ANNUAL REPORT
2007

FAR EAST GOLDEN RESOURCES GROUP LIMITED
遠東金源集團有限公司

(Stock Code: 01188)

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Corporate Information

BOARD OF DIRECTORS

Executive

Mr. Yung YEUNG *(Chairman)*
Mr. Quan LIU *(Deputy Chairman)*
(appointed on 24 October 2007)
Mr. Xiaolin WANG *(Chief Executive Officer)*
(appointed on 11 September 2007)
Mr. Wing Sang Wilson HUI
(appointed on 11 September 2007)
Mr. Yury ROYBA
(appointed on 15 January 2008)
Mr. Peiquan CHEN
(appointed on 15 January 2008)
Mr. Jun LI
(resigned on 30 October 2007)
Mr. Yuwen SUN
(resigned on 8 October 2007)
Mr. Chunhua HUANG
(resigned on 8 October 2007)
Mr. Wing Tak Jack LAW
(resigned on 28 February 2007)

Non-Executive

Mrs. Chizuko KUBO *(resigned on 8 October 2007)*

Independent Non-Executive

Mr. Bangjie HE
Mr. Zheng Jack LI *(appointed on 4 June 2007)*
Mr. Kwok Kit Johnny TING
(appointed on 19 November 2007)
Mr. Peisheng HU *(resigned on 4 June 2007)*
Mr. Wai Tak CHEUNG *(appointed on 24 April 2007 and resigned on 16 November 2007)*
Mr. Ho Yip LEE
(resigned on 31 March 2007)

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE

Suites 1407-8, 14/F,
Great Eagle Centre
23 Harbour Road, Wanchai
Hong Kong

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road, Central
Hong Kong

PRINCIPAL BANKERS

HSBC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street, Hamilton HM11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1901-5, 19th Floor
Hopewell Centre, 183 Queen's Road East
Hong Kong

Chairman's Statement

Dear Shareholders,

For and on behalf of the board of diectors of the Company, I hereby present to all shareholders the annual report of Far East Golden Resources Group Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 31 December 2007.

For the year ended 31 December 2007, the Group recorded a turnover of approximately HK$920,305,000 with a net loss attributable to shareholders of approximately HK$30,687,000. The Board does not recommend a payment for final dividends for the financial year ended 31 December 2007.

The Group's results improved significantly in 2007 although the Group still suffered from poor performance of dealership of motor vehicles. In order to enhance the overall perfomance of the Group, the Board will consider the disposal of the Chinese automotive dealership network in 2008 as the result of poor prospects of Ningbo Phoenix.

The Group raised additional capital through placing in July 2007 and completed a rights issue in February 2008. With adequate financial resources the Group is actively looking for investement opportunities in various industries such as natural mineral resources, manufacturing and environmental products.

In order to cope with the adjusted business strategy of the Group, the Group reorganised its management structure and new management team members joined the Group during the year. All of these new members have extensive experience in different areas, including natural resources management, legal, finance, and corporate managment.

On behalf of the Board and the management, I would like to extend my appreciation to shareholders of the Group for their continued support and to our staff for their dedication and diligence. I also wish to take this opportunity to express my sincere gratitude to the support of our business partners and customers.

Yung YEUNG
Chairman
Hong Kong, 25 April 2008

Information of Directors

Executive Directors

Mr. Yung YEUNG, aged 50, was appointed a director of the Company in November, 1998, and is the Chairman of the Group. Mr. Yeung holds a PhD degree in Economics from China's Southwest University of Finance & Economics and is currently an Adjunct Professor in the university. Mr. Yeung has been a Vice Chairman of China National Development Research Foundation at the Research and Development Centre under the State Council of China (中國國務院研究發展中心國家發展研究基金會副會長) and was elected as a director of the John Hopkins University Center – Nanjing University Centre for Chinese and American Studies (中美文化交流中心理事). Mr. Yeung was the chairman, chief executive officer and president of Brilliance China Automotive Holdings Limited and also the chairman and president of Shenyang Jinbei Passenger Vehicle Manufacture Co., Ltd. from 1992 to 2002. Mr. Yeung was a member of International Who's Who 1995.

Mr. Quan LIU, aged 53, was appointed a director of the Company in October 2007, and is the Deputy Chairman of the Group. Mr. Liu holds a Master's degree in business, economics and finance from China Europe International Business School (CEIBS). Mr. Liu has extensive knowledge and experience in the management of supply chain business. He has been in the supply chain industry for more than 20 years and was one of the founders of several industrial companies and investment companies in China and the United States of America.

Mr. Xiaolin WANG, aged 41, was appointed a director of the Company in September 2007, and is the Chief Executive Officer of the Group. Mr. Wang holds a Juris Doctor degree and a Master of Laws degree in International and Comparative Law from Duke University School of Law in the United States of America. He also holds a Master of Arts degree in International Economic Development from Ohio University in the United States of America. Mr. Wang has been specializing in international trade law, corporate law and securities regulations. As a renowned legal scholar, Mr. Wang is currently serves as a senior counsel to the International Law Institute in Washington DC and the Secretariat General of China Financial Policy Research Center of Beijing University.

Mr. Wing Sang Wilson HUI, aged 40, was appointed a director of the Company in September 2007, and is the Chief Financial Officer, Qualified Accountant and Company Secretary of the Group. Mr. Hui holds a Master's degree in Business Administration from University of Surrey and a Master's degree in Professional Accounting and Information System from City University of Hong Kong. He is an associate member of Hong Kong Institute of Company Secretaries (HKICS) and Hong Kong Institute of Certified Public Accountants (HKICPA). Mr. Hui was the Qualified Accountant and Company Secretary of Shanghai Jiaoda Withub Information Industrial Company Limited, a GEM Board listed company. Mr. Hui possesses more than 15 years of experience in accounting, finance and corporate management.

Information of Directors

Mr. Yury ROYBA, aged 64, was appointed a director of the Company in January 2008. Mr. Yury is a graduate of the Forestry Technology College of Khabatovsk City and Moscow University of Political Science and Law. Mr. Royba possesses more than 20 years' experience in managing natural resources business, including gold mining and timber lodging operations. Mr. Royba was also the Secretary of the Communist Youth League – Khabatovsk Krai Krai Hahaiski District in 1995.

Mr. Peiquan CHEN, aged 65, was appointed a director of the Company in January 2008. Mr. Chen is a graduate of the Beijing Institute of Geology majoring in geological survey and mine exploration. Mr. Chen started his career as a technician of Hunan Geology and Mineral Resources Exploration and Development Bureau ("Hunan GMRED Bureau") and has more than 40 years' practical experience in geological survey and mine exploration. He had been the team leader and senior engineer of team 417 of Hunan GMRED Bureau since 1991 and retired in 1998.

Independent Non-executive Directors

Mr. Bangjie HE, aged 45, was appointed an independent non-executive director of the Company in April 2003. Mr. He holds a Bachelor's degree in Engineering from Zhejiang Medical University in China. Mr. He was a senior manager and a director in international trading and investment companies in the United States of America and China, and had extensive experience in international trading and investments. He currently acts as a senior manager in an American company.

Mr. Zheng Jack LI, aged 27, was appointed an independent non-executive Director in June 2007. Mr. Li holds a Bachelor's degree in Economics and East Asian Studies from Johns Hopkins University in the USA and a master's degree in Philosophy in Finance from the University of Cambridge in the United Kingdom. He is currently an analyst in an international investment bank.

Mr. Kwok Kit Johnny TING, aged 47, was appointed an independent non-executive Director of the Company in November 2007. Mr. Ting holds a Bachelor's degree in Economics from the University of Victoria of Canada and a MBA from the City University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants (ACCA) and a member of the Certified General Accountants Association of Canada (CGA). He is also a fellow member of the Institute of Chartered Secretaries and Administrators (FCIS). Mr. Ting has more than 10 years in accounting, finance and corporate management. Currently, Mr. Ting is a finance manager of an eyewear manufacturing company.

Report Of Directors

The board of directors (the "Board") of the Company presents this report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding whilst the principal activities of the subsidiaries are the dealership of motor vehicles and spare parts, car repair services, property development in the People's Republic of China (the "PRC") and operation of indoor family entertainment game centres (the "Game Centres") in PRC.

AUDITORS

The financial statements have been audited by Grant Thornton who will retire and, being eligible, offer themselves for re-appointment. A resolution will be submitted to the annual general meeting to re-appoint Grant Thornton as auditors of the Company.

FINANCIAL RESULTS

The results for the Group for the year ended 31 December 2007 are set out in the financial statements on page 36.

PARTICULARS OF PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

Particulars regarding the principal subsidiaries and joint ventures of the Company and of the Group are set out in note 18 to the financial statements on page 77 to 82.

SEGMENT INFORMATION

The segment information for the Group for the year ended 31 December, 2007, are set out in note 6 to the financial statements on page 63 and 64.

Report Of Directors

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

For the year ended 31 December 2007, the Group's turnover amounted to approximately HK$920.31 million (2006: HK$864.16 million) representing an increase of 6.49% as compared to that of 2006. The increase in turnover was due to increased revenue from sale and repair of motor vehicles in 2007. The Group recorded a loss attributable to shareholders of HK$30.69 million (2006: HK$88.16 million) for the year ended 31 December 2007. During the year ended 31 December 2007, the general operating expenses decreased from HK$118.10 million in 2006 to HK$58.24 million. As a result, the loss for 2007 is significantly decreased.

(a) Dealership of motor vehicles and provision of repair services

In 2007, the Group operated five sales outlets and five repair centers in Shanghai and Ningbo. During the year 2006, the outlets and auto malls in Guangzhou were closed as a result of the disputes with the landlord and the poor operation conditions. The Group currently distributes seven brands of passenger cars on a non-exclusive basis. During the year 2007, the Group sold a total of approximately 7,500 passenger cars and recorded turnover of HK$915.86 million (2006: HK$856.71million) from sale and repair of motor vehicles and operating loss was HK$3.26million (2006: HK$31.88million).

(b) Property development

The Group also undertakes property development in Ningbo. The development project comprises of a residential project in Ningbo the PRC with a site area of approximately 10,300 square meters and saleable floor area of approximately 1,855.54 square meters in 2007. The project was completed at the end of 2005. During the year it sold a total of approximately 50.04 square meters (2006:3,000 square meters) floor area. Due to decreased number of saleable flats, the turnover decreased from HK$6.24million to HK$3.87million.

Report Of Directors

(c) Game center

For the year ended 31 December 2007, two entertainment game centers remained to be operated by the Group in the PRC. This business recorded turnover HK$0.58million (2006: HK$1.09million) and a loss of HK$1.13million (2006: HK$0.49million). The increase in loss was mainly due to the significant decrease in number of customers. The Group has no intention to commit more resources to this business line as the prospects for operating indoor game centers in the PRC is gloomy in the highly competitive environment in the market.

(d) Automobile axles

The Group's 51% owned sino-foreign equity joint venture (the "JV") established in the PRC, Shenyang Liaohua Automobile Axles Company Ltd has suspended operations since the mid of 2004 as the result of re-allocation of plant. The Chinese joint venture partner requested a substantial expansion of the JV, the Group reviewed and considered the proposal and took a view that the expansion of the JV is not in the best interest of the Group. Since the suspension is not likely to be resumed in near future, for the sake of prudence, the Group made full provision for the abandoned assets. The losses decreased from HK$14.66 million in 2006 to HK$0.27 million in 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, net current liabilities of the Group were approximately HK$145.47 million (2006: HK$181.29million). The pledged bank deposits were approximately HK$76.53 million (2006: HK$96.38million) while the cash and cash equivalents amounted to HK$77.34million (2006: HK$25.95million). The Group has outstanding borrowings of approximately HK$178.74million (2006: HK$212.75million) comprising (i) bills payable of HK$124.42million (2006: HK$166.98million) (ii) secured bank loans of HK$48.00million (2006: HK$39.79million) and (iii) other loan of HK$6.32million (2006: HK$5.98million). The bank borrowings are basically on floating interest rates basis.

CHARGES ON GROUP ASSETS

As at 31 December 2007, certain of the Group's assets with a net book value of approximately HK$3.59million (2006: HK$4.55 million); bank deposits of HK$76.53 million (2006: HK$96.38million) were pledged to secure the general banking facilities granted to the Group.

BORROWINGS

Brief details of borrowing of the Group for the year ended 31 December 2007 are set out in note 29 to the financial statements on page 91.

Report Of Directors

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Renminbi, Hong Kong Dollar and United States Dollar. The Group has not taken any financial instruments for hedging purpose in 2007 due to limited financial resources.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

In March 2007, Compass Pacific Capital Limited, a subsidiary of the Company, entered into an equity transfer agreement on the transfer of the entire equity interest in Hygeia Land International Limited, a wholly owned subsidiary, at a consideration of HK$1. Save as disclosed, the Group had no other business, material acquisitions or disposals of any subsidiaries and associated companies for the year ended 31 December 2007.

POST BALANCE SHEET EVENTS

The post balance sheet subsequent events for the Group for the year ended 31 December 2007 are set out in note 40 to the financial statements on page 110.

LITIGATION

Brief details of legal proceedings the Group for the year ended 31 December 2007 are set out in note 39 to the financial statements on page 103-110.

HUMAN RESOURCES

The Group had a total of approximately 483 employees as at 31 December 2007. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group.

RETIREMENT SCHEME

The Group's Hong Kong employees participate in a mandatory provident fund scheme. Particulars of this retirement scheme are set out in note 28 to the financial statements on page 90.

Report Of Directors

PROSPECTS

In order to enhance the overall performance of the Group, the Board will consider the disposal of the Chinese automotive dealership network in 2008 due to poor prospects of Ningbo Phoenix. The Group is also actively looking for investment opportunities in various industries such as natural mineral resources, manufacturing and environmental products.

DIVIDEND

The Directors do not recommend the payment of final dividend for year ended 31 December 2007 (2006: Nil), and the Company did not pay any dividend during the year under review.

PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group for the year ended 31 December 2007 are set out in note 16 to the financial statements on page 72-75.

RESERVES

Movements in the reserves of the Group and the Company for the year ended 31 December 2007 are set out in note 34 to the financial statements on page 98.

SHARE CAPITAL

The details of issued share capital of the Company for the year ended 31 December 2007 are set out in note 32 to the financial statements on page 93-94.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities are set out in note 36 to the financial statements on page 100.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2007 are disclosed in note 35 to the financial statements on page 99.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the financial statements on page 118.

Report Of Directors

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2007, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the directors of the Company, the following persons had an interest or short position in the shares and underlying shares of the Company ("Shares") which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Note	Number of Shares	Percentage
Sun East LLC	1	945,456,600	34.71%
Pure Shine Limited ("**PSL**")		162,951,000	5.98%
Brilliance China Automotive Holdings Limited ("**BCA**")	2	162,951,000	5.98%

Note:

1. Sun East LLC is a company owned as to 35% by Mr. Yung YEUNG (shared commonly with his wife under the law of California, the US) and 65% by Mr. Manwai MA (alias Manwai Philip MA) and Mr. Jimmy WANG (alias Jian WANG) as co-trustees for certain trusts (the "Trust") established for the benefit of the children of Mr. Yung YEUNG on 30 December 2002.

2. PSL is a wholly-owned subsidiary of BCA. By virtue of BCA's interest in PSL, BCA is deemed to be interested in all the Shares held by PSL under the SFO.

Save as disclosed above, no person, other than Directors whose interests are set out in the section "Directors' interests in shares below, had registered an interest or short positions in the share capital or underlying shares of the Company that was required to be recorded under Section 336 of SFO.

Report Of Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 31 December 2007, the interests and short positions of the directors and the chief executive of the Company in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO were as follow:

Name of Director	Company/name of associated corporation	Nature of interest	Number of ordinary shares/ debentures
Yung YEUNG	Company	Corporate interest (Note 1)	945,456,600
Yung YEUNG	Company	Personal interest (Note 2)	31,570,000
Yung YEUNG	Company	Personal interest (Note 3)	10,000,000
Quan LIU	Company	Corporate interest (Note 4)	120,880,000
Wing Sang Wilson HUI	Company	Personal interest (Note 3)	1,000,000

Notes:

1. All these interests represent long positions. These 945,456,600 Shares (representing 34.71% of the issued share capital of the Company as at 31 December 2007) are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr Yung YEUNG (shared commonly with his wife under the law of California, the US) and as to 65% by Mr. Manwai MA (alias Manwai Philip MA) and Mr. Jimmy WANG (alias Jian WANG) as co-trustee for certain trusts established for the benefit of the children of Mr. Yung YEUNG. Mr. Yung YEUNG is deemed to be interested in the 945,456,600 Shares by virtue of his interest in Sun East LLC.

2. Such number of Shares represents the underlying shares of the options granted under the share option Scheme of the Company adopted on 15 March 1995 ("1995 Scheme"), which was terminated pursuant to a resolution in writing of the shareholders of the Company passed on 12 June 2003 and replaced by the 2003 Scheme (as defined below).

3. Such number of Shares represents the underlying shares of the options granted on 9 August 2005 under the share option scheme of the Company adopted on 12 June 2003 ("2003 Scheme").

