal cases referred to in note 34 to the financial statements, the Group had the following litigation during the year.

On 9 September 2005, a subsidiary of the Company (the "Subsidiary") served a writ in Hong Kong on a former chairman and executive director of the Company, Mr. Chan Boon Ning, John ("Mr. Chan") claiming an amount of HK$67,000,000, being the personal guarantee given by Mr. Chan on the recoverability of long term deposits made by the Subsidiary, via intermediaries, to certain companies established in mainland China (the "PRC companies") in 1998. Mr. Chan served as chairman and executive director of the Company (Formerly known as Fairyoung Holdings Limited) from 5 February 1993 to 23 November 2000. The deposits made were to be refundable and were intended to be used to finance investment projects of the Group. None of the intended investment projects crystallised and the deposits were not refunded by either the PRC companies nor Mr. Chan since payments were made in 1998. A full provision of HK$67,000,000 was made by the Group in 2001. On 24 July 2007, the Subsidiary and Mr. Chan entered into a resolution agreement whereby Mr. Chan agreed to settle the aforesaid claim for a total sum of HK$30,000,000 of which HK$10,000,000 was settled on 19 September 2007. The remaining HK$20,000,000 was fully settled subsequent to the balance sheet date on 23 January 2008. The litigation was terminated upon the full settlement by Mr. Chan on 23 January 2008. Reversal of impairment losses of HK$30,000,000 was accounted for in the income statement for the year ended 31 December 2007.

## 41. MATERIAL RELATED PARTY TRANSACTIONS

### a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 9 and the highest paid employees as disclosed in note 10, is as follows:

| | **2007** **HK$'000** | 2006 HK$'000 |
|---|---|---|
| Short-term employee benefits | **4,100** | 4,739 |
| Post-employment benefits | **36** | 37 |
| | **4,136** | 4,776 |

Total remuneration is included in "staff costs" (see note 8(b)).

# Notes to the Financial Statements

For the year ended 31 December 2007

## 41. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### b) Financing arrangement

| | Note | Amounts owed to related parties As at 31 December 2007 HK$'000 | Amounts owed to related parties As at 31 December 2006 HK$'000 | Related interest expenses Year ended 31 December 2007 HK$'000 | Related interest expenses Year ended 31 December 2006 HK$'000 |
|---|---|---|---|---|---|
| Amount due to a minority shareholder | (i) | **3,707** | 3,452 | **–** | – |
| Amount due to a subsidiary of the Company's substantial shareholder | (ii) | **84,591** | 47,899 | **4,808** | 2,652 |

*Note:*

(i) Further details of amount due to a minority shareholder are disclosed in note 31.

(ii) Further details of amount due to a subsidiary of the Company's substantial shareholder are disclosed in note 32.

### c) Other related party transactions

During the year ended 31 December 2007, the Company entered into a one year lease in respect of a motor car from a related company. Mr. Li Wing Sum, Steven is the director of the Company and this related company. The amount of rent charged under the lease was determined with reference to amounts charged by the related company to third parties. The amount of rental incurred in the year is HK$240,000 (2006: Nil). No amounts were outstanding as at 31 December 2007 (2006: Nil).

# Notes to the Financial Statements

For the year ended 31 December 2007

## 42. NON-ADJUSTING POST BALANCE SHEET EVENTS

a) The Company entered into two conditional subscription agreements (with subsequent supplemental agreements) with two subscribers on 12 December 2007 and 14 December 2007 respectively. According to the subscription agreements, the two subscribers agreed to subscribe for an aggregate of 287,734,000 shares at a subscription price of HK$0.13521 per share in an aggregate amount of HK$38,904,514. The shares were allotted to the two subscribers on 28 January 2008 and 29 February 2008 respectively. The company received HK$33,281,500 in December 2007 as included in "Other payables and accruals" in the consolidated balance sheet and the Company's balance sheet and the remaining HK$5,623,014 was received subsequent to the balance sheet date on 29 February 2008.

b) On 12 December 2007, the Company also entered into a conditional loan settlement agreement with a loan lender pursuant to which, the loan will be settled in full by capitalizing the loan (the principal amount together with accrued interest up to the date of agreement amounted to HK$42,499,850) into the capital of the Company by means of issuing and allotting 314,348,000 shares to the loan lender. The amount of HK$42,499,850 comprised principal of HK$29,700,000 included in interest-bearing borrowings and interest payable of HK$12,800,000 included in non-interest bearing borrowings. The shares were alloted on 28 January 2008.