4. These 120,880,000 Shares are held by Fortune Venture Holdings Limited, a company incorporated in the British Virgin Islands whose entire issued share capital is solely and beneficially owned by Ms. Xiaoqin LI (the spouse of Mr. Quan LIU, an executive Director). Mr. Quan LIU is deemed to be interested in these 120,880,000 Shares held by his spouse by virtue of Part XV of the SFO.

Report Of Directors

In addition to the above, Mr. Quan LIU, Mr. Xiaolin WANG and Mr. Wing Sang Wilson HUI have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed in this report, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as at 31 December 2007.

DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES

Save as disclosed under the section headed "Directors' Interests and Short Positions" above, and the section headed "Share Option Scheme" below, at no time during the year ended 31 December 2007 were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

Report Of Directors

SHARE OPTION SCHEME

The following share options were outstanding under the 1995 scheme and 2003 scheme during the period commencing from 1 January 2007 to 31 December 2007:

Name or Category of Participant	As at 1 January 2007	Reclassification during the year	Share Granted	Shares Lapsed/ cancelled during the year	Share Exercised	As at 31 December 2007	Date of Grant	Exercise Price	Exercise Period
Directors									
Yung YEUNG	10,000,000	–	–	–	–	10,000,000	Note 1	Note 1	Note 1
	21,570,000	–	–	–	–	21,570,000	Note 2	Note 2	Note 2
	10,000,000	–	–	–	–	10,000,000	Note 4	Note 4	Note 4
Jun LI	5,400,000	(5,400,000)	–	–	–	–	Note 2	Note 2	Note 5
	13,540,000	(13,540,000)	–	–	–	–	Note 3	Note 3	Note 6
	5,000,000	(5,000,000)	–	–	–	–	Note 4	Note 4	Note 7
Chunhua HUANG	5,400,000	(5,400,000)	–	–	–	–	Note 2	Note 2	Note 8
	13,540,000	(13,540,000)	–	–	–	–	Note 3	Note 3	Note 9
	5,000,000	(5,000,000)	–	–	–	–	Note 4	Note 4	Note 10
Yuwen SUN	18,940,000	(18,940,000)	–	–	–	–	Note 3	Note 3	Note 9
	5,000,000	(5,000,000)	–	–	–	–	Note 4	Note 4	Note 10
Chizuko KUBO	5,000,000		–	–	(5,000,000)	–	Note 3	Note 3	Note 3
	5,000,000		–	–	(5,000,000)	–	Note 4	Note 4	Note 4
Wing Sang Wilson HUI	–	1,000,000	–			1,000,000	Note 4	Note 4	Note 4
Wing Tak LAW	15,500,000	–	–	(11,000,000)	(4,500,000)	–	Note 4	Note 4	Note 4
Ho Yip LEE	5,000,000	–	–	(4,300,000)	(700,000)	–	Note 4	Note 4	Note 4
Sub-Total	143,890,000	(70,820,000)	–	(15,300,000)	(15,200,000)	42,570,000			
Employees: (in aggregate)	4,800,000	–	–	–	–	4,800,000	Note 1	Note 1	Note 1
	9,400,000	–	–	–	–	9,400,000	Note 2	Note 2	Note 2
	18,772,000	–	–	–	(300,000)	18,472,000	Note 3	Note 3	Note 3
	75,900,000	(1,000,000)	–	(1,000,000)	(12,400,000)	61,500,000	Note 4	Note 4	Note 4
Sub-Total	108,872,000	(1,000,000)	–	(1,000,000)	(12,700,000)	94,172,000			
Other eligible persons: (in aggregate)	–	10,800,000	–	–	–	10,800,000	Note 2	Note 2	Note 5 & 8
	–	46,020,000	–	–	–	46,020,000	Note 3	Note 3	Note 6 & 9
	60,000,000	15,000,000	–	–	(10,000,000)	65,000,000	Note 4	Note 4	Note 4, 7 & 10
Sub-Total	60,000,000	71,820,000	–	–	(10,000,000)	121,820,000			
Total:	312,762,000	–	–	(16,300,000)	(37,900,000)	258,562,000			

Report Of Directors

Notes:

1. These share options were granted on 16 February 2000 and are exercisable at a subscription price of HK$0.69 per Share at any time during the period of 10 years from 16 February 2000 to 15 February 2010.

2. These share options were granted on 2 November 2000 and are exercisable at a subscription price of HK$0.382 per Share at any time during the period of 10 years from 2 November 2000 to 1 November 2010.

3. These share options were granted on 5 January 2004 and are exercisable at a subscription price of HK$0.160 per Share at any time during the period of 10 years from 26 January 2004 to 4 January 2014.

4. These share options were granted on 9 August 2005 and are exercisable at a subscription price of HK$0.114 per Share at any time during the period of 10 years from 29 August 2005 to 8 August 2015.

5. These share options were granted on 2 November 2000 and are exercisable at a subscription price of HK$0.382 per Share at any time during the period from 2 November 2000 to 29 October 2008.

6. These share options were granted on 5 January 2004 and are exercisable at a subscription price of HK$0.160 per Share at any time during the period from 26 January 2004 to 29 October 2008.

7. These share options were granted on 9 August 2005 and are exercisable at a subscription price of HK$0.114 per Share at any time during the period from 29 August 2005 to 29 October 2008.

8. These share options were granted on 2 November 2000 and are exercisable at a subscription price of HK$0.382 per Share at any time during the period from 2 November 2000 to 7 October 2008.

9. These share options were granted on 5 January 2004 and are exercisable at a subscription price of HK$0.160 per Share at any time during the period from 26 January 2004 to 7 October 2008.

10. These share options were granted on 9 August 2005 and are exercisable at a subscription price of HK$0.114 per Share at any time during the period from 29 August 2005 to 7 October 2008.

Report Of Directors

The Board does not consider it appropriate to disclose a theoretical value of the share options granted to the directors and employees of the Company in the previous years because a number of factors crucial for valuation cannot be determined; such factors include the exercise period and the conditions that a share option is subject to. Accordingly, any valuation of the share options based on the various speculative assumptions would not be meaningful and could be misleading to the shareholders.

Brief information on the 1995 Scheme and the 2003 Scheme are as follows:

	The 2003 Scheme	**The 1995 Scheme**
1) Purpose of the share option scheme	As incentives and rewards to eligible participants for their contribution to the Group and assist the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group	Provide incentives and rewards to eligible participants who contribute to the success of the Group's operations
2) Participants of the share option scheme	a) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries, or any entity (the "Invested Entity") in which any member of the Group holds any equity interest; b) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;	Eligible employees including executive directors and employees of the Company and its wholly-owned subsidiaries

Report Of Directors

The 2003 Scheme	The 1995 Scheme
c) any supplier of goods or services to any member of the Group or any Invested Entity;	
d) any customer of the Group or any Invested Entity;	
e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;	
f) any shareholder of any member of the Group other than the Company or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;	
g) any advisor (professional or otherwise) or consultant to the Group relating to business development of the Group or any member of the Group or any Invested Entity; and	
h) any joint venture partner or business alliance that co-operates with any member of the Group or any Invested Entity in any area of business operation or development.	

Report Of Directors

	The 2003 Scheme	The 1995 Scheme
3) Maximum entitlement of each participant under the share option scheme	In any 12-month period, shall not exceed 1% of the shares in issue	Shall not exceed 25% of the maximum aggregate number of shares in the capital of the Company at the time of grant or such other percentage as the Board may determine from time to time
4) The period within which the shares must be taken up under an option	The Board may in its absolute discretion determine save that such period shall not expire later than 10 years from the date of grant	10 years from the date of grant
5) The minimum period for which an option must be held before it can be exercised	Unless otherwise determined by the Board, no minimum period	At any time after grant and acceptance
6) The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid	Upon acceptance of the option, the grantee shall inform the Company together with HK$1 by way of consideration for the grant within 21 days from the date of offer	Upon acceptance of the option, the grantee shall inform the Company together with HK$1 by way of consideration for the grant within 28 days from the date of offer

Report Of Directors

	The 2003 Scheme	The 1995 Scheme
7) The basis of determining the exercise price	The exercise price is determined by the Board and being not less than the higher of:	The exercise price shall not less than the greater of:
	a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; or	a) 80% of the average closing price of the shares of the Company on the Stock Exchange on the 5 trading days immediately preceding the date of offer of such option; or
	b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares for the 5 business days immediately preceding the date of offer for grant which must be a business day; or	b) such amount as the Board may from time to time determine subject to the Listing Rules applicable for the time being; or
	c) the nominal value thereof	c) nominal amount of the share
8) The remaining life of the share option scheme	The scheme remains in force until 12 June 2013	The scheme was terminated on 12 June 2003

On 13 December 2007, the shareholders of the Company approved the renewal of the 10% share option scheme limit under the 2003 Scheme. Therefore, the Company can grant share options to subscribe for up to 272,300,323 shares of the Company under the 2003 Scheme. As 270,000,000 share option has been granted under the 2003 scheme on 6 February 2008, the total number of shares available for issue under the 2003 scheme is 2,300,323 representing 0.1% of the Company's issued share capital as at 31 December 2007.

Report Of Directors

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries, which is not determinable by the employer within one year without payment of compensation, other than statutory compensations.

MAJOR CUSTOMERS AND SUPPLIERS

Turnover

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

Purchases

The percentage of the Group's costs attributable to the five largest suppliers for the year are as follows:–

The largest supplier	57%
The five largest suppliers in aggregate	87%

As far as the Directors are aware, no directors of the Company, any of its subsidiaries, their associates or any shareholders of the Company (who to the directors' knowledge is interested in or owns more than 5 per cent. of the Company's share capital) has any shareholding in the suppliers or customers referred to above.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is available to the Company and within the knowledge of the Directors of the Company, the Company has maintained the prescribed public float under the Listing Rule.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

Report Of Directors

ANALYSIS OF BORROWINGS AND INTEREST CAPITALISED

The particulars of the Group's bank borrowings as at the end of the year are set out in note 29 to the financial statements respectively.

No interest was capitalised by the Group during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws or the laws of Bermuda.

On behalf of the Board

Xiaolin WANG
Director

25 April 2008

Report On Corporate Governance

The Company is committed to maintaining high standards of corporate governance that properly protect and promote the interests of all the shareholders and to enhance corporate value and accountability.

The Company wishes to highlight the importance of its Board of Directors ("Board") in ensuring effective leadership and control of the Company and transparency and accountability of all operations.

During the year ended 31 December 2007, the Company devoted significant time and effort to identify and formulate corporate governance practices appropriate to the Company's needs. The Company's corporate governance practices are as set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company has complied with the code provisions under the CG Code during the year under review.

A. BOARD OF DIRECTORS

Board

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matter such as strategic planning; significant transactions; and budget should be retained for the Board's approval. It has formalized the functions reserved to the Board to achieve a clear division of the responsibilities of the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management has frequently reported back to the Board and obtained prior approval before making decisions for key matters or entering into any commitments on behalf of the Company.

In order to maximize the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established audit committee, nomination committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, as are the committees' structure, duties and memberships.

Report On Corporate Governance

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

The Company gives all directors the opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The Company Secretary is delegated with the responsibility to prepare the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. During the year, 22 board meetings were held, 14 days notices were given to 4 board meetings and all directors agreed to waive or to be given a shorter notice on other board meetings. Even though directors often stay/travel in different time zones, they make themselves available via teleconferencing mechanisms.

The Board/committee meetings minutes are recorded in details for the matters considered by the participants of such meetings and decisions reached, including concerns raised by directors or dissenting views expressed. The meeting minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects and to discharge their duties and responsibilities on timely basis. The directors, to properly discharge their duties, are given access to independent professional advisers, when necessary, at the expense of the Company.

In case a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive directors who and their associates, have no material interest in the transaction, should be present at such a board meeting.

Report On Corporate Governance

The Board currently comprises of one Chairman, one Deputy Chairman, one Chief Executive Officer ("CEO"), three Executive Directors and three Independent non-executive directors.

Name

Executive Directors
Yung YEUNG *(Chairman)*
Quan LIU *(Deputy Chairman) (appointed on 24 October 2007)*
Xiaolin WANG *(Chief Executive Officer) (appointed on 11 September 2007)*
Wing Sang Wilson HUI *(appointed on 11 September 2007)*
Yury ROYBA *(appointed on 15 January 2008)*
Peiquan CHEN *(appointed on 15 January 2008)*

Independent Non-Executive Directors
Bangjie HE
Zheng Jack LI *(appointed on 4 June 2007)*
Kwok Kit Johnny TING *(appointed on 19 November 2007)*

Currently, under the Company's bye-laws all directors are subject to re-election at regular intervals.

Mr. Yung YEUNG, Mr. Quan LIU, Mr. Xiaolin WANG, Mr. Wing Sang Wilson HUI, Mr. Peiquan CHEN and Mr. Kwok Kit Johnny TING, being Directors appointed by the Board pursuant to clause 86(2) of the bye-laws of the Company, will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. Mr. Yury ROYBA will retire at the forthcoming annual general meeting and will not seek re-election.

The skills and expertise among the existing directors are well-balance with a mixture of core competencies in areas such as accounting and finance, legal, business and management, marketing strategies, business development, and scientific backgrounds.

The independent non-executive directors (the "INEDs") meet the requirements of independence under the Listing Rules so that there is sufficient element of independence in the Board to exercise independent judgments. The Board considers that all of the INEDs are independent and the confirmation of independence has been obtained from each of them as required by the Listing Rules.

Report On Corporate Governance

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. The functions of INEDs include, but not limited to:

- Participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;

- Taking the lead where potential conflicts of interests arise;

- Serving and active participating on committees, if invited;

- Attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and

- Scrutinizing the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

Chairman, Deputy Chairman and Chief Executive Officer

The Chairman of the Company is Mr. Yung YEUNG, the Deputy Chairman is Mr. Quan LIU, and the CEO is Mr. Xiaolin WANG. The positions of the Chairman, Deputy Chairman, and CEO are held by separate individuals with a view to maintain an effective segregation of duties between management of the Board and the day-to-day management of the Group's business.

Mr. Yung YEUNG as the Chairman of the Company provides leadership to the Board so that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner.

Mr. Quan LIU as the Deputy Chairman assists the Chairman of the Company to carry out above duties.

Mr. Xiaolin WANG as CEO has executive responsibilities over the business directions and operational decisions of the management and performance of the Group.

The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

Appointment, Re-election and Removal

It is the Board's responsibility to appoint new directors. The Board reviews the profiles of the candidates and makes recommendations on the appointment, re-election and retirement of directors.

Report On Corporate Governance

All board directors will retire by rotation once every three years as required by the CG Code. Each director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company.

The INEDs are appointed for a specified terms and are subject to retirement by rotation and re-election by shareholders at annual general meeting in accordance with the Company's Bye-Laws. Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

Committees

The Board has established Independent Committee ("IC"), Audit Committee ("AC"), Nomination ("NC") and Remuneration Committee ("RC") with terms of reference to enable such committees to discharge their functions properly.

Independent Committee

The Independent Committee is comprised of three Independent non- executive directors, Mr. Bangjie HE, Mr. Zheng Jack LI (appointed on 4 June 2007) and Mr. Kwok Kit Johnny TING (appointed on 19 November 2007).

Name of Member	Number of meetings attended
Mr. Bangjie HE	1/1
Mr. Zheng Jack LI *(appointed on 4 June 2007)*	1/1
Mr. Kwok Kit Jonny TING *(appointed on 19 November 2007)*	1/1

Audit Committee

The Company established an Audit Committee with reference to "A Guide for the Formation of an Audit Committee published by the Hong Kong Institute of Certified Public Accountants. The terms of the Audit Committee are consistent with the terms set up in the Code.

The Audit Committee comprises all three Independent non-executive directors, and the chairman of the Audit Committee is Mr. Kwok Kit Johnny TING. Former chairman of the Audit Committee was Mr. Wai Tak CHEUNG.

Report On Corporate Governance

Two meetings were held during the year ended 31 December 2007. The individual attendance of each member is set out below:

Name of Member	Number of meetings attended
Mr. Wai Tak CHEUNG *(appointed on 24 April 2007 and resigned on 16 November 2007)*	2/2
Mr. Bangjie HE	2/2
Mr. Zheng Jack LI *(appointed on 4 June 2007)*	2/2
Mr. Peisheng HU *(resigned on 4 June 2007)*	1/2
Mr. Kwok Kit Johnny TING *(appointed on 19 November 2007)*	0/2 (a)
Mr. Ho Yip LEE *(resigned on 31 March 2007)*	0/2 (b)

(a) No meetings was held since Mr. Kwok Kit Johnny TING being appointed on 19 November 2007.

(b) Mr. Ho Yip LEE resigned on 31 March 2007 and no meeting being held before his resignation in 2007.

The AC met two times during the year 2007, and performed the following work:

- Reviewed and discussed with the management and the external auditors regarding the financial statements for the year ended 31 December 2006

- Reviewed with management the un-audited interim financial statement for the six months ended 30 June 2007

The Company Secretary keeps the minutes of AC. Draft and final versions have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively. The term of reference of the AC is available from the Company Secretary on request.

Remuneration Committee

The Company has set up the Remuneration Committee ensuring that there are formal and transparent procedures for setting policies on the remuneration of the Directors and senior management. The Remuneration Committee is comprised of two Independent non- executive directors, Mr. Bangjie HE, Mr. Zheng Jack LI (appointed on 4 June 2007), and the chairman of the Remuneration Committee is Mr. Yung YEUNG.

Report On Corporate Governance

The terms of reference of the Remuneration Committee are consistent with the terms set out in the Code. No Director is involved in deciding his own remuneration.

Name of Member	**Number of meetings attended**
Mr. Yung YEUNG	3/3
Mr. Bangjie HE	3/3
Mr. Zheng Jack LI *(appointed on 4 June 2007)*	3/3

Nomination Committee

The Company has a Nomination Committee to ensure that fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee is comprised of Mr. Bangjie HE, Mr. Zheng Jack LI (appointed on 4 June 2007), and Mr. Peisheng HU (resigned on 4 June 2007), all are Independent Non-executive Directors and the chairman of the Nomination Committee is Mr. Yung YEUNG.

Name of Member attended	**Number of meetings attended**
Mr. Yung YEUNG	5/5
Mr. Bangjie HE	5/5
Mr. Zheng Jack LI *(appointed on 4 June 2007)*	3/5 (c)
Mr. Peisheng HU *(resigned on 4 June 2007)*	2/5 (d)

(c) Three meetings were held since Mr. Zheng Jack LI being appointed on 4 June 2007.

(d) Mr. Peisheng HU resigned on 4 June 2007 and was entitled to attend two meetings

Report On Corporate Governance

Board Meeting Attendance

Details of the attendance of individual director at Board meetings during the year 2007 are set out below:

Name of Member attended	Number of meetings attended
Executive Directors	
Mr. Yung YEUNG	20/22
Mr. Quan LIU *(appointed on 24 October 2007)*	6/22 (e)
Mr. Xiaolin WANG *(appointed on 11 September 2007)*	10/22 (f)
Mr. Wing Sang Wilson HUI *(appointed on 11 September 2007)*	14/22 (f)
Mr. Jun LI *(resigned on 30 October 2007)*	7/22 (g)
Mr. Yuwen SUN *(resigned on 8 October 2007)*	7/22 (h)
Mr. Chunhua HUANG *(resigned on 8 October 2007)*	6/22 (h)
Mr. Wing Tak Jack LAW *(resigned on 28 February 2007)*	0/22 (i)
Non-executive Director	
Mrs. Chizuko KUBO *(resigned on 8 October 2007)*	0/22 (h)
Independent Non-executive Directors	
Mr. Bangjie HE	14/22
Mr. Zheng Jack LI *(appointed on 4 June, 2007)*	12/22 (j)
Mr. Kwok Kit Johnny TING *(appointed on 19 November, 2007)*	3/22 (k)
Mr. Wai Tai CHEUNG *(resigned on 16 November 2007)*	1/22 (l)
Mr. Peisheng HU *(resigned on 4 June 2007)*	2/22 (m)
Mr. Ho Yip LEE *(resigned on 31 March 2007)*	0/22 (n)

(e) Eleven meetings were held since Mr. Quan LIU being appointed on 24 October 2007.

(f) Fifteen meetings were held since Mr. Xiaolin WANG and Mr. Wing Sang Wilson HUI being appointed on 11 September 2007.

(g) Mr. Jun LI resigned on 30 October 2007 and was entitled to attend thirteen board meetings.

(h) Mr. Yuwen SUN, Mr. Chunhua HUANG and Mrs. Chizuko KUBO resigned on 8 October 2007 and were entitled to attend nine meetings.

(i) Mr. Wing Tak Jack LAW resigned on 28 February 2007 and no meeting being held before his resignation in 2007.

Report On Corporate Governance

(j) Eighteen meetings were held since Mr. Zheng Jack LI being appointed on 4 June 2007.

(k) Eight meetings were held since Mr. Kwok Kit Johnny TING being appointed on 19 November 2007.

(l) Mr. Wai Tak CHEUNG resigned on 16 November 2007 and was entitled to attend fourteen meetings.

(m) Mr. Peisheng HU resigned on 4 June 2007 and was entitled to attend four meetings.

(n) Mr. Ho Yip LEE resigned on 31 March 2007 and no meeting being held before his resignation in 2007.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions (the "Model Code"). Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards set out in the Model Code throughout the year ended 31 December 2007.

B. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Auditors' Report on pages 33 and 35 of this annual report.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavors to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.

Report On Corporate Governance

Internal Controls

The Board is responsible for managing business and operational risks and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls, and risk management functions.

The Group maintains a centralized cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

Auditors' Remuneration

During the year under review, the remuneration paid to the Group's external auditors, Messrs. Grant Thornton is set out as follows:

2007 Audit fee paid/payable	HK$1,150,000
Other non-audit services	HK$ 400,000

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, press announcements and circulars made through the Company's and Stock Exchange's websites.

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

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting dispatching to the shareholders of the Company. The Chairman of the meeting should ensure compliance with the voting by poll requirement.

Report On Corporate Governance

The Company should count all proxy votes, and except where a poll is required, the Chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should ensure that votes cast are properly counted and records.

The Chairman of the meeting should at the commencement of the meeting ensure that an explanation is provided of (1) the procedure for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and (2) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

On behalf of the Board

Xiaolin WANG
Director

25 April 2008

Independent Auditors' Report

Grant Thornton
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Member of Grant Thornton International Ltd

To the shareholders of Far East Golden Resources Group Limited
(formerly known as Compass Pacific Holdings Limited)
(incorporated in Bermuda with limited liability)

We were engaged to audit the consolidated financial statements of Far east Golden Resources Group Limited (formerly known as Compass Pacific Holdings Limited) (the "Company") set out on pages 36 to 115, 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.

AUDITORS' RESPONSIBILITY

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

Except for the limitation in the scope of our work as explained below, 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. However, because of the matters described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditors' Report

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BASIS FOR DISCLAIMER OF OPINION

Existence and valuation of inventories

Included in inventories of HK$113,774,000 in the consolidated balance sheet of the Group as at 31 December 2007 are motor vehicles recovered from the legal proceedings ("Motor Vehicles") as detailed in note 39 (3) to the financial statements with a total cost of HK$54,178,000 and aggregate impairment provision of HK$11,340,000 as at 31 December 2007. We have not been provided the access to these Motor Vehicles physically and there were no alternative audit procedures which we could adopt to ascertain the existence and conditions of these Motor Vehicles. Accordingly we have been unable to obtain all the audit evidence that we considered necessary for our audit purpose in relation to the existence and valuation of these Motor Vehicles. Any adjustments to the balance of the Motor Vehicles and the associated impairment provision would have a consequential effect on the net liabilities and loss of the Group as at 31 December 2007 and for the year then ended respectively.

The same limitation on our scope of work happened in our audit of the financial statements for the year ended 31 December 2006, which become the comparatives to the financial statements for the year ended 31 December 2007. The cost and impairment provision of these Motor Vehicles was HK$51,222,000 and HK$10,721,000 respectively, and these amounts were included in the Group's inventories as at 31 December 2006.

Books and records of Guangzhou Shenfei Automobile Sales and Services Co. Ltd and its subsidiaries (collectively "Guangzhou Shenfei")

In our audit of the financial statements for the year ended 31 December 2006, the books and records (including any bank records) of Guangzhou Shenfei as made available to us by the Group's management were incomplete for our audit purposes. Under circumstances as explained above, we were not able to carry out audit procedures which we considered necessary on the books and records of Guangzhou Shenfei, to satisfy ourselves as to the existence, completeness, accuracy and valuations of its assets (including any cash and bank balances) of HK$67,960,000 and liabilities (including any bank borrowings) of HK$144,029,000 as at 31 December 2006 and its loss of HK$5,781,000 for the year then ended. The incomplete books and records (including any bank records) of Guangzhou Shenfei remain unresolved in our audit of the financial statements for the year ended 31 December 2007. Guangzhou Shenfei's assets and liabilities brought forward from 31 December 2006 have been included in the Group's consolidated financial statements for the year ended 31 December

Independent Auditors' Report

Grant Thornton
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2007. There were no alternative audit procedures which we could adopt to satisfy ourselves as to whether these assets and liabilities have been fairly stated. After the balance sheet date translation of the balances of these assets and liabilities to the Group's presentation currency, the assets and liabilities have been included in the consolidated financial statements for the year ended 31 December 2007 at the amounts of HK$71,882,000 and HK$152,339,000 respectively.

Any adjustments to the assets and liabilities of Guangzhou Shenfei as at 31 December 2007 may have consequential significant effects on the assets and liabilities of the Group as at 31 December 2007.

In view of the scope limitation above we were unable to assess the appropriateness of the impairment provision against the Company's interests in subsidiaries on the Company balance sheet as at 31 December 2007.

DISCLAIMER OF OPINION ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2007 and the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

25 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
Revenue	5	**920,305**	864,160
Cost of sales		**(880,487)**	(846,739)
Gross profit		**39,818**	17,421
Other income	7	**27,687**	8,606
Distribution costs		**(17,583)**	(16,088)
General operating expenses		**(58,237)**	(118,095)
Impairment of property, plant and equipment		**–**	(3,663)
Operating loss		**(8,315)**	(111,819)
Finance costs	8	**(3,739)**	(4,016)
Loss before income tax	9	**(12,054)**	(115,835)
Income tax expense	10	**(9,131)**	(365)
Loss for the year		**(21,185)**	(116,200)
Attributable to :			
Equity holders of the Company	11	**(30,687)**	(88,163)
Minority interests		**9,502**	(28,037)
Loss for the year		**(21,185)**	(116,200)
Loss per share for loss attributable to the equity holders of the Company during the year			
Loss per share – basic	13	**HK(1.19) cents**	HK(3.61) cents
Loss per share – diluted	13	**N/A**	N/A

Consolidated Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**53,724**	48,692
Land use rights	17	**5,333**	7,919
Interest in an associate	19	**8,542**	8,076
Rental, utilities and other deposits		**466**	515
		68,065	65,202
Current assets			
Inventories	21	**113,774**	111,024
Trade receivables	22	**17,205**	12,890
Prepayments, deposits and other receivables	23	**51,915**	51,089
Amount due from an associate	24	**2,723**	1,312
Amounts due from related parties	24	**1,842**	1,617
Pledged bank deposits	25	**76,533**	96,374
Cash and cash equivalents	25	**77,337**	25,950
		341,329	300,256
Current liabilities			
Trade payables	26	**41,071**	10,346
Accruals and other payables	27	**208,505**	200,914
Amounts due to related parties	24	**47,367**	46,432
Borrowings	29	**54,318**	45,765
Bills payable		**124,423**	166,981
Provisions	30	**7,828**	7,828
Tax payable		**3,284**	3,284
		486,796	481,550
Net current liabilities		**(145,467)**	(181,294)
Net liabilities		**(77,402)**	(116,092)
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	32	**272,400**	244,424
Reserves	34	**(375,810)**	(377,549)
		(103,410)	(133,125)
Minority interests		**26,008**	17,033
Capital deficiency		**(77,402)**	(116,092)

Xiaolin WANG
Director

Wing Sang Wilson HUI
Director

Balance Sheet

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	**641**	363
Interests in subsidiaries	18	**–**	–
Deposits		**8**	376
		649	739
Current assets			
Prepayments and deposits and other receivables	23	**1,237**	318
Cash and cash equivalents		**25,589**	68
		26,826	386
Current liabilities			
Accruals and other payables		**10,866**	13,042
Amount due to a related party	24	**9,270**	3,844
Amounts due to subsidiaries	18	**112**	232
		20,248	17,118
Net current assets/(liabilities)		**6,578**	(16,732)
Net assets/(liabilities)		**7,227**	(15,993)
EQUITY			
Share capital	32	**272,400**	244,424
Reserves	34	**(265,173)**	(260,417)
Total equity/(capital deficiency)		**7,227**	(15,993)

Xiaolin WANG
Director

Wing Sang Wilson HUI
Director

Consolidated Statement Of Changes In Equity

For the year ended 31 December 2007

	Equity attributable to equity holders of the Company						Minority interest	(Capital deficiency)/ total equity
	Share capital	Share premium	Translation reserve	Equity compen -sation reserve	Accumu- lated losses	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	244,424	270,761	(2,256)	7,576	(561,536)	(41,031)	48,356	7,325
Currency translation	–	–	(3,931)	–	–	(3,931)	–	(3,931)
Net loss recognised directly in equity	–	–	(3,931)	–	–	(3,931)	–	(3,931)
Loss for the year	–	–	–	–	(88,163)	(88,163)	(28,037)	(116,200)
Total recognised income and expense for the year	–	–	(3,931)	–	(88,163)	(92,094)	(28,037)	(120,131)
Disposal of a subsidiary	–	–	–	–	–	–	(3,286)	(3,286)
At 31 December 2006 and 1 January 2007	244,424	270,761	(6,187)	7,576	(649,699)	(133,125)	17,033	(116,092)
Currency translation	–	–	(6,290)	–	–	(6,290)	(527)	(6,817)
Net loss recognised directly in equity	–	–	(6,290)	–	–	(6,290)	(527)	(6,817)
Loss for the year	–	–	–	–	(30,687)	(30,687)	9,502	(21,185)
Total recognised income and expense for the year	–	–	(6,290)	–	(30,687)	(36,977)	8,975	(28,002)
Issuance of new shares	24,186	38,214	–	–	–	62,400	–	62,400
Share issue expense	–	(272)	–	–	–	(272)	–	(272)
Proceeds from shares issued under share option scheme	3,790	2,078	–	(1,304)	–	4,564	–	4,564
At 31 December 2007	272,400	310,781	(12,477)	6,272	(680,386)	(103,410)	26,008	(77,402)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Cash flows from operating activities		
Loss before income tax	**(12,054)**	(115,835)
Adjustments for :		
Depreciation of property, plant and equipment	**7,822**	8,195
Gain on disposal of property, plant and equipment	**(203)**	(14)
Gain on disposals of land use rights	**(10,835)**	–
Amortisation of land use rights	**146**	160
Impairment of property, plant and equipment	**–**	3,663
Impairment of inventories	**3,807**	19,584
Reversal of impairment of receivables	**(1,069)**	–
Impairment of receivables	**–**	49,409
(Gain)/Loss on disposal of a subsidiary	**(6,114)**	1,170
Interest income	**(2,544)**	(1,874)
Interest expense	**3,739**	4,016
Operating loss before working capital changes	**(17,305)**	(31,526)
Increase in inventories	**(7,371)**	(24,018)
Increase in trade receivables	**(4,696)**	(3,187)
Increase in prepayments, deposits and other receivables	**(905)**	(39,078)
Increase in amount due from an associate	**(1,411)**	(1,312)
Increase in amounts due from related parties	**(225)**	–
Increase/(Decrease) in trade payables	**32,427**	(11,815)
Increase in accruals and other payables	**7,721**	77,443
Increase in amounts due to related parties	**–**	851
(Decrease)/increase in bills payable	**(42,558)**	52,933
Cash (used in)/generated from operations	**(34,323)**	20,291
Interest paid	**(3,739)**	(4,016)
Income tax paid	**(9,131)**	(815)
Net cash (used in)/generated from operating activities	**(47,193)**	15,460

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(13,112)**	(10,053)
Purchase of land use rights		**(757)**	–
Proceeds from disposal of property, plant and equipment		**2,883**	4,004
Net cash (outflow)/inflow from disposal of subsidiaries	38	**(2,719)**	6,797
Proceeds from disposals of land use rights		**14,441**	–
Interest received		**2,544**	1,874
Net cash generated from investing activities		**3,280**	2,622
Cash flows from financing activities			
Proceeds from issuance of share capital		**66,964**	–
Share issue expenses		**(272)**	–
Proceeds of borrowings		**22,515**	16,080
Repayment of borrowings		**(5,962)**	(20,496)
Increase in amounts due to related companies		**935**	14,918
Decrease/(Increase) in pledged bank deposits		**19,841**	(14,877)
Net cash generated from/(used in) financing activities		**104,021**	(4,375)
Net increase in cash and cash equivalents		**60,108**	13,707
Cash and cash equivalents at 1 January		**25,950**	19,611
Effect of exchange rate fluctuation		**(8,721)**	(7,368)
Cash and cash equivalents at 31 December		**77,337**	25,950
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**77,337**	25,950

Notes To The Financial Statements

For the year ended 31 December 2007

1. GENERAL INFORMATION

Far East Golden Resources Group Limited (the "Company") is an exempted company with limited liability incorporated and domiciled in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and, its principal place of business is Suites 1407-8, 14th Floor, Great Eagle Centre, 23 Harbour Road, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Company and its subsidiaries (the "Group") were dealership of motor vehicles and spare parts, operating auto malls, property development, operation of indoor game centres and manufacture and sale of automobile axles in the People's Republic of China (the "PRC").