c) Subsequent to the balance sheet date on 17 April 2008, the Company entered into a loan agreement with a subsidiary of the Company's substantial shareholder. Under the terms of the loan agreement, loan facilities up to a maximum of HK$60,000,000 can be granted to the Company to meet its future working capital and financial requirement. The loan facilities are repayable on 31 August 2009. On 21 April 2008, part of the loan facilities in the sum of HK$22,049,000 was drawn down to provide new working capital to the Company.

d) Subsequent to the balance sheet date on 3 January 2008, the Company entered into a loan extension agreement (see note 32) with the subsidiary of the Company's substantial shareholder. Under the terms of the loan extension agreement, the Group succeeded to extend its repayment term and the amount of approximately of HK$84,591,000 due to this subsidiary of the Company's substantial shareholder as at 31 December 2007 will be due for repayments on 31 July 2009.

e) Subsequent to the balance sheet date on 3 January 2008, the Company entered into a loan extension agreement (see note 31) with a minority shareholder. Under the terms of the loan extension agreement, the Group succeeded to extend its repayment term in respect of the amount of approximately HK$3,707,000 due to the minority shareholder as at 31 December 2007 and such amount will be due for repayment on 28 July 2009.

f) Subsequent to the balance sheet date on 3 January 2008, the Company entered into an loan extension agreement with an independent loan lender in respect of interest-bearing borrowings of approximately HK$54,245,000 (see note 30 (b) and (c)) and non-interest bearing borrowings of approximately HK$39,607,000 as at 31 December 2007. Under the terms of this agreement, the Group succeeded to extend their repayment terms and these two amounts will be due for repayment on 28 July 2009.

# Notes to the Financial Statements

For the year ended 31 December 2007

## 43. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000, contributions to the MPF Scheme vest immediately. Contributions paid or payable to the MPF scheme are charged to the profit or loss.

The employees of the Group's subsidiaries in the mainland China are members of a state-sponsored retirement plan organised by the municipal government under the regulations of the mainland China and these subsidiaries make mandatory contributions to the state-sponsored retirement plan to fund the employees' retirement benefits. The retirement contributions paid by the mainland China subsidiaries are based on a percentage of the eligible employees' salaries and are charged to the profit or loss as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan organised by the municipal government in the mainland China.

The Group does not have any other pension schemes for its employees in respect of the subsidiaries outside Hong Kong and mainland China. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2007 in respect of the retirement of its employees.

## 44. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3(b).

# Notes to the Financial Statements

For the year ended 31 December 2007

## 45. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKAS 1 (Revised), | *Presentation of Financial Statements* | 1 January 2009 |
| HKAS 23 (Revised), | *Borrowing Costs* | 1 January 2009 |
| HKAS 27 (Revised), | *Consolidated and Separate Financial Statements* | 1 July 2009 |
| HKFRS 3 (Revised), | *Business Combinations* | 1 July 2009 |
| HKFRS 8, | *Operating Segments* | 1 January 2009 |
| HK(IFRIC)–Int 11, | *HKFRS 2 – Group and Treasury Share Transaction* | 1 March 2007 |
| HK(IFRIC)–Int 12, | *Service Concession Arrangement* | 1 January 2008 |
| HK(IFRIC)–Int 13, | *Customer Loyalty Programmes* | 1 July 2008 |
| HK(IFRIC)–Int 14, | *HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction* | 1 January 2008 |

# Five Year Financial Summary

The summarised consolidated results, assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, are as set out below:

| | **2007 HK$'000** | 2006 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|---|---|
| **RESULTS** | | | | | |
| Turnover | **185,253** | 20,210 | 30,918 | 58,624 | 205,083 |
| Profit/(loss) attributable to shareholders | **54,387** | (76,654) | (97,380) | (72,351) | 4,443 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | **430,064** | 347,277 | 305,701 | 361,848 | 388,479 |
| Total liabilities | **(409,295)** | (422,710) | (322,822) | (282,097) | (235,043) |
| Minority interests | **(56,011)** | (21,650) | (6,570) | (6,584) | (7,918) |
| Shareholders' equity | **(35,242)** | (97,083) | (23,691) | 73,167 | 145,518 |

# Schedule of Investment Properties

| Description | Use | Area | Percentage of attributable interest |
|---|---|---|---|
| North East Corner<br>Central Avenue & Huapu Street<br>Harbin,<br>Helongjiang Province,<br>The People's Republic of China | Commercial | Gross area –<br>approximately<br>13,923 sq. metre | 70 |