Pursuant to a special resolution passed on 13 December 2007 and with the approval of the Registrar of Companies of Bermuda given on 11 January 2008, the name of the Company was changed from "Compass Pacific Holdings Limited" to "Far East Golden Resources Group Limited" and "遠東金源集團有限公司" was adopted as the secondary name of the Company.

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

The financial statements for the year ended 31 December 2007 were approved by the board of directors on 25 April 2008.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2007, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2007 and relevant to the Group. The adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies but gave rise to additional disclosures. The specific transitional provisions contained in some of these new or amended HKFRSs have been considered.

Notes To The Financial Statements

For the year ended 31 December 2007

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

2.1 HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report.

2.2 HKFRS 7 – Financial Instruments: Disclosures

HKFRS 7 – Financial Instruments : Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments : Presentation and Disclosures and has been adopted by the Group in its financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature :

– a sensitivity analysis explaining the Group's market risk exposure in regard to its financial instruments, and

– a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet items.

Notes To The Financial Statements

For the year ended 31 December 2007

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

2.3 New or amended HKFRSs that have been issued but are not yet effective

The Group has not adopted early the following HKFRSs that have been issued but are not yet effective.

HKAS 1 (Revised)	"Presentation of Financial Statements"[1]
HKAS 23 (Revised)	"Borrowing Costs"[1]
HKAS 27 (Revised)	"Consolidated and Separate Financial Statements"[2]
HKFRS 2 (Amendment)	"Share Based Payment"[1]
HKFRS 3 (Revised)	"Business Combinations"[2]
HKFRS 8	"Operating Segments"[1]
HK(IFRIC) – Int 11	"Group and Treasury Share Transactions"[3]
HK(IFRIC) – Int 12	"Service Concession Arrangements"[4]
HK(IFRIC) – Int 13	"Customer Loyalty Programmes"[5]
HK(IFRIC) – Int 14	"HKAS 19 – The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction"[5]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2008

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements.

HKAS 1 (Revised) – Presentation of Financial Statements

The amendement affects the presentation of owner changes in equity and introduces a statement of comprehensive income. The Company will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosure. Management is currently assessing the detailed impact of this amendment in the Group's financial statements.

The directors of the Company is currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

In preparing the consolidated financial statements for the year end 31 December 2007, the directors of the Company (the "directors") have given considerations to the future financial positions of the Group in light of the net current liabilities of HK$145,467,000 and capital deficiency of HK$77,402,000 as at 31 December 2007 and the Group's loss of approximately HK$30,687,000 attributable to the equity holders of the Company for the year ended 31 December 2007. The directors are taking active steps to improve the financial positions of the Group and the Company as described below. The consolidated financial statements have been prepared on the assumption that the Group will continue to operate as a going concern notwithstanding these conditions prevailing as at 31 December 2007. In order to improve the Group's and the Company's financial positions, immediate liquidity and cash flows, the directors have adopted several measures together with other measures in progress at the date of approval of these consolidated financial statements which include, but not limited to, the following:

(i) During the year, the Group had completed a placement of new shares to raise funds to improve the Group's financial position. On 6 July 2007, the Company entered into a placing agreement in relation to a placing of an aggregate of 241,860,000 new shares of HK$0.10 at a placing price of HK$0.258 per share. Net cash proceeds of HK$62,128,000 have been fully received by the Group.

(ii) On 27 December 2007, Company has issued a circular and proposed to issue 2,724,003,232 right shares (the "Rights Issue") at the subscription price of HK$0.10 per rights share on the basis of one right share for every one existing share in issue on 8 January 2008. Subsequent to the balance sheet date, the Company's independent shareholders have approved the Rights Issue on 11 January 2008 and the Rights Issue was completed on 1 February 2008. After the completion of the Rights Issues, net cash proceeds of approximately HK$266,000,000 have been fully received by the Group.

As such, the directors are satisfied that both the Group and the Company will be able to meet in full their financial obligations as they fall due for the foreseeable future without significant curtailments of operations. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets to current assets.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of preparation *(Continued)*

It should be noted that accounting estimates and assumptions as used in preparation of the financial statements. Although these estimates are based on management's best knowledge judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than those the combining entities are group entities) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries *(Continued)*

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest until the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is adjusted for the post-acquisition changes 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 associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it 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 investment in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Associates *(Continued)*

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.10) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

3.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Foreign currency translation *(Continued)*

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2006 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2006 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.6 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after eliminating sales within the Group. 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 as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Service fees are recognised in the accounting period in which the services are rendered.

Revenue arising from the sale of properties held for sale is 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 forward sales deposits and instalments received.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Revenue recognition *(Continued)*

Revenues from operation of indoor game centres are recognised upon the sales of tokens to customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Subsidy income is recognised upon the granting of subsidy by the relevant authorities when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to them.

3.7 Borrowing costs

All borrowing costs are expensed as incurred.

3.8 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 3.4.

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination or investment in a jointly controlled entity is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

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 is recognised immediately in profit or loss.

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

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Property, plant and equipment

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

Buildings held under capital leasing agreements are depreciated over their expected useful lives or over the term of lease, if shorter.

Depreciation on other assets is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum :

Buildings	Over the terms of the leases or estimated useful lives, ranging from 20 years to 40 years, whichever is shorter
Leasehold improvements, fixture and fittings, and furniture and equipment	Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter
Game equipment	20%
Machinery	10% to 20%
Motor vehicles	10% to 25%

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

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Impairment

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, interests in subsidiaries and associates are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Impairment *(Continued)*

Interim financial reporting and impairment

Under the Listing Rules, 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. At 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.

Impairment loss recognised in an interim period in respect of goodwill is 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.

3.11 Leases

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.

Where the Group has the use of asses held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

Land use rights are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets

The Group's financial assets include trade receivables, other receivables, amount due from an associate, amounts due from related companies, pledged bank deposits and cash and cash equivalents.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus any directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of asset.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Inventories

Completed properties for sale at the year end are valued at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties. Net realisable value is determined by reference to directors' estimates based on prevailing market conditions.

Other inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and any applicable selling expenses.

3.14 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Accounting for income taxes *(Continued)*

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.15 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.16 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.17 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees. Contributions are made based on a percentage of the employees' basis salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 Retirement benefit costs and short term employee benefits *(Continued)*

According to the relevant rules and regulations in the PRC, the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the PRC RB Plan ("Employer contributions"). The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the Employer contributions. Contributions under the PRC RB Plan are charged to the consolidated income statement as they become payable in accordance with the rules of the PRC RB Plan.

Short-term employee benefits

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

Non-accumulating compensated absences are not recognised until the time of leave.

3.18 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2006 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees and exchange for services acquired from the service providers.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

For share options granted to service providers in exchange for services acquired, they are measured at the fair value of the services received. Their fair values of the services are recognised as expense immediately, unless the services qualify for recognise as assets. Corresponding adjustments have been made to equity.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Share-based employee compensation *(Continued)*

All share-based compensation is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity compensation reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

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

3.19 Financial liabilities

The Group's financial liabilities include bank and other loans, trade payables, bills payable, other payables and amounts due to related parties. They are included in balance sheet line items as borrowings, trade payables, accruals and other payable, bills payable and amounts due to related companies under current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual provision of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Financial liabilities *(Continued)*

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

3.20 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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 uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Related parties

A party is considered to be related to the Group if :

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company/Group that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate of the Company/Group;

(c) the party is a joint venture in which the Company/Group is a venturer;

(d) the party is a member of the key management personnel of the Company/Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, joint controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is related party of the Company/Group.

3.22 Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation, borrowings and other liabilities that are incurred for financing rather than operating purpose.

Capital expenditure comprises additions to property, plant and equipment and land use rights, including additions resulting from acquisitions through purchases of subsidiaries.

Notes To The Financial Statements

For the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.22 Segment reporting *(Continued)*

In respect of geographical segment reporting, revenue are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Going concern basis

The Group's financial statements are prepared on going concern basis notwithstanding that the Group had net current liabilities and net liabilities. Please refer to note 3.1 for details.

Impairment of property, plant and equipment

The Group assesses impairment of property, plant and equipment at each balance sheet date by evaluating conditions specific to the Group that may lead to impairment. Where an impairment trigger exists, the recoverable amount of the property, plant and equipment is determined. Value-in-use calculations performed in assessing recoverable amount incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate aging analysis of inventories and compare the carrying value of inventories to their respective net realisable value. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

Notes To The Financial Statements

For the year ended 31 December 2007

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

Impairment of receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than the estimated.

5. REVENUE

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and services rendered. Revenue recognised during the year is as follows :

	2007	2006
	HK$'000	*HK$'000*
Sales of motor vehicles	**856,319**	822,247
Repair and maintenance of motor vehicles	**59,537**	34,462
Sales of properties held for sale	**3,867**	6,243
Revenues from operation of indoor games centres	**582**	1,087
Others	**–**	121
	920,305	864,160

Notes To The Financial Statements

For the year ended 31 December 2007

6. SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into four main business segments, namely sale and repair of motor vehicles, sale of property, operation of indoor game centres and manufacture and sale of automobile axles.

	2007				
	Sale and repair of motor vehicles *HK$'000*	Sale of property *HK$'000*	Operation of indoor game centres *HK$'000*	Manufacture and sale of automobile axles *HK$'000*	Total *HK$'000*
Revenue					
Sales to external customers	915,856	3,867	582	–	920,305
Segment results	(3,257)	14,236	(1,131)	(272)	9,576
Unallocated income and expense, net					(17,891)
Finance costs					(3,739)
Loss before income tax					(12,054)
Income tax expense					(9,131)
Loss for the year					(21,185)
Segment assets	312,937	24,537	264	156	337,894
Unallocated assets					58,393
Interest in an associate					8,542
Amount due from an associate					2,723
Amounts due from related parties					1,842
Total assets					409,394
Segment liabilities	342,249	23,270	588	432	366,539
Unallocated liabilities					15,288
Borrowings					54,318
Amounts due to related parties					47,367
Tax payable					3,284
Total liabilities					486,796
Capital expenditure	6,416	517	54	–	6,987
Depreciation	4,926	603	110	–	5,639
Reversal of impairment of receivables	–	(1,069)	–	–	(1,069)

Notes To The Financial Statements

For the year ended 31 December 2007

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2006				
	Sale and repair of motor vehicles *HK$'000*	Sale of property *HK$'000*	Operation of indoor game centres *HK$'000*	Manufacture and sales of automobile axles *HK$'000*	Total *HK$'000*
Revenue					
Sales to external customers	856,709	6,243	1,087	–	864,039
Unallocated revenue					121
					864,160
Segment results	(31,882)	(36,404)	(492)	(14,657)	(83,435)
Unallocated income and expense, net					(28,384)
Finance costs					(4,016)
Loss before income tax					(115,835)
Income tax expense					(365)
Loss for the year					(116,200)
Segment assets	319,701	18,802	290	147	338,940
Unallocated assets					15,513
Interest in an associate					8,076
Amount due from an associate					1,312
Amounts due from related parties					1,617
Total assets					365,458
Segment liabilities	335,874	31,074	4,089	393	371,430
Unallocated liabilities					14,639
Borrowings					45,765
Amounts due to related parties					46,432
Tax payable					3,284
Total liabilities					481,550
Capital expenditure	9,483	89	4	–	9,576
Depreciation	4,312	430	163	822	5,727
Impairment of property, plant and equipment	–	–	–	3,610	3,610
Impairment of receivables	22,456	16,719	–	9,982	49,157

Notes To The Financial Statements

For the year ended 31 December 2007

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

Over 90% of the Group's revenue was are derived in the PRC and over 90% of the segment assets were located in PRC. In this regard, no separate analysis of segment information by geographical segment is presented.

7. OTHER INCOME

	2007	2006
	HK$'000	*HK$'000*
Bank interest income	**2,481**	1,360
Other interest income	**63**	514
Gain on disposal of a land use right	**10,835**	–
Gain on disposal of a subsidiary *(note 38)*	**6,114**	–
Subsidy income	**1,033**	1,283
Other services income	**1,612**	2,117
Miscellaneous	**5,549**	3,332
	27,687	8,606

8. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest charges on :		
Bank loans and overdrafts repayable within five years	**2,174**	2,035
Other loans wholly repayable within five years	**1,565**	1,981
	3,739	4,016

Notes To The Financial Statements

For the year ended 31 December 2007

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting) :

	2007 **HK$'000**	2006 HK$'000
Auditors' remuneration	**1,459**	1,213
Depreciation of property, plant and equipment	**7,822**	8,195
Amortisation of land use rights	**146**	160
Reversal of impairment of receivables	**(1,069)**	–
Impairment of receivables	**–**	*49,409
(Gain)/Loss on disposal of a subsidiary	**(6,114)**	1,170
Cost of inventories recognised as expenses**	**880,487**	846,739
Operating lease charges in respect of land and buildings	**2,635**	4,005
Gain on disposal of property, plant and equipment	**(203)**	(14)

* *Amount includes impairment loss of HK$12,534,000 in respect of amounts due from minority shareholders of subsidiaries (note 35).*

** *Cost of inventories recognised as expenses included HK$3,807,000 (2006: HK$19,584,000) relating to impairment of inventories.*

Notes To The Financial Statements

For the year ended 31 December 2007

10. INCOME TAX EXPENSE

For the year ended 31 December 2007, Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for that year. Tax on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2007	2006
	HK$'000	*HK$'000*
Current tax		
– Hong Kong tax for the year	**2**	2
– Overseas tax for the year	**9,129**	4,971
	9,131	4,973
Deferred tax (note 31)	**–**	(4,608)
Income tax expense	**9,131**	365

Reconciliation between income tax expense and accounting loss at applicable tax rates :

	2007	2006
	HK$'000	*HK$'000*
Loss before taxation	**(12,054)**	(115,835)
Tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	**(3,403)**	(35,493)
Tax effect of non-deductible expenses	**12,340**	33,536
Tax effect of non-taxable revenue	**(2,443)**	(2,259)
Tax losses not recognised as deferred tax asset	**2,777**	4,566
Tax effect of prior years' tax losses utilised this year	**(140)**	(3)
Other temporary differences not recognised	**–**	18
Income tax expense	**9,131**	365

Notes To The Financial Statements

For the year ended 31 December 2007

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year of HK$30,687,000 (2006: HK$88,163,000) attributable to the equity holders of the Company, a loss of HK$43,472,000 (2006: HK$22,585,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2007 (2006: Nil) and the Company did not declare any interim dividend during the year.

13. LOSS PER SHARE

The calculation of basic earnings/(loss) per share is based on the loss attributable to equity holders of HK$30,687,000 (2006: HK$88,163,000) and on the weighted average of 2,569,644,437 (2006: 2,444,243,232) ordinary shares in issue during the year.

On 27 December 2007, the Company has issued a circular and proposed to issue 2,724,003,232 right shares (the "Rights Issue") at the subscription price of HK$0.10 per rights share. Subsequent to the balance sheet date, the Company's independent shareholders have approved the Rights Issue on 11 January 2008 and the Rights Issue was completed on 1 February 2008. After the completion of the Rights Issue, the number of share capital of the Company was increased to 5,448,006,464. Further details in respect of the Rights Issue are disclosed in note 32(iii) to the financial statements.

Diluted loss per share was not presented because the impact of the exercise of the share options was anti-dilutive.

14. EMPLOYEE BENEFIT EXPENSE (including directors' emoluments)

	2007 ***HK$'000***	2006 *HK$'000*
Wages and salaries	**27,871**	20,971
Pension costs – defined contribution plans	**2,634**	2,021
Other benefits	**2,323**	1,736
	32,828	24,728

Notes To The Financial Statements

For the year ended 31 December 2007

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

15.1 Directors' remuneration

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Contribution to defined contribution plan *HK$'000*	Total *HK$'000*
2007				
Executive directors				
Mr. Yung YEUNG	390	3,506	–	3,896
Mr. Quan LIU (appointed on 24 October 2007)	–	585	–	585
Mr. Xiaolin WANG (appointed on 11 September 2007)	–	780	–	780
Mr. Wing Sang Wilson HUI (appointed on 11 September 2007)	–	689	5	694
Mr. Chunhua HUANG (resigned on 8 October 2007)	–	421	–	421
Mr. Jun LI (resigned on 30 October 2007)	–	1,167	10	1,177
Mr. Wing Tak Jack LAW (resigned on 28 February 2007)	–	67	2	69
Mr. Yuwen SUN (resigned on 8 October 2007)	–	–	–	–
Non-executive director				
Mrs. Chizuko KUBO (resigned on 8 October 2007)	–	–	–	–
Independent non-executive directors				
Mr. Bangjie HE	80	80	–	160
Mr. Zheng Jack LI (appointed on 4 June 2007)	46	80	–	126
Mr. Kwok Kit Johnny TING (appointed on 19 November 2007)	9	80	–	89
Mr. Wai Tak CHEUNG (appointed on 24 April 2007 and resigned on 16 November 2007)	45	–	–	45
Mr. Peisheng HU (resigned on 4 June 2007)	–	–	–	–
Mr. Ho Yip LEE (resigned on 31 March 2007)	20	–	–	20
	590	7,455	17	8,062

Notes To The Financial Statements

For the year ended 31 December 2007

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS *(Continued)*

15.1 Directors' renumeration *(Continued)*

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contribution to defined contribution plan HK$'000	Total HK$'000
2006				
Executive directors				
Mr. Yung YEUNG	–	3,510	–	3,510
Mr. Chunhua HUANG	–	1,170	–	1,170
Mr. Jun LI	–	1,200	12	1,212
Mr. Wing Tak Jack LAW	–	1,560	12	1,572
Mr. Yuwen SUN	–	–	–	–
Non-executive directors				
Mrs. Chizuko KUBO (became a non-executive director on 21 April 2006)	–	–	–	–
Independent non-executive directors				
Mr. Jian WANG (resigned on 9 November 2006)	–	–	–	–
Mr. Bangjie HE	–	–	–	–
Mr. Peisheng HU (appointed on 9 November 2006)	–	–	–	–
Mr. Ho Yip LEE	80	–	–	80
	80	7,440	24	7,544

There was no arrangement under which a director waived or agreed to waive any remuneration for both years.

Notes To The Financial Statements

For the year ended 31 December 2007

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

(Continued)

15.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included four (2006: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual for the year ended 31 December 2007 are as follows :

	2007 *HK$'000*	2006 *HK$'000*
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**852**	585

The emoluments fell within the following bands :

	Number of individuals	
	2007	2006
Emolument bands		
Nil – HK$1,000,000	**1**	1

No emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

Notes To The Financial Statements

For the year ended 31 December 2007

16. PROPERTY, PLANT AND EQUIPMENT

Group

The movements of property, plant and equipment of the Group are as follows :

	Buildings *HK$'000*	Leasehold improve -ments, fixture and fittings *HK$'000*	Furniture and equipment *HK$'000*	Game equipment *HK$'000*	Machinery *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 1 January 2006							
Cost	68,209	16,819	7,144	59,874	12,869	22,121	187,036
Accumulated depreciation and impairment	(42,341)	(15,136)	(2,630)	(59,833)	(5,690)	(9,125)	(134,755)
Net book amount	25,868	1,683	4,514	41	7,179	12,996	52,281
Year ended 31 December 2006							
Opening net book value	25,868	1,683	4,514	41	7,179	12,996	52,281
Exchange differences	1,305	47	145	1	352	356	2,206
Additions	2,239	1,909	726	4	1,135	4,040	10,053
Disposals	–	–	(29)	–	–	(3,961)	(3,990)
Depreciation	(1,191)	(659)	(1,172)	(46)	(1,158)	(3,969)	(8,195)
Impairment	–	–	–	–	(3,436)	(227)	(3,663)
Closing net book value	28,221	2,980	4,184	–	4,072	9,235	48,692
At 31 December 2006							
Cost	73,964	18,929	7,995	60,393	14,955	21,122	197,358
Accumulated depreciation and impairment	(45,743)	(15,949)	(3,811)	(60,393)	(10,883)	(11,887)	(148,666)
Net book amount	28,221	2,980	4,184	–	4,072	9,235	48,692
Year ended 31 December 2007							
Opening net book value	28,221	2,980	4,184	–	4,072	9,235	48,692
Exchange differences	1,579	111	156	–	244	386	2,476
Additions	9	1,033	360	–	543	11,167	13,112
Transfer in/(out)	–	–	41	–	(41)	–	–
Disposals	(75)	(302)	(20)	–	(1)	(2,282)	(2,680)
Disposal of a subsidiary (note 38)	–	(54)	–	–	–	–	(54)
Depreciation	(1,311)	(861)	(1,277)	–	(537)	(3,836)	(7,822)
Closing net book value	28,423	2,907	3,444	–	4,280	14,670	53,724
At 31 December 2007							
Cost	78,144	20,667	8,755	64,149	16,635	29,665	218,015
Accumulated depreciation and impairment	(49,721)	(17,760)	(5,311)	(64,149)	(12,355)	(14,995)	(164,291)
Net book amount	28,423	2,907	3,444	–	4,280	14,670	53,724

Notes To The Financial Statements

For the year ended 31 December 2007

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Included in buildings, there were certain properties held by the Group, the ownership of which are as follows :

i. There are no title ownership certificates for certain buildings with net book value of approximately HK$6,386,000 (2006: HK$6,196,000) as at 31 December 2007 held by Shanghai Yitong Automobile Sales Co., Ltd., ("Shanghai Yitong Sales"), a subsidiary of the Group. According to a PRC legal opinion issued by Beijing Forever Law Firm （北京市昌久律師事務所） ("the Beijing Lawyer"), Shanghai Yitong Sales is in the course of applying for the real estate ownership certificate ("Real Estate Certificate"). As Shanghai Yitong Sales has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, based on the legal opinion issued by the Beijing Lawyer, the directors considered that there is no obstacle to prevent Shanghai Yitong Sales to obtain the said real estate ownership certificate. Accordingly, the directors consider that it is appropriate to recognise the buildings in the financial statements and no provision or write off of the buildings is necessary.

ii. There are no title ownership certificates for certain buildings with net book value of approximately HK$3,112,000 (2006: HK$3,111,000) as at 31 December 2007 held by Shanghai Volkswagen Ningbo Sales and Service Co. Ltd. ("Shanghai Ningbo"), a subsidiary of the Group, which was on the land leased with a term of 17 years. According to the Beijing Lawyer, the terms and conditions of the lease agreement do not contravene the PRC Laws and regulations and thus the lease agreement is legal, valid and binding on the relevant parties. At present, Real Estate Certificate is still under application. As Shanghai Ningbo has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, the Beijing Lawyer considered that there is no obstacle for obtaining the Real Estate Certificate. Notwithstanding the legal owner of the properties is vested with the landlord, the directors considered that Shanghai Ningbo has the right to use the properties during the lease period under the lease agreement, accordingly, it is appropriate to recognise the buildings in the financial statements and depreciate the buildings according to the lease term.

Notes To The Financial Statements

For the year ended 31 December 2007

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

iii. There are certain properties with net book value of approximately HK$8,753,000 (2006: HK$8,739,000) as at 31 December 2007 constructed by Ningbo Shengfei Automobile Sales and Services Co., Ltd. ("Ningbo Shengfei"), a subsidiary of the Group, which was on the land leased with a term of 15 years. According to the Beijing Lawyer, the terms and conditions of the lease agreement do not contravene the PRC Laws and regulations and thus the lease agreement is legal, valid and binding on the relevant parties. At present, Real Estate Certificate is still under application. As the landlord has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, the Beijing Lawyer considered that there is no obstacle for obtaining the Real Estate Certificate. Notwithstanding the legal owner of the properties is vested with the landlord, the directors considered that Ningbo Shengfei has the right to use the properties during the lease period under the lease agreement, accordingly, it is appropriate to recognise the buildings in the financial statements and depreciate the buildings according to the lease term.

iv. There are no title ownership certificates for certain buildings with net book value of approximately HK$2,688,000 (2006: HK$2,909,000) as at 31 December 2007 held by Shanghai Volkswagen Taizhou Sales and Services Co., Ltd., ("Shanghai Taizhou"), a subsidiary of the Group. According to a PRC legal opinion issued by the Beijing Lawyer, Shanghai Taizhou is in the course of applying for the Real Estate Certificate. As Shanghai Taizhou has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, based on the legal opinion issued by the Beijing Lawyer, the directors considered that there is no obstacle to prevent Shanghai Taizhou to obtain the said real estate ownership certificate. Accordingly, the directors consider that it is appropriate to recognise the buildings in the financial statements and no provision or write off of the buildings is necessary.

v. There are certain buildings of HK$42,982,000 (2006: HK$40,637,000) (before impairment) developed by Guangzhou Shenfei Automobile Sales and Services Co. Ltd. ("Guangzhou Shenfei"), a subsidiary of the Group, on a parcel of land leased from Guangzhou Fangcun District Dongjiao Town Hainan Villagers Authority (the "Lessor") for a period of 21 years and 10 months commencing from 15 February 2003. According to the lease agreement, the ownership of the properties on the land belongs to the Lessor. However, Guangzhou Shenfei has the right to use the properties during the tenancy period in accordance with the lease agreement. According to the legal opinion by the Beijing Lawyer, the Lessor has the land use rights to lease the land and the terms and conditions of the lease agreement do not contravene the PRC laws and legislations, and the Lessor is in the course of applying for the real estate ownership certificates for the buildings. The Beijing Lawyer consider that there is no obstacle in obtaining the real estate ownership certificate, accordingly, the directors considered that it is appropriate to recognise the buildings in the financial statements. As at 31 December 2007, the amount of these properties was fully impaired because of the significant loss incurred by Guangzhou Shenfei.

Notes To The Financial Statements

For the year ended 31 December 2007

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	Furniture and equipment HK$'000	Leasehold improvements, fixture and fittings HK$'000	Total HK$'000
At 1 January 2006			
Cost	29	46	75
Accumulated depreciation and impairment	(2)	(45)	(47)
Net book amount	27	1	28
Year ended 31 December 2006			
Opening net book value	27	1	28
Additions	46	362	408
Depreciation	(13)	(60)	(73)
Closing net book amount	60	303	363
At 31 December 2006			
Cost	75	364	439
Accumulated depreciation and impairment	(15)	(61)	(76)
Net book amount	60	303	363
Year ended 31 December 2007			
Opening net book value	60	303	363
Additions	48	602	650
Disposals	–	(302)	(302)
Depreciation	(19)	(51)	(70)
Closing net book amount	89	552	641
At 31 December 2007			
Cost	123	602	725
Accumulated depreciation and impairment	(34)	(50)	(84)
Net book amount	89	552	641

Notes To The Financial Statements

For the year ended 31 December 2007

17. LAND USE RIGHTS – GROUP

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows :

	2007 *HK$'000*	2006 *HK$'000*
Outside Hong Kong, held on leases between 10 to 50 years	**5,333**	7,919

	2007 *HK$'000*	2006 *HK$'000*
Opening net carrying amount	**7,919**	26,179
Exchange differences	**409**	835
Addition	**757**	–
Disposal	**(3,606)**	–
Disposal of a subsidiary (note 38)	**–**	(18,935)
Annual charges of prepaid operating lease payment	**(146)**	(160)
Closing net carrying amount	**5,333**	7,919

Notes To The Financial Statements

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18. INTERESTS IN SUBSIDIARIES – COMPANY

	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**227,000**	230,088
Less : Impairment	**(227,000)**	(230,088)
	–	–

	2007	2006
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**228,493**	194,959
Less: Impairment	**(228,493)**	(194,959)
	–	–

	2007	2006
	HK$'000	*HK$'000*
Amounts due to subsidiaries	**112**	232

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

In view of the poor financial performance of the subsidiaries, the directors considered that it was appropriate to make full impairment for the investment cost and amounts due from the subsidiaries.

Notes To The Financial Statements

For the year ended 31 December 2007

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Particulars of the Company's principal subsidiaries as at 31 December 2007 are as follows :

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
American Compass Inc.	USA limited liability company	Ordinary US$ 17,000,000	100*	Investment holding, USA
Bright Skies Limited	BVI, limited liability company	Ordinary US$ 1	100*	Investment holding, Hong Kong
Compass Pacific Capital Limited (圓通金融有限公司)	Hong Kong, limited liability company	Ordinary HK$ 2	100*	Investment holding, Hong Kong
Hemsby Investments Limited	BVI, limited liability company	Ordinary US$ 200	100*	Investment holding, Hong Kong
Parkwell (Hong Kong) Limited (百宏 (香港) 有限公司)	Hong Kong, limited liability company	Ordinary HK$2	100*	Leasing, Hong Kong
Kristal Profits Limited	BVI, limited liability company	Ordinary US$ 1	100	Investment holding, Hong Kong
Nara Profits Limited	BVI, limited liability company	Ordinary US$ 1	100	Investment holding, Hong Kong
Upward Trend Profits Limited	BVI, limited liability company	Ordinary US$ 1	100	Investment holding, Hong Kong
Parkwell (Hong Kong) Limited (百宏(香港)有限公司)	Hong Kong, limited liability company	Ordinary HK$ 2	100*	Leasing, Hong Kong
United Kam Wah Development Limited (中港金華發展有限公司)	Hong Kong, limited liability company	Ordinary HK$ 2	100	Investment holding, Hong Kong
Yaohan Whimsy Co., Limited	Hong Kong, limited liability company	Ordinary HK$1,000 Non-voting deferred HK$1,000 *(note c)*	100	Investment holding, Hong Kong
河南歡樂天地兒童遊樂有限公司 *(note b)* (Henan Whimsy Amusement Company Limited)	PRC, limited liability company	US$ 2,000,000	97	Operation of indoor entertainment centre, PRC

Notes To The Financial Statements

For the year ended 31 December 2007

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
上海歡樂天地兒童遊樂有限公司 *(note g)* (Shanghai Whimsy Amusement Co., Limited)	PRC, limited liability company	US$3,000,000	90	Ceased operations
無錫歡樂天地遊樂有限公司 (Wuxi Whimsy Amusement Co., Limited) *(note g)*	PRC, limited liability company	US$2,720,000	95	Ceased operations
沈陽遼華汽車車橋有限公司 (Shenyang Liao Hua Automobile Axles Co. Ltd.) *(note a)*	PRC, limited liability company	RMB 30,000,000	51	Manufacture of automobile axles, PRC
American Phoenix Group, Inc.	USA, limited liability company	Class A Ordinary US$ 16,792,529	100	Investment holding, USA
Star Western Holdings, LLC	USA, limited liability company	Ordinary US$8,750,000	100	Investment holding, USA
寧波美立資產管理有限公司 (Ningbo Meili Asset Management Co., Ltd.)	PRC, limited liability company	US$ 8,650,000	100	Investment holding, PRC
寧波美立德諮詢有限公司 (Ningbo Meilide Consulting Co., Ltd.)	PRC, limited liability company	US$750,000	100	Investment holding, PRC
寧波保稅區亞飛貿易有限公司 (Ningbo Duty-free Zone Yafei Trading Co., Ltd.)	PRC, limited liability company	RMB1,000,000	100	Investment holding, PRC
寧波鳳凰汽車銷售服務有限公司 (Ningbo Phoenix Automobile Distribution and Services Co., Ltd.) ("Ningbo Phoenix")	PRC, limited liability company	RMB135,357,883	100	Investment holding and trading of motor vehicles, PRC
上海聖飛汽車銷售服務有限公司 (Shanghai Shengfei Automobile Sales and Services Co., Ltd.)	PRC, limited liability company	RMB5,000,000	90	Trading of motor vehicles, PRC **

Notes To The Financial Statements

For the year ended 31 December 2007

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
上海環亞中進國際貿易有限公司 (Shanghai Huanya Zhongjin International Trade Co., Ltd.)	PRC, limited liability company	RMB19,600,000	100	Trading of motor vehicles, PRC
廣州申飛汽車銷售服務有限公司 (Guangzhou Shenfei Automobile Sales and Services Co., Ltd.)	PRC, limited liability company	RMB29,990,000	63.32	Trading of motor vehicles, PRC **
廣東眾大汽車維修有限公司 (Guangdong Zhongda Automobile Maintenance Co., Ltd.)	PRC, limited liability company	RMB2,000,000	56.99	Trading of motor vehicles and providing repair and maintenance services, PRC **
廣州申奧汽車銷售服務有限公司 (Guangzhou Shen Ao Automobile Sales and Services Co., Ltd.)	PRC, limited liability company	RMB5,000,000	56.99	Trading of motor vehicles, PRC **
廣東佳馬汽車銷售服務有限公司 (Guangdong Jiama Automobile Sales and Services Co., Ltd.)	PRC, limited liability company	RMB5,000,000	56.99	Trading of motor vehicles, PRC **
廣州市申飛通立汽車銷售服務有限公司 (Guangzhou Shenfei Tongli Automobile Sales and Services Co., Ltd.)	PRC, limited liability company	RMB5,000,000	61.74	Trading of motor vehicles, PRC **
上海交運聖飛汽車銷售服務有限公司 (Shanghai Jiaoyun Shengfei Automobile Sales and Services Co., Ltd.)	PRC, limited liability company	RMB12,000,000	51	Trading of motor vehicles and providing repair and maintenance services, PRC **
寧波聖菲汽車銷售服務有限公司 *(note e)* (Ningbo Shengfei Automobile Sales and Services Co., Ltd.)	PRC, limited liability company	RMB10,000,000	51	Trading of motor vehicles and providing repair and maintenance services, PRC

Notes To The Financial Statements

For the year ended 31 December 2007

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital held by the Company %	Principal activities and place of operations
上海大眾汽車寧波銷售服務有限公司 *(note e)* (Shanghai Volkswagen Ningbo Sales and Services Co., Ltd.)	PRC, limited liability company	RMB2,000,000	51	Trading of motor vehicles and providing repair and maintenance services, PRC
上海怡通汽車銷售有限公司 (Shanghai Yitong Automobile Sales Co., Ltd.)	PRC, limited liability company	RMB10,000,000	51	Trading of motor vehicles, PRC
上海怡通汽車服務有限公司 (Shanghai Yitong Automobile Services Co., Ltd.)	PRC, limited liability company	RMB10,000,000	51	Trading of motor vehicles, PRC
上海大眾汽車台州銷售服務有限公司 *(note f)* (Shanghai Volkswagen Taizhou Sales & Services Co., Ltd.)	PRC, limited liability company	RMB5,000,000	51	Trading of motor vehicles and providing repair and maintenance services, PRC
寧波華都房地產有限公司 *(note d)* (Ningbo Huadu Real Estate Co., Ltd.) ("Ningbo Huadu")	PRC, limited liability company	RMB24,680,000	50	Property development, PRC

* *Shares held directly by the Company.*

** *Inactive/ceased operations since 2006.*

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

a. This subsidiary is a Sino-foreign equity joint venture.

b. This subsidiary is a wholly foreign owned enterprise.

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For the year ended 31 December 2007

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

c. The deferred shares, which are not held by the Group, practically carry no rights to dividends, to receive notice of, to attend or vote at any general meeting of the respective companies, and to participate in any distribution on winding up.

d. The board of directors of Ningbo Huadu consists of 7 members of whom 4 members are nominated by Ningbo Phoenix, therefore, the directors considered that it is appropriate to classify Ningbo Huadu as subsidiary of the Group.

e. During the years ended 31 December, 2007 and 2006, the Group had nominated an independent third party to hold its equity interests in Ningbo Shengfei Automobile Sales and Services Co., Limited and Shanghai Volkswagen Ningbo Sales and Services Co., Limited on the Group's behalf. In the opinion of the directors, after consultation with the Group's PRC lawyers, the holding of equity interests in these two subsidiaries by the independent third party on behalf of the Group, does not violate relevant PRC law and that independent third party has confirmed in writing to the Company that all rights relevant to the holding of the interests above belong to the Group eventually, and therefore, in the opinion of the directors, the Group still has the power to govern the financial and operating policies of these two subsidiaries.

f. On 23 November 2006, the Group had entered into a disposal agreement ("Disposal Agreement") with an independent third party, to dispose of the 51% equity interest in Shanghai Volkswagen Taizhou Sales and Services Co., Ltd. ("Equity Interest") for a consideration of RMB5,814,000, to be paid in cash in one lump sum upon completion. However, as a result of the judgement by The Guangdong Province Guangzhou City Intermediate People's Court, a civil award (the "Civil Award") was granted to freeze the Equity Interest (please refer to note 39(9) for details). The completion of this transaction is conditional, amongst others, upon:

   – compliance of applicable requirements under the Listing Rules by the Group; and

   – the Equity Interest is being released.

   The directors are in the opinion that the Equity Interest would be released when the indebtedness due to the bank has been fully repaid. If any of the above conditions could not be fulfilled, subject to the liability of either party to the other in respect of any antecedent breaches of the terms thereof, the Disposal Agreement shall be null and void and of no effect. However, as at 31 December 2007 and up to the date of this report, the transfer of the Equity Interest is not yet completed. The directors are of the opinion that the Disposal Agreement was still valid and will be executed when all the necessary conditions are fulfilled.

g. These subsidiaries are Sino-foreign co-operative joint ventures.

Notes To The Financial Statements

For the year ended 31 December 2007

19. INTEREST IN AN ASSOCIATE – GROUP

	2007 HK$'000	2006 HK$'000
Balance at 1 January	8,076	7,680
Exchange differences	466	396
Balance at 31 December	8,542	8,076

Particulars of the associate at 31 December 2007 are as follows :

Name	Place of incorporation and kind of legal entity	Particulars of registered capital	Assets	Liabilities	Revenue	Profit	Percentage of interest held by the Group %	Principal activities and place of operations
嘉興市實達投資有限公司 (Jiaxing Shida Investment Co., Ltd.)	PRC, limited liability company	RMB20,000,000	RMB20,899,131 (2006: RMB20,002,688)	RMB899,131 (2006: RMB2,688)	– (2006: Nil)	– (2006: Nil)	40%	Property development in the PRC

20. GOODWILL – GROUP

	2007 HK$'000	2006 HK$'000
At 31 December		
Gross carrying amount	103,608	103,608
Accumulated impairment	(103,608)	(103,608)
	–	–

The recoverable amounts for the cash generating units given above were determined based on value-in-use estimation of the cash generating units by the directors of the Company.

The Company's directors' key assumptions were deteremined based on past performance and its expectations for future market development of the motor vehicles retail market in PRC.

In view of the bankruptcy of the manufacturer of MG Rover in England and the poor financial performance of American Phoenix Group, Inc and its subsidiaries ("APG"), the directors considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition of APG.

Notes To The Financial Statements

For the year ended 31 December 2007

21. INVENTORIES – GROUP

	2007	2006
	HK$'000	*HK$'000*
Motor vehicles and auto parts	**127,782**	116,671
Completed properties held for sale	**22,500**	26,249
Plush toys	**52**	43
Spare parts and other consumables	**135**	949
	150,469	143,912
Less: provision for impairment	**(36,695)**	(32,888)
	113,774	111,024

As at 31 December 2007, no inventories (2006: HK$5,601,000) were pledged to a bank to secure banking facilities granted to a related company of a minority shareholder.

As at 31 December 2007, inventories with aggregate carrying amount of approximately HK$3,594,000 (2006 : HK$4,553,000) were pledged to secure bank borrowings granted to the Group.

The completed properties held for sale were situated on leasehold land in the PRC with lease term of 56 years.

Notes To The Financial Statements

For the year ended 31 December 2007

22. TRADE RECEIVABLES – GROUP

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**42,572**	37,997
Less : Impairment of receivables	**(25,367)**	(25,107)
Trade receivables – net	**17,205**	12,890

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of 90 days (2006: 90 days) for major customers. The Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interested-bearing.

Impairment losses in respect of trade receivables 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 receivables directly. The movement in the provision for impairment of trade receivables is as follows:

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**25,107**	26,580
Reversal of impairment loss to the income statement	**(1,187)**	(2,059)
Exchange difference	**1,447**	586
At 31 December	**25,367**	25,107

At each of the balance sheet date, the Group's trade receivables were individually determined to be impaired. The individually impaired receivables are recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision was recognised. The Group does not hold any collateral over these balances.

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22. TRADE RECEIVABLES – GROUP *(Continued)*

The aging analysis of the trade receivables of the Group as at 31 December 2007, based on the invoice date, is as follows :

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**11,687**	8,201
31 – 60 days	**1,788**	1,177
61 – 90 days	**374**	1,151
91 – 180 days	**645**	99
Over 180 days	**2,711**	2,262
	17,205	12,890

The aging analysis of trade receivables that are not impaired is as follows:

	2007	2006
	HK$'000	*HK$'000*
Neither past due nor impaired	**13,849**	10,529
1 – 30 days past due	**645**	99
31 – 60 days past due	**466**	–
Over 60 days past due	**2,245**	2,262
	3,356	2,361
	17,205	12,890

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, the 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 held any collateral over these balances.

Notes To The Financial Statements

For the year ended 31 December 2007

22. TRADE RECEIVABLES – GROUP *(Continued)*

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2007	2006
	HK$'000	*HK$'000*
Renminbi ("RMB")	**15,503**	12,769

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits paid to suppliers	**67,176**	72,268	**–**	–
Other receivables	**26,510**	18,374	**448**	546
Other prepayments and deposits	**12,221**	10,511	**1,041**	24
	105,907	101,153	**1,489**	570
Less: Impairment	**(53,992)**	(50,064)	**(252)**	(252)
	51,915	51,089	**1,237**	318

Notes To The Financial Statements

For the year ended 31 December 2007

24. AMOUNTS DUE FROM/TO RELATED PARTIES/AN ASSOCIATE

Group

	2007 HK$'000	2006 HK$'000
Amount due from an associate	2,723	1,312
Amounts due from related parties		
– minority shareholders of subsidiaries	1,842	1,617
Amounts due to related parties		
– minority shareholders of subsidiaries	25,561	24,388
– close family member of a director	11,687	9,348
– subsidiaries of the substantial shareholder	10,119	12,696
	47,367	46,432

Company

	2007 HK$'000	2006 HK$'000
Amount due to a related party		
– a subsidiary of the substantial shareholder	9,270	3,844

Included under amounts due to subsidiaries of the substantial shareholder is a loan amounted to HK$9,270,000 (2006: HK$3,844,000) as at 31 December 2007. The loan is unsecured, interest-free (2006: interest bearing at 5% per annum) and without fixed repayment term. No interest was paid to the subsidiaries of the substantial shareholder (2006: HK$92,000). Other amounts due from/to related parties and an associate are unsecured, interest-free and have no fixed repayment terms.

Notes To The Financial Statements

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25. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

As at 31 December 2007, pledged deposits and cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$76,533,000 (2006: HK$96,374,000) and HK$34,555,000 (2006: HK$20,687,000) respectively. RMB is not freely convertible into other currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business. In addition, bank balances totalling HK$30,292,000, equivalent to RMB28,370,000 (2006: HK$28,640,000, equivalent to RMB28,370,000) were frozen pursuant to litigations as detailed in note 39, included in pledged bank deposits in the consolidated balance sheet.

26. TRADE PAYABLES – GROUP

The aging analysis of the trade payables of the Group as at 31 December 2007, based on the invoice date, is as follows :

	2007	2006
	HK$'000	*HK$'000*
0 – 30 days	**28,631**	5,399
31 – 60 days	**985**	214
61 – 90 days	**615**	94
91 – 180 days	**585**	1,125
Over 180 days	**10,255**	3,514
	41,071	10,346

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2007	2006
	HK$'000	*HK$'000*
RMB	**40,781**	10,071

Notes To The Financial Statements

for the year ended 31 December 2007

27. ACCRUALS AND OTHER PAYABLES

	2007	2006
	HK$'000	*HK$'000*
Deposits received from customers	**12,283**	21,235
Construction cost payables	**30,042**	32,408
Accrued staff costs	**7,367**	5,293
Other taxes, charges and input duties payable	**–**	733
Other payables	**141,351**	120,846
Other accrued expenses	**17,462**	20,399
	208,505	200,914

28. PENSION AND OTHER POST RETIREMENT OBLIGATIONS – GROUP

Included in other payables were current obligations to various retirement benefits schemes (defined contribution plans) for Hong Kong and PRC employees.

	2007	2006
	HK$'000	*HK$'000*
Current obligations on :		
– pension – defined contribution plans	**370**	343

There were no forfeited contributions during the year.

The employees employed by the subsidiaries located in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes in the respective provinces to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under these schemes.

The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK$1,000 per month.

The retirement benefit scheme cost charged to the income statement represents contributions incurred by the Group. During the year ended 31 December 2007, the Group's contributions were approximately HK$2,634,000 (2006: HK$2,021,000). There was no (2006: Nil) forfeited contribution used to offset the Group's contribution during the relevant period and there was no material forfeited contribution available as at the balance sheet dates to reduce the Group's contribution payable in future periods.

Notes To The Financial Statements

for the year ended 31 December 2007

29. BORROWINGS – GROUP

	2007	2006
	HK$'000	*HK$'000*
Bank loans overdue	**27,388**	2,082
Bank loans repayable within one year	**20,608**	37,705
Other loans repayable within one year	**6,322**	5,978
Total borrowings	**54,318**	45,765

Total borrowings include secured bank loans of HK$50,665,000 (2006: HK$39,787,000) denominated in RMB. Bank loans are secured by certain inventories of the Group and the properties of the minority shareholders and employees of the Group and guarantees provided by subsidiaries of the Group and certain third parties. Bank loans are interest bearing at interest rates ranging from 5.04% to 7.722% (2006: 6.048% to 6.732%) per annum.

The carrying amounts of short-term borrowings approximate their fair value.

30. PROVISIONS – GROUP

	Legal claims	
	2007	2006
	HK$'000	*HK$'000*
Balance at 1 January	**7,828**	18,023
Utilised as provision for inventories during the year	**–**	(10,195)
Balance at 31 December	**7,828**	7,828

The amounts represent a provision for the estimated losses in connection with certain legal claims brought against the Group by certain customers. Details of the background of the legal proceedings are disclosed in note 39.

Notes To The Financial Statements

for the year ended 31 December 2007

31. DEFERRED TAX – GROUP

Deferred taxation is calculated on temporary differences under the liability method using the taxation rates prevailing in the countries in which the Group operates.

The movement on the deferred tax liabilities arising from fair value adjustments in respect of acquisition of subsidiaries is as follows :

	HK$'000
At 1 January 2006	4,608
Credited to income statement (note 10)	(4,608)
At 31 December 2006 and 1 January 2007	–
Movement during the year	–
At 31 December 2007	–

As at 31 December 2007, the Group has unused tax losses of HK$63,024,000 (2006: HK$55,534,000) available for offset against future profits. No deferred tax asset has been recognised in due to the unpredictability of future profit streams.

Unused tax losses of HK$57,054,000 (2006: HK$45,451,000) will expire at various dates up to and including 2012. Other tax losses have no expiry date.

Notes To The Financial Statements

for the year ended 31 December 2007

32. SHARE CAPITAL

	2007 Number of shares	2007 Amount HK$'000	2006 Number of shares	2006 Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**3,000,000,000**	**300,000**	3,000,000,000	300,000
Issued and fully paid:				
At 1 January	**2,444,243,232**	**244,424**	2,444,243,232	244,424
Placement of shares during the year *(note i)*	**241,860,000**	**24,186**	–	–
Employee share option scheme – proceeds from share issued *(note ii)*	**37,900,000**	**3,790**	–	–
At 31 December	**2,724,003,232**	**272,400**	2,444,243,232	244,424

Notes:

(i) On 6 July 2007, the Company entered into a placing agreement in relation to a placing of an aggregate of 241,860,000 new shares of HK$0.10 at a placing price of HK$0.258 per share. The placing shares issued during the year have the same rights as other ordinary shares of the Company in issue.

(ii) During the year, the issued share capital of the Company was increased due to the exercise of share options by the directors and employees of the Company and other parties. Details of the share options exercised during the year are summarised in note 33. The shares issued during the year in relation to share options exercised have the same rights as other ordinary shares of the Company in issue.

(iii) During the year, the Company proposed to issue 2,724,003,232 right shares (the "Rights Issue") at the subscription price of HK$0.10 per rights share on the basis of one right share for every one existing share in issue on 8 January 2008 (the "Record Date"). The net cash proceeds from the Rights Issue is approximately HK$266,000,000.

On 20 October 2007, the Company and Sun East LLC ("Sun East") entered into an underwriting agreement (the "Underwriting Agreement") in relation to the Rights Issue. Sun East LLC is the controlling shareholders of the Company and Mr Yung Yeung, the Chairman and executive director of the Company, has beneficial interest in Sun East.

Notes To The Financial Statements

for the year ended 31 December 2007

32. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(iii) Pursuant to Underwriting Agreement, Sun East has undertaken:

(a) to pay for the 946,018,060 right shares allotted in respect of the existing shares held by Sun East and parties acting in concert with Sun East on or before the Record Date; and

(b) to underwrite in full the 1,777,985,172 right shares in relation to the Rights Issue in case any of the rights shares are under-subscribed.

Sun East was entitled to a commission of 2% of the subscription price HK$0.10 in respect of the number of rights shares underwritten. The commission payable to Sun East was mutually agreed between the Company and Sun East.

Under the Listing Rules, the Underwriting Agreement constitutes an exempted connected transaction. Further details of the Rights Issue are set out in the Company's circular dated 27 December 2007 and prospectus dated 14 January 2008.

Subsequent to the balance sheet date, the Company's independent shareholders have approved the Rights Issue on 11 January 2008 and the Rights Issue was completed on 1 February 2008. After the completion of the Rights Issue, the number of share capital of the Company was increased to 5,448,006,464.

33. SHARE-BASED EMPLOYEE COMPENSATION

On 12 June 2003, the share option scheme adopted by the Company on 15 March 1995 (the "1995 Scheme") was terminated and a new share option scheme (the "2003 Scheme") was adopted by the Company to comply with the new amendments to the Listing Rules in respect of share option schemes of a listed company.

The 2003 Scheme became effective on 12 June 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the 2003 Share Option Scheme. The offer of a grant may be accepted upon payment of HK$1 per acceptance. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. The share options are vested at the date of grant and exercisable with 10 years from the date of grant. The exercise price will be determined by the Board, but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; (ii) the average closing price of the Company's share as stated in the Stock Exchange's daily quotations sheets for trade in one or more board lots of shares for the five business days immediately preceding the date of the offer for grant which must be a business day; and (iii) the nominal value of the Company's shares. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settled the options.

Notes To The Financial Statements

for the year ended 31 December 2007

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The particulars of the share option schemes of the Company are as follows :

For the year ended 31 December 2007

Name	Share option type	At 1 January 2007	Exercised during the year	Reclassification during the year	Cancelled during the year	At 31 December 2007
		Number of share options				
Directors						
Mr. Yung Yeung	2000 (a)	10,000,000	–	–	–	10,000,000
	2000 (b)	21,570,000	–	–	–	21,570,000
	2005	10,000,000	–	–	–	10,000,000
Mr. Jun Li	2000 (b)	5,400,000	–	(5,400,000)	–	–
	2004	13,540,000	–	(13,540,000)	–	–
	2005	5,000,000	–	(5,000,000)	–	–
Mr. Chunhua Huang	2000 (b)	5,400,000	–	(5,400,000)	–	–
	2004	13,540,000	–	(13,540,000)	–	–
	2005	5,000,000	–	(5,000,000)	–	–
Mr. Yuwen Sun	2004	18,940,000	–	(18,940,000)	–	–
	2005	5,000,000	–	(5,000,000)	–	–
Mrs. Chizuko Kubo	2004	5,000,000	(5,000,000)	–	–	–
	2005	5,000,000	(5,000,000)	–	–	–
Mr. Wing Tak Law, Jack	2005	15,500,000	(4,500,000)	–	(11,000,000)	–
Mr. Ho Yip Lee	2005	5,000,000	(700,000)	–	(4,300,000)	–
Mr. Hui Wing Sang, Wilson	2005	–	–	1,000,000	–	1,000,000
		143,890,000	(15,200,000)	(70,820,000)	(15,300,000)	42,570,000
Employees						
In aggregate	2000 (a)	4,800,000	–	–	–	4,800,000
	2000 (b)	9,400,000	–	–	–	9,400,000
	2004	18,772,000	(300,000)	–	–	18,472,000
	2005	75,900,000	(12,400,000)	(1,000,000)	(1,000,000)	61,500,000
		108,872,000	(12,700,000)	(1,000,000)	(1,000,000)	94,172,000
Other eligible persons						
In aggregate	2005	60,000,000	(10,000,000)	71,820,000	–	121,820,000
		60,000,000	(10,000,000)	71,820,000	–	121,820,000
TOTAL		312,762,000	(37,900,000)	–	(16,300,000)	258,562,000

Notes To The Financial Statements

for the year ended 31 December 2007

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

For the year ended 31 December 2006

Name	Share option type	Number of share options At 1 January 2006	Reclassification during the year	Cancelled during the year	At 31 December 2006
Directors					
Mr. Yung Yeung	2000 (a)	10,000,000	–	–	10,000,000
	2000 (b)	21,570,000	–	–	21,570,000
	2005	10,000,000	–	–	10,000,000
Mr. Jun Li	2000 (b)	5,400,000	–	–	5,400,000
	2004	13,540,000	–	–	13,540,000
	2005	5,000,000	–	–	5,000,000
Mr. Chunhua Huang	2000 (b)	5,400,000	–	–	5,400,000
	2004	13,540,000	–	–	13,540,000
	2005	5,000,000	–	–	5,000,000
Mr. Yuwen Sun	2004	18,940,000	–	–	18,940,000
	2005	5,000,000	–	–	5,000,000
Mrs. Chizuko Kubo	2004	5,000,000	–	–	5,000,000
	2005	5,000,000	–	–	5,000,000
Mr. Wing Tak Law, Jack	2005	15,500,000	–	–	15,500,000
Mr. Jian Wang	2005	5,000,000	(5,000,000)	–	–
Mr. Ho Yip Lee	2005	5,000,000	–	–	5,000,000
		148,890,000	(5,000,000)	–	143,890,000
Employees					
In aggregate	2000 (a)	4,800,000	–	–	4,800,000
	2000 (b)	9,400,000	–	–	9,400,000
	2004	18,772,000	–	–	18,772,000
	2005	73,900,000	5,000,000	(3,000,000)	75,900,000
		106,872,000	5,000,000	(3,000,000)	108,872,000
Other eligible persons					
In aggregate	2005	60,000,000	–	–	60,000,000
		60,000,000	–	–	60,000,000
TOTAL		315,762,000	–	(3,000,000)	312,762,000

Notes To The Financial Statements

for the year ended 31 December 2007

33. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Details of the share options are as follows:

Share option type	Date of grant	Exercisable period	Exercise price
2000 (a)	16 February 2000	16 February 2000 to 15 February 2010	HK$0.690
2000 (b)	2 November 2000	2 November 2000 to 1 November 2010	HK$0.382
2004	5 January 2004	26 January 2004 to 4 January 2014	HK$0.160
2005	9 August 2005	29 August 2005 to 8 August 2015	HK$0.114

No employee compensation expense has been included in the consolidated income statement for 2007 (2006: Nil). Employee compensation expense in prior years gave rise to an equity compensation reserve as at 31 December 2007 and 31 December 2006. No liabilities were recognised due to equity-settled share-based payment transactions.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2007		2006	
	Number	**Weighted average exercise price *HK$***	Number	Weighted average exercise price *HK$*
Outstanding at 1 January	**312,762,000**	**0.187**	315,762,000	0.187
Exercised	**(37,900,000)**	**0.120**	–	–
Cancelled	**(16,300,000)**	**0.114**	(3,000,000)	0.114
Outstanding at 31 December	**258,562,000**	**0.202**	312,762,000	0.187

The share options outstanding at 31 December 2007 had an exercise price of HK$0.69, HK$0.382, HK$0.16 or HK$0.114 (2006: HK$0.69, HK$0.382, HK$0.16 or HK$0.114) and a weighted average remaining contractual life of 6.1 years (2006: 7.4 years).

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for the year ended 31 December 2007

34. RESERVES

Group

	Share premium	Translation reserve	Equity compensation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2007	**310,781**	**(12,477)**	**6,272**	**(680,386)**	**(375,810)**
At 31 December 2006	270,761	(6,187)	7,576	(649,699)	(377,549)

Company

	Share premium	Contributed surplus	Equity compensation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	270,761	94,601	7,576	(610,770)	(237,832)
Loss for the year	–	–	–	(22,585)	(22,585)
At 31 December 2006 and 1 January 2007	270,761	94,601	7,576	(633,355)	(260,417)
Loss for the year	–	–	–	(43,472)	(43,472)
Issuance of new shares	38,214	–	–	–	38,214
Share issue expense	(272)	–	–	–	(272)
Proceeds from shares issued under share option scheme	2,078	–	(1,304)	–	774
At 31 December 2007	**310,781**	**94,601**	**6,272**	**(676,827)**	**(265,173)**

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Notes To The Financial Statements

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34. RESERVES *(Continued)*

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if :

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

The translation reserve has been established and dealt with in accordance with the accounting policy adopted for foreign currency translation.

The directors consider that the Company had no reserves available for distribution to shareholders as at 31 December 2007 (2006: Nil).

The employee compensation reserve was made in accordance with the adoption of HKFRS 2.

35. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following significant related parties transactions during the year:

	2007	2006
	HK$'000	*HK$'000*
Purchased goods from a fellow subsidiary	–	851
Provision for impairment loss in respect of amounts due from minority shareholders of subsidiaries	–	12,534

36. COMMITMENTS AND CONTINGENCY

(a) Capital commitments

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

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for the year ended 31 December 2007

36. COMMITMENTS AND CONTINGENCY *(Continued)*

(b) Lease commitments

As at 31 December 2007, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and other assets of the Group are as follows :

	2007		2006	
	Land and buildings ***HK$'000***	**Other assets** ***HK$'000***	Land and buildings *HK$'000*	Other assets *HK$'000*
Within one year	**8,124**	**–**	7,947	112
After one year but within five years	**23,742**	**–**	16,238	–
Over five years	**37,412**	**–**	35,313	–
	69,278	**–**	59,498	112

The operating lease commitments in respect of certain rented premises are subject to an additional premium based on a fixed percentage of the annual gross turnover and receipts in excess of a specific minimum rental amount that there is no fixed commitment for these leases.

The Company had no lease commitment at 31 December 2007 (2006 : NIL).

37. BANKING FACILITIES

At 31 December 2007, the banking facilities granted to the Group, were secured by the following:

(a) Pledge of the Group's inventories of HK$3,594,000 (2006: HK$4,553,000);

(b) Pledge of the Group's bank deposit of HK$76,533,000 (2006: HK$96,374,000);

(c) Pledge of properties owned by minority shareholders and related parties of minority shareholders; and

(d) Joint corporate guarantees of HK$33,634,000 (2006: HK$21,200,000) by a related party of minority shareholders and a subsidiary;

(e) Joint corporate guarantees of HK$4,271,000 by an independent third party and a subsidiary; and

(f) Corporate guarantees of HK$4,084,000 by an independent third party.

Notes To The Financial Statements

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38. DISPOSAL OF SUBSIDIARIES

(a) For the year ended 31 December 2007, the Group disposed of its entire equity interest in Hygeia Land International Limited. Particulars of the disposal transaction are as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment *(note 16)*	54
Inventories	814
Trade receivables	121
Prepayment	10
Cash and cash equivalents	2,720
Trade payables	(1,702)
Accruals and other payables	(130)
Borrowings	(8,000)
	(6,113)
Gain on disposal of a subsidiary	6,114
Total consideration	1
Satisfied by	
Cash	1

An analysis of net inflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	HK$'000
Cash consideration	1
Cash and cash equivalents disposed of	(2,720)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(2,719)

Notes To The Financial Statements

for the year ended 31 December 2007

38. DISPOSAL OF SUBSIDIARIES *(Continued)*

(b) For the year ended 31 December 2006, the Group disposed of its entire equity interest of 27.5% in Jinhua Huadu Property Co., Limited (金華市華都置業有限公司). Particulars of the disposal transaction are as follows:

Details in respect of disposal of a subsidiary were as follows:

	HK$'000
Net assets disposed of:	
Land use right *(note 17)*	18,935
Other payables	(1,037)
Amount due to immediate holding company	(3,546)
Amounts due to related parties	(3,099)
	11,253
Less: Minority interests	(3,286)
	7,967
Loss on disposal of a subsidiary	(1,170)
Total consideration	6,797
Satisfied by	
Cash	6,797

An analysis of net inflow of cash and cash equivalents in respect of the disposal of the subsidiary is as follows:

	HK$'000
Cash consideration	6,797
Cash and bank balance disposed of	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	6,797

Notes To The Financial Statements

for the year ended 31 December 2007

39. LEGAL PROCEEDINGS

(1) On 1 December 2003, the PRC joint venture partner ("Shanghai Partner") of Shanghai Whimsy Amusement Co., Ltd. ("Shanghai JV"), commenced proceedings against Shanghai JV alleging claims for guaranteed profits of approximately HK$454,000 (the "Guaranteed Profits"). A provision had been made in the financial statements in the year ended 31 December 2004 in respect of the Guaranteed Profits. According to the judgement delivered by the Shanghai No. 2 Intermediate People's Court ("Shanghai Court") in favour of the Shanghai Partner, the Shanghai Court ordered to freeze the bank accounts of Shanghai JV for the payment of the Guaranteed Profits.

(2) On 4 November 2004, the PRC joint venture partner ("Wuxi Partner") of Wuxi Whimsy Amusement Co. ("Wuxi JV") commenced proceedings against Wuxi JV alleging claims of legal fee of approximately HK$94,000, together with the cancellation of the JV agreement and the liquidation of Wuxi JV. The proceedings were discontinued by the Wuxi Partner in 2006.

(3) In 2005, Zhong Shi Television Purchasing Limited (中視電視購物有限公司) ("Zhong Shi" or the "Plaintiff"), a customer of Ningbo Phoenix Automobile Distribution and Services Co., Ltd., a wholly owned subsidiary of the Company ("Ningbo Phoenix"), commenced legal proceedings against Ningbo Phoenix at Beijing No.1 Intermediate People's Court (the "Beijing Court"). The Plaintiff alleged that Ningbo Phoenix was in breach of its obligations under a cooperation agreement and a supply agreement, both were entered into between the Plaintiff and Ningbo Phoenix on 5 July 2004 (collectively, the "2004 Agreements"). According to the 2004 Agreements, Ningbo Phoenix would supply MG Rover motor vehicles to the Plaintiff for three years, in the event that there were any material changes in the circumstances during the said period, the 2004 Agreements would be terminated and Ningbo Phoenix would repurchase the unsold motor vehicles from the Plaintiff and pay for the interests that should have been accrued on the sums intended for the purchase of the unsold motor vehicles. In May 2005, the manufacturer of MG Rover in England declared bankruptcy and the sales of MG Rover in the PRC were seriously affected accordingly. The Plaintiff considered that there was a material change in the circumstances and requested Ningbo Phoenix to terminate the 2004 Agreements and repurchase the unsold motor vehicles together with payment for the interests in accordance with the terms of the 2004 Agreements. Ningbo Phoenix refused such request and the Plaintiff commenced legal proceedings against Ningbo Phoenix and applied for the freezing of cash in the sum of RMB13,370,000 and other assets of Ningbo Phoenix, and sought the following orders from the Beijing Court:

Notes To The Financial Statements

for the year ended 31 December 2007

39. LEGAL PROCEEDINGS *(Continued)*

(3) *(Continued)*

1. the termination of the 2004 Agreements;

2. Ningbo Phoenix to repurchase 24 MG Rover motor vehicles at the price of RMB10,320,000;

3. Ningbo Phoenix to compensate the Plaintiff interests accrued in the sum of RMB3,050,000 arising from the funding of the purchase of 118 MG Rover motor vehicles; and

4. Ningbo Phoenix to be held liable for the expenses incurred in relation to this claim.

Zhong Shi also commenced another legal proceedings against Guangzhou Shenfei Automobile Sales and Services Co., Ltd. ("Guangzhou Shenfei"), a subsidiary of the Company (together with Ningbo Phoenix, the "Defendants") in the Beijing Court alleging that the Defendants were in breach of their obligations under a motor vehicles sales agreement and a sales services agreement both dated 11 January 2005 (the "2005 Sales Agreements"). According to the 2005 Sales Agreements, Guangzhou Shenfei agreed to repurchase 94 MG Rover motor vehicles during the period between 11 January 2005 and 28 February 2005 (the "Repurchase"), otherwise, Guangzhou Shenfei would be liable for liquidated damages of RMB7,520,000 (the "Liquidated Damages"). On the same date, Ningbo Phoenix also entered into a guarantee agreement (the "2005 Guarantee Agreement") in favour of the Plaintiff to guarantee the performance of Guangzhou Shenfei's obligations under the Repurchase and the payment of the Liquidated Damages. The Plaintiff alleged that the Defendants failed to perform the 2005 Sales Agreements and the 2005 Guarantee Agreement and applied for the freezing of the Defendants' bank accounts and assets including: two bank accounts of Ningbo Phoenix and one bank account of Guangzhou Shenfei; 51% equity interest in Shanghai Yitong Automobile Sales Co., Ltd.; 51% equity interest in Shanghai Yitong Automobile Services Co., Ltd.; 51% equity interest in Shanghai Jiaoyun-Shengfei Automobile Sales and Services Co., Ltd.; 51% equity interest in Guangzhou Shenfei; 51% equity interest in Shanghai Huanya Zhongjin International Trade Co. Ltd. and 50% equity interest in Ningbo Huadu Real Estate Co., Ltd., all of which were held by Ningbo Phoenix, and also sought for the following orders from the Beijing Court:

Notes To The Financial Statements

for the year ended 31 December 2007

39. LEGAL PROCEEDINGS *(Continued)*

(3) *(Continued)*

1. the performance of the 2005 Sales Agreements and the 2005 Guarantee Agreement;

2. Guangzhou Shenfei to purchase from the Plaintiff 94 MG Rover motor vehicles at the price of RMB40,420,000;

3. Guangzhou Shenfei to pay to the Plaintiff the Liquidated Damages of RMB7,520,000;

4. Ningbo Phoenix be held liable for the orders sought above; and

5. the Defendants be held liable for the expenses incurred in relation to this claim.

In December 2005, the Beijing Court delivered judgement in favour of the Plaintiff on the above cases and the Defendants appealed on the said judgement. In relation to the case involving the 2004 Agreements, the Beijing Superior People's Court (北京市高級人民法院) dismissed the appeal on 1 June 2006, upheld the judgement of the Beijing Court and ordered:

1. the discharge of the 2004 Agreements;

2. Ningbo Phoenix to repurchase 24 MG Rover 75 Model motor vehicles at the consideration of RMB10,320,000; and

3. Ningbo Phoenix to pay the interest accrued from 28 July 2005 up to the payment date to the Plaintiff.

In relation to the case involving the 2005 Agreements, the Beijing Superior People's Court (北京市高級人民法院) dismissed the appeal on 1 June 2006, upheld the judgement of the Beijing Court and ordered:

1. the performance of the 2005 Sales Agreements;

2. Guangzhou Shenfei to purchase 94 MG Rover 75 Model motor vehicle at the consideration of RMB40,420,000;

3. Guangzhou Shenfei to pay the Liquidated Damages of RMB7,520,000 to the Plaintiff;

Notes To The Financial Statements

for the year ended 31 December 2007

39. LEGAL PROCEEDINGS *(Continued)*

(3) *(Continued)*

4. Ningbo Phoenix be liable for the obligations of Guangzhou Shenfei regarding payment of purchase price of the 94 MG Rover motor vehicles and the Liquidated Damages; and

5. the costs of RMB249,710 and the assets preservation fees of RMB240,220 be paid by Guangzhou Shenfei and Ningbo Phoenix in equal shares.

(4) On 7 March 2006, Ningbo Phoenix commenced legal proceedings against Zhong Shi at Shanghai No. 1 Intermediate People's Court (上海市第一中級人民法院) ("Shanghai Court"). Ningbo Phoenix alleged that Zhong Shi was in breach of its obligations under the cooperation agreement dated 5 July 2004 entered into between Ningbo Phoenix and Zhong Shi and claimed for compensation of loss from Zhong Shi in the sum of RMB17,564,080. In response to Ningbo Phoenix's application for preservation of assets of Zhong Shi pending appeal, the Shanghai Court granted a civil award to freeze the cash and assets held by Zhong Shi, including 41 MG Rover 75 model motor vehicles. On 19 April 2006, the Shanghai Court ruled in favour of Zhong Shi in relation to its opposition based on the ground of inappropriate jurisdiction and transferred the case to the Beijing Court for handling. On 23 August 2006, the appeal by Ningbo Phoenix on the ruling of Shanghai Court in relation to inappropriate jurisdiction was dismissed by Shanghai City Superior People's Court (上海市高級人民法院).

On 17 April 2007, the Beijing Court opened a court session for the case for Ningbo Phoenix as the plaintiff, commenced legal proceedings against Zhong Shi at Beijing Court that Ningbo Phoenix alleged that Zhong Shi was in breach of its obligations under the 2004 Agreements and claimed for compensation of loss from Zhong Shi in the sum of RMB17,564,000. In August 2007, the Beijing Court delivered judgement in favour of Zhong Shi and the allegation of Ningbo Phoenix was overridden. The Beijing Court has ordered Ningbo Phoenix to pay court costs of RMB97,000 and asset preservation fees of RMB 88,000.

(5) On 7 December 2005, Shenzhen Shin Dai Dong Air-Conditioning Limited (深圳市新大東空調有限公司) commenced arbitration proceedings against Guangzhou Shenfei for payment of purchase of goods amounting to RMB279,242 and liquidated damages of RMB13,962 at the Guangzhou Arbitration Commission ("GAC"). The hearing was held on 13 March 2006 and an award was made in favour of Shenzhen Shin Dai Dong Air-Conditioning Limited and Guangzhou Shenfei was ordered to pay the said purchase consideration and liquidated damages. On 22 December 2006, the Guangzhou City Liwen District People's Court (廣州市荔灣區人民法院) granted a civil award to freeze, attach and seize assets of Guangzhou Shenfei in the amount of RMB293,204.

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for the year ended 31 December 2007

39. LEGAL PROCEEDINGS *(Continued)*

(6) On 21 November 2005, Xin Xing Construction Company (新興建築工程公司) commenced arbitration proceedings against Guangzhou Shenfei for payment of a fee of RMB4,156,299 pursuant to a construction agreement at the GAC. The hearing was held on 9 May 2006 and award has been made in favour of the plaintiff of RMB3,030,769.

(7) On 17 January 2006, Shanghai Mei Shu Design Co. (上海美術設計公司), commenced legal proceedings against Guangzhou Shenfei for payment of project fee of RMB3,948,269. Judgement in favour of Shanghai Mei Shu Design Co. was delivered on 9 April 2006. Guangzhou Shenfei appealed to the Court of Second Instance and the hearing was held on 14 July 2006. Final judgement was delivered on 18 August 2006 to uphold previous judgement.

(8) On 17 January 2006, Shanghai Long Bok Construction Development Co. Ltd. (上海龍博建設發展有限公司), commenced legal proceedings against Guangzhou Shenfei for payment of project fee of RMB1,130,056. On 14 April 2006, judgement in favour of Shanghai Long Bok Construction Development Co., Ltd. in the amount of RMB812,000 was delivered. Guangzhou Shenfei appealed to the Court of Second Instance and the hearing was held on 14 July 2006. Final judgement was delivered on 18 August 2006 to uphold previous judgement.

(9) On 6 March 2006, Industrial Bank, Guangzhou Branch (興業銀行廣州分行) (the "Bank"), commenced two legal proceedings against Guangzhou Shenfei and six guarantors in relation to Guangzhou Shenfei's failure to repay a loan in the sum of RMB15,000,000. The Bank sought for an order that:

1. Guangzhou Shenfei to repay the loan in the sum of RMB15,000,000 together with interests accrued thereon;

2. the six guarantors (including Ningbo Phoenix) be liable for the obligations of Guangzhou Shenfei under the loan arrangement; and

3. Guangzhou Shenfei and the six guarantors be liable for all costs and expenses incurred in relation to the proceedings and the assets preservation fee.

The Guangdong Province Guangzhou City Intermediate People's Court (廣東省廣州市中級人民法院) granted a civil award on 31 March 2006 to freeze the bank accounts and assets of Guangzhou Shenfei and the six guarantors, each in an amount of RMB15,000,000 and also to attach and seize their assets of an equivalent value.

Notes To The Financial Statements

for the year ended 31 December 2007

39. LEGAL PROCEEDINGS *(Continued)*

(9) *(Continued)*

The two proceedings were heard together on 31 July 2006. Judgements in favour of the Bank were delivered on 22 August 2006 (the "Judgements"), details as follows:

1. Guangzhou Shenfei to repay the loan in the sum of RMB15,000,000 together with interest accrued thereon;

2. The six guarantors (including Ningbo Phoenix) be liable for the obligations of Guangzhou Shenfei under the loan arrangement; and

3. Guangzhou Shenfei and the six guarantors be liable for all costs and expenses incurred in relation to the proceedings and the assets preservation fee.

On 12 December 2007, the Guangdong Province Superior People's Court (廣東省高級人民法院) issued a designated execution order (指定執行決定書) and authorised Yang Jiang City Jiang Cheng District People's Court (陽江市江城區人民法院) to execute the Judgements of the Guangdong Province Guangzhou City Intermediate People's Court.

On 18 February 2008, the Yang Jiang City Jiang Cheng District People's Court ordered Guangzhou Shenfei and the six guarantors to:

1. report their current financial position; and

2. to fulfill their obligations in connection with the Judgements.

Guangzhou Shenfei and the six guarantors have reported their financial information and no further action has been taken by to Yang Jiang City Jiang Cheng District People's Court up to the date of this report.

(10) On 14 March 2006, Guangzhou City Liwen District Shareholding Economic Association (廣州市荔灣區中南街海南股份經濟聯合社) as plaintiff, commenced legal proceedings against Guangzhou Shenfei in relation to a tenancy agreement at the Guangzhou City Liwen District People's Court (廣州市荔灣區人民法院). On 28 March 2006, the court granted a civil award that the assets of Guangzhou Shenfei in the sum of RMB2,500,000 be attached, seized and frozen. The court also handed down judgement in favour of the plaintiff on 6 June 2006 and ordered:

1. the discharge of the tenancy agreement made between the parties;

2. Guangzhou Shenfei to deliver vacant possession of the land in dispute to the plaintiff;

Notes To The Financial Statements

for the year ended 31 December 2007

39. LEGAL PROCEEDINGS *(Continued)*

(10) *(Continued)*

3. possession of the buildings erected on the land in dispute be delivered to the plaintiff;

4. Guangzhou Shenfei to pay (i) the outstanding rent for the period from 15 September 2005 to the date of delivery of possession (at the rate of RMB216,512 per month); (ii) damages on the outstanding rent (from 15 September 2005 to the date of full repayment at 1% of the outstanding rent per day, subject to a maximum amount equivalent to the outstanding rent); and (iii) the court costs in the sum of RMB30,608 and claim preservation fees in the sum of RMB13,020.

Guangzhou Shenfei appealed to the Guangzhou Intermediate People's Court (廣州中級人民法院) and the hearing was held on 13 September 2006. Final judgement was made on 8 October 2007 as follows:

1. Discharge of the tenancy agreement made between the parties;

2. Guangzhou Shenfei to pay the outstanding rent for the period from 15 September 2006 to the date of delivery of possession (at the rate of RMB216,512 per month);

3. Guangzhou Shenfei to pay the damages on the outstanding rent (from 15 September 2006 to the date of full repayment at 1% of the outstanding rent per day, subject to a maximum amount equivalent to the outstanding rent);

4. Guangzhou Shenfei to deliver vacant possession of the land in dispute to the plaintiff;

5. Guangzhou Shenfei to pay the claim preservation fees in the sum of RMB39,506.

(11) On 14 April 2005, Zhenjiang Dong Lian Storage Company Limited (鎮江東聯倉儲設備有限公司) as plaintiff, commenced legal proceedings against Guangzhou Shenfei for payment of a sum of RMB132,540 being fees for services rendered and RMB9,100 of overdue interests in relation to a services agreement at Jiangsu Province Zhenjiang City Jingkou District People's Court (江蘇省鎮江市京口區人民法院). The court ruled in favour of the plaintiff and assets in the sum of RMB148,000 of Guangzhou Shenfei have been attached, seized and frozen.

Notes To The Financial Statements

for the year ended 31 December 2007

39. LEGAL PROCEEDINGS *(Continued)*

(12) On 21 February 2006, Shandong Yantai Da Cheng Company (山東煙台大成公司), commenced legal proceedings against Guangzhou Shenfei for payment of a sum of RMB1,000,000 and overdue penalties of RMB76,650 in relation to a sale and purchase of motor vehicles. On 27 February 2006, Shandong Province Yantai Zhifu District People's Court (山東省煙台市芝罘區人民法院) ordered that the deposit of RMB1,000,000 in the bank account of Guangzhou Shenfei be frozen or other assets of equivalent value be attached, seized and frozen pending hearing.

The obligations and the expected outflows of economic benefits in respect of the above legal proceedings had been provided for in the financial statements.

40. POST BALANCE SHEET EVENTS

(a) Change of company name

At the special general meeting of the Company held on 13 December 2007, a special resolution was passed for approving the change of the Company's English name from "Compass Pacific Holdings Limited" to "Far East Golden Resources Group Limited" and the adoption of "遠東金源集團有限公司" as the secondary name of the Company. The proposed change of the Company's English name and adoption of secondary name was subject to the approval of the Registrar of Companies in Bermuda.

Subsequent to the balance sheet date, the Registrar of Companies in Bermuda approved the change of the Company's English name and adoption of secondary name on 11 January 2008.

(b) Rights Issue

Subsequent to the balance sheet date, the Company's independent shareholders have approved the Rights Issue on 11 January 2008 and the Rights Issue was completed on 1 February 2008. Please refer to note 32(iii) for the particulars in respect of the Rights Issue.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. Long term financial investments are managed to generate lasting returns. The most significant financial risks to which the Group is exposed to are described below.

Notes To The Financial Statements

for the year ended 31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(a) Interest rate risk

The Group's exposure to interest rate risk for changes in interest rates relates primarily to the Group's floating interest rates borrowings. The Group does not actively engaged in derivative financial instruments to hedge its interest rate risk.

At 31 December 2007, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's loss after tax and accumulated loss by approximately HK$124,000 (2006: HK$452,000).

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 Group's floating interest rates borrowings at the balance sheet date. The 50 basis points increase or decrease represents management's assessment of reasonably possible change in interest rates over the period until the next annual balance sheet date. The same basis of analysis also performed at 31 December 2006.

(b) Credit risk

Credit risk arises from the possibility that the counterparty to a transaction is unwilling or unable to fulfil its obligation which results in the Group suffering financial loss. The carrying amounts of trade receivables, other receivables, amount due from an associate, amounts due from related parties, pledged deposits and cash and cash equivalents included in the face of balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets.

Receivable balsnces are monitored on an ongoing basis and the Group's exposure to bad debts, in the opinion of the directors, is not significant.

The credit risk of the Group's other financial assets, which mainly comprises cash and cash equivalents and pledged deposits, is not significant.

(c) Foreign currency risk

The Group is exposed to foreign currency risk arising from various currency exposures, primarily with respect to RMB. Foreign exchange risk arises from commercial transactions and recognised assets and liabilities. in addition, the conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Substantial portion of the Group's revenue and costs are denominated in RMB. Thus, when RMB strengthens in value against the HK$, as had occurred in 2007 and 2006, the Group's operating margins were positively impacted. The Group currently does not have a foreign currency hedging policy.

Notes To The Financial Statements

for the year ended 31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(c) Foreign currency risk *(Continued)*

A 5% strengthening/weakening of HK$ against RMB as at the respective balance sheet dates would (decrease)/increase the loss after income tax (due to changes in the fair value of monetary assets and liabilities) by the amount shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2007	2006
	HK$'000	*HK$'000*
Loss for the year:		
5 % strengthening in HK$	**(4,464)**	(4,350)
5 % weakening in HK$	**4,464**	4,350

Notes To The Financial Statements

for the year ended 31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(d) Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 December 2007 and 31 December 2006, the contractual maturities Group's financial liabilities, based on undiscounted cash flows are summarised below:

	Overdue	Repayable on demand	1 – 3 months	4 – 6 months	7 – 12 months
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2007					
Trade payables	**–**	**–**	**30,231**	**585**	**10,255**
Other payables	**–**	**141,351**	**–**	**–**	**–**
Amounts due to related parties	**–**	**47,367**	**–**	**–**	**–**
Borrowings	**27,388**	**–**	**–**	**9,526**	**17,404**
Bills payable	**1,228**	**–**	**102,907**	**10,678**	**9,610**
	28,616	**188,718**	**133,138**	**20,789**	**37,269**
At 31 December 2006					
Trade payables	–	–	5,707	1,125	3,514
Other payables	–	120,846	–	–	–
Amounts due to related parties	–	46,432	–	–	–
Borrowings	2,082	–	33,739	2,675	7,269
Bills payable	1,161	–	134,021	31,799	–
	3,243	167,278	173,467	35,599	10,783

The Group's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer terms. The Group had net current liabilities of HK$145,467,000 and capital deficiency of HK$77,402,000 as at 31 December 2007. The liquidity of the Group is primarily dependent on:

Notes To The Financial Statements

for the year ended 31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(d) Liquidity risk *(Continued)*

(i) its ability to derive sufficient cash inflow from operations to meet its debt obligations, and

(ii) the ability to raise sufficient fund through share issues or borrowings as need arises.

(e) Summary of financial assets and liabilities by category

The carrying amounts of the Group's financial assets and liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows. See notes 3.12 and 3.18 for explanations about how the category of financial instruments affects their subsequent measurement.

(i) *Financial assets*

	2007 ***HK$'000***	2006 *HK$'000*
Loans and receivables:		
Trade receivables	**17,205**	12,890
Other receivables	**25,535**	12,317
Amount due from an associate	**2,723**	1,312
Amounts due from related parties	**1,842**	1,617
	47,305	28,136
Pledged bank deposits	**76,533**	96,374
Cash and cash equivalents	**77,337**	25,950
	201,175	150,460

Notes To The Financial Statements

for the year ended 31 December 2007

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(f) Summary of financial assets and liabilities by category *(Continued)*

(ii) Financial liabilities

Financial liabilities at amortised cost:

	2007	2006
	HK$'000	*HK$'000*
Trade payables	**41,071**	10,346
Other payables	**141,351**	120,846
Amounts due to related parties	**47,367**	46,432
Borrowings	**54,318**	45,765
Bills payable	**124,423**	166,981
	408,530	390,370

42. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern; and

(ii) to provide an adequate return to shareholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount dividends paid to shareholders, return capital to shareholders and issue new shares to reduce debt level.

For capital management purpose, the directors regard the total equity presented in the face of balance sheet as capital. The amount of capital deficiency as at 31 December 2007 was HK$77,402,000 (2006: HK$116,092,000).

At 31 December 2007, the Group is not subject to any capital commitment.

Financial Summary

for the year ended 31 December 2007

The consolidated results and assets and liabilities of the Group for the past five years :

Results

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Revenue	17,265	6,758	316,085	864,160	**920,305**
Loss before income tax	(52,103)	(44,357)	(228,023)	(115,835)	**(12,054)**
Income tax expense	–	–	3,524	(365)	**(9,131)**
Loss for the year	(52,103)	(44,357)	(224,499)	(116,200)	**(21,185)**
Loss attributable to equity holders of the Company	(51,400)	(40,915)	(218,223)	(88,163)	**(30,687)**
Minority interest	(703)	(3,442)	(6,276)	(28,037)	**9,502**
	(52,103)	(44,357)	(224,499)	(116,200)	**(21,185)**

Assets and liabilities

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	177,503	133,024	365,581	365,458	**409,394**
Total liabilities	14,630	14,508	358,256	481,550	**486,796**
	162,873	118,516	7,325	(116,092)	**(77,402)**
Equity attributable to equity holders of the Company	147,372	106,457	(41,031)	(133,125)	**(103,410)**
Minority interests	15,501	12,059	48,356	17,033	**26,008**
	162,873	118,516	7,325	(116,092)	**(77,402)**